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Darling Ingredients, Inc. (DAR)

Q3 2024 Earnings Call

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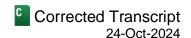
Analyst, Piper Sandler & Co.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients Inc., Conference Call to discuss the Company's Third Quarter 2024 Financial Results. After the speakers prepared remarks, there will be a question-and-answer 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 conference over to Ms. Suann Guthrie. Please go ahead.

Suann Guthrie

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

Hi. Thank you. And for joining. Thank you for joining the Darling Ingredients third 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, North America. Our third 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 and 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 reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Now I'll hand the call over to Randy.

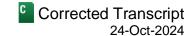
Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Okay. Thanks, Suann. Good morning, everyone, and thanks for joining us. During the third quarter, Darling Ingredients continued to navigate challenging markets with global ingredient demand and pricing remaining sluggish and a difficult renewable diesel market. Despite these headwinds, our core ingredients performance was flat sequentially but generated adequate cash and dividends from Diamond Green Diesel, allowing us to reduce debt by about \$192 million. Operationally, our global asset base performed well and we continued our focus on widening margins, managing CapEx and reducing SG&A. For the quarter, our combined adjusted EBITDA was \$236.7 million, primarily a reflection of sequentially steady finished product pricing and a challenging renewable diesel market. Turning to the Feed Ingredients segment, raw material volumes remained strong, primarily driven by growth In Brazil, fat prices are slowly recovering, but the rebound is much slower than anticipated, clearly reflecting the challenges other RD producers are experiencing ramping their pretreatment units to run on low carbon waste feed, fat feedstocks and the impact of some imported feedstocks. As many of you know, summertime is typically very challenging on our operations and we naturally see a slight degradation in gross margins. I'm pleased to report that the third quarter of 2024 we saw a slight increase in feed gross margin percentage sequentially. This is attributed to the hard work and dedication of our operations team, working on spread management and ultimately cost control programs.

Now turning to the Food segment, we saw lower volumes which were attributed to softer demand in China, new capacity additions in Brazil and continued customer destocking. However, we continue to hold strong margins despite the declining sales price in the global market. On a positive note, next week we will be a supply side west North America trade show in Las Vegas. We will be showcasing Nextida.GC, a natural collagen solution targeting

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glucose moderation and a clinical trial conducted by Darling Ingredients, Nextida.GC significantly lowered post-meal glucose spikes in the blood by an average of 42%. For Darling, we have unlocked the next wave of collagen based solutions that are potentially revolutionary. Now turning to our fuel segment, DGD margins remain challenged given the delay and lack of clarity in the regulatory markets for RINs and LCFS. Despite the softer margins at DGD, we received \$111.2 million cash dividend distribution from the joint venture in the third quarter. Our Sustainable Aviation Fuel unit is mechanically complete and in the process of commissioning. We are continue to build a strong sales book and I have now announced our third contract earlier this month.

For 2025, we remain very optimistic about the regulatory landscape. We believe we will have clarity on the California Low Carbon Fuel Standard program and the federal tax credit known as 45Z very soon, paving the way for greater growth and improved margins at DGD along with stronger demand for our low carbon feedstocks. With that now, 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 on the rest of 2024 and the outlook for 2025.

alsouss my thoughts on the rest of 2024 and the outlook for 2020.

Brad Phillips

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

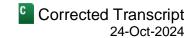
Okay, Randy. Net income for the third quarter 2024 totaled \$16.9 million or \$0.11 per diluted share compared to net income of \$125 million or \$0.77 per diluted share for the third quarter of 2023. Total net sales were \$1.4 billion for the third quarter 2024, as compared to \$1.6 billion for the third quarter 2023. Operating income decreased \$118.3 million to \$60.1 million for the third quarter of 2024, compared to \$178.4 million for the third quarter of 2023, primarily due to a \$72.9 million decline in gross margin and a \$52 million decline in our share in the equity and net income from Diamond Green Diesel earnings as compared to the same period in 2023, which were partially offset by lower selling general and administrative expenses for the third quarter of 2024 as compared to the same period in 2023. Other expenses decreased \$4.9 million in the third quarter 2024, as compared to the same period in 2023, primarily due to a decline in interest expense, as well as an increase from property casualty gains.

For the first nine months of 2024, net income was \$177 million or \$1.10 per diluted share, as compared to net income of \$563.2 million or \$3.47 per diluted share for the first nine months of 2023. Net sales for the first nine months were \$4.3 billion, compared to net sales of \$5.2 billion for the same period in 2023.

Operating income decreased \$445.1 million to \$345.8 million for the first nine months of 2024, compared to \$790.9 million for the first nine months of 2023. The decrease was primarily the result of a \$264.5 million decline in gross margin and a \$236.6 million decline in our share in the equity and net income from Diamond Green Diesel earnings as compared to the same period in 2023. Other expenses increased \$16.7 million for the first nine months of 2024 as compared to the same period in 2023, primarily due to an increase in interest expense and a decline in foreign currency gains. [ph] Forex (00:07:46) taxes for the first three months ended September 28, 2024. The company reported an income tax benefit of \$17.5 million and a significant negative tax rate, primarily due to the biofuel tax incentives. Given the almost breakeven pre-tax earnings, the effective tax rate as a percentage of pre-tax earnings is not meaningful for the three months ended September 2024.

