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PRESENTATION

Operator

Good morning, everyone, and welcome to the Darling Ingredients conference call to discuss the company's second quarter 2017 financial results. With us today are Mr. Randall Stuewe, Chairman and Chief Executive Officer of Darling Ingredients; and Mr. Patrick Lynch, 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 A. Gaither - *Darling Ingredients Inc. - VP of IR and Global Communications*

Thank you, Allison. Good morning, everyone, and thank you for joining us to discuss Darling's earnings results for the second quarter 2017, ended July 1, 2017.

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, focusing on year-over-year comparisons and discuss some of the trends impacting our business. Patrick Lynch, Executive Vice President and Chief Financial Officer, will then provide additional details about our financial results. Please see the full disclosure of our non-U.S. GAAP measures in both our earnings release at the end of this 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 and uncertainties are described in Darling's annual report on the Form 10-K for the year ending December 31, 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 take any duty to update any of the forward-looking statements made in this conference call or otherwise.

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

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

Thanks, Melissa. Good morning, everyone, and thank you for joining us today. Overall, we delivered an improved performance sequentially in light of some challenges facing us in the Food segment. Global fat pricing remained strong while protein prices were marginally weaker. Our quarterly results were highlighted by solid operational performances in our Feed and Fuel segment. However, pressure in the Food segment, specifically, the gelatin business in South America and scheduled downtime in North American operation caused some gross margin compression.

Diamond Green Diesel excelled operationally, delivering on its financial promise and posted $0.61 per gallon of EBITDA even without the blenders tax credit in 2017 versus 2016. SG&A variance in the quarter came largely from equity award accounting and the absence of a foreign exchange gain in second quarter 2016. Overall, profitability was negatively impacted by the absence of the blenders tax credit of approximately $22 million EBITDA or about $0.09 per share. Patrick will highlight our financial position in a little more detail, but another key point for the quarter is our strong free cash flow, which led to continued debt reduction of $45 million.

Now let's go to some segment-specific updates. The Feed segment achieved improved returns and maintained steady margins. Globally, our rendering business posted a strong quarter. USA and Canada contributed nicely with Europe remaining one of our strongest markets. Global fat pricing remained firm during the quarter although demand trended lower late in the quarter in correlation with the declining palm oil pricing. In North America, protein markets were mixed with strong pet food demand offset by continued pressure on meat and bone meal finished product pricing. Overall, rendering raw material volumes improved with tonnage growth primarily from the beef and pork sectors.

In the Food segment, Rousselot, our 4-continent gelatin business showed steady performance in Europe while our South American region faced continued headwinds and challenging macroeconomic factors in Argentina. Margins contracted in South America due to rising raw material prices due to the continuing disruption in the meat businesses in Brazil. We are cautiously optimistic in the near term and look for these markets to stabilize and show some improvement. The North American operations dealt with margin compression due to rising raw material prices and scheduled downtime for maintenance. Our CTH casings business, while a small part of our Food segment, delivered improved results as the short hog supply again drove global demand and improved pricing. Our Sonac edible fats business held margins and contributed as expected. Our Fuel segment, once again, was operationally consistent across our platform with earnings deficit stemming from the absence of the U.S. blenders tax credit. Ecoson, our Euro-based digesting and refining business, delivered normalized results with slightly lower supply volumes. And Rendac, our European-based disposal rendering to energy business, leveraged strong volumes and steady earnings.

Now let's turn to Diamond Green Diesel. After completing the successful 18-day turnaround in first quarter, Diamond Green executed and generated $0.61 a gallon EBITDA. Right with our expectations and even without the benefit of the U.S. blenders tax credit in the quarter. EBITDA for the quarter was $24.8 million at the entity level, with $12.4 million being allocated to Darling. The facility continues to perform well, and we anticipate producing around 160 million gallons in 2017 and operating at an EBITDA run rate of around $0.55 to $0.60 per gallon for the balance of the year. Our capacity expansion to 275 million gallons is tracking as planned with startup slated for late in second quarter 2018.

