

Darling Ingredients Inc.
4th Quarter 2016 Earnings Conference Call
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Company Representatives

Melissa Gaither, VP of IR and Global Communications

Randall Stuewe, Chairman and CEO

Patrick Lynch, EVP, CAO

John Bullock, EVP, Chief Strategy Officer

Analysts:

Chip Moore, Canaccord Genuity

Adam Samuelson, Goldman Sachs

Tom Palmer, JPMorgan Chase & Co.

Heather Jones, Vertical Group

Jeff Gates, Gates Capital Management

Craig Irwin, Roth Capital Partners

David Cook, Wells Fargo

William Baldwin, Baldwin Anthony Securities

Presentation

Operator: Good morning, everyone, and welcome to the Darling Ingredients Inc. conference call to discuss the Company's fourth quarter and year-end 2016 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 Administrative Officer.

After the speakers' opening remarks, there will be a question-and-answer period and instructions to ask a question will be given at that time. Today's call is being recorded.

I'd now like to turn the call over to Melissa Gaither, Vice President of Investor Relations and Global Communications for Darling Ingredients. Please go ahead.

Melissa Gaither: Thank you, Andrea. Good morning, everyone, and thank you for joining us to discuss Darling's earnings results for the fourth quarter and fiscal year 2016 ended December 31, 2016.

To augment management's formal presentation, please refer to the presentation section of our IR website for the earnings slide presentation.

Randall Stuewe, our Chairman and CEO, will begin today's call with an overview of our fourth quarter and full year operational and financial performance and discuss some of the trends impacting our business. Patrick Lynch, Executive Vice President and Chief Administrative 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 the earnings slide presentation.

Finally, Randy will conclude the prepared portion of the call with some general remarks about the business and year ahead, after which we'll 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 Darlings' annual report on Form 10-K for the year ended December 31, 2016, our recent press release announced yesterday and our other 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: Thanks, Melissa. Good morning, everyone, and thanks for joining us. Before we begin, I'd like to formally introduce Patrick Lynch and welcome him to the Darling family and his first earnings call.

Patrick was recruited by me and is a seasoned and successful public company CFO. As a public company CFO for nearly 15 years, Patrick brings a robust set of skills to complement our Company. He is global in experience and has exposure to many commodity ingredients and inputs. Some of you may have already have spoken to Patrick, but as you know, he joins our team as part of our CFO succession planning when John retires here in about 8 hours.

We're currently indebted to John's 20 years of dedicated service. He was instrumental in building, rebranding and making Darling a global powerhouse in natural and sustainable ingredients. He has been a friend, a mentor and a dynamic business leader for the last 14 years we've been together. We will miss you, but also recognize it is time to close one chapter and begin another. On behalf of our employees and our directors, we wish you all the best in your retirement.

Okay. For 2016, we refined our model, grew our operating platform and significantly delevered the Company, strengthening and positioning it to grow and capitalize on a world of opportunities in the future.

Our model continued to navigate choppy waters around the globe and delivered consistent and improving earnings across all segments. We achieved a number of impressive and fundamentally important milestones that reflect positive momentum for the coming years.

Let me recap. We grew tonnage by 7% year-over-year to an all-time high in our rendering business. We commissioned four new factories and quietly expanded five others. We managed our costs appropriately and we were able to make further reductions in our SG&A.

Our balance sheet improved and debt was reduced by \$169 million. We lowered our total debt ratio from 4.32 to 3.69. We amended and extended our credit agreement, giving us the needed flexibility and position us to grow when the opportunity presents itself.

And we deployed \$243.5 million in capital with an additional 4 projects receiving funding late in the year.

We have underway major plant expansions in Los Angeles, Dublin, Georgia, Wahoo, Nebraska and San Francisco, along with the already announced greenfield construction of a blood plant in Mering, Germany and an Ecoson factory in Denderleeuw, Belgium.

Now looking at the fourth quarter and some segment highlights, we delivered consistent earnings as we predicted during our Q3 call. In the feed segment, tonnage remained strong in the global rendering business. Global fat demand remained robust, with prices remaining steady to firming in Europe.