The company paid \$26.6 million of income taxes in the third quarter. For the nine months ended September 28, 2024, the company reported an income tax benefit of \$12.8 million and an effective tax rate of negative 7.6%. The company's effective tax rate, excluding the biofuel tax incentives and discrete items, is 28.1% for the nine months ended September 28, 2024. The company also has paid \$82.4 million of income taxes year-to-date as of the end of the third quarter. For 2024, we are projecting an effective tax rate of negative 5% and cash taxes of approximately \$15 million for the remainder of the year.

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In the third quarter, we paid down approximately \$192 million in debt. The company's total debt outstanding as of September 28, 2024 was \$4.246 billion compared to \$4.427 billion at year-end 2023. Our bank covenant projected leverage ratio at Q3 2024 was 4.04 times and we had approximately \$1 billion available to borrow under our revolving credit facility. Capital expenditures totaled \$67.4 million in the third quarter and \$259.1 million for the first nine months. As Randy mentioned earlier, we received \$111.2 million in cash dividends from Diamond Green Diesel during the quarter. With that, back to you, Randy.

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Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey, thanks, Brad. We are increasingly optimistic about 2025 and believe tailwinds will commence very soon. Our specialty ingredients business is well-positioned and we've made the necessary improvements to deliver increased margins. In addition, we expect margins to improve in DGD and fat prices to improve globally. The transition to the PTC will definitely favor Darling and we will once again demonstrate our ability to be the largest, most reliable, most cost efficient, renewable, diesel and sustainable aviation producer in the world. With three quarters of the year behind us, our core business is performing nicely. But waste fat prices are still lagging and RD margins are modestly improving, but waiting on regulatory clarity. This would suggest 2024 fiscal year combined adjusted EBITDA to be in the range of \$1.15 billion, up to \$1.175 billion, not where we wanted to be, but still our fourth best performance in our 142-year history. As we look forward to 2025, Darling Ingredients has tremendous tailwinds building that have the potential to propel us back into record earnings levels for both our specialty ingredients and renewable businesses.

Our global collagen business is positioned nicely for returned growth as we launch new innovations and market conditions become more favorable. From a decarbonization standpoint, state and now federally renewables fuel incentives greatly favor the use of waste fats and oils, of which Darling is the largest producer in the world. In fact, renewable diesel and SAF producers that want to be profitable will need to switch to waste fats and oils, which will ultimately benefit our specialty ingredients business. Diamond Green Diesel is positioned nicely to continue to benefit from both federal and state program improvements, and it is — as it is the premier producer of renewable diesel and SAF capable of utilizing the most economical waste fats and oils sourced globally. We have 11 plus years of successful production under our belt and now we can say we are the largest and most successful producer in the world.

So now let's take a quick look and an early look at 2025. Even kind of from a worst case perspective, assuming fat prices are somewhat steady or unchanged and Diamond Green Diesel produces approximately 250 million gallons of SAF and 1 billion gallons of renewable diesel. And let's assume RINs and Lcfs value stayed relatively unchanged or flat. I see the combined earning power of our platform to be in excess of \$1.5 billion for next year. However, given what we see in the market, we believe Lcfs and RINs will increase and we expect prices will also move higher. As we've said, one \$0.01 moved in the waste fat price means about \$12 million EBITDA annually for Darling during the year. It's impossible for me to precisely predict how the waste fats and oils complex and RINs and Lcfs markets will shape up over the next year. But clearly the transition from the Blender's tax credit to the Clean Fuels Producer credit or 45Z will be positive for Darling in many ways from favoring waste fats to providing additional cash for delevering. I'm very bullish on Darling. We have a number of tailwinds pushing us into 2025 and I believe this could all result in the highest EBITDA for our company in its history.

With that, let's go to Q&A.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Tom Palmer of Citi. Go ahead, please.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

Good morning and thanks for the question. Thanks for the color on 2025 just starting out, but maybe we could touch first on kind of the implied outlook as we think about the fourth quarter, it does imply a pretty meaningful improvement versus what we saw in the third quarter. So maybe could we touch on some of the items that you see driving that inflection as we look at the fourth quarter? Because it would seem like we're getting close to that \$1.5 billion annual run rate in the fourth quarter just based on the implied guidance. Thank you.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, Tom, this is Randy. And essentially, there's several assumptions that go into the fourth quarter. As we said in the script, traditionally, we have operational challenges in Q3 that's around the world with wastewater and quality. So you always see some natural pick up there. We didn't see any fat price improvement really, or modestly in Q3. We are selling products now and finished fats both in South America and in North America at a higher level than we did in Q3. The collagen business had a pretty bumpy Q3. Some of it was timing of shipments out of Brazil. But ultimately, we see a little improvement there. We're still seeing a bit of recession around the world and it ranges from China to Europe to the US, in feed – or fuel or food ingredient demand. And then ultimately, we've got a pretty good number in there to get there for Diamond Green Diesel for in Q4 here. It doesn't have any assumption for anybody that wants to know of any SAF shipments in there at this time. So hopefully that'll – that if we are successful there, which I believe we will, that could once again support that number and the run rate into 2025.

