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PRESENTATION

Operator

Good morning, everyone, and welcome to the Darling Ingredients' conference call to discuss the Company's second-quarter 2016 financial results. With us today are Mr. Randall Stuewe, Chairman and Chief Executive Officer of Darling Ingredients, and Mr. John Muse, Executive Vice President and Chief Financial Officer.

(Operator Instructions)

Today's call is being recorded. I would now like to turn the call over to Melissa Gaither, Vice President, Investor Relations and Global Communications for Darling Ingredients. Please go ahead.

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

Thank you, Allison. Good morning, everyone, and thank you for joining us to discuss Darling's earnings results for the second-quarter 2016 ended July 2, 2016. To augment management's formal presentation, please refer to the Presentation section of our IR website for the earnings slide deck.

Randall Stuewe, our Chairman and CEO, will begin today's call with an overview of our second-quarter operational and financial performance and discuss some of the trends impacting our business. John Muse, Executive Vice President and Chief Financial Officer will then provide additional details about our financial results. Please see the full disclosure of our non-US GAAP measures in both our earnings release and the end of the earnings slide presentation. Finally, Randy will conclude the prepared portion of the call with some general remarks about the business and the rest of the year ahead, after which we will be happy to answer your questions.

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 or uncertainties are described in Darling's Annual Report on Form 10-K for the year ending January 2, 2016, 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 undertake any duty to update any of the forward-looking statements made in this conference call or otherwise.

With that, I'd like to turn the call over to Randy.

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

Thanks, Melissa. Good morning, everyone, thanks for joining us. This quarter the optionality that exists within several of our businesses enabled us to take full advantage of a stronger market, driven by a sharp run-up in global fat and protein prices on top of growing global processing volumes. Our quarterly results were highlighted by a significant improvement in our feed segment, while our food and fuel segments continued their consistent performances. Diamond Green Diesel also delivered a sharply improved performance.

Now let's move to some specific segment updates. As we discussed in our Q1 call, we anticipated our feed segment would deliver improved earnings. While protein and fat prices did increase in the quarter, there were several other significant contributors to the stronger performance. The improvement was not isolated to the USA; Canada and Europe rendering also showed improved results. As we discussed in the past, the USA non-formula rendering and restaurant-services businesses are structured to benefit the most from pricing improvements.

For the quarter, it should also be noted that our global-blood business and our USA Bakery Feeds businesses had significantly improved performances as well. Both prudent risk management and targeted widening of margins assisted our performance in Bakery Feeds, while Sonac Blood, especially in China, delivered stronger earnings with capacity expansions coming online and stronger demand from an expanding Chinese hog herd. Globally, rendering saw strong raw material volumes, with tonnage growth primarily coming from the poultry sector.

Our restaurant-services business in the USA continues to benefit from improved volume and margins. For the most part, the performance has been driven by feedstock favorability premiums it receives in biofuels here and abroad and a growing LCFS market. The positive effect of improved go-to-market strategies and customer-engagement programs are also beginning to show real progress. In our growing web pet food business our two new plants are set to be better contributors in the third quarter, as Paducah's running at capacity and our new plant in Ravenna, Nebraska has made the necessary process changes.

Now, in the food segment we delivered a consistent performance across the spectrum, although Rousselot's results normalized with a little softness in China. Rousselot's performance this year can be categorized by a strong Q1, a more normal Q2 and the outlook for Q3 is one of a few adjustments. Our gelatin business is a four-continent system. South America is showing signs of improvement as raw material becomes more available, margins widened and currency assist.

The offset is China. As noted, in the feed segment we saw strong demand for our Sonac blood products, especially plasma, from an improving Chinese hog production. The offset is increasing raw material [end]-prices in China for pigskin that will force some reformulation and margin contraction. For the USA and Europe demand remains robust and margins remain consistent.

Sonac edible fats delivered slightly lower earnings but typical margins on lower input volumes due to a raw material diversion that's now happening in the Asian markets. China continues to be short pork due to a contracted hog herd over the last several years and we're seeing some raw materials diverted directly to China.

In our casings business, CTH had strong sales and showed improved earnings over the first quarter. In our fuel segment, the model remains one of consistency and delivered solid results. Canadian biodiesels profitability improved in the quarter. Rendac, our European-based waste energy business, continues to deliver consistent volumes and improved earnings. Ecoson, our Europe-based digesting and refining business, delivered quarter-over-quarter consistency as European legislation continues to drive demand for animal-based biofuel-grade feedstocks.

Diamond Green Diesel saw earnings recover as operations normalized following a return to full production levels, a nearly 50% increase over the first quarter. EBITDA per gallon improved by almost 25% sequentially and total EBITDA doubled. We anticipate a favorable margin environment to continue through third quarter. The JV did receive $156 million tax credit during the quarter and distributed a $25-million dividend to each partner as noted in April. The facilities expansion and final engineering phase is progressing and construction to increase annual production from 160 million gallons to 275 million gallons is expected to be completed sometime in late 2017.

Now, while we expect fairly consistent performances in most of our segments to continue, the third quarter typically experiences some seasonality, especially in Europe and the hot summer weather in North America can present challenges too. It should be noted the prices for fats and proteins ran up sharply in the quarter and have now settled back as the world once again anticipates record harvest.