On the regulatory front, a couple of developments. As you have seen, the EPA issued the 2018 RVO requirements in early July and maintained 2017 levels for biomass-based diesel. While still stalled, we believe the blenders tax credit will be retroactive by year-end, as in the past, with promising legislative potential of moving towards a producers tax credit. Additionally, the California Air Resource Board on July 20, 2017, announced that it has certified a biodiesel additive, which ensures that biodiesel remains a renewable fuel option to meet California's stringent low carbon fuel standard. This position will have significant long-term benefits for the biofuel industry as it enables the aggressive ramp up to continue with carbon reduction moving to 5% in 2018 for transportation fuels. This is especially valuable for Diamond Green as we have been steadily positioning significant amounts of the company's production towards the state.

Lastly, we are executing our next level of growth and we have discussed during last quarter call, several plant expansions that are underway. We closed on 2 U.S.-based bolt-on acquisitions early in the quarter and began construction of the largest black soldier fly larvae production facility in the United States. Additionally, we have reached an agreement to construct a new state-of-the-art greenfield rendering plant in central Texas. Construction will begin later this year and we expect to be online in early 2019. We see incremental growth opportunities around the world today to strengthen our regional and global operations and drive incremental strength across our whole portfolio. With that, let's have Patrick take us through some financial highlights. Patrick?

Patrick C. Lynch - *Darling Ingredients Inc. - CFO, Principal Accounting Officer and EVP*

Thanks, Randy. Halfway through 2017, we continue to focus on debt reduction, margin enhancement, improving working capital, cost reductions in both operating and SG&A expenses and monitoring CapEx deployment. We achieved the following results in Q2 2017. During the quarter, our cash position improved to $124 million, up $10 million from $115 million at the end of the fiscal year. We've paid down $45 million in debt, consistent with our goal to reduce our debt by at least $100 million for the full year. That brings our current debt ratio to 3.59x at the end of 2Q compared with 4.1x at the same period 2016. Liquidity remains strong with approximately $1 billion available on our revolving credit facility. Our ongoing focus on working capital management continues to be successful with metrics improving across all categories. We continue to target $15 million to $30 million worth of positive cash flow for the full year from working capital in 2017.

CapEx spending this quarter was $65.5 million compared to $56 million in Q2 of 2016. Significant CapEx deployment is related to Darling's 6 organic growth projects currently underway. We're still on track with our CapEx target of $240 million to $250 million for the full year of 2017. Our gross margin in the second quarter of 2017 was 22% compared with 22.8% for the same period last year. The year-over-year change was largely driven by margin compression in the Food and Fuel segments.

In the Food segment, gross margin declined primarily as a result of the previously mentioned challenges in our Rousselot gelatin business, particularly, in the South America. And the absence of the U.S. blenders tax credit depressed margins in our Fuel segment during the quarter and the first half of 2017. For Q2 2017, SG&A expenses totaled $85.5 million during the quarter, up $9.4 million from the same period last year. $2 million in increases related to the acceleration of equity award accounting, additionally, the absence of an FX gain of $4.6 million in Q2 2016 impacted current quarter SG&A. We expect to be in the $83 million to $85 million per quarter for the remainder of the year.

Now I'll take a few minutes to talk about our effective tax rate, cash taxes, depreciation and amortization. The company reported income tax expense for the second quarter of $7.9 million compared to $8 million for the same period of 2016. The effective tax rate for the quarter was 42.7% and cash taxes for the quarter totaled $7.8 million. The higher rate is reflective of the lack of the blenders tax incentive and our mix of earnings. We estimate that our total tax bill for 2017 will be approximately $15 million to $20 million in cash taxes for the full year. With continued uncertainty into the political arena around tax reform and delayed decision to reinstate the blenders tax credit, we expect our 2017 effective tax rate to be in the 35% to 36% range. Depreciation and amortization was $72.9 million in line with our expectations.

And with that, I'll now turn the call back over to Randy.

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

Thanks, Patrick. As we've reached the halfway point in the year, our teams are managing through fluctuations in our pricing environment and seasonality trends that typically impact the third quarter, especially in Europe. And this hot summer weather we experienced in North America can and will present challenges for our rendering business.

