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PRESENTATION

Operator

Good morning, everyone, and welcome to the Darling Ingredients Inc. conference call to discuss the company's third 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 conference over to Melissa Gaither, Vice President, Investor Relations and Global Communications for Darling Ingredients. Please go ahead, ma'am.

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

Thank you, Keith. Good morning, everyone, and thank you for joining us to discuss Darling's earnings results for the third quarter 2017 ended September 30, 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 third 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 and at 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 and uncertainties are described in Darling's annual report on 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 undertake any duty to update any of the forward-looking statements made in this conference call or otherwise.

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

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

Thanks, Melissa. Good morning, everyone. Thanks for joining us today. Overall, our third quarter results were as anticipated. Strong volume supported a consistent performance in our Feed segment, while Rousselot's improved performance led the Food segment. Our Fuel segment, which incorporates Rendac and Ecoson endured some challenges in the quarter. The pricing environment was mixed with global fat and grease pricing higher on solid biofuel and feed demand, while the growing global slaughter produced ample animal proteins and pressured prices. We managed well through the third quarter's typical seasonality and the margin variance resulted primarily in the Fuel segment from operating challenges at Ecoson, our bioenergy plant, the absence of the blenders tax credit in comparison to last year's and business interruption due to a fire at our Rendac-Son facility.

We had another strong quarter of free cash flow that led to an $18.5 million debt reduction with total year-to-date debt paydown of almost $70 million.

Now, let's go to some segment specific updates. The Feed segment performed well in light of disruptions from 2 significant hurricanes in the USA, with strong global volumes. Pricing was mixed with North American fats holding firm early in the quarter, the late quarter news surrounding biofuel mandates with typical seasonality surrounding biodiesel, created some market uncertainty and took prices lower.

Protein selling prices were mixed around the world. Meat and bone meal was on a roller coaster during the quarter, escalating early in the quarter, while it followed soybean meal and then rapidly declining towards the end of the quarter. Lackluster demand for meat and bone meal driven by ample supplies and continuing shifts to all vegetarian diets in the USA led to the decline.

Demand for higher grade poultry proteins typically used in pet food and aquaculture enjoyed a stable pricing environment. Our pet food ingredient operations continue to show both volume and earnings improvement and our global blood business turned in a nice performance. During the quarter, we acquired the remaining minority shares in our Chinese blood operations and this will now provide us with the ability to move forward and grow our presence on Mainland China.

Additionally, Hurricane Harvey and Hurricane Irma impacted our USA Southern Texas operations and the Southeast operations in Georgia and Florida. Our Food segment showed year-over-year and sequential improvement. The strength was led in part by improving global performance of Rousselot, our 4-continent gelatin business. South America showed significantly better sequential performance driven by higher sales volumes and stabilizing margin environment.

Rousselot results in North America and China also trended higher with China posting very strong results compared to last year on increasing low bloom gelatin volume sales in the market. Our outlook for Rousselot, South America is becoming more positive, certainly there continues to be macroeconomic headwinds in Brazil and Argentina, but we believe that the business is on track for continued improvement.

Sonac, our edible fats business, reported consistently strong returns on increased volumes and fat prices that were supported by a stabilized palm oil market. Our casings business, CTH, continues to capitalize on the short supply of hogs in China. As in the past several quarters, CTH made a strong contribution to the segment with strong results in all global markets.

Our Fuel segment managed through some challenges this quarter. New environmental restrictions curtailed operations and limited supply volumes at our Ecoson facility in the Netherlands. This impacted both our digester and our bio-fast rate operations in the quarter.

Capital improvements are underway and should be completed late this year to regain the needed efficiencies. We announced during the quarter that Rendac-Son experienced a fire incident. No one was hurt and the source of the fire was identified as an electrical short. The factory was shut down for a week and all the tonnage was primarily re-routed to our other facilities.

During the quarter, we received an advance on our business interruption insurance, which helped offset the majority of the impact. Outside the fire index, Rendac performed well, generating higher earnings due to improved supply volumes.

Now, let's turn to Diamond Green Diesel. At the entity level, DGD reported EBITDA for the quarter of $21.2 million on 41.7 million gallons of production, with $10.6 million of the EBITDA being allocated to Darling. We continue to anticipate producing 160 million gallons during 2017 and see an improved earnings environment in the fourth quarter, which should allow us to achieve our predicted $0.55 to $0.60 per gallon full-year operating rate.