A volatile market for corn, soybean meal and global vegetable oils will create a more challenging operating environment in the second half of the year. But as we have shown, our model positions us well to deliver and navigate these challenges.

So now with that, let's have John take us through some of the quick financial highlights. John?

John Muse - *Darling Ingredients Inc - EVP & CFO*

Thanks, Randy. Halfway through 2016 we continue our focus on debt reduction, margin enhancement, reducing our working capital and cost reductions in both operating and SG&A, and monitoring our CapEx deployment. So let me go over some of the results that we achieved during second quarter.

For the second quarter 2016 SG&A expenses were $76.2 million. SG&A was lower in the second quarter due to gains in currency hedges, primarily in our food and gradient segment. We expect SG&A to run in the range of $81.5 million to $82 million a quarter for the remainder of 2016.

We remain committed to reducing working capital in our business in 2016 over our 2015 levels. We will work on lowering inventories, managing our payables and focusing on our receivables. For 2016 we remain on target for a $20 million improvement in working capital.

Darling's CapEx target for 2016 is $215 million and our second-quarter CapEx spend was $56 million. In regard to significant CapEx deployments, we have completed construction and are starting to run raw material at our two new US rendering plants. We will see the full impact of these facilities in the fourth quarter.

We continue to focus on debt repayment and payed down $49.9 million in debt in the second quarter. Our debt reduction target for 2016 remains at $150 million.

Now on to some of our financial results for the second quarter in 2016. For the second quarter the Company reported net sales of $877.3 million compared to net sales of $859 million for the second quarter of 2015. The $18 million increase in net sales is primarily attributable to higher selling prices for fats within the feed ingredients segment. Overall, global raw material volumes in the feed ingredients segment were stronger year over year.

In the food ingredients segment raw material volumes were essentially flat. Net income for the second quarter was $32 million or $0.19 per diluted share, compared to net income of $3 million or $0.02 per diluted share in the second quarter of 2015.

Adjusted EBITDA for Darling for the second quarter was $124 million compared to adjusted EBITDA of $105.5 million for the second-quarter 2015. The $18.5 million increase in adjusted EBITDA is primarily attributable to higher raw material volumes and higher finished product prices for fats and used cooking oil in the feed segment and lower SG&A expenses due to gains in currency hedges, primarily in the food segment.

As we move on to the operating segments, you will find a sequential quarterly result breakdown in the slide deck that we provided on the website. Our feed-segment operating income for the second quarter was $41.4 million, an increase of $6 million compared to second-quarter 2015. Earnings for the segment were higher due to lower SG&A expense, increases in fat and used cooking oil finished product prices and increased production volumes due to higher raw material supply. On a sequential basis, the second-quarter operating income increased by $25.2 million over first-quarter 2016.

The food segment operating income for the second quarter of 2016 was $19.7 million, an increase of $4.2 million compared to the second-quarter 2015, but were slightly down sequentially from $21.9 million in first quarter. The decreased earnings were mainly attributable to seasonal softness in China.

The fuel segment, exclusive of Diamond Green Diesel, generated second-quarter operating income of $6.6 million, an increase of $4.6 million as compared to second quarter of 2015. The increase is due to improved operating performances at Ecoson and Rendac and our Canadian biodiesel facility. Darling's share of Diamond Green Diesel second-quarter EBITDA was $18.3 million. As mentioned previously, Diamond Green Diesel received the 2015 earned lenders tax credit of $156 million in April and declared a dividend of $25 million to each partner. Diamond Greed Diesel's total debt now stands at $85.6 million at the end of June.

At the conclusion of second quarter, Darling's total debt-to-EBITDA ratio was 4.10 compared to a covenant of 5.50 and this compares to a ratio at end of the first quarter of 4.41. Our secured-debt ratio was 1.78 compared to a covenant requirement of 3.25.

Now let's take a look at our effective tax rate, our cash taxes and depreciation. The Company recorded income tax expense of $8 million in the second quarter which generates an effective tax rate of 19%. We continue to expect our effective tax rate to be approximately 23% and cash taxes of around $30 million for 2016. Depreciation and amortization remains in the $69 million to $70 million range on a quarterly basis for the remainder of 2016.

I will now turn the call back over to Randy.

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

Thanks, John. As predicted an approved pricing environment helped our feed segment, complementing the consistent returns delivered by our food and fuel segments. Although our finished product markets remain volatile, demand for our products remains solid and we continue to grow our raw material supplies. We have commissioned here in August two new rendering plants in the USA, commenced construction of a new blood processing plant in Southern Germany, and this week approved the construction of a new digester in Europe.

We remain steadfast in our commitment to delever and grow. We've lowered our cost structure, continued to pay down debt and created a robust global business model that is diversified and increasingly focused on premium value-added products. We payed down almost $50 million in debt in the second quarter and expect to do the same in the third, keeping us on track, once again, to pay down the $150 million in 2016, all of this while maintaining our most important commitment, to working safely and fairly around the world.

With that, let's go ahead, Allison, and open it up to Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Dan Mannes, Avondale Partners

Dan Mannes - *Avondale Partners - Analyst*

Thanks, good morning.