Overall, though, we expect an improved and more normalized result from our global gelatin business and a consistent result from Diamond Green Diesel. We're preparing our platform to capitalize on a world of growth opportunities we see ahead of us. Our approach continues to balance operational efficiencies and service with a continual focus on creating opportunities to diversify prudently and to strengthen our earnings stream and deliver shareholder value.

Our goal of deleveraging the company by another $100 million in 2017 remains on track, and we are excited about the impact of a delevereged Diamond Green Diesel and what impact it'll have on our go-forward strategy.

With that, Allison, let's go ahead and open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today will come from Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Maybe first, if you could talk about the food business a little bit and maybe put a little bit finer point on some of issue that affected the quarter in South America. Any way to quantify kind of what EBITDA -- was EBITDA positive in South America in the quarter? And maybe contextualize kind of how big that business has been in the past? And just how much of a pressure you're feeling there?

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

Yes, I'll take a stab at it, Adam. I mean, obviously, we don't break out the Rousselot business per se and for competitive reasons, but I'll try to give you some data points out here on the business. I mean, as we look around the horn, Europe had a pretty nice performance in the quarter. It's facing a increasing raw material prices as China just seems to have an insatiable demand for pork right now. As we always say that while the hide or the pigskin price rose because of demand for pork, you see a little bit of an offset in our casings business in the sense that the demand continues to grow because there's less hogs producing runners for the casings -- natural casings business. So that's Europe. In North America, had a little bit of margin compression, once again, because of the spillover of the increasing raw material prices. It just takes time, it takes 60 to 90 days to move your finished product prices up to reattain the spread. And so, as you think about the gelatin business, you're forward selling into the consumer and pharmaceutical markets, anywhere from 90 days to 180 days depending on the account, you're then procuring the raw materials of hides, bones and skins against that to obtain your spread. And so anytime you get the volatility, you get of a rising raw material market, you get a little compression there. So North America felt that along with we took some downtime in the due -- to do turnaround maintenance that was scheduled. China was normal, continues to have a little bit of a shortage of pigskin over there, but we've been able to move prices out there slowly and in order to recapture some margin there. South America, as you pointed out, there's really 2 distinct businesses down there. There is the 2 plants we operate in Brazil, 1 in Amparo and 1 in Epitácio and then there's the Argentinian plant. The Brazilian plants saw a very rapid increase in raw material prices due to, as everyone has followed into the news, the Brazilian, the JBS meat scandals, the shuttering of many slaughterhouses for weeks at times, left us all scrambling for raw material supplies. And so we had to fulfill the sales we had and what we've seen now is, raw material prices have backed off significantly to put a margin back in that business. So then, in Argentina, you've got about 3 factors facing you, which is probably no different than many other ag companies out there that operate there. Number one, the inflation rate is outpacing the devaluation almost still 2:1. It's improving but it's clearly -- you need a bigger devaluation as about 70%, 80% of our production down there is exported. But the other thing is, is then you have the same rising raw material prices there during the quarter and then you also are faced with how the world price or the Argentine government prices energy in Argentina during winter. So all those things, I -- to answer your question, Argentine offset all progress we made in Brazil. And so at the end of the day, Argentina quarter-over-quarter was about the same from Q1 but it offset all progress we've made in Brazil. So as I pointed out in my final comments, we're expecting some normalization, some improvement here in Q3 and then I suspect some pretty significant improvement in Q4 as we get the gelatin business back to a more normalized earnings.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

All right, that's helpful color. Maybe just switching gears, we've got the Commerce Department making a decision on the Argentine and Indonesian biodiesel trade case in a couple of weeks. And just want to get your thoughts on kind of potential market impacts and what you're watching to think about for the fat markets moving forward.