For the quarter, the overall profitability impact from the absence of the blenders credit was a decline of EBITDA of approximately $21.5 million at DGD and $2.4 million in the [Food] segment or about $0.14 per share. Additionally, I hope you saw our joint announcement with our partner Valero last night on DGD. In addition to our current expansion under construction in Norco, Louisiana and scheduled to come online in late second quarter 2018, we have agreed to explore a Phase 3 expansion of DGD to double our capacity to 550 million gallons. This would be a redundant and parallel sister facility constructed adjacent to our existing plant, allowing us to use much of the existing infrastructure.

Growing demand from the RFS mandates and a global LCFS market are the catalysts for our expansion. Over the next several months, our teams will investigate the feasibility and the economics surrounding the potential expansion and we anticipate a formal decision in mid-2018.

A quick update on our ongoing growth projects. Our new blood plant in Mering, Germany is progressing well and should begin operations in early 2018. Our new biogas digester in Belgium is on track to begin production in mid-2018. Our plant modernization and expansion in Los Angeles is set to come online in early December this year, while our replacement plant in Wahoo, Nebraska will begin production shortly.

Additionally, we just approved the greenfield construction of a new fish peptan plant in France, with the targeted startup date in fourth quarter of 2018. On the M&A side, we are starting to see a fairly robust pipeline of opportunities to efficiently expand our global and regional operations, strengthen our market position and create value-added food, feed and fuel ingredients for a growing population.

So with that, I'm going to have Patrick take you through some financial highlights. Patrick?

Patrick C. Lynch - *Darling Ingredients Inc. - Executive VP, CFO & Principal Accounting Officer*

Thanks, Randy. We continue to successfully execute against our key financial metrics of debt reduction, margin enhancement, working capital improvement and cost reduction in both operating and SG&A expenses as well as prudent CapEx deployment. We achieved the following results in Q3 2017.

During the quarter, our cash position was $110 million, down from $115 million end of the fiscal year. We paid down $18.5 million in debt during the quarter and $69.5 million year-to-date. We're on track to achieve our goal of reducing debt by about $100 million for the full year, bringing our current debt ratio down to 3.56x at the end of the third quarter compared with 3.97x during the same period in 2016.

Liquidity remains strong with approximately $976 million of availability under our revolving credit loan facility. Our ongoing focus on working capital management continues to be successful with metrics improving across all categories and we continue to target $15 million to $30 million worth of positive cash flow for the full year from working capital in 2017.

CapEx this quarter was $68.6 million compared to $58.5 million in Q3, 2016. Significant CapEx deployment is related to Darling's 6 organic growth projects currently underway, that Randy referenced earlier. We are still on track with our CapEx target of $240 million to $250 million for the full-year with $196.4 million incurred year-to-date.

Gross margin in the third quarter was 20.7% compared to 21.4% for the same period last year. Gross margin compression was driven primarily in the Fuel segment, specifically due to operating challenges as Randy referenced earlier at our Ecoson bioenergy plant, and additionally the absence of the blenders tax credit.

Third quarter SG&A totaled $83.1 million during the quarter, up $6.6 million from the same period last year. SG&A expenses were due to [higher] accounting for compensation reserves, and we expect SG&A to continue to be in the $83 million to $85 million range quarterly for the remainder of the year.

Depreciation and amortization totals were also higher this quarter and slightly outside of our previous estimate. The increase is tied directly to the facilities and equipment put into service during the last 12 months. Quickly, I'll run through the effective tax rate, cash taxes, depreciation and amortization. The company reported income tax expense for the third quarter of $6.3 million for the 3 months ended September 30, 2017, compared to $700,000 of income tax benefit for the same period last year. The effective tax rate in the quarter was 42% and cash taxes were $5.7 million.

The higher effective rate is reflective of lack of the blenders tax incentive and our mix of earnings. We estimate that our total tax goal for 2017 will still be in the $15 million to $20 million of cash taxes for the full-year. With continued uncertainty in the political arena around tax reform and delayed decision to reinstate the blenders tax credit, we expect our full-year 2017 effective tax rate to be in the 35% to 36% range.

And with that, I will turn it back over to Randy.

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

Thanks, Patrick. As we look forward to the last quarter of the year, we carry good momentum in from all segments. In the Feed segment, volumes are strong, pricing for fats and proteins, although somewhat soft, seem to be stabilizing.