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

Good morning, Dan

Dan Mannes - *Avondale Partners - Analyst*

A couple of follow-ups. First, just a clarification. SG&A, I think last time you were talking about $83 million, $84 million a quarter. Now you're talking $81 million, $82 million. That's the run rate going forward or does that include the meaningful decline we saw in Q2?

John Muse - *Darling Ingredients Inc - EVP & CFO*

That's factoring in continuing cost reductions and so forth and we are expecting our SG&A to be in that $81 million, $82 million range now for the remainder of the year.

Dan Mannes - *Avondale Partners - Analyst*

Great, you made some real progress there. Also, if you could give a little bit more on the hedging, we haven't seen much of it run through your income statement before. I'm wondering why you didn't get cash flow hedge treatment. It seemed like a bigger number than we would have thought you would have had.

John Muse - *Darling Ingredients Inc - EVP & CFO*

Yes, that's a good observation. If you go back and look in our Q in the derivative section, you'll see that what we've been doing, our hedging policy and everything is on transactional hedging. But during so far this year in South America, we saw a situation to where we felt the real was going to be weakening against other currencies more so. And because of that, we did take out hedging to protect inventory, payables and receivables, which was the right thing to do. It's really part of the risk management strategy out there.

That hedging does not get hedge accounting, as is outlined in the Q. And because of that, on a historical basis, that would always flow through SG&A because of that. But because of the real devaluation and the protection we took against that balance sheet exposure, that did flow through SG&A. It will continue to have a little bit of that; it depends on if we feel the real will continue to weaken. And we'll continue to take those positions against that to protect that.

Dan Mannes - *Avondale Partners - Analyst*

Got it. And then a bigger-picture question for Randy. We've not only seen a lot of volatility in commodity prices, we've seen a lot of volatility in the compliance programs, both for RFS2 and for LCFS. Would love to get two minutes on your current view on both RIN prices relative to current production and then also the LCFS market, which has been a bit of a roller coaster.

John Bullock - *Darling Ingredients Inc - EVP & Chief Strategy Officer*

Hey, Dan, this is John Bullock. Yes, we see volatility associated with the RINs. We saw a run up to $1.03, $1.04 and I think currently they are $0.88. The way that the EPA has the 2016 compliance established, the market is really driven off of what's happening off of D6 RINs or renewable fuel RINs. They've got the gated process, or the bucketed process for the D4s feed into the D5s which feed into D6s. So the [S&D] is extremely complicated to look at in relationship to the marketplace.

I think what you see there is the market trying to figure out what our current run production rate of RINs is versus the mandates that have been established by the EPA for 2016. It really is a representation of what the EPA did with the 2016 mandates where they substantially increased both the advanced D5 mandates and the total renewable mandate. It's made it so that the market has to work a little bit harder to get to those goals, but we are seeing increased production. So we're just trying to figure that out as we go through the balance of the year. I think you'll probably continue to see some volatility around that. But it's all because the market's working towards that higher mandated number that the EPA put in place for 2016.

On the LCFS, the discussion is all about, specifically, under what authority California moves beyond 2020 to the mandates to 2030. California Resource Board has big plans. They want to substantially increase the mandates from 2020 to 2030. A lot of old politics that run around this particular issue. I think you saw the market wondering what that was going to look like here a few months or so ago when we saw the LCFS credits go from $110, $120 a ton, down to $55. They've subsequently rallied back now to $70, because as is the case most times political situations, when you have the program in place, the status quo tends to be a lot easier for the governments to continue on with than a change in that policy.

So I think you'll probably continue to hear stories over the next month and maybe over the next year, year and a half. But the fact remains, as we sit here today, the LCFS is in place to 2020 and the California Resource Board believes they have full authority to continue and expand the program beyond 2020.

Dan Mannes - *Avondale Partners - Analyst*

Got it. And then one quick follow-up on LCFS. I don't know how much you chalk this up to the fact that we do have a significant surplus in the market since we've had three or four years stuck at the 1% compliance level, but even as we look to 2016, and we're barely creating surplus at the 2% through the first quarter, I don't know, our view has been that we'd start seeing us cutting into the surplus maybe as soon as next year; if not, certainly in 2018. I'd be interested in your guys's view on that, particularly as Green Diesel potentially comes online provides a lot more product to California in 2018

John Bullock - *Darling Ingredients Inc - EVP & Chief Strategy Officer*

We're expanding Diamond Green Diesel by almost 50% so we would agree with your perspective.

Dan Mannes - *Avondale Partners - Analyst*

Got it, thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone.

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

Morning, Ken.

Ken Zaslow - *BMO Capital Markets - Analyst*

One quick question and then a bigger-picture question is when you're talking about the hedges in the restaurant business, did you hedge corn prices at all? Is there a forward contract on that or anything like that?

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

No, not in the restaurant business. We had hedges on -- transactional currency hedges on in the food segment and within Rousselot. And then within the feed segment, within the Bakery Feeds we use an option strategy to basically collar a margin position for those products.

Ken Zaslow - *BMO Capital Markets - Analyst*

So we expect that in the third and fourth quarter to still be a collar around it, given how corn has been volatile?

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

Yes, we've taken a pretty aggressive position there.

