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PRESENTATION

Operator

Good morning, everyone, and welcome to the Darling Ingredients Inc. conference call to discuss the company's fourth quarter and year-end 2018 financial results. On the call today are Mr. Randall Stuewe, Chairman and Chief Executive Officer; Mr. Brad Phillips, Executive Vice President and Chief Financial Officer; Mr. John Bullock, Executive Vice President and Chief Strategy Officer; and Ms. Melissa Gaither, Vice President of Investor Relations and Global Communications. (Operator Instructions) Today's call is being recorded.

I would now like to turn the call over to Melissa Gaither, Vice President of Investor Relations and Global Communications for Darling Ingredients. Ms. Gaither, you please go ahead.

Melissa A. Gaither - *Darling Ingredients Inc. - VP of IR & Global Communications*

Thank you, Nicole. Good morning, everyone, and thank you for joining us to discuss Darling Ingredients' earnings results for the fourth quarter and fiscal year ended December 29, 2018.

To augment management's formal presentation, please refer to the presentation section of our IR website with the earnings slide presentation. Randall Stuewe, our Chairman and CEO, will begin today's call with an overview of our fourth quarter and fiscal year operational and financial results, focusing on year-over-year comparisons and will discuss some of the trends impacting our business. Brad Phillips, Executive Vice President and Chief Financial Officer, will then provide additional details about our financial results. Finally, Randy will conclude the prepared portion of the call with some general remarks about the business and the year ahead, after which, we'll be happy to answer your questions.

Please see the full disclosure of our non-U.S. GAAP measures in both our earnings release and earnings slide presentation.

Now for the Safe Harbor statement. This conference call will contain forward-looking statements regarding Darling Ingredients' business opportunities and anticipated results of operations. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Darling's annual report on the Form 10-K for the year ended December 29, 2018, and our recent press release announced yesterday and our filings with the SEC. Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not take any duty to update any of the forward-looking statements made in this conference call or otherwise.

Now with that, I'll turn the call over to Randy.

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Thanks, Melissa. Good morning, everyone, thanks for joining us. We carry solid momentum into 2019 as we positioned Darling as one of the most sustainable and green companies in the world. The fourth quarter truly showed the diversity and consistency of our global ingredients platform and the potential that Diamond Green Diesel has to supercharge Darling's future.

During the year, we executed 4 bolt-on acquisitions and commissioned 7 new and expanded plants that increased our capacity for premium sustainable ingredients.

Looking to 2019 and beyond, we have 8 additional facilities under construction, including 4 new plants to meet the growing demand for Peptan, our specialty collagen product. You can view a list of these projects and their expected completion and timing on earnings -- on the earnings call Slide #3.

Now for 2018, we grew our raw material volumes by 3.3% year-over-year, including growth of 1.5% during the fourth quarter. We delivered annual adjusted EBITDA of $431.4 million without the benefit of the blenders tax credit, and DGD generated $65 million in partner dividends this year. Year-over-year, our earnings were flat, but keep in mind, we sold our environmental services business early in the year. We wrote our plasma inventory in China down. FX for both the euro and CAD were weaker, and we faced a stagnant protein market and a significantly lower fat market during the year.

Overall, the team executed well and the diversity and consistency of our platform is quite evident. Additionally, we continue to be optimistic the blenders tax credit will be reinstated during 2019. It should be noted that 2018 earnings would have been approximately $90 million higher had the BTC been in effect during the year. This is a combination of both DGD and our Fuel segment.

Now let's pivot our review to the fourth quarter segment performance. Our teams managed well through challenging pricing markets, trade disruptions and a slow recovery from our extended downtime at Diamond Green Diesel during the third quarter. The Feed segment benefited from robust raw material supplies globally but battled stagnant and deflationary finished product pricing for fats and proteins as compared to 2017. Clearly, our extended shutdown at DGD and ample palm oil supplies weighed on the fat markets, and proteins continue to feel the trade disruptions related to China and the record slaughter volumes. Global pricing is improving across the fats and protein markets, and we feel quite confident that our future results will portray this fat.