Our Food segment seems resilient and we continue to make improvements in our South American gelatin businesses. Our Fuel segment is set to benefit significantly as the blenders tax credit is made retroactive. Once again, while we cannot predict the politics in Washington, our farm-state senators continue to signal to us that they remain confident the RFS mandates will be released on time and remain optimistic that the blenders tax credit will be reinstated on a retroactive basis. This will have significant positive benefits on our Fuels business, particularly Diamond Green Diesel.

We're excited about our joint commitment with Valero as we explore the expansion opportunities for Diamond Green Diesel to 550 million gallons. And we look forward to updating you on our progress in the coming months.

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

QUESTIONS AND ANSWERS

Operator

Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Kenn Zaslow with Bank of Montreal.

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

Just a couple of questions. One is can you talk about the LCFS credit, it's kind of moved close to $100 per metric ton. How much will you start receiving from that and where you are on that part of the portfolio with LCFS credit?

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

Kenn, this is John Bullock. We've seen the LCFS credits move up here over the past 90 days or so by $20, $25 a ton. I think the primary driver to that is both in quarter 1 and quarter 2, there were more deficits generated than there were credits under the LCFS program and we're starting to see that credit bank, which had built up over the years, starting to recede, that's at a 3.5% carbon intensity reduction for 2017. That number moves to 5% for next year, so we would anticipate, and I think what we're seeing in the marketplace is that marketplace is anticipating, that we are starting to see a lack of credits available versus the current mandate. We're reducing that credit bank and therefore we see the LCFS prices moving higher at this point in time.

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

And how do you think that's going to affect -- even absent the dollar biodiesel tax credit, can you talk about what you expect for the Diamond Green Diesel for 2018? How is that relative to your initial expectations?

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

Ken, this is Randy, I think we're pretty much on line. We put out there the $25 a gallon, that's a combination of what our view is of where the LCFS pricing will be, #1. And #2, as the pipeline contracts expire and more of our production then goes into the California market for next year, and so we're still hanging our hat on $25 a gallon for next year, that the absence of the blenders tax credit or anything, we just think that's the margin opportunity and to kind of benchmark it, I mean, if you look at a spot basis today with all the optics out there, Diamond Green is running on a spot basis in that anywhere from a $0.85 to $1.05 a gallon margin right now.

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

And then my next question is just really how much did the hurricane hit your earnings this quarter?

Patrick C. Lynch - *Darling Ingredients Inc. - Executive VP, CFO & Principal Accounting Officer*

Kenn, it wasn't a material amount, probably less than $1 billion EBITDA impact, but it did create a significant amount of disruption, and our teams here in the U.S. did a fantastic job mitigating a lot of that impact during the quarter, but in the order of magnitude, millionish range.

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

Actually, I'm going to ask one more question. When I think about your CapEx projects, can you just give an update on the expected return in 2018 and the expected return in 2019, and that will be my last question? Thank you.

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

The projects that were put in place in 2016 expect a full-year benefit of about $7.8 million for the full-year and projects put in place in 2017, we expect $11 million EBITDA return in 2018 and then only an incremental $2 million into 2019 related to those projects.

Operator

And the next question comes from Adam Samuelson with Goldman Sachs.

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

Maybe first, Randy, on the Diamond Green Diesel Phase 3, I understand there's still a lot of work to do on the engineering but can you just help us scope out kind of the capital cost, I mean, if you can benchmark it relative to the Phase 1 or the Phase 2 expansion, is it less than Phase 2, is it somewhere in the middle on a per gallon basis, that will be very helpful? And along those lines, any thoughts on the financing, is it something where Diamond Green will pay for itself. There isn't an equity investment from the parent, but we shouldn't contemplate maybe as meaningful a cash return from the joint venture in the near term as we would otherwise, if it was done after Phase 2?