John Muse - *Darling Ingredients Inc - EVP & CFO*

Yes, Ken, if you go back and look, we've used that corn strategy for years. Corn went down and we got the benefits for that in the second quarter.

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

Yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then is there any update that you think about on the shift in the biodiesel tax credit to a producers credit? Or are you guys still at a [cant] that you don't think it's going to get any traction?

John Bullock - *Darling Ingredients Inc - EVP & Chief Strategy Officer*

Yes, Ken, this is John again. There's a lot of discussion in Washington DC about moving from a blender's to a producer's tax credit. And there are some very powerful United State Senators that believe that would be a very good idea. I suspect in an election year that you won't certainly see anything before the election, I would be very surprised. Potentially something in the lame-duck session of Congress regarding the extension of the tax credits as a producer or as a blender. As you know, lame-duck sessions of Congress are almost impossible to predict right now because we don't know what the outcome of the election is going to be and the dynamics that are going to be both in the White House and on the Hill.

There's still discussion about it. The existing standing laws is it's a blender's tax credit and it's going to continue to be an idea that's being discussed. Once again though, I go back to the fundamental principle in politics that the existing policy is much easier to maintain than a new policy is to implement. It doesn't mean it won't happen but it's just more difficult.

Ken Zaslow - *BMO Capital Markets - Analyst*

And Randy, last question for you is can you talk about your CapEx projects? Which ones are going as planned? If there's any delays? Just give us an update on the capital projects.

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

Yes, that's fair. I think we've come into the year, we've always said the maintenance CapEx to run the business, $175 million, $185 million. We've stepped out there and said we think we'll be around the $225 million level for the year, maybe $230 million, depending on weather and how the outflows go at the end of the year here.

We've got the wet pet plants are online and paid for there. Paducah is coming up to speed, ramping up with its customers. Ravenna is. Both were pretty much on time and on budget. The two rendering plants, one in Pocahontas, Arkansas, one and Winesburg, Ohio, were commissioned here over the last 10 days. And they're coming up to speed right now, both on time, on budget.

We're in process of breaking ground in Mering, Germany on a new blood processing plant. We've got all the permits; most of 2017 will be used to construct that. And then the Board approved the construction of a new digester in Belgium this week. So those are really the big projects we have in hand, otherwise everything is pretty much status quo, Ken. So I hope that answers it.

Ken Zaslow - *BMO Capital Markets - Analyst*

I'm sorry, one last one. I lied a little bit. Is there any possibility you paying down debt more aggressively, given the size of the quarter and the cash flow outlook?

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

I think we're pretty aggressive out there at $150 million right now. We anticipate another $50 million in third quarter. Diamond Green Diesel margins are very solid right now, I don't think that's a surprise. We've traditionally seen some seasonality in that biofuels business in fourth quarter. We will see if we have that this year or not.

Remember, the thing for us on additional -- we can either delay CapEx or we could pull a dividend. We don't anticipate pulling a second dividend out of Diamond Green as we continue to build cash into the expansion next year. I think, as I always try to point out to people though, is at the margins that we anticipate running in 2017 and the capital outflows, that somewhere by the end of 2017 early first-quarter 2018, Diamond Green will be completely delevered and then it's a different game for the balance of 2018.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, I appreciate it.

Operator

Tom Palmer, JPMorgan.

Tom Palmer - *JPMorgan - Analyst*

Good morning, thanks for taking my questions. If we're to frame the likely 3Q 2016 pricing and margin environment for feed segment products, would you say it's slightly better than it was a year ago? Is it more appropriate to say that it's comparable to a year ago? Just trying to understand the progression there.

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

Yes, I never spend much time, Tom, looking back year over year on this stuff, I look back about 90 days. So let me glance here. Yes, it's fairly comparable as I glance down the list, year over year there. We saw prices run up and we got to break the continents out. In the feed segment, there's a lot of different businesses in there. Blood continues strong, bakery is margined. Restaurant services, yes, it's got some commodity exposure. We've seen used cooking oil move down just a little bit. A little bit of the margin offsets down in Diamond Green Diesel then for us.

In Europe we've seen fat prices steady to rise but protein come off just a little bit. In the USA we've seen fat prices come down a little bit but protein prices move up substantially. And they're holding there right now. And then in Canada fat prices are steady. Meat and bone meal prices, because of an issue with mad cow here a few months back, are under a little bit of pressure.

So overall, we look at it as there's some pressure. We're trying to, as we set up third quarter, you've got some traditional seasonality. The European sector seems to always back off in third quarter, whether it would be our rendering business or our global gelatin business. And then in the USA we have a little bit of pricing pressure that usually happens from summertime quality. It's been, as everybody knows in the USA, it's been very hot this summer, and that has its impact on fats.

Tom Palmer - *JPMorgan - Analyst*

Okay, thanks for the detail there. And then a quick follow-up. You spoke in the fourth quarter about some of the negative effects of lag pricing in that feed segment. Can you quantify, even ballpark, how much it helped in the second quarter?

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

As we came out, there's always a lag and we saw a lot in the chicken products. To quantify it, it's very difficult, but we saw still in March and April, we were selling meat and bone meal in North America in the mid 200s and now it's in the mid 300s. There was some help in the lag on the way up but you also have to remember that we had a 60-day pipeline of sold of product down to Diamond Green Diesel as prices ran up. So you had protein helping us, maybe fat lagging a little bit on the other side.