Global protein demand is strong, but we're dealing with ample supplies driven by strong global slaughter and the record global grain and oilseed crops. Global protein prices dropped significantly in the fourth quarter, but has since bounced nicely into early Q1.

Overall, Europe and Canada delivered consistently quarter-over-quarter, while the softness in the segment reflected the weakness in the U.S. meat and bone meal prices.

In the food segment, Rousselot, our four-continent gelatin business, executed a steady performance year-over-year with recovery from the third quarter inventory write-down in China.

The Sonac edible fat business and our global casings business delivered consistent performances and saw steady to slightly improving margins.

In the fuel segment, margins expanded on strong volumes within our Ecoson and Rendac business units.

In the quarter, we also received an insurance settlement for business interruption due to the fire in our biophosphate plant in Son, Netherlands, in December 2015.

While not in the segment, but part of our fuel strategy, Diamond Green Diesel delivered outstanding earnings for the quarter. Margins remained strong throughout the quarter and we carried good momentum into 2017 even without a prospective blenders tax credit.

We should mention that DGD will be down taking a 16 to 18-day turnaround in March to change out the -- in a scheduled catalyst change-out.

As previously announced, our expansion to process 270 [million] or to expand Diamond Green Diesel 275 million gallons is well underway. Engineering is proceeding; permits are in process and long lead equipment has been ordered. We anticipate the current schedule to reflect a 45-day shutdown in 2018 with full commissioning anticipated in late second quarter 2018.

Now let me turn to 2017 and the current operating environment. Our model is proven and effective. We have a good momentum into 2017 and remain optimistic about global fat, protein, food and fuel demand. We'll focus on running our core business and managing our margins and cost.

Our balance sheet remains strong and we have received the \$25 million dividend from DGD in early February to assist in the further deleveraging.

Now I'd like to comment about 2017 and the political environment. We've received numerous questions from the investment community about the potential impact the new administration may or could have on our business.

First off, the renewable fuel standard, while President Trump ordered an administrative [stay] of potential regulations during Obama's last term, thereby staying the implementation of the 2017 RFS required volume mandates for 60 days, we fully anticipate business as usual. In a recent letter to the Renewable Fuels Association, President Trump reaffirmed his commitment to the RFS and the role of renewable fuels.

For 2017, we're estimating Diamond Green Diesel will earn between \$0.60 and \$0.80 per gallon margin before the most likely reinstatement of the blenders tax credit, while we believe that the blenders tax credit will be retroactive by year-end, as it has been in the past.

Doing the math, you can see we're predicting EBITDA and DGD at the [entity] level of between \$100 million and \$260 million this year. Either way, we delevered DGD rapidly and set the Company up for meaningful dividends in 2018 and beyond.

On tax reform, it's very difficult to truly get a perfect read on what may be promulgated, as clearly, the GOP hasn't fully agreed on their approach. At this time, we see few negatives to the Company in their approach on border taxes, as we are a major exporter.

From a capital deployment perspective, the U.S. corporate tax rate -- or if the U.S. corporate tax rate -- drops as rumored to 15% to 20%, then capital deployment will begin to favor U.S. investments.

With that, I'd like to turn it over to Patrick to address a few financial highlights, and then I'll come back with a few closing remarks. Patrick?

Patrick Lynch: Thanks, Randy. For fiscal 2016, we continued to focus on five areas of improvement: debt reduction, reducing working capital, cost reductions in both operating and SG&A expenses, monitoring CapEx deployment and gross margin improvement.

We achieved the following results in fiscal 2016. On debt reduction, we paid down an additional \$61.6 million of debt in the fourth quarter. Year-to-date, we paid down \$169.7 million ahead of our debt reduction target for 2016 of \$150 million.

We've committed to reducing working capital in our business for fiscal 2016 versus 2015 levels.

We focused on lowering inventories, managing payables and receivables.

For fiscal 2016, we improved working capital by \$31.8 million which was better than our target of \$20 million improvement.

For Q4 2016, SG&A expenses were \$79.9 million. In fiscal 2016, SG&A expenses were \$314 million compared to fiscal 2015 SG&A levels at \$322.6 million, a reduction of \$8.6 million on a year-over-year basis.