Thomas Palmer

Analyst, Citigroup Global Markets, Inc.

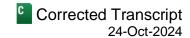
Great. Thanks for the color there. I wanted to follow up quickly just on the on the food segment, it sounded like some of the issues that you saw in terms of 3Q, were more transitory and then some maybe is the competitive environment has changed a little bit. So, maybe as we think through the coming year, you do have the new product rolling out. And I guess to what extent does that offset the competitive environment, do you think we've kind of seen the full magnitude of some of the capacity coming online. And so from here, at least stable to better would be the expectation.

Robert Day

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

Yeah. Thanks, Tom. This is this is Bob. I think you're right. I mean, we're seeing today just a bit more capacity that's come out of the market, gelatin margins kind of a little more pressure than they had been. But like you said, we see that stabilizing as we go into 2025. And our expectation is that the Nextida.GC product will get traction and that product is sold at much higher margin. So I think that's correct that we expect to see stable results in that business in 2025 and a strong trend as we end the year.

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Randall C. Stuewe

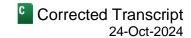
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. And I'll build on that a little bit, we – if you look at Darling, one of the competitive advantages and disadvantages we have is we're public and we do segment and share. And, ultimately the main raw material in our specialty Collagens business is, is bovine hide, grass fed bovine hide. The transparency of the earnings power that we have, ultimately no different than Diamond Green Diesel in the sense of how successful we've been there attracted competition. It's somewhat of a micro market around the world, the numbers range from, 600,000 tons to 700,000 tons globally. And ultimately, when you add it to 15,000 or 20,000 ton plant, it takes a year or so to place that volume. And that's what's happened in Brazil with a couple of factories. They're looking for customers today. Ultimately, how do you get a customer? You buy a customer. And so that's the driver of the decline in sales value. But ultimately, it also it's a spread management business for us on a commodity gelatin business. And then ultimately in the collagen business, it is a very specialty ingredient. So our margins have pretty much maintained what we've been able to hold.

The outlook for 2025 is exciting for us. I mean, obviously next week we talked about being out to launch Nextida. It is available. There are a number of customers there and how quickly that ramps up and then we've got three or four other products behind it now that will be coming on over the course of the next year or two years, three years. So we see ourselves differentiating ourselves once again from everybody else in that business. But ultimately, it's a great business. And we're, and also keep in mind, Tom, when you look at that business, remember, 80% of that business is really kind of feed and fat. And so ultimately, if we get any fat price improvement that ultimately translates back into that business, too, on top of the specialty ingredient being generated. So that looks pretty strong for 2025 here.

Thomas Palmer Analyst, Citigroup Global Markets, Inc.	Q
Great. Thank you.	
Operator: Our next question comes from Paul Cheng of ScotiaBank. Go ahead, plea	se.
Paul Y. Cheng Analyst, Scotiabank	Q
Hey, good morning, guys.	
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
Morning.	
Paul Y. Cheng Analyst, Scotiabank	Q
Maybe this is for Brad. Brad, any idea then how the 2025 CapEx outlook? And also the quick success on the cost reduction, could you give us some idea that how much left is also into 2025? That's the first question.	
Brad Phillips Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.	A
Okay, If I heard right, the first question was about 2025 capital expenditure outlook.	

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Paul Y. Cheng

Analyst, Scotiabank

Yeah. And then also cost reduction.

Brad Phillips

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

Okay. So the CapEx outlook would be probably more closer to back what we projected this year, probably the \$450 million to \$500 million range. I would say. I think for the current year, we're still on track to be in the ballpark of that \$400 million or maybe lower.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. Paul, this is Randy for, Q2 through Q3, we spent \$259 million. That's probably one of our lowest run rates ever. You kind of look at the working capital improvement around \$340 million and you can see how we're managing the business through improved inventories, cost reductions are something that we don't break out. It's just part of our culture and how we run our business around the world. So, we've been successful in closing some offices in North America, taking out some – simplifying our organization in many areas. I always tend to be very quiet about that stuff because it impacts people's lives. But no, ultimately I'd say for next year, kind of use that \$450 million number as we go forward here. And that would be really the maintenance, the environmental and the fleet side here with no growth in there.

Paul Y. Cheng

Analyst, Scotiabank



And Randy, on the food ingredient business, you mentioned that but still, you're seeing some supply increase and you're seeing in customer around the world destocking. Do you think that that's coming to an end? In other words, that other than the one that is posed to be coming on stream do you expect additional, more facility or new supply going to come on stream? And whether that – when you talk to your customer, whether the destocking because you've been going on for notably for a year on the destocking, I mean, how much lower that you can get?

Robert Day



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

Yeah. Thanks, Paul. This is Bob. I think that this is we're going to continue to see it over the next quarter or so. I mean, broadly, the market has been, aggressively pursuing the destocking of inventories, but we're, these things typically take longer than expected. The good thing for [ph] Russillo (00:22:45) is, we've had long term contracts in place that have allowed us to earn higher margins despite this restocking environment than our competition. And we believe that by the time the destocking is over and when we do have to renegotiate contracts in the future that will be done with that cycle. So, overall, we're not too concerned about that.