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

Well -- it's a -- we did -- we completed a board meeting this week, looked at the timeline. I was kind of surprised that they're targeting August 22, which is a special day for me, that's my 55th birthday. So it couldn't be a better birthday present for me or for the company and for shareholders if they would impose that. The real question now I think as you look at it is a couple kind of data points that you got to get your mind around is. Typically, when the ITC rules on something, which they did 5 to 0, it isn't whether they're going to put a countervailing duty in and it's what's the size of that countervailing duty. I don't really have a feel for that. But at the end of the day, it's going to be significant and it will deter the amount of Argentine biodiesel coming back into the U.S. So in 2016, I think, it was around 440 million gallons. If you convert that back to fat, that's about 3.5 billion pounds of fat that's going to have to be converted into U.S. to make fuel here. So I think, overall, it can be and will be fairly bullish if the countervailing duty is what we think it will be. Now I always like to tell people, the offset to that, you're going to have -- should then be, you're going to get a rise or we expect a rise in RINs to help offset the rise in feedstock but also then you've got an obligation then with the EPA will probably have to look at balancing the RVO a little bit against whatever they decide to do with the countervailing duty. So there's a lot of moving pieces. But on the surface, itself, it is absolutely bullish, not only our feed stocks but also soybean oil in the U.S.

Operator

Our next question will come from Heather Jones with Vertical Group.

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

Just a real -- just a detailed question, really quick, on the Texas plant. Is that going to be another poultry plant?

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

Of course it is, Heather. You know who it's being built for, so.

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

Exactly, I just wanted to clarify. So first, on your outlook for Diamond Green and for second half, I fully understand, given the volatility in the space, the need to be conservative. But I wanted to go through how the market developments, as we've see them, and it's just your guidance does seem conservative. So since the end of the quarter, with that announcement from CARB and the quarter deficits outpacing credits, you've seen a pretty big jump in the low carbon credit. Diesel prices have moved higher and RINs, I mean, they haven't been amazing but they've been okay. So it would seem like you should be able to do better on a per gallon basis than you did in Q1 -- I mean, not in Q1, in Q2. So is it conservatism on your part? Or is there some other factor that will cause the second half to be below Q2?

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

No, I think we're looking at Q3 to be similar to Q2, possibly a little bit better, maybe even a lot better. I mean, obviously, you've seen the LCFS credits jump from $75 to about $90 now. And then we've seen RINs, what? Run up to $1.12, back off to $1.06. We're running wide open. As you know, we keep trying to remind people that we -- the facility was built 3, 4 years ago, it was put with pipeline contracts off of Gulf Harbor. So a portion of our product continues to move to low carbon fuels markets and more and more each quarter's moving there. So by Q1 of '18, all of it will be moving there. So we're just not able to capture all of that. I think wouldn't -- the second thing I'm just going to say is conservative. We've seen it move up here, but we're taking kind of a conservative approach for nothing more than -- we'll see if the LCFS premium holds there for the quarter, which we think it will.

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

That totally makes sense. And I was wondering if you could just update us, so back end of spring, you had a slide in one of your presentations that gives various scenarios of what free cash flow and EBITDA generation could be for Diamond Green and in different scenarios. And given what you're generating now, and then the possibility of favorable duties, all of your production going to low carbon markets, just was wondering if you could walk us through, how we could envision getting to north of $1 a gallon for the Diamond Green venture?

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

Yes, and so -- I mean, I think the slide is in our investor deck out there. There's about 3 pathways and not to be confused with LCFS to get there. I mean, number one, the facility is on a trajectory even at the current run rates without the BTC to be delevered here in Q1 with all of the expansion paid for. So I mean, that's just the fact given the current environment and that was assuming about a $0.60 per gallon run rate for the quarter. Next year, as I said, in '18, we anticipate making around 200 million gallons, 195 million, 200 million gallons, somewhere in there. It just depends on how long we're down, how long we run at the 160 million gallon rate before we come back up with the 275 million gallon. Construction and startups are pretty fluid, the Valero team is masters at getting this thing ramped up. So I have huge confidence in the team down there. And then --so we have just arbitrarily chosen right now, per the slide, $1.25 a gallon. And if you look at with carbon where it's at today, we think carbon will go higher next year, especially since the biodiesel additive is in the process of being accepted here. And so internally, we're using somewhere around $1.25, we can make a case. And you'll notice John Bullock's not on the call today because I won't let him talk because he's so bullish about this thing. Because the market's setting up for pretty significant margins whether or not you get the countervailing duties, whether you get the blenders tax credit, whether you get a producers tax credit, just the way the carbon markets are setting up and the ability to serve. Keep in mind that in none of our projections although we say we're optimistic and truly believe in the blenders tax coming back, that is not in the cash flow projections. Otherwise, that would be another $160 million of cash that'll come in early in probably Q2, late March or early April of next year. So it's a very optimistic picture right now from what we can see, where we're sitting.

