

25-Jul-2024

Darling Ingredients, Inc. (DAR)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Suann Guthrie

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

OTHER PARTICIPANTS

Heather L. Jones

Analyst, Heather Jones Research, LLC

Robert Day

Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.

Dushyant Ailani

Analyst, Jefferies LLC

Manav Gupta

Analyst, UBS Securities LLC

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Ryan M. Todd

Analyst, Piper Sandler & Co.

John M. Royall

Analyst, JPMorgan Securities LLC

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Benjamin Joseph Kallo

Analyst, Robert W. Baird & Co., Inc.



MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients Inc. Conference Call to discuss the company's Second Quarter 2024 Financial Results. After the speakers prepared remarks, there will be a question-and-answer session period and instructions to ask a question will be given at that time. Today's call is being recorded.

I would now like to turn the call over to Ms. Suann Guthrie. Please go ahead.

Suann Guthrie

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc.

Great. Thank you for joining the Darling Ingredients Second Quarter 2024 earnings call. Here with me today are, Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; Mr. Brad Phillips, Chief Financial Officer; Mr. Bob Day, Chief Strategy Officer; and Mr. Matt Jansen, Chief Operating Officer of North America. Our second quarter 2024 earnings news release and slide presentation are available on the investor page under the Events and Presentations tab on our corporate website and will be joined by a transcript of this call once it is available.

During this call, we will be making forward-looking statements which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's press release and the comments made during this conference call and in the Risk Factors section of our Form 10-K, 10-Q and other reported filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Now, I will hand the call over to Randy.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

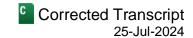
Thanks, Suann. Good morning, everybody, and thanks for joining us for our second quarter earnings call. In our last earnings call, I mentioned that the team is focused on making the necessary adjustments to adapt to a deflationary and volatile global ingredients market and a renewable diesel market that continues to suffer from perceived overcapacity and an uncertain regulatory environment. I challenged the team to accomplish several things during the second quarter, and I'm pleased to report on their successes.

Since the first quarter, we were able to improve gross margins, control capital spending without sacrificing operational excellence, pay down debt, repurchase common stock, and most importantly, we received a much anticipated dividend from DGD. For the quarter, our combined EBITDA was \$273.6 million. While slightly lower sequentially, our performance reflected a nice improvement in our core ingredients business.

Turning to the Feed Ingredients segment, global raw material volumes remain strong and we are seeing global fat pricing improve, indicating more demand for low carbon intensity feedstocks for renewable diesel. Our Feed business showed sequential improvement in margins, as we made adjustments in raw material procurement arrangements and our operational excellence and cost cutting programs are beginning to deliver.

With fat prices on the rise, our continued focus on operational excellence and effective cost cutting and spread management, I feel confident we should see improved earnings in the Feed segment for the back half of the year.

Q2 2024 Earnings Call



Turning to our Food segment, our Rousselot business continues to benefit from being a supplier of choice in the gelatin and hydrolyzed collagen market. While we have seen several quarters of customer destocking, we are starting to see signs of that beginning to slow. As I've mentioned in previous earnings calls, we're preparing to launch Nextida.GC, a natural collagen solution for managing glucose moderation. We're having a number of conversation with customers and look forward to more discussions at Supply Side West and Food Ingredients North America Trade Show in October.

Turning to our Fuel segment, Diamond Green Diesel continues to prove it's the best-in-class. Demand for our products remains robust, but margins remain challenged given the lack of clarity in the regulatory markets for RINs and LCFS. Last quarter we mentioned that cash was rapidly building at Diamond Green Diesel and I'm pleased to report on July 18, Darling Ingredients received a \$77.1 million cash dividend from the joint venture. Our sustainable aviation fuel unit continues to move ahead of schedule and on budget with the anticipated start-up in the fourth quarter of 2024. We continue to work to build out a strong sales book with both domestic and international supply opportunities.

Now, with that, I'd like to hand the call over to Brad to take us through some financials, and then I'll come back and discuss my thoughts for the rest of 2024. Brad?

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Thank you, Randy. Net income for the second quarter 2024 totaled \$78.9 million or \$0.49 per diluted share, compared to net income of \$252.4 million or \$1.55 per diluted share for the second quarter of 2023. Net sales were \$1.5 billion for the second quarter of 2024, as compared to \$1.8 billion for the second quarter 2023.

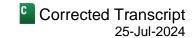
For the first six months of 2024, net income was \$160 million or \$0.99 per diluted share as compared to net income of \$438.2 million or \$2.69 per diluted share for the first six months of 2023. Net sales for the first six months were \$2.9 billion, compared to net sales of \$3.5 billion for the same period in 2023. Operating income decreased \$208.2 million to \$148.5 million for the second quarter of 2024, compared to \$356.7 million for the second quarter of 2023, primarily due to \$168.8 million decline in our share in the equity and net income from Diamond Green Diesel earnings, as compared to the same period in 2023.