Tom Palmer - *JPMorgan - Analyst*

Okay, that's helpful. And then I'll sneak in one last one and wrap up. On the Diamond Green Diesel side, I know it's still a little early on the expansion side, but thoughts on a dividend in the next year?

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

Right now I think we're saying unless the margin environment, meaning LCFS and USA biodiesel, really is something that we can't see or above where we think it will be, we don't anticipate one. Because our deal is it's focused on delevering Diamond Green and using the cash to pay for the expansion.

Tom Palmer - *JPMorgan - Analyst*

Understood, thank you.

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

You bet.

Operator

Craig Irwin, ROTH Capital Partners.

Craig Irwin - *ROTH Capital Partners - Analyst*

Good morning and thank you for taking my questions. So Randy, I wanted to understand the volumes in your rendering segment a little bit better. You were flat sequentially, up quite nicely year over year, $33 million benefit year over year on the top line. Can you help us understand the relative contribution of any of your internal growth initiatives as far as the CapEx projects to the June quarter results?

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

To be very transparent on that, I think there's been some things that are transparent and delivering and some that aren't so transparent, Craig. When I look around the world, all of our rendering businesses are really focused on cost management, widening margins. And tonnage in second quarter was really consistent, still stronger than year over year, maybe down a little bit here and there, depending on geography, whether it was beef or pork, Europe or Canada.

We've added some new accounts, some organic growth, both here in the USA and Canada. And so we've seen some growth there. Where we were expecting to get some improvement was out of our wet pet food businesses. We've not captured that yet at the rate that we anticipated for the year, but we can also see it coming on. When I look down, our fertilizer businesses in the feed segment, have done a neat job with strong demand there.

And then most importantly, a year ago today we were telling people about restructuring the USA restaurant services business to be more predictable and widen margins out. And they have clearly done that. While they've had some benefit of some price movement on the way up, it's been more important with their go-to-market and how they're managing customers and routes and paying customers in which markets they need to and collecting fees in other markets where they can. Really at the end of the day, as we look down and that was the point of the script, it just simply wasn't USA price increase that drove the feed segment improved results.

John Muse - *Darling Ingredients Inc - EVP & CFO*

Yes, Craig, your question on that as far as the CapEx, the volume increase from second quarter of 2015 to second quarter of 2016. A lot of the CapEx that we did spend was for to be able to handle the increased tonnage in poultry, both in Europe and the US, that the poultry industry has increased in their kills and the heavier birds. So a lot of the CapEx spending was on existing facilities to handle that volume. As our customers continue to grow, we have to spend the money to grow with them and have the capability to process that material.

Craig Irwin - *ROTH Capital Partners - Analyst*

Great. And then continuing on that growth seen, with the two new facilities you just brought online, can you remind us how quickly you expect to fill these facilities? Do they have pre-existing customer relationships or pre-existing needs that you're going to be serving? Or do we need to see collection route volumes grow over the next couple quarters for those to be fully utilized?

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

No, these are the first of a type where we have co-located at slaughter facilities, both a new slaughter facility and an existing one that will be expanded. One of them is ramping up their slaughter facility now. I think from a contribution standpoint, we'll get a little bit out of it in third quarter and I would expect in fourth quarter to be at full speed. And those are two major expansions.

And then we are also seeing some additional poultry growth down here in Texas. And then it also goes without noting that we're seeing major poultry expansion in Poland right now. And so, it's really a global phenomenon on the poultry side. And with pork in China running up as expensive as it is, you're going to see strong slaughter numbers where you can and where the animals are around the world for the balance of the year.

Craig Irwin - *ROTH Capital Partners - Analyst*

Great, thanks again for taking my questions.

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

You bet, Craig.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Yes, thanks, good morning, everyone. First, circling back on the third-quarter dynamics that we've seen, you've seen some notable falls in some of the fat and yellow grease prices in the last 30, 45 days that aren't being mirrored in the vegetable oil complex. RINs have also been soft and I'm wondering if you can talk about some of the dynamics that have been in play in the biodiesel industry. If the biodiesel demand is that good, I'm surprised to see the fat prices moving where they've been moving in the last few weeks.

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

Well, I think once again, we'll reaffirm our thesis on why we are expanding Diamond Green Diesel. The biodiesel industry in the United States is processing as much animal fat as it physically can. It doesn't have the capability, nor can it handle the high-acid material that our machine puts out today. It's summertime, acids, they can't handle 20% acid material. And that's the challenge in the system today; that's the reason Diamond Green is being built up or going to grow. It's running as much corn oil and used cooking oil and tallow and poultry that it can today. And the next level will then help us have a new market now for some of the high-acid material that's being discounted to feed.

If you look at it, with corn moving down, Adam, it used to be before Diamond Green, if you did the quick math today, the equivalent for feed would be around $0.20 and we're getting premiums of 20%, 25% above that into the fuel markets today. So the model's working. Relative to its comparison to soy, we share that with you, we were holding pretty strong there for a while. Soy dipped as the world tried to adjust to what the real crop numbers are there.