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

So just to clarify, just based upon the fact that in '18, you will be sending virtually all of your product to low carbon markets, given where you think the credit price is going to go. You don't need the duties -- you don't need a surge in RIN price, you don't need a blenders tax credit to get to a bullish scenario north of $1. Just what you see for those low carbon markets get you there.

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

That would be correct. If you were able to service all the low carbon markets today, we'd be pretty close to that right now.

Operator

Our next question will come from Kenn Zaslow from Bank of Montreal.

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

Just a couple of probably easy questions. Why did the LCFS credit go higher? What was the driver behind it?

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

The California Resource Board was -- let me back up. Part of the litigation challenging out in California was brought by the POET Group and it was called -- the litigation was entitled POET 1, challenging that the incorporation of biodiesel into the mix of fuel alternatives or options in California did not reduce NOx and therefore was adverse to the California Environmental Quality Act. They ruled on that back in, I don't know, March or April, and said that they were open to reconsidering allowing biodiesel to fulfill the CARB obligation if they could present an additive that actually showed a reduction in NOx for biodiesel versus regular fossil diesel. I want to say, in July here, that was announced that they had accepted an additive and now that makes -- now biodiesel back viable and gives the California Air Resource Board the authority to go back and now move the biodiesel part of the mandate to 5% next year. So CARB credits immediately reacted from their LCFS credits from $75 to $90 a ton.

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

Okay, perfect. The second question I have is, how much do you expect to allocate to the repo side? And given that the debt pay down is on its way, how do you think about the repurchase? And given the optimistic outlook, why would you not be more aggressive on the repo side?

Patrick C. Lynch - *Darling Ingredients Inc. - CFO, Principal Accounting Officer and EVP*

Well, it's certainly a consideration and it's certainly -- we had that dialogue at the board meeting as well. But right now, I think our near-term focus is to continue to delever. And that's been our focus over the last 24 to 36 months. So -- but it is a growing consideration, for sure, internally as we consider our capital allocation choices.

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

Ken, just to echo what Patrick said, it was a big discussion point. Like we've said, when the -- we believe, the blenders tax credit will be retro, looks like it's setting up for a November timeframe, a December timeframe, again, as it's been in the past. That's always out there, if all of a sudden you get that, then we've got a plethora of cash in the war chest to continue to do things. So the board wanted to re up the opportunity and to have the firepower here to go ahead in a repurchase program if they deem it to be right here.

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

Because as I think about it -- I guess, what I'm trying to figure out is, in 2018, I think you've, at least, directionally put us in the -- the EBITDA should go towards that $600 million, you get some of these positive developments. You're going to be flushed with a lot of cash. And I'm assuming your capital projects, as much as you can put cash to capital projects, you'll have a surplus of cash. Is that not how to think about it in 2018?

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

You'll have a surplus of opportunities that the cash can either go to buyback or dividend or acquisition or buildout here.

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

And you still believe that going towards the $600 million EBITDA in 2018 is viable?

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

With the Diamond Green Diesel run rate and a deleverged Diamond Green, if you're aggregating both together, yes.

Operator

Our next question will come from Tom Palmer with JPMorgan.

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

Just first, a quick one on the Feed segment. Could you give us a bit of perspective on how we should look at results going forward? It seems like fat and protein prices have generally gotten a bit better. Are there offsets we should be thinking about? Or is it right in looking at third quarter as perhaps being a bit stronger than we saw here in the second?