Additionally, the second quarter gross margin declined \$71 million as compared to the same period in 2023. Operating income decreased \$326.9 million to \$285.7 million for the six months of 2024, compared to \$612.5 million for the six months of 2023. The decrease was primarily result of \$184.7 million decline in our share in the equity and net income from Diamond Green Diesel earnings, as compared to the same period in 2023, along with the \$191.6 million decline in gross margin.

The company recorded income tax expense of \$0.8 million for the three months ended June 29, 2024, yielding an effective tax rate of 0.9%, which differs from the federal statutory rate of 21% due primarily to the relative mix of earnings among jurisdictions with different tax rates. Non-taxable change and FASA contingent consideration, certain taxable income inclusion items in the US based on foreign earnings and biofuel tax incentives.

The company's effective tax rate, excluding the impact of the biofuel tax incentives and discrete items was 29% for the three months ended June 29, 2024. The company also paid \$23 million of income taxes in the second quarter. For the six months ended June 29, 2024, the company recorded income tax expense of \$4.7 million and an effective tax rate of 2.8%. Excluding the biofuel tax incentives and discrete items, the effective tax rate was 27.2% for the six months ended June 29, 2024. The company also has paid \$56 million of income taxes year-to-

Q2 2024 Earnings Call



date as of the end of the second quarter. For 2024, we expect the effective tax rate to remain about the same at 3% and cash taxes of approximately \$45 million for the remainder of the year.

Now, in the second quarter, we paid down \$51 million of debt. The company's total debt outstanding as of June 29, 2024 was \$4.409 billion compared to \$4.427 billion at year-end 2023. Our bank covenant projected leverage ratio at Q2 2024 was 4.24 times and we had \$814.4 million available to borrow under our revolving credit facility.

Capital expenditures totaled \$98 million in the second quarter and \$191.7 million for the first six months. We also repurchased approximately 807,000 shares of common stock during the second quarter of 2024 for approximately \$29.2 million. As Randy mentioned earlier, on July 18, 2024, we received a \$77.1 million cash distribution from DGD.

With that, Randy, I'll turn it back over to you.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Thanks, Brad. As we expect continued dividends from Diamond Green Diesel and global finished product price improvement, our focus for the balance of the year is to manage capital outflows and pay down additional debt. Additionally, we will continue our focus on operational excellence and widening margins where possible. We remain optimistic as we have seen prices begin to improve in late Q2, which will be reflected in our Q3 and Q4 earnings. I remain optimistic that we should be able to deliver \$1.3 billion to \$1.4 billion of combined adjusted EBITDA for the year.

So, with that, Cindy, let's go ahead and open it up to Q&A.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Heather Jones of Heather Jones Research LLC. Go ahead, please.

Heather L. Jones

Analyst, Heather Jones Research, LLC

Good Morning. Thanks for taking the question. My first question is on SAF. I was just wondering if you could give us what your view is of the supply/demand dynamics for that going into 2025? You got the mandate kicking in UK and then – and the mandate kicking into the EU. And I would think that maybe [ph] Nestlé (00:11:03) would shift some of their volumes into the EU. And just wondering how you're seeing that shaping up for DGD going in 2025?

Robert Day

Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.

Yeah. Thanks, Heather. This is Bob. The SAF picture is quickly evolving as European regulations really come online in 2025. I think the interesting thing there is, the technically compliance around SAF is required later in the period. But the tendency of everyone involved is to not want to get too far behind. So, it's a somewhat murky picture, but what we're seeing is a strong interest to try to get ahead. And so, I think we're going to start to see things come together as we move forward here.



Q2 2024 Earnings Call



Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. Hi. This is Randy, Heather. And I think I'd echo real quick with Bob. I mean, we continue to assemble a sales book, obviously, hopefully we'll have some announcements out soon on it, but the demand is building out there right now. It's still kind of a little, as Bob said, murky on what the rules are, obviously on both imports and 45Z and everything. And so, at the end of the day, I think this thing will pick up momentum here as we go into Q3.

Heather L. Jones

Analyst, Heather Jones Research, LLC

Okay. And as a follow up to that, I mean, for the roughly 250 million gallons that DGD you have, are you – is your anticipation that the majority of that will go domestic, or are you expecting a strong export pool for that?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

I think that's yet to be seen. I think you'll see a blend of both domestic and export sales, and that ranges from the US to Canada to the continent. It'll be driven by the market and the rules. I mean, I think everybody saw in that space production this morning of SAF and clearly, the market is evolving there, as Bob says. And ultimately, 250 million gallons may seem like a big number of gallons, but it's really not, given the book that we're assembling out there at this time.

Heather L. Jones

Analyst, Heather Jones Research, LLC

Okay. Thank you so much.

Operator: Our next question comes from Dushyant Ailani of Jefferies. Go ahead, please.

Dushyant Ailani

Analyst, Jefferies LLC

Good morning, guys. Thanks for taking my questions. Just wanted to dive a little bit into the margin cadence. For the second half, what are some of the puts and takes, I know 2Q is usually seasonally low, but I mean, if you could share some color on that, please?