But in our model and our S&D around the world, we see fats from soy to palm tightening up here pretty nicely. And that will ultimately give some lift. You just always have to get through the summertime of the discounting of high-acid fats to find a home for them today. Because the only place they can find homes is predominantly to feed and that's a cheaper number today.

Adam Samuelson - *Goldman Sachs - Analyst*

Great. And then I want to go into some comments you made on the food segment. You called the third quarter one of few adjustments and you called China in particular, given some of the hog issues there. Can you help size the headwind that you're facing in food in Rousselot, specifically in China? And I guess it's filtering back into Europe there, but help us think about the impact.

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

We see the impact as, I want to say at minimal. And what I was trying to position -- it's always hard to do in a written script here -- is you're seeing some dynamics evolve in that business. And so predominantly we run both pigskin gelatin and bone plants in China today. The bone plants are just fine; the pigskin has gone back into the food segment if you will. You can make gelatin out of it or it can be sold as food. And so the price of pigskin has moved up rapidly in China, compressing the margins there. So we're making some adjustments, we'll be running some more hide gelatins and we have the flexibility to convert over to bovine hide in China there.

On the other side, the offset to it in a positive way, is that the cattle herd, the slaughter and everything in South America and the demand for leather has reduced. So therefore hides have become more available in South America, predominantly Brazil. Our plants are running at a higher rate of utilization now. And with the favorable real, that is becoming the most attractive priced gelatin in the world. So we own the arbitrage that offsets each other.

The USA and Europe, pigskin gelatin remains tight, margins remain good. And the outlook is very favorable within that segment. As John and I have always said, the food segment is a picture of consistency. Given that Rousselot is a big portion of that, we try to give some color in it. But we don't want to sit there and say you've got a major move happening in third quarter here.

Adam Samuelson - *Goldman Sachs - Analyst*

Great. And then if I could just squeeze more in on the second quarter results. [What was the trouble] in the feed segment? The protein prices seemed to be up 8% quarter on quarter. Or you looked at your listed or the Jacobsen and prices [remain], bone meal and poultry meal were up north of 30% quarter on quarter. I'm wondering what drove disconnect there.

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

I don't know that we understand the question, Adam.

Adam Samuelson - *Goldman Sachs - Analyst*

If you look at the disclosure that you gave in the slides about the different components of feed, looked like protein prices -- the price contribution in proteins and rendering quarter on quarter was up significantly less than what the Jacobsen prices would have been quarter on quarter. I'm wondering if there's any thoughts there.

John Muse - *Darling Ingredients Inc - EVP & CFO*

When we're look on a sequential basis, what we showed on the Jacobsen, as you said, we were up 20% and 30% on the pricing on the Jacobsen. The big difference is on the pet spreads and so forth, those returned back to normal [allopy] in that area. We're back up to the 250 or so over feed grade. And we are getting good demand now back into the pet food, where in first quarter we weren't having the demand for the pet. Other than that, I'm not sure, as Randy said, we're understanding your question.

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

The only other thing that's hard to always say, you're always sold 30 to 45 days out and when you get a situation of a rapidly rising or rebounding market, remember that in the rendering side, that 65%, 75% of that business in the USA is on formula. So you go into what we call into a lag or upside down, and it doesn't flow through within that given timeframe.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. I'll pass it along

Operator

William Baldwin, Baldwin Anthony Securities

William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Yes, good morning. Randy, just a couple of questions here. On the UCO business, it actually showed a year-over-year decline here in the second quarter year over year. And I was thinking that with the demands out there like they have been on the biodiesel front and so forth, that business would have shown a year-over-year positive number. Do you know what -- I know it's a small number but that's one of your more profitable businesses, being non-formula, I just wondered what was going on there.

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

We show it as up in all categories, Bill. We're glancing here --

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William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

I show it at $41.7 million versus $43.1 million. Comes out of your 10-Q there, where you go through the different products that comprise your feed ingredients revenues, your rendering revenues.

John Muse - *Darling Ingredients Inc - EVP & CFO*

That's on the revenue side, yes. No, the volumes, remember, this is sales and everything but you've got cut off some shipments and so forth that can carry over from one quarter to the other quarter. But it's basically flat from that perspective. If you look first-quarter of 2016 to second quarter of 2016, you are right absolutely, used cooking oil was up but our volumes were steady during that time.

Some of that material, when you get into second quarter, Bill, that material gets mixed in with some of our rendering product. We don't like to do that, but to help upgrade some of the rendering product to where we can move it. Because the free fatty acids get so high we have to blend some of that product at times to move it. So then that (multiple speakers)

William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

With the demands on biodiesel production going forward, shouldn't we expect that business, though, to trend upward, looking at it on an annualized basis going forward?

John Muse - *Darling Ingredients Inc - EVP & CFO*

Absolutely, yes.

William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

And have you all given any color or disclosed how many gallons you sold out of your Diamond Green Diesel in the second quarter? I didn't catch it in the 10-Q is the reason I ask. It could be in there, I might just have missed it.

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

Production, we produced 43.8 million during the quarter. We were actually running closer at times to the 175 million gallon annualized run rate there. You always have to remember we are on -- in the spring we're on summer spec and we can run a little faster there. Typically for third quarter we would say probably geared back around that 40 million gallon production number again.