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

Let me talk around the horn here in the Feed segment a little bit. I mean, fat prices were pretty firm in second quarter. They're holding on pretty nice here in July. Tom, and his -- in North America, we deal with what's been a lot of hot days that have been trying to burn up a little bit of a corn crop and a bean crop. And so always we end up discounting some of the fats that we make in the third quarter. That's the exciting part of Diamond Green's expansion is that it's going to be set up now to process more of these high-asset fats when we're online. The protein side, the pet food side, pet-grade products continue to be exported in pretty significant quantity to China, to the aquaculture business and markets. So that should hold in there. The meat and bone meal, as we've said in our press releases, is the only one that we have any heartburn over right now as the markets are -- we some diets North America moving to vegan or all-veg diets and so we're having to fight for more and more share around the world to export that product, especially with the strong cattle slaughter in the U.S. In Europe, we had a -- our rendering businesses had a very strong second quarter. We've seen a tempering of fat prices there as palm oil prices came down over there but protein prices remained steady. So I mean, I don't expect a significant decline, if you will, in the Feed segment in Q3. There's just some cautionary flags here just because of summertime quality that we get into here and July and August as we move forward.

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

Okay, thank you for that detail. Wanted to switch over to Diamond Green Diesel. We've -- how we look at it, seems like a lot of the strength in the second quarter here was driven by some lower costs in terms of the operational structure. I know some of that is simply you produced 25% more than you did last quarter. But have there been any changes in LCFS economics? Or other factors that are also starting to flow-through more so to the bottom line?

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

There were. And I mean, I think you picked up on it. First quarter had 18 days down. Second quarter, we ran at capacity. The LCFS markets were in that mid-70s, the ones that we could service. RINs were bouncing all around in the quarter and heating oil hit lows and highs in the quarter. So there's a lot of volatility there. Remember, these are index sales that price when they ship. So any given day, it can be a pretty good move there, so. I mean, as we're setting up for third quarter, I saw spot margins at Diamond Green this last week in the $0.85, $0.90 a gallon, that doesn't mean we ship everything there but those were like daily spot margins. So we should see some improvement in Q3. It's just the depending on timing here.

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

I guess just to follow-up there. On the cost side, have you seen -- or maybe -- and maybe you could help quantify this, have shipping costs, now that you have the rail line, dropped down quite a bit between the first quarter and the second quarter? Or the portion that you're sharing with the blender, has that materially changed at all?

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

No, that's really hasn't, Tom. Like we said, that's -- you'll start to see an increase there probably late fourth quarter, early Q1.

Operator

Our next question will come from David Katter with Baird.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

You touched on it briefly but I was hoping to hear a little more about Argentina. It seems like some of the macro issues there are political in nature. So what gives you confidence that you might see some more strength there in Q3 or Q4?

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

I don't know that I would call it, David. I'd call it strength. We're in a kind of a burn-the-furniture mode down there in cost reductions and efficiencies. And trying to manage a very difficult environment. I mean, the -- obviously, the inflation side, it drives wages. We're coming off of a winter time so the energy bill should go down a little bit. We continue to try to work with the labor unions to reduce labor down there. So there is a business-improvement plan down there and while I wouldn't call it -- get it --make it stronger, let's try to get it back to with its head above water. It's a very big challenge down there. As I've said, it is -- and you picked up on, it is political in nature, Macri has decided that he thinks that he's trying to globalize Argentina now, not to make a political speech. But we could now land gelatin that we make in Brazil for anywhere from $0.50 to $1 a kilogram cheaper than we can make it in Argentina. So that's putting us into the mode of having to kind of rearrange and readjust the business model down there. I'm not certain we can get there but we're going to give it our best shot here and try to take some very dramatic actions to get there.

Operator

Our next question will come from Craig Irwin with Roth Capital Partners.

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

So Randy, in the past couple of months, we've seen a spike of biodiesel imports from Argentina. Everybody sort of rushing to get the last gallons in before Commerce goes out and gives us their opinion on the duties. I guess, that's in 2 weeks. Two questions on this. Does this impact your outlook for Diamond Green in the third quarter? Do we see the front end of the quarter impacted by this? And the second is, you, obviously, do a lot of business in Argentina, others have said that the boats that were lining up in ports down there to dump into North America pretty much disappeared, any thoughts on this? And any knock on impact to either your biodiesel business or your business down in Argentina?