Suann Guthrie

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc.

Are you talking Feed, Dushyant?

Dushyant Ailani

Analyst, Jefferies LLC

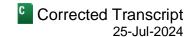
Yeah. Feed and Food as well, please.

Suann Guthrie

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc.

[ph] All business (00:13:59)?

Q2 2024 Earnings Call



Dushyant Ailani

Analyst, Jefferies LLC

Across all segments. Yeah.

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Yeah. Dushyant, this is Brad. On Feed and overall on the core, yeah, you may have noticed Q2 here, all three segments had improved slightly over Q1. So, more or less our expectation. The back half of the year where prices have, kind of moved, late in the second quarter. And as Randy kind of mentioned in the intro, with the margin management and cost concentration that we've placed on the segments, we see momentum there for the back half of the year and those margins continuing to improve.

Dushyant Ailani

Analyst, Jefferies LLC

Awesome. Thank you. And then, just wanted to get your overall thoughts on the macro in terms of like 45Z credits, any thoughts on when we expect to hear something over there? Do you think BTC would be extended if you don't hear anything on the 45Z?

Robert Day

Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.

So, that was – so, I just want to clarify I understood the questions.

Suann Guthrie

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc.

45Z, what's our expectation?

Dushyant Ailani

Analyst, Jefferies LLC

Yeah.

Robert Day

Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.

Yeah. And Matt, feel free to jump in. But I mean, our expectation is that, we believe that we're going to see 45Z implemented by January 1. And really all signs are pointing to that.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

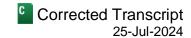
Anything you want to add, Matt?

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

I mean, there's obviously a lot of talk around that with the guidance that is yet to come out and we're like everyone else anxiously awaiting that. But as Bob mentioned, we're still of the view that less than January – January 1 is the day it will be implemented.

Q2 2024 Earnings Call



Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Matt, anything on the blenders tax credit that we can knock out here while we...?

Α

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

Yeah. There's been a lots and lots of talk about the blenders tax credit and if that would work would be extended or, another version of it and all. And so far, our view at this point is that, no, we still think that the – what's in place today in terms of the legislation is what's going forward.

Dushyant Ailani

Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: The next question comes from Manav Gupta of UBS. Go ahead, please.

Q

Manay Gupta

Analyst, UBS Securities LLC

[indiscernible] (00:16:23) understand, fats prices are moving up, UCO prices are moving up, D4 RIN prices are moving up. So, if that's the reason you have been able to reaffirm your guidance, because looking at the numbers you probably need to hit \$360 million for each of the remaining two quarters to get to that guidance. So, what are the factors which give you confidence that you can get there in the second half?

А

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

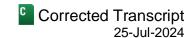
Yeah. And we'll kind of tag team this as a group. I mean, clearly, \$1.3 billion to \$1.4 billion has got a range to it. And at the end of the day, what we're looking at is, in the Q1 and Q2, we saw a lot of fat in North America in the mid \$0.30 a pound levels. That now is leaving the plants at [ph] \$40 to \$42 (00:17:10) and much improvement in Europe at the same thing. South America has been slow to improve at this time. But as we've always said, from an optics perspective, every penny is worth about somewhere between \$12 million and \$15 million annually into the – really into the earnings stream or the EBITDA stream. And most of that goes to the Feed segment. So, if you say, you're up a \$0.05, that's \$60 million right there, we think there'll be further appreciation here.

And ultimately, as you look around the horn, you're seeing a lot of, what I call – you've seen a lot of shutdowns [indiscernible] (00:17:55), cancellations or pauses, whatever the heck you want to say. You've seen three plants from Chevron, biodiesel plants shutdown, you've seen Shell's announcement, you've seen bp Cherry Point. You've got no pretreatment on yet, whether it's Martinez or Rodeo.

So, at the end of the day, it takes one of those plants and then we'll see a pretty nice, improvement there, the Chinese UCO side that everybody spends a lot of time talking about, clearly, the tariffs have been proposed on in Europe today. There's a comment period that'll take some time. But that the world's evolving right now. And so, I feel pretty optimistic about the fat pricing here as we go to the back half of the year for our business, because of our ability to pre-treat these fats.

D4 RINs, they're – when you look at it, we had Port Arthur down for 28 days and we still kicked out some pretty good gallons or 311 million gallons for the guarter. So, I think that's part of it. And the fact that you got some

Q2 2024 Earnings Call

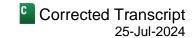


people idling capacity out there, I tend to believe that the S&D, that the sell side had out there, had everybody running at full capacity day one, and we've never seen that. So, it's tightening. LCFS, it's still on target for Jan 1. I don't know that we would take a different opinion of that today.