John Muse - *Darling Ingredients Inc - EVP & CFO*

Bill, those numbers are in the earnings slides that's out on the website.

William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Is that where they're at? Okay, good, I'll get those in. Basically, are you selling pretty much what you're producing?

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

Sell more if we had it.

William Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Okay, okay, very good. Thank you.

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

You bet.

Operator

John Quealy, Canaccord Genuity.

John Quealy - *Canaccord Genuity - Analyst*

Hey, good morning, folks, thanks for squeezing me on. Three questions. First, back to the previous gentlemen's question, restaurant services use cooking oil and given the generally supportive environment for fuels, talk about competition. You guys have done a nice job of beating down folks where you need to. I know the relative prices aren't what they were a couple years ago, but talk about that environment. Is it still hand-to-hand combat? Or do you feel like you have a better handle on some of the peddlers out there?

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

Yes, John Bullock runs that business with Todd Mathes. We have really restructured the business and how we go to market from a standpoint of how we work with the customers. I prefer not to use the word, beat the customers down, John, but we have essentially reestablished and looked at each one of our markets and our penetrations.

And then we are doing a really nice job there. We are seeing our volumes hold in here. Yes, we thought maybe there would be a little bit of cannibalization or theft again that would develop with some of the higher prices. But for the most part, other than in some large metropolitan areas, it's pretty much steady as we go.

We're spending a lot of time and I know for a bunch of rendering guys here, when you step out in the world of social media, we are looking hard at our go-to-market and how we communicate with our customers and how we arrange pickups and make life easier for them. It's really started this year, and we're working on that along with some other strategy. So at the end of the day, it's working well and biofuel demand is very strong for that product, both here and abroad. And Diamond Green is the major consumer of that product here in North America today.

John Quealy - *Canaccord Genuity - Analyst*

Thanks. And thanks for correcting, it should have been beating the competitors down. (laughter) It's a long week and the coffee hasn't set in yet.

Secondly, super big picture. Randy, when you look at animal proteins and rendering volumes and total opportunity longer-term for Darling, Vion now a few years in the books, aside from the cyclicality of China, and you've called that out in some of the different sub-segments and variables, are you generally happy with the volume capture you're getting out of China in related fast growth markets? If you can just take a step back for a minute and give us a longer-picture view on that.

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

Yes, we completed a series of board meetings. And once again, stopping the world and looking at it with our management teams this week. Everything, the assumption that we made going into all the acquisitions, whether it was Canada or whether it was in Europe, South America, China, there's been no disappointment here. It's becoming apparent to us that it's very much a global dynamic market.

And just like we said, we're watching -- in the feed segment in the quarter we saw our blood business deliver much improved earnings on bigger volumes, widened margins. And it's coming out of China as they now try to restart their pig production again. And then in plasma, the white blood cells from blood, go to baby piglet feed. And so prices are very strong, demand is very high there.

While on the other side, you can then say, the hog herd has gone from 735 million pigs to 600 million and they're short pork in China. So you now see a global dynamic that's impacting our gelatin business there. But it challenges that business at the same time but then opens up pork exports out of the United States. So you're seeing a major pork expansion with slaughterhouses here in the USA. And we've been successful in growing our organic tonnage again with many of the new investments here in the USA.

And then the benefactor of all of it is given the high price of pork again in the world, is you are seeing massive poultry production increases everywhere in the world. We're out of capacity in many of our Northern European plants right now for poultry. We're out of capacity in the USA for poultry processing today.

At the end of the day, it's very much working out. I think one of the comments that we made that was very interesting is with China being short pork, we're watching exports of different frozen products that are not traditionally consumed by North American or European consumers now being exported to China for deboning. So we're seeing a little bit of raw material degradation. But at the end of the day, if I look at it year over year, we're up 7%, 8%, 9% around the world with the herds growing at 2% and 3% productivity. So we're taking share; we've got a pretty good go-to-market strategy here.

John Quealy - *Canaccord Genuity - Analyst*

That's helpful. And then lastly, maybe for John Muse, and I'll do my best to tease this out of you. So the SG&A run rates -- thanks for the visibility -- thinking about 2017, is there any other way you can tighten down that number? Or are we going to bounce at this number? Maybe bounce up as we look into 2017 and beyond? Thank you, guys.

John Muse - *Darling Ingredients Inc - EVP & CFO*

Yes, if you go back and look, that's one of our points of review. If you go back and look two years ago, we averaged $92.5 million a quarter on our SG&A. This last year we were [$80 million]. We're trying to get this thing down to around that $80 million, $81 million level. We will continue to work on that.

It gets to a point as we continue to grow our other businesses though, and we add salespeople in the field, calling on customers that we have customer growth, if SG&A does stay where it is or even moves a little bit, we should pick up something on the other side with increased sales and profitability. So the earnings should -- if any costs increase it's there because we are going to be there to support new business and increased earnings.

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

But at the end of the day, with six new factories, it's hard to stay steady with adding six new factories here and there.

John Muse - *Darling Ingredients Inc - EVP & CFO*

As we add two new plants coming on, our goal this year with the addition of the two new plants that we put in, if we can maintain our SG&A at that level, we felt that was a pretty good accomplishment, which means we are continuing to reduce costs in other areas.

Operator

[Garrett Wubben], Gates Capital.