Our specialty ingredients business, embedded in the Feed segment, continues to perform well, reporting strong margins and record volumes. Our acquisition of Triple T Wet Pet, a specialty pet food operations in Springdale, Arkansas, added to our footprint and our market share in this growing market. Also, we are excited about the progress of EnviroFlight, our joint venture with Intrexon. This is the largest Black Soldier Fly Protein Facility in the U.S., and phase 1 production commenced in the fourth quarter. And during the quarter, we also acquired a new organic fertilizer production facility in Turlock, California, which will enable us to grow our production of nature-safe organic fertilizer.

Now our Food segment, anchored by our global collagen business, rebounded nicely and posted a solid quarter, both Rousselot South America and China reported a strong year and 2019 looks to be off to a very good start. Peptan, our specialty collagen product, is rising to meet global demand and achieved record production levels with further expansion within our operations in Brazil and France expected to come online during the first half of this year.

Our Fuel segment, which is a combination of our green energy businesses, delivered consistent earnings on strong volumes across Europe. Ecoson, our European bioenergy business, capitalized on higher volumes from Phase 1 expansion of the digester in Denderleeuw, Belgium and the return of our Netherlands' facility to full capacity after being curtailed for most of 2017.

Rendac, our European disposal rendering business, also had a solid quarter generating strong volumes and earnings growth in the Netherlands and Belgium. Despite the absence of the blenders tax credit, our biodiesel businesses remained steady compared to last year and they were benefiting from the lower fat prices.

In the fourth quarter, Diamond Green Diesel displayed its true potential. The facility resumed production and quickly ramped up to its boilerplate capacity of 275 million gallons per year. For the quarter, we produced 73 million gallons of renewable diesel, delivering a record $110 million of EBITDA on 66 million gallons of sales. Operating margins were $1.67 a gallon for the quarter, an average to $1.19 for the full year.

For 2019, we anticipate -- operate at or above nameplate capacity, and we expect full year margins to be in a $1.25 to $1.40 per gallon range. Diamond Green Diesel continues to capitalize on the premium LCFS markets and the JV generated partner dividends of $40 million each in the quarter. Construction on our Phase 3 Super Diamond expansion is already underway, and when complete, it will produce an additional 400 million gallons of renewable diesel and 50 million to 60 million gallons of renewable naphtha. The estimated cost of the facility is around $1.1 billion, and we anticipate start-up in the latter half of 2021. On Monday, I visited the facility, and on Slide 10 of our earnings call presentation, you will see the progress as we prepare the site. Permits are pending, and we are anxiously awaiting the start of construction.

Now with respect to the BTC. We remain optimistic, Congress will provide a legislative vehicle to renew and extend the BTC during 2019. As you may or may not know, the BTC is part of 28 extenders the Congress has not renewed. From all of our visits to the hill, we can report the bipartisan discussions are underway to move this issue forward.

Now before I turn the call over to Brad, I'd like to revisit a point on the Valero fourth quarter earnings conference call. During that call, the Crédit Suisse analyst asked the value of Darling Ingredients in Valero maintaining the Diamond Green Diesel partnership. Martin Parrish, Valero's Senior Vice President of Alternative Fuels, did a great job in answering that question when he explained how integral Darling is to the partnership. I'd like to paraphrase his answer because I think it's valuable for our shareholders and analysts to keep top of mind. Martin states Darling is one of the largest processors of animal fats in used cooking oil in the world. In fact, Darling processes over 10% of the world's meat industry byproducts annually. In doing so, we have created a raw material supply chain to support Diamond Green Diesel that will be very hard and very expensive to recreate. And it would be complicated to maintain a standalone supply network without the balance of our food and feed businesses working in concert with the supply chain. Darling has the unique expertise and pretreating the fats and oil feedstock to optimize the refinery process, which Valero has immense expertise in. Valero brings an unrivaled skill in engineering and operating a state-of-the-art renewable diesel refinery as well as marketing operations that ensure the partnership maximizes its unique position to the LCFS markets around the world. Martin and I both agree that Diamond Green Diesel is truly more valuable with both companies involved due to our combined innovation and expertise.

So with that, I'd like to turn it over to Brad to give you a few financial highlights.