I don't know, Bob, Matt you guys want to add anything to it? Robert Day Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc. Yeah. I mean, I think when you – I mean, what gets us – or what makes us confident is just our ability to leverage the network of assets that we've got. Whether it's in the collagen business, we can shift to low-cost production areas of the world and really the Gelnex acquisition has provided us with that kind of flexibility. In the rendering business, we continue to have all contracts come up for bid and as we restructure those agreements based on today's construction costs and environment, we expect better margins as we go forward. So, just more generally speaking, we're seeing improvement and we think that the second half of the year is going to continue to get better. Manay Gupta Analyst, UBS Securities LLC Perfect. Thank you. A quick follow up here is, one thing which was working against you was the feedstock price lag in the first half, which depressed your capture of the DGD margin. Now, that should reverse with the feedstock going up. So, would it be fair to assume that at least in 3Q, your capture could be materially higher, because that feedstock price lag will now strongly work in your favor versus against you? Matthew J. Jansen Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc. I think that's well said. And in terms of the right way to look at it, Manav. **Manay Gupta** Analyst, UBS Securities LLC Thank you, sir. **Operator:** The next question comes from Adam Samuelson of Goldman Sachs. Go ahead, please. Adam Samuelson Analyst, Goldman Sachs & Co. LLC Yes. Thank you. Good morning, everyone. Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc. Good morning, Adam. Adam Samuelson Analyst, Goldman Sachs & Co. LLC

Good morning. So, Randy, just keeping on that line of questioning, if I may, just thinking about the guidance to get to the low end, you've got to improve your quarterly EBITDA by a little less than \$100 million versus the first half average. The fat price sensitivity that you just gave would give you \$15 million to \$20 million to that quarterly rate.

Q2 2024 Earnings Call



I guess, what is the – can you help us bridge kind of some of the other pieces there? I mean, just DGD volume certainly would be stronger in the second half if there are no turnarounds planned, but can you help dimensionalize kind of how you've thought about the DGD margin structure? Is there any contribution from SAF premiums now contemplated in the fourth quarter and kind of the food business, kind of how much step-up you're assuming there, that would be helpful? Thank you.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Α

Yeah. I mean, clearly, the first thing, as Bob alluded to is, we're managing margins globally. And what I mean by that and that's really the Feed segment, adjusting processing fees, we're watching the new fat prices flow through. Remember, in the US, it's pretty transparent as those prices move through. In Canada, Europe and South America, there are actual visits to slaughterhouses that have to be made on timing in order to adjust what you're paying for the raw material.

We didn't get as much of that as we wanted in Q2, that would exactly – I would be very specific for the US in some cases and absolutely true for South America. Canada did a very nice job and so did the Europe in moving those, but very different procurement processes. So, that will widen out as we go forward.

The second thing is, we expect DGD, the system to run full out for the balance of the year. And so, that's going to be a big contributor. We haven't contemplated any earnings from SAF. I mean, that would be frosting on the cake if we do. And I remain kind of hopeful that we will. But it's hard for that to be material. It's just – really at the end of the day, it's still doing the things that we've been executing on, a little bit of price improvement and then running DGD full out.

And I don't know, you guys got anything on the others?

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

Like you said, it's just running our business.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah.

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

I mean, obviously we can do the math. We know what it takes to get to the guidance. I would say, though, typically, I wouldn't imagine or expect, it's automatically going to be 50% in Q3 and 50% in Q4. Q3 typically, we have a lot of challenges operational through the business, although we're absolutely ready for those challenges. But I wouldn't – just don't want to convey the message that it's going to be a 50/50 split automatic for the next two quarters [indiscernible] (00:23:59).

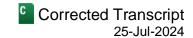
Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful color. And if I could just add – ask a second question. As we think about that transition from the BTC to the 45Z at the start of the year. I mean, how are you kind of framing kind of the risks and opportunities presented by that in terms of the last kind of surge of biodiesel imports or run on production domestically for

Q2 2024 Earnings Call



biodiesel guys, before the credit goes away, which would be good for your feedstock – good for feedstock demand, potentially creates some more RINs and then calendar flips and the volume of renewable fuels coming into the US should slow pretty dramatically, but also kind of the margin structure for conventional biodiesel, along with the user of fats and oils would come under a lot of stress pretty quickly, we would think. And how are you thinking about the push/pull between the feedstock demand shifts and the credit generation that shifts that could happen before and after the calendar turns?

Randall C. Stuewe

A

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. This is a pretty important point. I think the short answer to your question is, we can approach this whole event with lower risk than the rest of market. As you're aware, a lot of the RIN generation, 25% or so of the RIN generation – D4 RIN generation, has come from imported biofuels, renewable diesel, biodiesel. Without a BTC and current margin structure, it doesn't make sense for them to run their businesses on paper. And so, they're going to have a lot more risk as we approach those deadlines. And we would anticipate that they're going to play that a little more conservatively as we get to the end and not want to risk logistical delays and things like that. So, all of that should point to better renewable diesel margins as we near the end of the calendar year.