Paul Y. Cheng

Analyst, Scotiabank

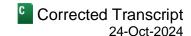
Bob, how about on the supply increase.

Robert Day

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

Sorry, say that again.

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Paul Y. Cheng

Analyst, Scotiabank

How about the supply increase, the new capacity increase?

Robert Day

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

Yeah. So new capacity coming on, as Randy said, a 15,000 ton increase in capacity. It can have a short term impact on margins. The nice thing about that business is the collagen market continues to grow at a pretty fast pace, so, over a relatively short period of time, we can absorb an additional supply, increase into the market like that. And that's what we're expecting to see here over the next several months.

Paul Y. Cheng

Analyst, Scotiabank

Thank you.

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

Dushyant Ailani

Analyst, Jefferies LLC

Hi, guys. Can you hear me?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Sure.

Dushyant Ailani

Analyst, Jefferies LLC

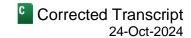
Awesome. Yeah. Good morning. Thanks for taking my question. One on SAF just real quick, could you share some color on your sales book? I know that you guys announced some orders and maybe could you share how much has been contracted thus far besides what you have announced? And maybe – do you have a target split between contracted and spot, if any?

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

Hey Dushyant, this is Matt. Good. Good morning. I think I understood your question. And so, as Randy mentioned, our SAF plant is mechanically complete and we are in the commissioning phase right now. We're very excited about where we are in that. I would say that that project is – has been now actually early and under budget. So and we've made a few announcements over the last few weeks with some of the contracts that we have made. I would just say that not all of the contracts get announced that some – for competitive reasons as an example. And so, we have lots of different discussions going on. We have already completed some contracts, as you know, and I'm quite optimistic about our future there and our ability to contract product and make deliveries. A lot of these contracts are one to three years in tenure. And so, it's really not necessarily our intention to go spot right now on material volume, but we'll see how as time develops. But again, we're confident in our ability to make the sales on product.

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Dushyant Ailani

Analyst, Jefferies LLC

Awesome. Thank you, Matt. And then just a follow up on just your debt targets going forward, with a constructive kind of feedback that you guys have or the constructive picture that you guys probably have painted for 2025? How do you think about your debt targets, especially as you have some maturities coming in in 2026? Maybe it's too early to talk about it, but if you have any thoughts there.

Brad Phillips

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

Dushyant, this is Brad. So where we are now. Just a touch above for anticipate year end here being, right around in that ballpark obviously always to a bit on depends on dividends out of DGD. Next year we are definitely projecting to be the back half of the year be below 3 times. So to really get beyond that in 2026, the momentum will definitely be down. So at 2026, I'll just generally say all things being equal, we'd be much lower than 3.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. And ultimately the targets unchanged at 2.5 times. I think the thing that people have to understand and while we're still waiting for a little bit of IRS clarity here, which we believe is coming, the 45Z allows us to market that credit and generate cash rather than waiting for the waterfall or the distribution out of DGD. That in itself creates a very a fundamental change in how much cash comes into the mothership here and then how the debt ratio from now on gets calculated. So it's a very positive outlook for 2025 here, and it puts us in a position then to once again by the back half of the year, as Brad says, to really start evaluating what the long term both capital structure and the return to shareholders opportunities will provide to us.

Dushyant Ailani

Analyst, Jefferies LLC

Thank you.

Operator: Our next question comes from Heather Jones of Heather Jones Research. Go ahead, please.

Heather Jones

Founder, Heather Jones Research

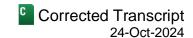
Good morning. Thanks for the question. Randy, you mentioned that you expect to have visibility of 45Z soon and some of the conferences I've gone to lately and just people I've talked to, there seems to be a very low expectation of have any visibility on that this year. So I was just wondering if you could share with us what is underpinning your confidence that we'll get that soon.

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

Hi, Heather, this is Matt. Look, I would – we hear a lot of the same, let's say, input that you're talking about of. And we've got a lot of discussions going on our side. We remain optimistic that we're going to get clarity on 45Z with the guidance [ph] where they've (00:28:51) its provisional guidance or – and then it will certainly spillover into 2025. But we do believe that this is something that is imminent and we're anxiously waiting for it, obviously. But I would say that we hear some of the same chatter that you're talking about and don't disregard that. But it's something that over the next coming weeks, we hope to have more insight.

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Heather Jones

Founder, Heather Jones Research

And when you say spillover into 2025, like you're expecting the visibility to come in stages.

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Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

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Potentially.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

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Potentially, it could. But we don't look at it, Heather, as is it going to happen or not happen. I mean, we don't look at it as a line in the sand. All the discussions we're having with the proper people are that it's imminent. A little bit of timing here, but it doesn't mean that it won't be, retro and be part of it. I mean, when we look at our cash generation for next year, really at the end of the day, we look at that, we'll be able to market three quarters of that credit next year. So that's – we're taking a conservative approach to it, but we're not taking an approach that the can get kicked down the field to mid-2025. I just don't see that happening. Bob, do you have any different opinion here?

Robert Day

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

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No, I agree with that.