Brad Phillips - *Darling Ingredients Inc. - Executive VP & CFO*

Okay. Thanks, Randy. For the fourth quarter 2018, we reported consolidated net sales of $853.1 million compared to $952.5 million for the comparable 2017 period. For fiscal 2018, net sales were $3.4 billion compared to $3.7 billion for fiscal 2017. These declines were primarily a factor of lower finished fat product pricing, the closing of the companies, Hurlingham, Argentina facility, the deconsolidation of the company's Best Hides subsidiary during 2018, reclassed billed freight recorded in cost of sales in 2018 as compared to net sales in 2017 and the divestiture of our industrial residuals business earlier this year. We posted net income in Q4 of $40.6 million or $0.24 per diluted share compared to net income of $105.7 million or $0.63 per diluted share for the 2017 fourth quarter. Fiscal 2018 net income was $101.5 million or $0.60 per diluted share compared to $128.5 million or $0.77 per diluted share for fiscal 2017. The declines in net income were primarily driven by an income tax expense of $8 million and $12 million in the fourth quarter of '18 and fiscal '18, respectively, compared to income tax benefits of $85 million and $69.2 million in the 2017 fourth quarter and fiscal 2017, respectively, due to the remeasurement of deferred tax liabilities per the U.S. Tax Cuts and Jobs Act and benefits from European tax reform.

Additionally, in fiscal 2018, we had debt extinguishment cost, Argentina restructuring cost and a loss on the sale of the industrial residuals sector. Substantially, offsetting these declines, as reflected in our substantial increase in income before income taxes for both the fourth quarter and fiscal

2018, was a significant increase in our equity and net income of our unconsolidated subsidiary, Diamond Green Diesel, which was partially due to recording the 2017 blenders tax credit in 2018.

SG&A was $76.4 million and $309.3 million for the 2018 fourth quarter and fiscal year, respectively, compared to $89.9 million and $343.5 million for the 2017 fourth quarter and fiscal year, respectively. The decrease was primarily due to lower wages and benefits, which were partially due to the closure of the Argentina collagen facility and the sale of the industrial residuals sector, both in the second quarter of 2018.

Interest expense declined $2.5 million year-over-year, primarily due to a lower interest rate on the company's EUR 515 million senior notes, resulting from the May 2018 refinancing of the notes from 5 3/4% to 3 5/8%.

I want to briefly mention taxes. The company reported income tax expense of $12 million for fiscal year 2018. The effective tax rate is 10.2%, which differs from the statutory rate of 21%, due primarily to the retroactive reinstatement of the biofuel tax incentive for 2017 recorded in 2018, tax law changes in the Netherlands and changes in valuation allowances, primarily related to losses that provided no tax benefit. The biofuel tax incentive expired as of the end of fiscal '17. Excluding the impact of the 2017 biofuel tax incentive and tax law changes, the effective tax rate for fiscal 2018 is 34.4%. Cash tax payments were $33.2 million in 2018 compared to $26.3 million in 2017. We are projecting the fiscal year 2019 effective tax rate to be 35%, excluding the biofuel tax incentive. If the tax incentive is reenacted retroactively for fiscal year 2018, the effective tax rate is projected to be 20%.

Finally, we are projecting cash taxes of approximately $40 million for fiscal 2019.

Now as per the balance sheet, working capital improved by $10.5 million in 2018 compared to 2017. And capital expenditures for 2018 totaled $322 million compared to $274.2 million in 2017. We received $65 million in cash dividends from Diamond Green Diesel during 2018, and our total debt-to-EBITDA ratio per the bank covenants improved to 3.13 from the 3.47 at the end of '17. Our liquidity remained strong with approximately $929.8 million available under our revolving credit facility.

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

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Thanks, Brad. Overall, we are pleased with achievements for the quarter and the year. We took several strategic actions to mitigate global macro challenges and continue to focus on opportunities to optimize our platform, strengthen our financial position and leveraging grow our scale to capture opportunities and deliver on our World of Growth Strategy. Our strong free cash flow allowed us to deploy $322 million of maintenance and growth capital with an additional $108 million of strategic acquisitions to build upon our sustainable portfolio of value-added in specialty ingredients.