From our standpoint, yeah, implementation of BTC, we've seen delays in the past with BTC. But again, we're positioned so that we can manage that risk better. We're very confident in the implementation of that 45Z and what that – how that's going to play out? So, because of all those things, we should be able to run for, going into the end of the year. And really we should see margins improve as we get to the end of 2024.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Appreciate that color. I'll pass it on. Thank you.

Operator: The next question comes from Matthew Blair of Tudor, Pickering, Holt. Go ahead, please.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Good morning. Thanks for taking my question here. I was wondering, if you have a view on when the changes for the California LCFS program will be implemented. Are you confident that will be a 2025 start-up date, or do you see a risk that might slip into 2026?

Randall C. Stuewe

Δ

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Our view at this point, Ben, is that it's still something for 2025, not necessarily January 1 of 2025. But we do believe that this will be something through the probably Q2 of 2025.

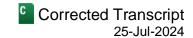
Matthew Blair

(

Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Got it, got it. And then, maybe circling back to the biodiesel comments, you mentioned that, next year they'll probably get tougher for the veg oil-based biodiesel producers. But what about this year? Have you been surprised that at the utilization rates for some of these biodiesel plants and, several of your [ph] RD (00:27:29) competitors reporting negative EBITDA, even if they're running low CI feeds, I guess we would have thought that

Q2 2024 Earnings Call



the biodiesel utilization would be even lower this year, that you'd see more closures like what Chevron announced earlier this year. So, that's surprising to you to see the relative strength of biodiesel utilization rates this year?

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

So, I'll take that. Really no. I think when you look at who the biodiesel players are, these are largely ag companies that are extremely efficient/effective at managing margin risk and they take advantage of price fluctuations and the opportunity to lock in a margin in the future. They're also looking at an integrated oilseed crush margin all the way through to biodiesel. So, for their businesses, they're at least above the line, above – they're earning a contribution margin. And they're going to continue to do that as long as they can lock those margins in. So, not really surprised with the run rates we've seen in biodiesel. As we get into 2025, that just gets a lot more difficult. And the amount of gap that they have to overcome is probably too big to continue to run at the rates that they have been.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities LLC

That's helpful. Thank you.

Operator: The next question comes from Thomas Palmer of Citi. Go ahead, please.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Good morning and thanks for the question. Maybe I could just start off clarifying on the expected inflection here in the second half. Do you think the current pricing environment supports at least \$1.3 billion EBITDA for the year? I know you talked about reasons why pricing could continue to improve. I just wanted to kind of clarify the piece of where we sit today versus how progressive?

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

I mean, I think – so the current pricing – I think there's a couple of messages here and one is that, in the current pricing environment, there are things that we expect to do in the second half of the year that will allow us to improve margins. I mean, Randy talked about it kind of leveraging our infrastructure and some of the changes that are underway and just extracting more value from what we have. That's a big part of it. I think we do anticipate that we'll see a slightly better margin environment as we near the end of the year. And so, I guess that's the other part of it.

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

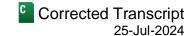
Yeah. These things have to play out. There's a lot of moving parts, a lot of components to this, and it just has to play out over the next couple of quarters.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

I mean, Tom, you've got P66 out there claiming they're running 50,000 barrels a day, but we've never seen them. Number two, we were watching them by animal fats around the world now, so evidently they've got the confidence in their pre-treatment system. And so, the S&D of this product is just – or of our feedstocks in the world just – is

Q2 2024 Earnings Call



not infinite. And so, we just believe that if any of these guys are successful, you have [indiscernible] (00:30:46) come out today and say, well, we're going to be at full capacity at Martinez by the end of the year. They reaffirmed that again. I mean – so, you're talking of converting over whatever that number is, 70,000 barrels a day, 80,000 barrels a day to quote waste fat. I get pretty bullish when I hear that number. So, that's where we're at on it. And the risk out here, as we always say is, if they don't run, we'll be a P66's largest supplier of [ph] RD (00:31:16) and we'll be the largest customer of resale animal fats.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Understood. Thanks for all the color on that. Maybe I can just follow up quickly on the Food side. You noted, for Q2 some of the destocking. I think the messaging on the go forward was more constructive. Just want to clarify, I mean, is this in front of the expectation on a sequential basis, we start to see improvement in terms of the profitability of the business?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. I mean, clearly, the Food segment really is – the anchor is – there's a gelatin, hydrolyzed collagen business within that segment. We've seen some challenges in the different continental businesses that we have there with customer demand. But towards the end of June here, we started to see customer demand pick up again in whether it's confectionery, whether it's pharma. So, ultimately, we feel pretty good about the back half of the year. I think when you see the financials release once again, you'll see the decline in revenue in the segment. And really, what I'd tell you to focus on is the margin, because we've been able to once again lower what we pay for bone, skins and hides to maintain the margins we had. And we think that we'll get some pricing improvement for the back half of the year as we go forward here.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Thank you.

Operator: Our next question comes from Ryan Todd of Piper Sandler. Go ahead, please.

Ryan M. Todd

Analyst, Piper Sandler & Co.