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

No, I think, Craig, you've got it framed very well there. I mean, obviously, there's the gain here to get the product in before the countervailing duty retroactive date is established. And I was involved in some discussion there. I don't know that if I have a clear opinion on what the last day is you can bring it in. But clearly, the imports have slowed down, I think. But they were fairly material up till now, 250 million gallons or so. So at the end of the day, I think the world truly believes that, that's coming. And it's going to take it, say, a pretty big risk to be the importer of record, we're starting to see the blenders back away from wanting to take that risk. So I don't know that, that's going to drive anything in the near term but it might temper some of the seasonality here that -- what I call the biodiesel industry, not the renewable diesel industry, endures in Q4. So I mean, clearly to me, it's most bullish feedstock, if it happens. And then after that, the marketplace has to figure out if it can truly produce enough to meet the RVO for 2018.

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

Great. My second question's, again, about the trade action. So just geography alone means that your facility in Louisiana is probably stepped on probably the hardest or one of the hardest versus other facilities in the country at the original hearing at ITC in Washington. One of the people to testify was a small producer from New England complaining that basically the dumping has pushed him out of the market. Reality is, there's a lot of transportation costs from the Gulf of Mexico all the way up to New England. I'm surprised, you're not wildly bullish on the fourth quarter and, again, the back half of the third quarter. Can you maybe just give us a little more color on your conservatism and why someone like myself that might be more in John Bullock's camp here should be careful about the way we look at the third and fourth quarters?

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

I mean, it's very simple for me and I'm making eye contact at Patrick, because I've been wrong before. Right now, I share the enthusiasm with what I see out there that you do. We're just talking a very 90-day approach here. Obviously, Craig, we think that 2018, and that's the reason the board allocated the money for the expansion of Diamond Green, is that we are very friendly, the potential returns and earnings that Diamond Green can give here. I mean the cautionary side that we take here is, as you've got Scott Pruitt at the EPA, to a degree, you've got Donald Trump at the helm, and you've got the ITC now involved. And if they're all talking, not talking, we're not sure. So we're sitting here waiting for whatever the mandates to be finalized and then to find out what the countervailing duty is. And then you can ask me if I'm wildly bullish or not. Right now I'm wildly concerned that we don't know what the final rule is.

Operator

Our next question will come from David Kuck with Wells Fargo.

David Kuck

Just wanted to touch on the black soldier fly facility. I think you all have said you'd complete that late 2017. Could you give us an indication in terms of maybe sales or EBITDA contributions? And the pace at which that should ramp?

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

Yes. And David, this is Randy. Intrexon held their earnings call the other day. We're looking for an early, sometime early to mid-'18 startup of that facility. It truly is a scaled up pilot plan. We think we've got something special here. At the end of the day, we're going to put, I don't know, $15 million, $16 million of total capital between Intrexon and us into the plant. It has the ability to go up to several thousand tons as we expand it out. There's some very sophisticated machinery and incubators or whatever that they're importing to do this. We're not expecting it to be anything what I would even call remotely accretive in the sense too material for Darling at this time. This is something that we think has some very, very interesting applications, whether it's in aquaculture, whether it's in pet food, whether it's in animal pharmaceutical. So there's -- this is a very scaled up pilot plant that we think, if it works, then we're in whole different discussion and whether you're building 10 of them or 50 of them, who knows? But it'll be another year or so do till we get real operational data from moving from pilot plan to full-scale here.

David Kuck

Understood, thanks. And then regarding your share repurchase program extension. Just curious, when you would maybe be more aggressive with repurchases. Is that maybe when you get more in terms of lower end of your target leverage range?

Patrick C. Lynch - *Darling Ingredients Inc. - CFO, Principal Accounting Officer and EVP*

That's a fair assessment. I think we're just going to continue to be judicious with our capital, redeploy it primarily back into the business. And then secondarily delever and then considerations from there. But probably another 6 to 9 months, kind of, time horizon before we're really in a position to strongly consider those options.

Operator

Our next question will come from Carla Casella with JPMorgan.