Jeff Gates - *Gates Capital - Analyst*

Yes, this is Jeff. I have a couple questions on the capital allocation side and then also a question on volumes. First on the capital allocation side, if I look at Diamond Green Diesel which is basically net debt zero now, I'm wondering, I understand you'll build cash and you'll spend it on the new plant and then you'll be back to net debt zero at the end of 2017.

So when we look into early 2018, that [275] gallons, should we expect profitability of around $1 a gallon? And if so, should we expect [130] or so of dividends on a going-forward basis beginning in 2018? Or would you expect a recap transaction at that point to accelerate deleveraging at the plant?

John Muse - *Darling Ingredients Inc - EVP & CFO*

Jeff, our forecast and everything today is like your first scenario you laid out, the cash/ The $85 million debt that's there with the expansion of approximately $150 million that we've got going there. No dividend coming out of there during 2017. Unless earnings RINs and everything stays strong, we could even look for a dividend in 2017, but we're calling that no. But in 2018, with the expansion of the [275], $1 a gallon profit, that would be paid down and we would be looking at very strong dividends coming out of Diamond Green Diesel starting in 2018 and definitely going into 2019, because all the debt would be paid off. There's no more expansion opportunity at that facility.

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

Yes, it's just really a timing issue of whether or not we're debt-free on December 31 of next year or debt-free on March 31 next year -- or 2017 or March of 2018. Then we would anticipate going to a regular quarterly pull of a dividend, as markets allow us.

John Muse - *Darling Ingredients Inc - EVP & CFO*

And that also, a lot of that is not knowing in 2017 if the dollar credit is going to be on a monthly basis or if it's going to be wait a year 'til you get it. So there's a lot of factors in that, that we have to take into account is that dollar going to flow in every quarter, or I should say every month, in 2017? Or are we going to have to wait until April of 2018 to get what the values are out of the credit for 2017. So that's the reason for the conservatism there.

Jeff Gates - *Gates Capital - Analyst*

What's the appropriate capital structure for that JV at the point at which it's expanded if I look into 2018?

John Muse - *Darling Ingredients Inc - EVP & CFO*

Well, how we're looking at it is to pay the debt down. Our joint venture partner has views to pay the debt down and then look at dividends coming out of it. You would expect we would look at having some debt in there, at all the time, and pull the more dividends out. But Valero is our partner and their philosophy is pay the debt down within all JVs and then start pulling the dividends out.

We are working on a refinancing of that from a working capital line facility, that's not been there before, to give us a more flexibility going forward. But our partners, their philosophy is to pay debt down and then do dividends and not do full dividends out as long as there is a debt. There is a cash sweep facility in there that focuses on debt reduction.

Jeff Gates - *Gates Capital - Analyst*

All right. And then my other question on capital allocation is with regards to acquisitions. I'm wondering, having been through this platform -- shareholders having suffered through a platform acquisition of Vion and the attendant risk that you picked up there, when you do go back to acquisitions, should we expect primarily in-market acquisitions that have strategic consolidation synergies when you actually do go back to making acquisitions?

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

Frankly, yes, our focus, Jeff, is to organically grow, number one, in USA. We've got a list of projects in Canada; we've got a list of projects in South America, Europe and China. And then from there the second category would be bolt-on acquisitions that give us some strategic lift within that geography. I don't really see us venturing off in the next several years due to the balance sheet, and into new geographies with higher risk at this time. We got plenty to do in the areas we operate in today.

Jeff Gates - *Gates Capital - Analyst*

And then if I could ask one last question on volume. It looks like the markets you're in, what would you say the volumes growing versus the volume that you've been putting up? How much more opportunity do you think there is for market share gains in the markets that you're in on the volume side?

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

I think that's fair. We look at the world and we break it down into really North America, Europe and South America on meat production and a little bit in China, although we don't participate in there. But those different businesses have been growing anywhere from 2% to 3%, whether you're talking beef, pork or chicken. Chicken growing the fastest, followed by pork, trailed by beef.

We've been able to take growth rates of anywhere from 4% to 5% around the world right now. That is coming through the plants we're building in the USA, additional tonnage growth in Europe and additional tonnage growth in Canada. It's coming out of customer alignment and really working with the customers around the world. I don't see anything changing. It ebbs and flows a little bit every year, but as long as the meat production's growing in those countries, we'll take a bigger share of it.

Jeff Gates - *Gates Capital - Analyst*

But is there some secular trend towards more outsourcing by the meat producers? Or are you just gaining share from mom-and-pop rendering companies?

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

In North America, we've taken share. There's been no secrets, there's four or five new pork and poultry operations under construction in the US right now. We've been successful at taking most of those accounts now into our existing network.

In Poland there continues to be, as we said, in Northern Europe, lots of expansion, predominantly in poultry. We've been able to put deals together there to take it. It's just growth around the world and we're going to have to build -- we're out of capacity -- we're going to have to build capacity to take it on or add lines at the plants.

Jeff Gates - *Gates Capital - Analyst*

Okay, thank you.

Operator

Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Randall Stuewe for any closing remarks.

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

Hey, thanks again, everybody. Thanks for joining us today, and we look forward to talking to you again about the third quarter and give you an update in November. Thank you.

Operator

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