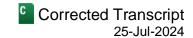
Thanks. Maybe one on the political side [indiscernible] (00:33:06) difficult, but as you look ahead over the next six plus months, we've got a number of moving pieces. I mean, can you talk to maybe any impacts that you see or risks that you see from things like the ruling on the Chevron doctrine or from the election coming up later this year and what you see, could be either positives or risks in either direction?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, thanks. I think technically these risks exist. But when we dive into it, what we really look for are what's going to motivate the different politicians in their jurisdictions as it relates to 45Z in this case or any policy for that matter. And what we see is, biodiesel, renewable diesel, sustainable aviation fuel, really becomes a nonpartisan issue at the end of the day, because of just the broad-based representation of both sides of the aisle in ag states. So, the risks – like I said, technically, the risks are there that policies could change, but practically speaking, we're pretty comfortable with where things stand and how it's likely to play out.

Q2 2024 Earnings Call



Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

And I think I would add, Ryan, I think the thing that people have to keep their eyes wide open on right now is American agriculture is under extreme pressure right now, given \$10 beans and sub \$4 corn. And the politicians are going to have to pay attention to the seven farm states here. I mean, clearly, we would be having lots more fun on this conversation if the EPA had set the RVO to reflect both the capacity and the production for the soy crushing industry.

The EPA failed, and so now the politicians are going to have to – it's bipartisan, come forward here and continue to push this thing forward. I mean, it's not climate change, it's not energy policy, it's ag policy and that's true around the world today. So, end of the day, the farmer once again prove that if you get prices where they are at, make fertilizer available and capital available, they will produce more. And that's where we're at right now in the cycle. And so, ultimately, as we're transitioning to a BTC, it's very favorable to Darling, it's very favorable to cash flows to Darling, it's favorable to our system, if you will, globally.

So, end of the day, we feel pretty good where we're positioned here. But I don't see – it's hard for me to see that whoever you want to put in the Oval Office. Can Trump get his magic pencil out and screw this thing up? Not really. It takes Congress to get involved. And I don't think there's anybody willing to step forward on that today, given where American agriculture is.

Ryan M. Todd

Analyst, Piper Sandler & Co.

Great. That's helpful. Thank you. And then, maybe just one quick follow up. Any thoughts on the outlook for dividends from DGDs? We expect that to continue to be kind of a steady dividend payer from here or how should we think about those dynamics?

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Yeah. Ryan, you see, the balance sheet of DGD that we posted out there, that obviously was way down. Therefore, we received a distribution here in the middle of July. Having said that, I think our outlook is, we're optimistic for additional distributions in the back half of the year from DGD. So, with that, really our outlook for Q3 is additional debt reduction probably accelerating from where we were in Q2, which gives us a chance to be kind of in the ballpark depending on where margins are, cash flows in the back half of the year to have that debt kind of down in that, closer to that \$4 billion number than we were. And obviously, the distributions from Diamond Green is a significant part of that. So, we're optimistic about that.

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

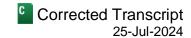
Yeah. And Brad, comment a little bit about working capital here. I mean, DGD is not the only source of debt reduction in this company.

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Yeah. We've said, we've got a focus on working capital improvement. Obviously, the balance sheet's not out there yet, but we have momentum there in Q2. So, you'll see that shortly and rest assured, you'll see continued improvements. So, [indiscernible] (00:38:00) to really generate cash there as well.

Q2 2024 Earnings Call



Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

And if I could, I would just remind everyone that the DGD dividend, that's a formula that's calculated every day or every last day of the month and the numbers – so there's really not any subjectivity to that. That's just a matter of the calculation – the dividend is what it is, right.

Ryan M. Todd

Analyst, Piper Sandler & Co.

Great. Thank you.

Operator: The next question comes from John Royall of JPMorgan. Go ahead, please.

John M. Royall

Analyst, JPMorgan Securities LLC

Hi. Good morning. Thanks for taking my question. So, my first question is on capital allocation. Now, you talked about de-levering is the primary focus right now and I think you just mentioned accelerating the debt paydown in the second half, but you did buyback some stock in 2Q. Should we characterize that as being kind of opportunistic when the stock is trading down? And how do you generally think of the decision between the balance sheet and the share buyback when you view the shares as attractive?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. John, this is Randy. I mean, you've answered a lot of your own questions there. Debt repayment for us has been priority. Clearly, level of the different shareholders that have been in and out of the stock, it's a clear message to us to get to \$4 billion or below. Three ways to get there, generate cash or DGD repatriated to run our business, widen our margins and three is to manage the CapEx outflows. And, we set out the year with a \$565 million plan [ph] on (00:39:45) \$500 million, and we're shooting to be under \$400 million for the year. So, that's priority. What we did in Q2 here was an opportunistic, we wanted to buyback our dilution within the management programs and we continue to look at share buybacks as an opportunity.