Heather Jones



Founder, Heather Jones Research

Okay. And then my second question was on Diamond Green. So looking at margins and I lag the feedstocks, et cetera, there has been a significant improvement in margins. But going from your Q3 to what is seems to be implied in your Q4, I'm not seeing that kind of step up. So just wondering, was Q3 affected by any high priced feedstocks that you had locked in or something like that? Just given that you're not embedding fast in those numbers, just wonder if you could help us understand why we're going to get such a big step up in Diamond Green?

Robert Day

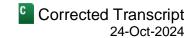
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Executive Vice President & Chief Strategy Officer, Darling Ingredients, Inc.

Yeah. I mean, I guess. Yeah. So, what we've seen what we saw through quarter three is a lot of movement with all of the inputs as there's – we've had a relative amount of uncertainty in this market. As we go into the fourth quarter, we're really going to be shaping up for 2025. And as we sit here today, 2025, the outlook is really positive for renewable diesel companies that can utilize low CI score feedstocks. And so, what we're expecting as we move through the quarter is that we're going to see margin improvement as we go through the quarter.

Companies are positioning for 2025. There's a couple of realities that are important here. If you look at ending 2024 supply, we're shaping up to have produced 3.2 billion gallons of renewable diesel, 2 billion gallons of biodiesel, and about a 1 billion gallons of imports. So that's like 6.2 billion gallons of supply. And when you look at 2025, we need just to satisfy the mandates and normal export demand. We're going to need about 5.7 billion gallons of supply and renewable diesel, depending on what happens with carb, renewable diesel is going to be, could be \$0.50 to a \$1 a gallon more competitive. So we need biodiesel to be operating at a positive margin in order to satisfy mandates. And so as we get to the end of 2024, that should really provide a lot of support. We're obviously expecting positive outcomes from Lcfs prior to the end of the year.

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Heather Jones

Founder, Heather Jones Research

Okay.

Operator: The next question comes from John – I'm sorry, from Manav Gupta of UBS. Go ahead, please.

Manav Gupta

Analyst, UBS Securities LLC

Good morning, guys. So as we're looking at the RIN prices, they are rebounding. Lcfs is also rebounding, which could be because of the November 8 meeting. But the way the RIN prices are rebounding, it seems that some low quality biodiesel, or renewable diesel production has already started to shut down. So just wanted to understand if you are seeing that and do you think this trend accelerates once we go from BTC to PTC, that some of the lower quality non-profitable BD RD production might continue to shut down in 2025?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

So. Well, we'll kind of tag team this question, Manav. I mean, number one, clearly you're seeing the world, reevaluate future investments and whether they're and operating renewable diesel plants or construction of new plants. I mean, you saw it in BP, Shell, Eni now around the world, clearly Neste is having their challenges and that's been well-reported here. when you start to think of what's starting to hit the market here is not only some shuttering of capacity, but Neste is offline now and then with the with the transition from the BTC to the PTC, clearly, the trying to make a cutoff time to be blended and sold is now the clock's ticking. And that's what Bob was trying to allude to. To Heather's question there is we're in the midst of watching this change right now. We're seeing in California, physical gallon demand is very, very tight right now. And so ultimately, you can see what's happening is as these imports are starting to slowdown coming in, you're seeing that in the RINs, the Lcfs, with the limited number of obligated parties there and the liquidity there, they're waiting for some clarity there. But I think you're within a week or so of having that. And then, I just see this thing really starting to improve next year.

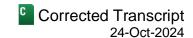
Bob alluded to a 1 billion gallons of imports. It was 527 million gallons through June. Clearly, it'll slow down a little bit here the back half. Then you got to add on the increase in the RVO next year and then yeah, Geismar probably will be online although they're offline right now also. And so you get a couple of things that are tailwinds to Darling. One is if you're going to be profitable in this business, you've to learn to run waste fats and so far the industry has it. Imports have slowed a of imported feedstocks into the country that's a result of European changes now and then also China taking back their feedstocks and processing themselves. So there's a lot of movement in the world. We were bringing up a lot of feedstock out of our operations in Brazil, the domestic market for biofuels and Brazil now is a premium to the US. So there's lots of different pieces that are happening here around the world that are setting the stage for 2025. Bob, you want to add something, make me look smarter here.

Robert Day

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

Yeah, look, I mean, I think if you just kind of take a snapshot of today spot margins for biodiesel are somewhere in the neighborhood of \$0.10 a gallon. And so if you take a blender's tax credit out of that, that's negative \$0.90. As I said earlier, biodiesel needs to needs to needs to be produced in order to satisfy the mandate in 2025. So we need to migrate towards a positive biodiesel margin. As current indications around PTC are that biodiesel made from soy wouldn't be eligible for the PTC. So we need to see a pretty significant improvement in margins,

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otherwise we won't have enough supply. And so to answer your question, Manav, yeah. As we get towards the end of the year, I think we expect to see idling of plants and until or unless margins improve.

Manay Gupta

Analyst, UBS Securities LLC

Perfect.

Brad Phillips

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

But I think I was just to pile on Manav one thing to keep in mind is as we go into our SAF production, SAF production that's one for one gallons of RD that will not be available on the market.