Our CapEx spending for fiscal 2016 was \$243.5 million as compared to CapEx spending of \$229.8 million in fiscal 2015. The \$13.6 million increase in CapEx spending related primarily to two new U.S. rendering plants.

Our gross margin improved in fiscal 2016 to 22.3% compared to 21.9% in fiscal 2015. Our gross margin was flat to improved in all 3 business segments.

Now let's take a look at the effective tax rate, cash taxes and depreciation and amortization. The Company reported income tax expense of \$15.3 million for 2016 compared to \$13.5 million in 2015.

The effective tax rate for 2016 was 12.5% and 13.7% for 2015.

As you know, the biofuel tax incentive expired in December 31, 2016. Excluding that biofuel tax incentive, the Company's effective tax rate for 2016 and 2015 is 35.7% and 42.2% respectively.

Cash taxes were \$23.2 million in 2016 compared to a net refund of \$3 million in 2015.

For 2017, we are projecting cash taxes of approximately \$30 million and an effective tax rate of approximately 39% without tax reform and excluding the biofuel tax incentive.

Although minimal details have been provided by either President Trump or the House GOP, we expect the Company's effective tax rate to be much lower under either tax reform plan or a combination thereof.

We're closely monitoring tax reform deployments and expect to be in a position to take advantage of our opportunities that may arise.

Depreciation and amortization for 2017 should be in the \$70 million to 72.5 million range on a quarterly basis or about the same as fiscal 2016.

SG&A again should be in the \$82 million to \$83 million range on a quarterly basis for fiscal 2017 as well.

Now I'd like turn the call back over to Randy.

Randall Stuewe: Thanks, Patrick. Overall, we see 2000 (sic) setting up to be a good year with our focus on managing our margins, constructing several new factories and preparing for the new cash generation from Diamond Green Diesel in 2018 and the potential growth that this will fuel for us.

With that, let's open it up to questions. Andrea?

Questions and Answers

Operator: We'll now begin the question-and-answer session. (Operator Instructions). Chip Moore of Canaccord.

Chip Moore: I guess first, I'd just like to say thanks to John for all the help over the years; and Patrick, good to see on board.

If we could talk a little bit about capital deployment next year, given some of your comments on uncertain policies, do we take sort of a wait-and-see approach or how are you thinking about prioritizing projects at this point?

Randall Stuewe: Remember, a significant portion of our capital goes back into maintenance and environment and (inaudible) approach there. So we've always called that number around 185, 175, 185, and that goes out normally. It speeds up in the second quarter as the weather improves around the country and the world, so that'll be pretty typical.

Some of the projects, Chip, will slow down and then we'll watch and make sure we get everything right, but everything that we have on the expansionary phases I talked about at Los Angeles, Dublin, Wahoo, San Francisco, those are all well underway; and the Mering, Germany and Denderleeuw, Belgium plants were basically approved and in a sense funded last year. So the spending will be this year but those are all underway. So it's pretty much business as usual.

Relative to additional deals or things we're looking at out there, yes, that's a wait-and-see, make sure we get it right approach here.

Chip Moore: Yes, okay. It makes sense. And on RFS and the political spectrum, you sound pretty confident that things shake out okay. Can you just parse that out a little more on how you see impacts, whether we get blenders obligation or something else like that? Thanks, folks.

John Bullock: Yes, this is John Bullock. I think you know we've always been associated with biofuels policy a lot of volatility because it's complex, and there's a lot of people that have an interest in this particular area. At the end of the day, while you see a lot of noise with the new administration coming in, our view is based that the structural politics that support biofuels in relationship to foreign policy, energy policy, American jobs, that's still all in place.

And so I don't exactly know how this year is going to play out in relationship to what's going to happen in Washington, D.C., but there's really nothing changed out there from the standpoint of the drivers for the biofuel policy in America. And I think there will be days where there's lots of news, but at the end of the day, we expect ourselves to be in pretty well the same position from a biofuel policy that we were last year and the year before that and the year before that.