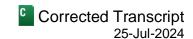
But right now, as we look forward to the right capital structure for the business long-term, ultimately, we want to get the debt down here and that would be priority one. Priority two would be buybacks, and priority three would be any type of growth capital, which we're not really putting in play this year. We took a holiday, as we've said on that.

John M. Royall

Analyst, JPM organ Securities LLC

Okay. Thank you. That's very helpful. And then to apologize, I have another question on the full year EBITDA guide. I know you've got several already, but mine is just trying to dig in a little bit on the DGD side, I know an assumption of \$0.75 per gallon for the full year. I think, first off, is that still the right number to be thinking about? And secondly, if it is — my simple math is right, I think you have to do about \$0.90 or so in the second half to get to those kinds of levels. But maybe just we can talk through some of the moving pieces there. I know you talked about the lag in feedstocks and RINs coming up a bit, but no movement on the LCFS [ph] as (00:41:09) until next year, just trying to understand how we could get to that number?

Q2 2024 Earnings Call

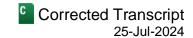


Suann Guthrie Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc. I think you're asking – and I'll clarify. I think you're asking what is our assumption on EBITDA per gallon on DGD? John M. Royall Analyst, JPMorgan Securities LLC Yeah. I'm sorry. EBITDA, I think you said \$0.75 in 1Q to get to about a \$1 billion of EBITDA. So, just confirming if that's still the number and if so, kind of the math to get there in the second half? Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc. [indiscernible] (00:41:36) Matthew J. Jansen Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc. I think that we may be talking about investment economics back when the original investment... Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc. But we came out of the year, Matt, and we kind of guided that we thought we'd run closer to \$0.75. Matthew J. Jansen Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc. Yeah. Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc. We beat that in Q1 and we lowered in Q2. And so, at the end of the year, it's kind of hard to say how this thing plays out as we go forward. But clearly, that's built in our \$1.3 billion, \$1.4 billion expectation. But I'm not going to throw number on that today. John M. Royall Analyst, JPMorgan Securities LLC Yeah. Fair enough. Thank you. Operator: The next question comes from Andrew Strelik – I'm sorry, Strelzik of BMO. Go ahead, please. Andrew Strelzik

Hey. Good morning. Thanks for taking the questions. My first one is on some of the internal initiatives, obviously sounding very confident and optimistic about what that can look like? Is there a way to frame what kind of contribution that could create for you or kind of how you think about that with respect to the outlook for the back half of the year, above and beyond maybe what you're expecting from fat prices and is most of that in the value assets or is it broader than that?

Analyst, BMO Capital Markets Corp.

Q2 2024 Earnings Call



Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Go ahead, Bob.

A

Robert Day

Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.

Yeah. I mean, it's a hard question to answer, because – how do we frame that? I think what you're alluding to is, as we have – a lot of our supplier contracts are multi-year contracts. And when they come up for renewal, we reprice those based on the current market environment, which is significantly different today than it was just a couple of years ago, when construction costs were significantly lower and rendering options just were lower in cost than they are today.

It's hard to frame, what's the potential expected impact that's going to have on the second half of the year. I think, it's easier to anticipate what that might look like over a couple of year period. But what I think we can say is that, we do have some — we've had some pretty significant contracts come up for renewal, today's environment and value results in a much better margin than where we were based on the previous contracts. Some of that is in the Valley network, but some of that is just more broadly across what has been the Darling network.

Brad Phillips

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Yeah, ultimately, Andrew, I mean, I think as Bob alluded, I mean, when I look around the world, Europe has made some very rapid and really beneficial changes in procurement. Canada is a simpler market too, that's able to do that, does have commodity exposure there, so they're getting less now. South America, we had our challenges in Q2 I think for many of – we've not quantified them, because they're very difficult. The flooding in the South Brazil was – had us down for a little bit down there and clearly that's going to improve in Q3 and then North America or in the USA, our map's got challenges cut out not only operationally, this hot weather always make it difficult to render, but we still got work to do.

And ultimately, as I said, the US, much as we're investors in Diamond Green Diesel and we're one of the largest importers of fat in the world, it impacted our domestic business here. Now, imports are more expensive than domestic, and we're going to get that benefit back into the domestic system. So, it's a little bit of everything everywhere as we look around the horn today.

Anything you want to add Matt?

Matthew J. Jansen

Executive Vice President and Chief Operating Officer, North America, Darling Ingredients, Inc.

I would just fill along those same lines, I mean, we have an action item list by location of steps that we can and intend to take. Those lists are different depending on where you look. Some of those are low hanging fruit. Others take more time and a little more of a challenge to implement, but it's really a drill down to by location and the actions and the steps that we need to proactively take to help strengthen and fortify the business.

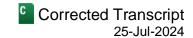
Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Great. That's super helpful. I appreciate it. And my other question, maybe if we could go back to the Food segment and unpack what's going on there a little bit. You guys have been running pretty consistently in the \$85 million, \$90 million kind of EBITDA range since the acquisition. If you back out the inventory adjustment last



Q2 2024 Earnings Call



quarter now, you're at, \$73 million. So, I guess what caused that decline this quarter specifically? I mean, you really talked about the destock slowing, but I'm curious about the EBITDA deceleration there? And then whether or not that's the right kind of run rate for the balance of the year to think about. Thanks.

Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.

way too much capacity in a micro market.

А

Yeah. This is Randy. I mean, clearly, there's about three or four things going on globally. The number one issue was just really customer demand. We finally felt as we came into 2024, the deflationary pressures around the world. And ultimately, we've seen prices of just what I'm going to call just generic or commodity gelatin fall pretty rapidly. And you say, well, how does that happen? Well, it happens because that business – we created a very nice business out there and ultimately attracted a couple large South American competitors that tried to bring on

And so, if you call the market somewhere around a 0.5 tons and somebody brings on 30,000 tons, 40,000 tons of capacity, the first thing you don't do is walk into your boss and say, I can't find a customer yet. The first thing you do is, you cut the price and sell it and then tell him that it was a bad investment idea that he had. But ultimately, that's what we're seeing pressure on pricing out there. That's reflected in the other top line, seeing a little bit of margin pressure in the commodity gelatins.

But obviously, our positioning in hydrolyzed collagen and with our Gelnex assets being the lowest cost, most efficient in the world now, it insulates us a little bit. But ultimately, we see some pretty strong demand picking up the back half of the year. And I think we're still optimistic of the Rousselot model for the balance of the year here.

Andrew Strelzik Analyst, BMO Capital Markets Corp.	Q
Great. Thank you very much.	
Operator: Our next question comes from Ben Kallo of Baird. Go ahead, please.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
Good morning, guys. Thanks for taking my question.	
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
Good morning. Ben.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
Good morning. So, first thing, just on the shaping in the back half, you noted the hot weather for good for Feed. But then, is there a piling in Q4 to the SAF [ph] plan (00:48:28)? So, just maybe tell us like what quarters can be heavier or lighter in terms of EBITDA? And then I have a follow	e if you could just

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Brad Phillips

Q2 2024 Earnings Call

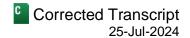


Yeah. I mean, if I – as Matt said earlier, I wouldn't weight this thing divide by two or 50% and 50% it'll be stronger in Q4 than it is in Q3, Ben. And we've not put anything in there for us, so I'm hoping that's the rabbit in the hat here that pushes us closer to the \$1.4 billion than the \$1.3 billion number. So, Bob, Matt, anything you guys want to add to that?

Robert Day Executive Vice President and Chief Strategy Officer, Darling Ingredients, Inc.	Д
That's right. Okay.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
Just a quick clarification on that already. Is there downtime of the plant when you hook up SAF, or is it [indiscernible] (00:49:07) batch, so it doesn't matter?	
Brad Phillips Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.	А
Now that was completed here when we had Port Arthur down. So, we're in the instrumentation and elect phase now and everything's set and then it'll be ready to run hopefully sometime in Q4 here. So far the value worked pretty well, but it's pretty wet down there right now.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
All right. And then there was this report of KKR, buying a stake in the Italian company. I just wanted to go thoughts on it. And why KKR would do that and how it impacts you?	et your
Randall C. Stuewe	Д
Chairman & Chief Executive Officer, Darling Ingredients, Inc. Big Ben, there's blank looks around the table. Give us a little more detail.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
[ph] Any live subsidiary of any (00:49:51), they have a renewable diesel production that they offered a €3 for a 25% stake in the renewable diesel production?	3.3 billion
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	А
All I can tell you is that makes Darling severely undervalued then.	
Benjamin Joseph Kallo Analyst, Robert W. Baird & Co., Inc.	Q
Okay. All right. And then just maybe on the final one on, do we read into the dividend that CapEx is prim for the SAF and then maybe any kind of color on – thoughts around if you're going to do another SAF pla	-

timing?

Q2 2024 Earnings Call



Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, I mean, spending is clearly winding down on the SAF side. We're also – another thing that we didn't spend a lot of time talking about. We've got a pretty significant import terminal for imported fats being constructed at Port Arthur, but that's in our capital and it's been flowing through. So, that's pending a wind down too, as we go forward here.

SAF 2, my colleague at Valero, Lane Riggs and I are sitting there saying, sell out number one and bring us the contracts through for more gallons and we'll commit you to build SAF 2. It's engineered, it's costed out plus or minus 10%, ready-to-go, but any further investment decision is on hold until we see the lights of the demand here.

Ben	jamin .	loseph	ı Kallo
-----	---------	--------	---------

Analyst, Robert W. Baird & Co., Inc.

Great. Thanks, guys.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Randall Stuewe for any closing remarks? Go ahead, please.

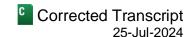
Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Thanks, Cindy. Thank you for all your questions today. As always, if you have additional questions, reach out to Suann. Stay safe, have a great day and we look forward to talking to you in the future.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.





Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet Calistreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.