Manay Gupta

Analyst, UBS Securities LLC

Perfect. My quick follow up here is, historically, the feed segment margins could go in the 23% to 25% range. You're trending around that 21%. So any margin enhancement opportunities in 2025 as they relate to the feed segment?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, I mean, clearly, we've still improving our operations on the Eastern Shore. Clearly, we're improving our procurement strategies in South America. And we're also focused on improving our procurement strategies on raw material in North America that should start to translate through into what I'd say non-price driven margin improvements for 2025. And then if you did any uplift in fat prices that would all ultimately put us back into that 23% to 25% range. Anything you want to add, Matt?

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

It's like you say, Randy, its spread management is that it's fat prices and it's also reliability and operations of the plant.

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

John M. Royall

Analyst, JPMorgan Securities LLC

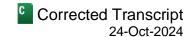
Hi. Good morning. Thanks for taking my question. So I was hoping you could update us on your expectations around the per gallon profitability uplift from running SAF versus RD at DGD. And then what's baked into your \$1.5 billion soft guide for 2025 in terms of the contribution from SAF?

Brad Phillips

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

Yeah, I would say from a pricing and margin standpoint within our SAF, that's not something that we're openly discussing. I would just say that the margins do meet or exceed our project economics that we had put into the project. And I don't look for that to change.

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John M. Royall

Analyst, JPMorgan Securities LLC

Okay. Thank you. And then I was hoping you could dig in a little bit on the imports you discussed that are dragging a bit on fat pricing relative to your expectation. Just any more color there? And do you expect that to continue or is that more of a transitory impact?

Brad Phillips

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

Imports of fat or fuel or both.

John M. Royall

Analyst, JPMorgan Securities LLC

I believe the comment was on fats in your opener, but correct me if I'm wrong.

Brad Phillips

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

Okay. So on – so the imports of biofuel have actually had a bigger impact on fat prices in North America than imports of waste oils and fats. Just due to the fat volume equivalent. Imports of biofuel, we expect to significantly decrease in 2025 because those imports won't be eligible for a producer tax credit. And so they're going to be less competitive. So that should have a positive impact. As far as imports of used cooking oil and animal fats, it's really going to be supply and demand and price related. But there's really nothing that that we believe will prevent those products from continuing to come to market.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

And ultimately as you look now, palm oil is now at a high of one since 2022. Lower production, strong demand in the world, changing bio mandates within those APAC countries. Same thing we're seeing in Brazil right now as they move their mandate up. It's been a long time for several of us in this room to know when US soybean oil has been competitive in the world market for export. But we are today. So that's what we're saying. The world is moving right now. 30% of the globe's renewable fuels demand is supplied by veg oils globally. The advantage waste fats have, which will only be accelerated and exacerbated by the PTC, is significant. So the point being is if you have the capability, you will run waste fats. And so far we're seeing some – we're seeing one of the West Coast guys try to operate on waste fats while the other one is not. So, there's some changes happen right in front of us here.

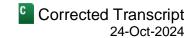
Operator: The next question comes from Andrew Strelzik of BMO. Go ahead, please.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Hey, good morning. Thanks for taking the questions. The first one I just wanted to clarify your comments or take another stab at that around the framework for 2025. Does that, \$1.5 billion that you articulated include a SAF uplift? I guess it doesn't really sound like it since it's the run rate that's implied for the fourth quarter. And is there an assumption on tax credits and how that's going to shake out?

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Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, Andrew, the crystal ball has a little bit of fog in it, this early in the season right now. That's the reason we kind of through the \$1.5 billion out there. Clearly we think we're going to move out of, November and December with some pretty good momentum here. And so that – how that translates through, whether it's feedstock pricing or whether it's margin and SAF improvement in 2025, it's yet to see – we're just telling you that we see a much improved environment next year for cash generation and deleveraging and other opportunities that exist.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Got it. Okay. That's very clear. And then my other question, you've talked about RD margins having improved a little bit. Certainly you've got the SAF tailwind for next year. But one of the things that we struggle with is kind of the capture rate relative to paper margins, which by our math keep kind of moderating. And so I guess maybe my math is wrong. But you know, I guess what I'm asking is, is there something in the recent or current market environment that is limiting the ability to capture those paper margins? Or maybe on the flip side, as we go into kind of a more favorable environment is there the ability to increase that capture rate on kind of the base DGD margins going forward? Thanks.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

I mean, it's an academic question and I understand it. And, we track a paper margin every day. And when I look back Non-LCM, it averaged for Q3 around \$0.45 a gallon approximately. And without the LCM, we got about 80% of that. And so, if you look at the daily margin up and down, there are some pretty big valleys in there. And ultimately the way those contracts work is when, it's the bill of lading data of the vessel, the ship, the barge, and the railcar, whatever you want to call it, the pipeline shipment. And some of them look back three days, some of them look back seven days. And so, it's always a timing issue. So trying to get it to match ratably is impossible. So I don't know, Bob, Matt you guys, you.

Robert Day

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

I would just say that it's fair to say that considering the plants and their size and scale, we have a constant book on the purchase side as well as the sales side and those in – on average I would say, one to two months long. And so, as you know, the margins don't necessarily change by the deck in terms of what we actually achieve.