In 2019, we expect to invest approximately $300 million in maintenance and growth capital for several strategic projects noted in our slide deck, while maintaining capital discipline across the company. Additionally, we continue to take pride in our ongoing corporate social responsibility disclosure, making significant achievements that demonstrate our commitment to drive meaningful progress towards a cleaner, safer and sustainable environment. Towards this end, we are showing specific updates on our website, such as our latest video animation highlighting our biofuel stories at Diamond Green Diesel. If you haven't already watched the video, I encourage you to do so. Also, we continue to strengthen our corporate governance with the recent appointment of Nicole Ringenberg as a Director. Nicole's appointment aligns well with our governance strategy, and after a 32-year career with Monsanto, she brings unique and strategic insights related to sustainable agricultural solutions, global operations and with a strong emphasis on Asia, corporate finance and advancing diversity across our workforce. We look forward to providing more updates on our ongoing environmental, social and governance efforts across the company.

With that, in summary, we're excited about the strength of our business, our future market positions and our near-term and long-term growth opportunities.

So with that, let's go ahead and open it up to questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Heather Jones of Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I had just a couple of questions. Randy, you mentioned that global fat pricing has started to improve. And I just was wondering if you could take us through how you view the cadence of the year? Because as you know, there's a number of mandate increases around the world, but palm oil production remains strong. So just, like how are you thinking about what that price curve looks throughout the year?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

We've got a lot of discussion around the table on that. Coming out of December into January, it felt pretty weak around the world. We saw some pretty big softening happen in Europe, which is usually pretty steady. But now here in January and into February, we're seeing Europe start to bounce back. I mean, the U.S. was a main driver here. We just, kind of, had a hangover from that extended downtime at Diamond Green. And then, the slaughter here has been record levels, and we expect it to maintain record levels. And with cheaper feed grains and inputs, you tend to put more weight on the animals. So at the end of the day, there's ample supplies here, but we're starting to see a move up for the first time. We're seeing some strength on the West Coast in our fats amount. We're also starting to see Europe come back. Europe will be much stronger, I believe, in second quarter than first. So I think it's a pretty strong bell curve here. I mean, if you follow the palm oil, kind of, reports and predictions, they're at the peak of their production and then it starts to scale down as you go forward here. And at the end of the day, I think you're going to produce less fat in China this year than you have in the past. And so I think the S&D and the global balance sheet will continue to tighten as we go forward, and we'll see what happens. So right now, we're pretty bullish the back end of the year here.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. Then thinking about the blenders tax credit. So you expressed confidence that it gets reinstated. Let's consider a scenario where it doesn't, and given the higher advanced mandate and the BOHO spread is not nearly as favorable as it was last year. Like, where do you think rains need to go to stimulate the kind of, production we needed -- we would need for those mandate?

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

Heather, this is John. I mean, overall, if we don't see the blenders tax credit come back, then you would anticipate that we would see higher-end prices develop as we go through the course of the year. How quickly that will happen, who knows, but it certainly looks like it needs to move to a higher level to be able to incent for production if there is demand for alter now.

Operator

Our next question comes from Kenneth Zaslow of of Bank of Montreal.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

With the absence -- or for the timing of the BTC, how do you think of the -- how should we think about the near-term profitability of the Feed segment? The yellow grease prices, used cooking oil, how do you think about that?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

We saw -- I'm going to talk sequentially, Ken. I mean, we saw a small -- our tonnage between Q3 and Q4 was bigger in Q4. And pricing on the fats was even lower. Proteins were pretty stagnant, if you will, out there. The West Coast proteins continue to be pretty weak and European proteins backed off quite a bit during the quarter. We're starting to see that all turnaround. I don't know that I would tie any of that to BTC. We're seeing the animal fats and move up a little bit here in the U.S. And clearly, there's a spread where used cooking oil is a pretty substantial premium right now to yellow grease or animal fats in the U.S. I think the world's ramping up, again, on biofuels around there. And I think we'll see some pretty good strength coming on here as we go forward. So I mean, my anticipation is that the Feed segment will start to show some improvement here in Q1 and more in Q2 and going to get much stronger in Q3, Q4 for us.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Can you just go through your CapEx projects and the returns that you expect to have in 2019 and 2020? How do we think about the incremental -- I don't think you have a lot of projects going on. And just what's the incremental profitability that we should associate with it?