Carla Marie Casella Hodulik - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Most of my questions have been answered, but did you say what the benefit from the blenders tax credit was in the second quarter last year?

Patrick C. Lynch - *Darling Ingredients Inc. - CFO, Principal Accounting Officer and EVP*

Carla, about $22 million, $23 million in the aggregate between Diamond Green Diesel and our other biodiesel businesses. About $0.09 a share, effectively.

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

What was interesting, Carla, was, with the $1 a gallon last year, we recognized $18.3 million of EBITDA and this year, without it, we had $12.4 million. So that's the fun part as we look forward in this business even without the $1 a gallon, the facility's doing well and as Patrick said, with the $1 per gallon, it would've been better than last year.

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

Yes.

Carla Marie Casella Hodulik - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

Okay, great. And then, on the poultry rendering plant that you're building, are you seeing more of the captives exiting the rendering piece of the business? Or is there opportunities for you to partner with or to create more of these off-site facilities for some of those that have been captively doing their own rendering?

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

You know, I think the answer is yes, yes and yes. I mean, at the end of the day, given the footprint that we have across North America today, we've been looking at areas and geographies where we can save transportation costs for the process or whether it's beef, whether it's pork, whether it's chicken. And then we try to then make our pitch of being partners in a facility and build it. And we've been successful now, this will be our third one. The Texas one, however, will be a freestanding rendering plant in the middle of 250 acres and will be kind of the first free standard build here in, I don't know, decades. So this is -- this one's a little being built with pretty significant capacity for additional growth for the future. But the answer is yes, we see the opportunity that there could be a couple more of these in the U.S. built over the next couple of years.

Operator

Our next question will come from Bill Baldwin with Baldwin Anthony Securities.

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

Got to tie the end to the poultry rendering plants that you're doing in partnership with the processors. Do you have to degree you could talk about it, do you have any kind of a arrangement on the rendering product, the poultry rendering products that go into feed and feather meal and so forth? Are those remarketed back to the processor? Or do you just take those products and go after the marketplace with them?

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

Bill, this is Randy. Those agreements go the whole spectrum. Our relationship with the -- as we do these agreements with people, they're multiyear, 5- 10-year agreements and they're geared at maximizing returns for both parties. And making them, the processor, more competitive. And if it means they want to buy back the fat or the protein, that's clearly an option. But they participate in the decision of where that product should go in the intra-maximization of value and return for them. So in the industry, it's commonly called the buyback the others, buyback options and then there's a straight marketing options here. So it's a little bit of everything.

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

And secondly, Randy, with the headwinds apparently coming out of meat and bone meal area. I guess you've got, like you said, you had good raw material growth in that area and demand is being somewhat impacted by substitute products. What do you think the medium to long-term picture is for that product? What are your options there in the meat and bone meal area?

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

It's -- traditionally, what's happened, you've got a couple of things, Bill. Number one, you've seen the cattle slaughter in North America to be very strong. And then we'll talk about Europe here in a minute. You've seen an increase in the all-veg diets. You've got the antibiotic-free all-veg diets out there. So more and more of the products having to go internationally. And then, typically, the market for that is the Pacific Rim countries from Indonesia to Vietnam to the Philippines over in that part of the world, predominantly, for poultry production. If meat and bone meal gets too cheap relative to soybean meal in the U.S., it will work its way back into swine diets here. So we're nowhere near at that level. What's interesting though the world today and was pressuring a little bit of the export values is that there's been a liberalization in Europe that started here in second quarter. What we call Cat 1 and Cat 2 material, but the Cat 2 material can now be exported out of Europe. And that's meat and bone meal. Now while I think most of that was being exported anyway, there are now more tons of meat and bone meals competing for the same customers in the Pacific Rim countries today. And so, overall, it's just another ingredient that's out there that has to find a home. So I don't see a significant issue here. The volatility against soybean meal, I went to, what I called -- it went to $100 under to $50 over in the quarter. So a lot of basis risk that we haven't seen a lot of years. But it will find its home given its ingredient value.

Operator

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

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

Thanks, Allison. Thanks, everyone, for joining us. We look forward to talking to you in November and telling you how we did for third quarter.

Operator

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