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

Matthew Blair

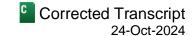
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Thank you. And good morning, everyone. Can you talk a little bit about the market for RD exports? European RD margins are moving up in October here and British Columbia Lcfs pricing has really rebounded after some pretty weak numbers in July. Would you expect that RD exports to be a source of improvement in the fourth quarter versus the third quarter?

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

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Hey, good morning Matt Here. So our approach is basically best economics. It determines where we make our sales. And so you're right, we have seen an improvement in some of the export markets. And that's one of the beautiful things about DGD and its strategic locations on the Gulf Coast that we can not only import very, very cost effectively, also export very cost effectively. So we're constantly in those markets. And, if we have a better opportunity to export, then that's what we're going to do.

Matthew Blair

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

Okay. Sounds good. And then, I know your feedstock slate on the RD side is typically one-third fats, one-third corn oil, one-third used cooking oil. Was there any feedstock switching in the third guarter? There were certain points during the quarter where it looked like RD from soybean oil actually was pretty attractive due to cheap soybean oil prices. So was there any unusual or atypical feedstock movements for DGD in the third quarter?

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

Not out of the ordinary. And those that combination of one-third, one-third, one-third. We – it's not exactly. Yeah. Yeah. That's not exactly the true break out. There's other products but I would say that. But there was nothing out of the ordinary in the product mix.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. We are way heavier animal and UCO based than anything else at the locations. Now it's customer driven, it's CI driven and CIs and feedstocks are available for different geographies in the world that we ship to. So it's always a mass balance of what we're producing there, both on availability, most importantly on quality. And that's what drives it.

Operator: Okay. Our next question comes from Ryan Todd of Simmons Energy. Go ahead, please.

Ryan M. Todd

Analyst, Piper Sandler & Co.

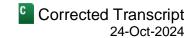
Yeah, thanks. Maybe a follow up on the base business side and in particular, the feed business. So in the third quarter the base business right now running at a run rate of around \$850 million in annual EBITDA. I know that you've typically talked about that as kind of a \$1 billion a year business and the 4Q and 2025 guide certainly seem to suggest that kind of improvement. So maybe how much improvement do you - are you assuming to get to - I mean, are baked in that 4Q number and to get back to the \$1 billion level I mean, based on your sensitivities, that's probably another \$0.12 to \$0.13 improvement in fat pricing. So what have you seen quarter-to-date that gives you confidence on, kind of getting to those levels? Because it seems a little more than what we can see on the screen right now, so.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, volumes remain strong around the world, operational improvements that are happening in North America and South America for us. Really feedstock pricing improvements are happening. I'm seeing, as we said, palm oil is \$1,000 a ton or, nearly \$0.50 a pound here. We're moving towards those prices now at many of our factories around the world. And that's a major improvement versus averaging \$0.38 to \$0.40 in the first half of the year. So that's the main driver is the slow but improving, as I call it, lagging feedstock prices out there as we move forward,

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Ryan, and then some improvement in the food business and we'll just see how it flows through here at the year. And keep in mind that in Q1 that there was a \$25 million prior year adjustment. So, that that's really in our thinking too, the Q1 while reported at \$280 million was really operationally at \$305 million. So, as we go forward, getting back to those mid-three level numbers for us doesn't seem out of reach.

Ryan M. Todd

Analyst, Piper Sandler & Co.

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Okay, thanks. And then maybe a follow up on the SAF side. Any thoughts at a high level in terms of how you expect the European market to figure into things is that – do you look at the European market as a potentially higher margin destination for your product as you think about kind of export versus domestic demand looking into 2025 and thoughts on maybe like relative supply demand into that market?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

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Well, and I think we'll team this one. I mean, first off, when we wake up in the morning, we're thinking of what's the best destination for our feedstock. And during 2024 was the first time in my career and probably and I don't know history that we saw European fat [ph] cat 3 (00:51:07) fat move to the US. That doesn't happen. What's that a result of? That's a result of underperformance of the renewables sector in Europe, whether that's RD or whether that's biodiesel, that is changing right now, although Neste continues to have their operating problems. But it feels like that's changing now and those fats are going to stay within the boundaries of the European continent. When you look then at the South America, a lot of South America was headed up here, our plant. It's a great deal because it improves the margins of our rendering business down there. But now with the mandates that are happening down there, it's slowly being absorbed as a premium to the US and then the US, we're still waiting on the two big guys on the West Coast to, consistently and even run waste fats, whether that's UCO or whether that's animal fats. And that should change things. I mean, clearly, Geismar should have the ability, they've been around nearly as long as we have. And so they've kind of mastered that. So really at the end of the day, the feedstock situation should change here. If you have the capability. On the outbound product side, as Matt said, it's a find the highest price market and sell it. Clearly Neste is creating a lot of spot opportunities here, whether it's in the continent or Canada or California for us right now. So, that's given us the courage in the Q4 here. Guys, anything you want to add to that?

Robert Day

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

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I would just say that, we're seeing demand increase all around the world. The natural supplier of that demand is product that's been imported into the United States. What we see in 2025 is a significant increase in demand in the United States for renewable diesel, relative – on a relative basis because of what's happening with overall supply and demand. So if there are global opportunities, as Matt said, Diamond Green Diesel is well positioned to take advantage of those opportunities. But we're seeing a really attractive market in the United States in the next year.