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

All good questions, all expected. If you look at it, we're adding about 115 million gallons going from 160 to 275 kind of an optic out there is around 200 million. So about $1.75 a gallon for this last incremental expansion. As we said, we really don't have -- we're embarking on an engineering estimate to construct the facility right now and so I don't know, to be honest, Adam, but I would, if I was to spitball and add it, I would say $1.75 to $2.00 a gallon. So you're in that $500 million to $550 million range. Now, if you go back and say, what do we expect in here, we're saying we're going to finish off 2017 at 160 million gallons; 2018, we're predicting with our shutdown to tie-in the new expansion late in second quarter, that will produce about 200 million gallons. And then you will be at a full run rate then in 2019 at 275 and a full run rate of 275-ish in 2020 and then bring on the 550 in 2021. And so we're still using in our model today, $1.25 a gallon, you can put it up there, you can lay it out. Diamond Green is sitting on, I don't know, little under $150 million cash right now, the 275 expansion that we're going to will be paid for by the time it's started up here. So essentially, the JV will be debt free, that's not assuming the blenders tax credit coming in. I am just saying on the current run rate cash build, et cetera, cash outflows. And then as we go forward, the facility will sell finance itself for the next phase of expansion, if it chosen as we go forward, the facility will self finance itself for the next phase of expansion if it is chosen or if we move forward with it. And like I said, that decision will be jointly made by Valero and Darling and the DGD management teams here later next year.

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

That's helpful. And then maybe any thoughts on the feedstock requirement for that plant? I mean, I remember going back to Phase I and there was concern about the impact that will have on U.S. fat and grease markets given the size we're talking, where we're going to be more than 3x that original size if the Phase 3 goes through. Presumably, you'd be looking at beyond -- more poultry fat, I mean, just talk about the available feedstock from the waste streams that actually run the thing.

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

Yes, I think that it's a very, very fair question. And what we can share with you is, as you know, obviously we made a lot of assumptions when we went into the first modeling and expectations in 2010 and then the startup in '12, '13 there. We've seen continued growth in both the animal production numbers in the U.S., the ethanol industry and the amount of oil or corn oil they are recovering. So today, at any given time somewhere between 35% and 45% of Darling's production out of our system ends up in New Orleans today. We'll stop with that then. So then you look at the rest of the biodiesel industry, if you got bean oil today at, I don't know, $0.30 to $0.33, $0.34, whatever it is and you got bleachable tallow today $0.24, $0.25, the market is telling you that the production capacity in the United States cannot handle any more animal fats, they can't convert it, especially at this time [of the] year, because of the cold flow issues with it. So today, we have a big pool of fat that can still go down to Diamond Green Diesel, it's processed and because of carbon intensity, all the used cooking oil we can send today, and then the next best feedstock will be what we call the high asset animal fats that exist in the Darling system today, they're the next cheapest feedstock. And so at the end of the day, when we look at, if we say the total market size for fats and grease that's out there is probably 15 billion, 16 billion pounds now, when it's all set and done, basically at 550 million gallons, you're going to be using somewhere around 5 billion pounds or about 33% to 36% of the used fat supply. Logistically, you have to step back and say, why are we expanding on the site and that is because the Norco facility is just the ultimate of logistical origination points in the United States. It's serviced by 2 railroads, the CN and the KCS. It sits on water, so we can bring barge material in and we can bring oceangoing vessel material in or go out with oceangoing vessels. So at the end of the day, we see it as having the opportunity to not only process more of Darling's products originated from the market here, but also originate globally as we move forward.

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

And then if I can squeeze 1 more quick follow-up. In the slide you talked about month-end volatility in RIN markets driving an inventory market adjustment at Diamond Green, anyway to quantify that?

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

Yes. We came into the quarter, given you a little guidance of around $24 million EBITDA for the entity level and we missed it by a little bit. Remember heating oil ran up sharply towards the end of the quarter. We've got a 60-day pipeline out there plus of raw material coming in, with bean oil and heating oil hedges on. And so we took a pretty sizable hedging loss there moving forward into Q4. That gets recovered as you sell the product out. And then the RIN's market went up and down. So at the end of the day, we're on a run rate, as I said earlier in the call, that we're $0.80 to $1.00 a gallon right now with the markets we service, and we still think we'll hit that $0.55 to $0.60 a gallon number for the year.

Operator

And the next question comes from Heather Jones with Vertical Group.

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

So going back to the Diamond Green's cash flow. So just doing the just very rough math, I mean, that's a big CapEx project, but going to the numbers you just pointed out, Randy. Next year $250 million in EBITDA, '19, $345 million, '20 $345 million, so it sounds to me just using real simplistic math, and to your point, that's without a blenders tax credit that this credit only goes to [$125 million] as opposed to higher. It seems to me as if you could fund a Phase 3, if it's approved, as well as generate dividends to distribute to you in the [lateral]? And was wondering if you think that's being too optimistic or is there something I'm missing in that simplistic math?