Brad Phillips - *Darling Ingredients Inc. - Executive VP & CFO*

Right, in our K, we released around -- I don't want to say, the maintenance and CapEx, environmental sustaining CapEx in the company now with the size that we are is around $200 million. And there's about $100 million of growth or efficiency type of CapEx going in there. As always, we will break down by project for -- obviously, for competitive reasons. But we will tell you that all those projects returning to 15% to 20% return. So it would be -- from our perspective, we would expect to see anywhere from $15 million to $20 million of layered on incremental EBITDA coming forward.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

And Randy, you're a CEO who tends to really focus on return and cost (inaudible) about shareholder value. My question is, and this is, kind of, out of the sky, would you ever think about operating the companies, given that different divergence of probability, DGD on a different path maybe than the other? And is there a value somewhere in that? And I know that's a random question, but just a thought?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

No, it's always a very, very fair question. Clearly, obviously, in my comments, we want to make sure people understand the value of the supply chain. I mean, it's -- and that's really integral to the part of this. And as we've gone forward, and when the plant started at 137 million gallons, we all had our expectation of how much of our internally produced fat would in there. It ended up being a little bit less than we thought. But now at 275 million, it's ended up being a little more as we value-add the -- what I'm going to call, the lower-value animal fats that we produce in our system that work well down there. And given the CI scores, remember, each facility that we have has a CI score that supports Diamond Green Diesel. So it's critical to control not only the supply chain, the origination of logistics and the CI side, that's what makes Diamond Green's performance so valuable. Now all that said, obviously, in the original documents with Valero that are out there, there are -- there is notes that said that really, we've got a marriage here for a lot of years. And so any type of discussion of breaking it off is probably premature for me to ever talk about. But at the same time, I'm always open-minded to ways of creating shareholder value. And trust me, I believe that the value of Diamond Green is starting to show and that our share price will start to recognize the value of it, Ken.

Operator

Our next question comes from Adam Samuelson of Goldman Sachs.

Scott Michael Bernstein - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Scott Bernstein on for Adam Samuelson. I just had a question on what you're seeing in the impact from ASF in China on the different business if you felt any in the second half of 2018, and any expectations for 2019?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes, this is Randy, again. I'll give you a 2-second view on ASF in China. Really, we continue to monitor it very closely. There are very, very diverse opinions on what the impact is in China today. I think it's safe to say we have seen the -- there's ample frozen supplies of pork meat as they increase their slaughter in the near term in China. And at the same time, we got a shrinking hog herd over there right now as we know in our plasma, our blood-processing plant. So it's just less animals and less blood available right now. There is a strong move towards alternative meats right now. The borders continue to be somewhat challenging for moving hogs around and also for bringing in, what I'd say, non-Chinese meat into the country. So as I started the commenting, we don't know what we don't know in China today. My gut says it's a bigger issue that's going to take a longer time to work through than most people understand today. But yet the pricing of pork in China doesn't support that theory today. There is a thesis out there that says, as we know operating a food business in China, if you damage consumer confidence in your product, it is a long-term rebuilding of that demand. And so there is some move away from pork, even though it was the preferred meat for many, many years in the largest pork consumer in the world. So at the end of the day, it feels like they continue to try to tell us when I say they being the Chinese government, it's under control. But every day, you see 3 more cases. We've heard numbers that range from the -- the herd is down 100,000 head to 100 million head. And what all I can tell you is from plasma side of the business, we -- the supply is probably 15% to 20% lower right now than it was a year ago. So time will tell. I think more concerning is the spread of the disease as it is over in Vietnam now. It's a very difficult disease to maintain. Europe has dealt with it for many, many years and has biosecurity measures to manage it quite effectively. But at the end of the day, China has a very, very challenging problem ahead in their meat sector.