Operator: Our next question comes from Ben Kallo of Baird. Go ahead, please.

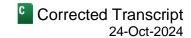
Benjamin Joseph Kallo



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

Hey, good morning, guys. Just on next year, possibility of shuttering capacity. Could you just talk about any kind of dynamics you think that people would run even at a loss in the marketplace? And then I have a follow up question.

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Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

I mean, those dynamics could exist certainly in biodiesel if there – if it's an extension of a crush, an [ph] OC (00:53:57) crush business and crush margins are wide, they could theoretically run at a slightly negative margin, but, slightly negative. We don't anticipate to see, significant percentages of capacity running at large negative margins.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, Ben, this is Randy. And, ultimately, Chevron went out and bought those REG assets. They've shuttered two of them with the 45Z coming on, I'm not sure what those economics look like. Even with Lcfs increasing here, it's still capped at 5% biodiesel. But you got to keep in mind that the RVO grows by 350 million, 400 million gallons next year. Again, that's a big number in itself. So it's hard to see much shuttering. really, If we kind of rewind the movie to into 2023 every bet on the table was well and this is by all the sell-side guys was that P66 and Martinez were going to run wide open and flood the market with RINs and product, not happened and we're starting to see that that change. While we don't share our book that we sell other folks, we are only now starting to sell some waste fats out there to other people. On the other side, there's still one of them out there that's only buying refined, bleached soybean oil. And a lot of it's imported. And you've got to question the economics on it because it involves paying a 19.1% duty. And so unless you're going to export that product, you don't get the duty drawback. So there are some people out here doing some what I'd say, less than economic things. We hope that rational minds prevail. And but ultimately, I think you're going to see enough growth in the market and then enough arbitrage from us, meaning getting out of 250 gallons from, RD to SAF and some other things. Vertex is gone now, we're setting up for a pretty good marketplace. I see next year.

Benjamin Joseph Kallo

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

Thank you. Just on the SAF front, we saw that there were some loan guarantees, I think announced and different pathways for SAF. How do you envision the market evolving? Do you think we're going to be a period of where we get to oversupply or what keeps that? And thank you, guys.

Matthew J. Jansen

Chief Operating Officer-North America, Darling Ingredients, Inc.

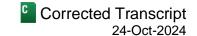
Yeah. Hi, Ben. Good morning. This is I would say on paper, the market for SAF demand is could be up to 4 billion gallons, maybe more. So it's quite a bit larger than any available production that's online today.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. Ben, this is Randy again. I mean, and the SAF market is developing and our book is building out there, as we say, and the margins are what we really talked about. What's interesting in that business is that the supply chain is far more complicated, it's airport by airport airplane or, airline by airline. And then in wing supplier by in wing supplier, those are those deals are happening right now. Some want them announced, some don't want them announced. If you look at if you look at Europe today, it has a mandate in 2025. The obligated party is the in wing supplier or the oil company, but they don't have to be compliant until the end of 2025. So little bit of dragging of the feet there. But it's developing. And ultimately, you're seeing China now talk about an SAF mandate. This thing I think is once again what we believe is we've got an early mover advantage here. We want to get plant one sold out and we committed for three years, as Matt said. And then we're well positioned to move forward with additional production into space, if it so warrants. So but it's just going to take a little bit of time here. Like we said,

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the plant is mechanically complete its commissioning and we're optimistic we'll be fully operational in quality and spec here before the end of the year.

Operator: Okay. Our next question is from Jason Gabelman of TD Cowen. Go ahead, please.

Jason Gabelman

Analyst, TD Cowen

Yeah, hi. Good morning and thanks for taking my question. I just wanted to at the top of the hour, it looks like the DGD's distribution outpaced the earnings from the company and the implied cash generation. If you just talk about that dynamic and if there's a change of distribution of distribution policy there. Thanks.

Brad Phillips

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

Yeah. Jason, this is Brad. If you'll recall, back – you may not, but back earlier in the year, we saw coming out of the holidays of 2023 a slowdown a backup in DC on payouts on the BTC back to parties at least to Diamond Green and they were really two to three months behind, that once revenues came in the middle of May, believe it was, and entry the IRS as we internally anticipated. They started doing a real catch up. So there was really we got to the point during Q3 where we really got more on a normal course by the by – during the quarter on the BTC receipt. So that had a big impact on we received put it this we received multiple distributions during the third quarter and we're still looking here at the end of the year possibilities of additional distributions. We'll just we'll see how that comes out.

Jason Gabelman

Analyst, TD Cowen

That BTC catch up is now complete though.

Brad Phillips

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

Well, it's ongoing every month. It's that – they're pretty much caught up that's I'll leave it at that.

Jason Gabelman

Analyst, TD Cowen

Okay. All right. Thanks.

Operator: This concludes our question and answer session. I would like to turn the conference back over to Randall Stuewe for any closing.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Once again, thank you for all your questions. As always, if you have additional questions, reach out to Suann and stay safe. Have a great holiday season and we look forward to talking to you again in the future.

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

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