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

No, that's exactly the breadcrumbs I've tried to lay out there for you, because while we don't have an outflow schedule for capital spending on the Phase 3, we anticipate [pooling] dividends, even without the blenders tax credit in '18, '19 and '20.

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

Okay, perfect. On the Food segment, so you guys sounded super cautious first half and on the call for Q2, I mean, you didn't sound like somber about the back half. But you, I would say, you sounded cautious, but that segment came in meaningfully better than expected. So I was just wondering what surprised you in the quarter?

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

#1, the Food segments made up -- proportionately, the largest contributor is the Rousselot business. And then you've got the edible fats business and then the Casings and the Haprin and Bone businesses in there. And so the Rousselot business made some meaningful progress during the quarter, trying to get their spread management and margins back in line here. If you think about the -- we talked that China operates as basically an Island out there in the sense of the 3 gelatin factories, we run bone gelatin, hide gelatin and pigskin gelatin. And so the raw material prices around the world were moving very, very rapidly during the quarter and also pigskin in Europe was moving up rapidly. And so at the end of the day, we've had a lot of margin pressure in our systems from rising raw material prices, because gelatin is, to a degree, a consumer product. It goes out there and it's an ingredient in the consumer products and there are some risk positions that get taken there as the different food and pharmaceutical companies want to buy 3 and 6 months out. Additionally, I would comment that South America, given all of the ups and downs of the slaughter industry down there, everybody reads the news on JBS, that that's been very challenged to originate consistently priced hides to make gelatin. And so you couple a little bit of, as I say, and I have probably given too much color here, but you've got the volatility in South America, a weakening real and Brazilian gelatin capacity, it's probably got 15% to 20% too much capacity down there. So when the hides become available and with the cheap real, the market was being flooded with South American gelatin [costs] and pricing pressure. So that was the first half of the year. We've had to make adjustments in how we originate raw material, I think we've done a pretty good job there. The slaughter volumes on the Sonac edible fat business remain consistent and we've been able to maintain our refining spreads there. And then our Casings business is really having a much improved year. We landed some additional volume of raw material or [runners] into that business and then we've seen pricing stabilize and move up for the finished product due to the tightness in the Chinese hog herd. So while the Chinese hog herd shrinking impacts the gelatin business, it makes the Casings business enjoy a little better time. So we had a little better quarter. Remember, year-over-year when you compare it to third quarter last year, we took a major writedown of the low bloom, the low grade sales in China last year. So sequentially, we saw some improvement, most of that was South America. Year-over-year, the comparison is related to the low bloom pricing adjustment.

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

Okay. I hate to bring up a negative thing, but I need to. Everything sounds good, but I need to talk about corporate expense. So it's run rating somewhere between $60 million and $65 million for the year. This is the highest that I can see going back and yet the core business, the EBIT is tracking below to flattish with last year, below ['15] and obviously below ['13 and '14]. So I was wondering if you guys -- I mean what the plans are for SG&A going forward, because it would seem like that area has gotten a little out of whack with the trends of the core business?

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

I mean, clearly there was a discussion in the boardroom this week again as we look at it, I mean there is a couple things out there that we have to look at. And one is that we changed accounting methodologies , if you will, for retirement expense of options [and] stock and so that's flowing through and you're seeing that now. You're seeing a lot of new facilities that are coming online, going into there. We are looking at it and as we're talking to the team for next year, as we set our budgets, we're going to set some targets there for reduction as we look to streamline things. Patrick, you want to add anything to that?

Patrick C. Lynch - *Darling Ingredients Inc. - Executive VP, CFO & Principal Accounting Officer*

No, I think that's fair, it's primarily the combination of the 2 things, the accounting impact for the equity awards and last year was a little lower, artificially lower, you do have a little bit of currency impact in there as well, but we will take a hard scrub at it here and then go into 2018 budget session. And believe me, the message is loud and clear from yourselves as well as our Board that that's a big challenge for us going into next year.

Operator

Next question comes from Ben Kallo with Baird.