Scott Michael Bernstein - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it, very helpful. And just my only other question would be on the Food segment. I know you guys talked about collagen casings and edible fats in slides. And I just wanted to hear if you guys have some more comments on the Rousselot? And if you could talk about the outlook generally for the food business in 2019?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes. I think I'll give you 3 comments. Our Rousselot is there, and Rousselot clearly makes up the largest part of that segment today. The gelatin and collagen industry, or collagen referred to it, seems to add a lot of head capacity in big chunks. And over the course of 2015, '16, it added quite a bit of capacity as -- along the way. And it just had to grow into it and work through that capacity. So we've seen margins improved around the world. We've had supply disruptions around the world with amount of pig skin available, hives available, beef bone. The margin seems to have normalized in that business. And then we've also continued to grow one of our specialty product lines, and that's our factory that's coming on in Empire of Brazil today and Angoulême, France later this and then Ghent, Belgium the following year and then a second plant in Brazil and later on next year too. So at the end of the day, we feel pretty bullish about where our Food segment's going. If you look at on a performance basis, it would be down just a little bit year-over-year, part of that's FX related, if you normalize that. But the casings business has softened quite a bit out there. That's the natural casings business, and that's related to a lot of the Chinese discussion we already have with a number of hogs being processed into the marketplace. And then also, we have an edible fats business and fat prices are down about 20%. And that's why that's a spread business. You do take a little bit of EBITDA hit there as those prices go down. So overall, Rousselot is carrying its way. It feels pretty darn good going into '19 right now. And I think we're very proud that the Food segment will have an improved performance in 2019.

Operator

Our next question comes from Tom Palmer of JPMorgan.

Thomas Hinsdale Palmer - *JP Morgan Chase & Co, Research Division - Analyst*

You said in industry comments that spot EBITDA margins for renewable diesel are running around $1.40 a gallon, stronger for the full quarter. And I appreciate the diesel has declined to good amount over the course of the quarter but also wondered if there were any unique expense-related items that contributed to EBITDA this quarter? So any hedging gains to call out? Was there an abnormally high mix of yellow grease because of unexpected downtime in the prior quarter? Was around that -- just to get a sense of what it's running out today?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes. No, no, great questions, they really are. And obviously, we wanted to articulate that. So I appreciate the questions. Obviously, we have a pretty long supply chain to support the facility at 275 million gallons and you do put on a lot of heating oil futures in that sense to hedge the supply chain. And as we know today, we don't get hedge accounting at that facility today. So you get a mark-to-market. So as we talked in the third quarter, we had hedging losses and we have -- they returned and had some hedging gains in Q4. And that'll ebb and flow up and down as far as 1 supply versus another supply, not really pretty constant. I mean obviously, we try to originate to the right CI mass balance that we can do down there to meet our customers' needs. The plant has been running just excellent add capacity and above capacity. And I guess the way we don't want to like break it down any more than to say we anticipate margins for the full year of 2019 to be between $1.25 and $1.40 and you, kind of, nailed it down. So there is some gains there in Q4 for sure from the hedging side and occasionally give those back, but we'll reiterate our outlook for the full year.

Thomas Hinsdale Palmer - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Also wanted to follow up on your expectations on the longer-term outlook. We have seen a few announcements regarding either construction or expansion of other renewable diesel facilities. Has your enthusiasm for the longer-term profit potential changed at all? And when you were considering the expansion for DGD hedge, you assumed that there would be increased competition coming.

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes, I think I'm going to, kind of, refer everybody back to our Investor Day that we had last summer, where we tried to lay out the kind of, the global low-carbon fuel demand around the world that we see happen in over the next 3 to 5 years. I think we continue to believe that we understand that and that's real. Once again, we continue to -- you can monitor the carb website and see what kind of demand comes out of there. I think -- at the end of the day, I think it's even a -- it's as good a decision today as it was then if not better today. We continue to feel very, very optimistic about its role in fulfilling low-carbon fuel demand both here and abroad. And the performance of Diamond Green, as we've said coming into last year, we thought we would average about $1.75 a gallon without the blenders tax credit, we ended up with $1.19, not a bad thing for an extended 45 days down in higher cost. And we're giving you the same view today without the blenders tax credit. As per the competition out there, as John Bullock reminds me, it's pretty easy to put out an announcement on paper. It takes a lot of money and time and effort to build a plant. And we've got what I consider to be a first-mover's advantage, it's a pretty significant out there right now. Now all said, why -- I believe someone -- the margins are attractive and honey will attract flies here and eventually someone will commit the capital and the resources to do it. But the 4, 5 projects that we've announced out there, I am not sure, we know that any of those are, what we would call, real at this time. They may be, but not at least from our eyesight.

Operator

Our next question comes from Craig Irwin from Roth Capital Partners.

Craig Edward Irwin - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

So Randy, this quarter, your production at Diamond Green showed a really nice jump as expected, right, up more than 50% above peak production looking backwards. Historically, you've talked about the importance of thesis of buying more of your fats, and we experienced that you believe that there's a few pennies in fats prices that you're seeing as a benefit, sort of, uplift of consuming your own product $0.03 to $0.05. With this 50% plus jump in production for Diamond Green in the quarter, do you expect that uplift to maybe increase? Is there anything that you would point to us as external observers in the market that would maybe help us have a way to quantify this increase?

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

This is John. I think the way to look at is, obviously, the increased demand that comes from Diamond Green Diesel is going to ultimately have an impact on the price of the low CI fats. And it will have more of an impact as we get bigger and bigger and bigger in that segment. It's hard for me to tell you that that's going to happen in any 30- or 60-day period of time. But the trend is pretty obvious here. And I think to answer your question, the answer is pretty obvious. Of course, it is, and when it does, it will impact in a positive way our core businesses.

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes, Craig, this is Randy, and I'll just augment what John says. I mean, at the end of the day, we've only been running Diamond Green at the new rate now for 100, 120 days. We basically had fat part everywhere in the country because of the extended downtime. So at the end of the day, we're starting to see from a low CI perspective, there is a $0.03 to $0.04 a pound differential between the different feedstocks that we can support down there right now or that we process. So it is going to have an impact on our core business. And that's when we get really excited about Super Diamond, and not only do we believe the margins can be sustained because of the global S&D and demand, also when you think about the waste cooking oil, the animal fat and the corn oil -- still there's corn oil business today from the ethanol industry. We've always said that numbers around, I don't know, GBP 13 billion, GBP 14 billion annually in this country. And Diamond Green's going to take between GBP 6 billion and GBP 7 billion of that. So it's kind of -- as John said in essence, it's kind of obvious, we're going to have a pretty good impact as we start to roll forward to the bigger plant here a few years out.

Craig Edward Irwin - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Great. My second question is for Brad. So working capital in 2018 was the 6 year, where this a positive contribution for cash flow. How do you see the potential for continuing to squeeze the balance sheet for cash in '19. Is there anything you would call out? And then should we see a similar cadence to working capital to last year where you may be consumed a little bit in the first quarter and then got it back plus some by the end of the year?

Brad Phillips - *Darling Ingredients Inc. - Executive VP & CFO*

Craig, yes, you, kind of, nailed it there. It feels like there's going to -- we're going to be targeting and working towards similar to what we achieved this past year there out. We've got a 5 -- good 5-year tale here of improvements there, and there was a lot to improve on. And there are still some areas, but we still see a bit, and you're right. I think you can expect it's probably a little bit more at the back half of the year with those stronger improvements come in.

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Right, and Craig, this is Randy. I'll build on that with Brad. Because I think it's -- I think while this year we showed a little bit of improvement. At the end of the day, our volumes keep growing around the world. So our capacity is growing pretty rapidly. Our opportunity still exists in our Food segment. It takes some pretty significant working capital out of there. And that comes to identifying the customer demand and the products that we should be making there. And I'll tell you what, I think, we're getting better each year in that area. We've been able to bring our inventories down pretty significantly in Rousselot area, and we'll continue to do more and more of that as we go forward. So I'm even a little more optimistic than Brad is coming into '19 here, but it's also been offset by the higher volumes that we're processing around the world.

Operator

Our next question comes from Andrew Goffe of Overbrook Management Corporation.