Benjamin Joseph Kallo - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So I just have 2 questions. First of all on Diamond Green Diesel expansion, could you just maybe give us some color on what the Go/No-Go decision rests on, some of the factors? And then my second, you guys talked about a robust pipeline for acquisitions. And how should we think about this as an add-on to food or feed, tuck-in or something bigger, how do we think about that, those type of things you are looking at?

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

Ben, this is Randy and I'll let John talk a little bit about the decision process on DGD. The M&A, we always get the question, what's happening in the M&A world. We're seeing globally right now lots of opportunities, we have been absent, if you will, from the market for the last 3 years as we spent our time deleveraging and integrating and learning all the companies that we bought. And then we spent a lot of time building out organic factories into our platform and into our footprint, in our geography where they made sense. And so what we're seeing now is, really at the end the day, there is a lot of opportunity both in the food, feed, fuel segments to add on bolt-ons in different geographies around the horn. Those will be developed over the coming year, I can't really give you much more detail on it than that. But the fact is we've got an opportunity for us now as long as any list that I've seen in the last 3 or 4 years. John, you want to comment a little bit about the DGD process?

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

Yes, we go through a phase gate process and we're actually been working on this for quite a long time at this point in time and I think as Joe Gorder mentioned in the Valero press release on this, we're well down the line in terms of understanding what it is we're doing. We're finalizing a couple of logistics capabilities and its details, we're working on at this point in time. Then we will be completing Phase 1 cost estimate early next year, then we move to a Phase 2 cost estimate, which is a little more refined and we'll be moving into that by the middle of next year. And then the other thing we keep an eye on is government policy and just see what's happening at both the federal level and also with the LCFS markets in California and elsewhere, and see as those policies continue to develop what that means from a margin standpoint for Diamond, assuming we don't get any surprises in the engineering process we're doing at this point in time. And hopefully we won't since we've just built one of these plants, and we understand the logistics fairly well at this point in time. Then it's going to be just making sure that we've got a good assessment on the policies [of them].

Operator

Next question comes from John Quealy with Canaccord Genuity.

John Salvatore Quealy - *Canaccord Genuity Limited, Research Division - MD and Analyst*

Couple higher level questions from me. Randy, I think Reggie on the call last night was insinuating similar confidence in the near term on the biodiesel and blenders. Talk about your thoughts about BTC/PTC, is there a separate track on tax reform? I know the Senate is going to come out with theirs and Senate's been traditionally a lot more supportive of RFS, so if you could give us your crystal ball on how it plays out and what you're looking at specifically House versus Senate? And just 2 other follow-ups.

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

This is John Bullock. I think the important thing here is not to get lost in the weeds. Obviously, in a major tax reform piece of legislation that's being contemplated now in Washington D.C., there are a ton of moving parts and a ton of different aspects to that. You will see both the House and the Senate going through several processes. They have the original bill, then there's a chairman mark to the bill, there's committee considerations, ultimately if they get to that point and passage by the House and the Senate, and then they've got to deal with any differences in conference. You're going to see a lot of rumors, you're going to see a lot of different points in time where people say oh, wow, or oh my god and all that type of stuff. We look at it more from a structural standpoint and that is that the blenders tax credit, as well as RFS2, and obviously we're talking tax credit here. It is an extremely good policy from an American standpoint, and it's great for making America great again. It's good from a supporting our farmer infrastructure out there, which is critical to the man who comes from biofuels, is a critical component to a declining farm income out there. And we think that there is an excellent recognition of that in both parties in Washington D.C. And we have a strong block of Midwestern senators who are very firm on this point. So as we work through the process, we are hopeful and we believe that it makes good policy sense, and that there is good political support for the inclusion of a tax credit either in the major tax bill or if it doesn't get included in that, in an extended package. And I have no idea how all this plays out, all I know is it makes sense for America. And I believe that we have good political support in Washington D.C, for an extension of the tax credit, as well as retroactive for this year. Whether it's a blenders or producers, I think that's to be seen. Typically, it's hard to change these programs, it's been a blenders tax credit normally when something is one way, and these types of things, they tend to stay that way. There are some folks that are pushing pretty hard for a producers tax credit. Our position is very simple, we believe the tax credit should be extended, and whether it's a blenders or producers, that's not the major thing, the major thing is that it is extended and we are hopeful it will be.

John Salvatore Quealy - *Canaccord Genuity Limited, Research Division - MD and Analyst*

On Diamond Green potential Phase 3, Randy, can you share any trains with the existing footprint. Is this is a separate standalone, I imagine maybe some pre-treat or something gets shared? I know high level just talk about, is this all stand-alone or what do we share on the train side?

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

This is John Bullock a gain. Again, this will be an entirely separate train. We'll have a separate pre-treatment system, we'll have a separate eco-filing system, what does get shared and what is really advantageous for that particular site is the common logistics infrastructure that we're able to use. And as Randy mentioned earlier, what excites us very much about Diamond Green Diesel as a location is that not only do we have excellent service by KCS , but we very easily can incorporate the CN as a way to receive raw materials for the plants, as well as ship-out renewable diesel on either KCS or CN via rail and we currently can move out via water on the renewable diesel and we're going to be adding the ability to unload both barge fat as well as vessel fat from wherever that might be coming into the facility. So on a logistics footprint basis, the capability of that particular site is incredible and there is a lot of common overlay to existing infrastructure that exists at the facility, which really much facilitates us on our ability on a speed-to-market basis and being able to get the second Diamond up. The other thing about the 550 expansion, the additional 275 is because it's an entirely separate train. We do not foresee that there is going to be any significant disruption in the operation of the existing 275 units, which is also extremely advantageous because you can easily be down 30 days to 45 days as you're converting one of these units.

John Salvatore Quealy - *Canaccord Genuity Limited, Research Division - MD and Analyst*

And my last question back to the Food segment, you gave us some good insight around better spread management and moving out some Rousselot volatility, did better pricing at all impact that across the Rousselot brand or was it mostly just spread in days and inventory that helped you out? Thanks again, guys.

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

Yes, John, it was spread management, we've actually seen declining prices because of the pressure from South America out there. As I said, South America tends, when it has ample highs, and a weak real can come out there and flood the world with excess gelatin and so we've had to adjust pricing around the world in the sense of lowering what we're paying for raw materials.

Operator

Next question comes from Tom Palmer with JPMorgan.

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

Just had a first clarification question on Diamond Green Diesel. You mentioned a run rate based on spot markets of $80 in EBITDA per gallon. Just wanted to clarify that, should we interpret that that's the level of profitability to expect in the fourth quarter? Or as we build out our models are there some offsets specific to the fourth quarter that could reduce the reported figure, such as cost to break pipeline contracts or elevated shipping costs in wake of some of the hurricane disruption?

Patrick C. Lynch - *Darling Ingredients Inc. - Executive VP, CFO & Principal Accounting Officer*

You're over thinking it, Tom. I gave you optics out there that we'll achieve the $55 to $60 run rate per gallon for the quarter. So if you do the math there, it looks like we should be around [$30 million] for fourth quarter, given all the different optics out there.

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

And had a question on your debt. You've got the Term Loan A due in late '18 and then both your senior notes are callable early next year. Just wondering how you're thinking about your options there?

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

Absolutely. We recognize the market conditions are very strong right now and we've been very closely monitoring that situation, been just looking at all of the opportunities across our capital structure, but we recognize the opportunities there as well. So we're closely monitoring that situation.

Operator

And the next question is a follow-up with Heather Jones of Vertical Group.

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

Just going back to the comment about the returns from your CapEx projects in '18 and '19. When you said for the 16 projects for the full year would be to be $7.8 million, how much of that is incremental to '17?

Patrick C. Lynch - *Darling Ingredients Inc. - Executive VP, CFO & Principal Accounting Officer*

That's the incremental piece to...

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

That is incremental, okay. And then secondly, I guess this question would be for John, but if you all went through with Phase 3 expansion, that's roughly assuming you get the [1.7 RINs or $500 million] in RIN generation, I assume you've done the thought through like what it would do to the RIN [margin] just wondering what your thoughts were on what that would do to D4 RIN prices?

John Bullock - *Darling Ingredients Inc. - Executive VP & Chief Strategy Officer*

Well, obviously the RIN market is a market-based system and it's going to depend on the supply and demand of RINs. We see the demand both for the LCFS market and quite frankly from RFS2 and where our production fits in as there not being an issue at all on another 275 million gallon [further production].

Operator

Thank you. And as there are no more questions, I would like to return the call to Randall Stuewe for any closing comments.

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

All right. Thanks, Keith. Thanks again for joining us. We hope everyone has a great holiday season and look forward to talking to you about our fourth quarter and year-end performance next February/March. So have a great day.

Operator

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