Andrew Jason Goffe - *Overbrook Management Corporation - CEO, CIO, Director & Portfolio Manager*

I was wondering how you're thinking about how the company will capitalize on the growing demand for renewable diesel in Europe? And, kind of, how you see -- like, how much demand could be coming from Europe within the next couple of years?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes, and I'll take the shot and then John can help me out here a little bit on this. I mean, obviously, we've got a very, very strong and we've articulated our view and strategy on the USA and with our double down our 675 million, 700 million gallon facility in the U.S., and you think about it. Our U.S. production, within the Darling system, it's about 1 million tons of fat. We have about half of that in Europe today. And so at the end of the day, we're trying to figure out the correct way to value-add that, and that could take a whole bunch of various forms from building a facility in Europe to shipping fat to the U.S. to make diesel out of it to just only value adding a portion of our fat stream over there. But at the end of the day, we see that about half of the world's demand for low-carbon fuels will be on the North American continent and probably about another half will be around the world. And so ultimately, as we design Diamond Green Diesel to have, kind of, the most efficient supply chain and logistical site in the world, we're, kind of, doing that same evaluation as we look forward. And we'll be monitoring those markets to make sure that everybody has, kind of, the same commitment to reduction of greenhouse gases that seem to be articulated today. John, is there anything you want to add?

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

No, I think you said it perfectly.

Operator

Our next question comes from Bill Baldwin of Baldwin Anthony Securities.

William Lewis Baldwin - *Baldwin Anthony Securities, Inc., Research Division*

Just a housekeeping item here. I was going to ask that was there anything in the revenue side of Diamond Green Diesel on the RIN side that was unusual or affected the revenues in the fourth quarter? Or it was RIN accounting pretty straightforward?

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

No. This is John. No, there was nothing unusual.

William Lewis Baldwin - *Baldwin Anthony Securities, Inc., Research Division*

unusual, no. Okay. I don't know if you banked any of your...

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

No, there was no stockpiling in rooms.

Operator

Our next question is a follow-up from Heather Jones of Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Firstly, just wanted to go back to Europe. So I noted that a number of the countries there won't bring in renewable diesel from the U.S., but you have a situation there where their double accounting rules are -- that's accelerating -- the mandate accelerating and yet, there is an issue of finding suitable feedstock given the move away from palm, et cetera. So wondering if either; a, do you think there will be a big increase in imports of fats from U.S. into Europe to feed these big plants that are coming online? Or will we see maybe a loosening of their standards as far -- regulation as far as importing diesel -- renewable diesel from the U.S.?

John Bullock - *Darling Ingredients Inc. - Executive VP of North America Specialty Businesses & Chief Strategy Officer*

Heather, this is John. I mean, they can import biofuel into the EU. There's just a tariff associated with it that increases the cost of that. Your question on -- generally, I think what we see is this, there are several markets around the world where there are very good green premiums that are being paid for renewable fuel. And one way or another, the renewable diesel is going to find its way to those markets. What we're focused on is trying to make sure that we develop the most efficient supply chain to service those markets, and in the process, utilize the fat that we produce out of our core business to maximize its value. And we're -- we continue to look at that constantly. Obviously, there are parts of Europe that are going to be extremely attractive markets for renewable diesel. I think the general movement in Europe is away from palm oil. That doesn't mean that they will totally eliminate the use of palm oil, but that speaks very favorably for the low-CI feedstocks that we produce, the used cooking oils and the animal fats, and it's just a question of matching up the supply to the places that paid a really good green premiums.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And my final question is, could you speak to -- what you see is the implication if there is a favorable resolution of the U.S.-China trade dispute, if we get a deal, what are the implications for Darling's business?

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

What we've seen when I referred to trade disruptions in the Feed segment, it's more industry related right now. We were shipping a lot of poultry meals out of the processors in the U.S. to China, and to a degree, those are backed up, the potential tariffs that were on there. So at the end of the day, I think it helps strengthen the -- our poultry processing side of our business. I think China, obviously, has an animal herd, they're going to have to rebuild and that will take some time. And so at the end of the day, to me, I think it should strengthen the overall green and soybean complex going forward here. And at the end of day that, kind of, spills over in various ways and helps us out.

Operator

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

Randall C. Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Thank you. So I just want to say thanks to everybody. Great questions today, and we look forward to talking to you again in May and updating you on our progress.

Operator

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