So a lot of volatility, but at the end of the day, we kind of end up in the same place. So we're comfortable that nothing's changed in the structural politics supporting biofuels.

Chip Moore: Um-hum, okay, great. Thanks.

Operator: Adam Samuelson of Goldman Sachs.

Adam Samuelson: Let me echo the comments on John. Congratulations on the retirement; hope you -- wish you well.

Maybe to start, I wanted to continue on the RFS discussion a little bit. Maybe this is a good question for John Bullock. Can you talk about how changes in the point of obligation would actually impact Diamond Green? And the biodiesel industry specifically gets a lot of focus for ethanol, but the dynamics are diesel fuel are a little bit different. How would you see a change in point of obligation impacting where you play in the renewable fuels spectrum?

John Bullock: At the end of the day, our view is that the point of obligation is not the primary thing that drives [renewable] values; it's the supply and demand of [renewable]. So the point of obligation is an extremely technical rule. As long as we have the proper mandates coming through from the EPA associated with RFS 2, and as long as we remain the low-cost producer at Diamond Green Diesel, which we believe we are; while again, when they change something like this, it creates some uncertainty while the change is going on. But fundamentally, we see Diamond Green Diesel being in exactly the same position at the end of all this that it was at the beginning of all this.

So the point of obligation from our standpoint, I think it means a lot more on the ethanol side than it does on the biodiesel side or the renewable diesel side. We're comfortable that if they do change the point of obligation, that Diamond Green Diesel and our biodiesel businesses will continue to be in a good position.

Adam Samuelson: Okay. That's helpful. And then maybe switching gears to the more base business, I think in the prepared remarks and the slides, there was a more optimistic tone on how the first quarter has started the year. Certainly, the commodity price environment is pretty resilient.

But Randy, can you maybe talk through some of the pieces, especially in the feed business, in terms of the protein markets are covering, the fat markets, and what is normally a slower [year] pet spreads, and maybe the bakery business with corn actually up near \$3.70, how that's performing?

Randall Stuewe: Yes, and I think we came out of the third quarter, I think if I remember right, about a \$106 [million] EBITDA. We thought that fourth quarter would operate pretty close to that level. We saw meat and bone meal kind of drop off; we saw fats kind of seasonally back off there. There's developing out there, Adam, a couple different fat markets -- probably three of them in the world.

One is you're seeing real strength in Europe both in the inedible and the edible fats as palm oil remained very firm around the world. And also you're seeing the movement of the rendering fats now into what they call the HVO or the renewable diesel businesses in Europe, so their fat markets were very strong.

In the U.S., you've got the low-carbon markets that are now starting to differentiate between the different feedstocks, and so we saw some pretty good demand in the sense -- and also some premiums for some of the products we make, while there was some softness still seasonally in some of the animal fats there. So overall, as I tried to point out, was it's good momentum. The good news with your tonnage being up or our tonnage being up 7% year-over-year is you've got to remember that a lot of that, it makes protein and then there's just a lot of protein available in the world.

I think I was reading several articles this morning that are starting to refer to the world has a meat glut right now. And tonnage through the rendering plants and the reason we're expanding 4 factories in the U.S. right now is because we're out of capacity and in my 14 years, that's the first time I can make that statement with a straight face, where we're full almost every day right now around the horn.

With that comes the production of a lot more material for us and that's put some pressure especially on the meat and bone meal market because meat and bone meal has very limited uses and that's where the pressure is coming from; limited uses meaning limited demand. Obviously, it doesn't go into cattle feed, but it goes into primarily chicken and hog feed.

The pet spreads continue to be pressured a little bit by the amount or the slaughter strength within the poultry industry that I'm sure you're even more familiar with than we are. But the availability of raw material from the chicken slaughter business has never been higher in this country. It's backed off a little bit in Europe, but overall, it stays strong; Canada remains strong.

In the food segment, typically January, February, turn out to be pretty strong months in the Rousselot business, but you also had Chinese New Year here this year at the end of January. So but it seems like we've come out of the blocks pretty strong in the food segment with demand around the world.

We're seeing China back off a little bit on the pork side. They were pulling different parts and cheap cuts out of both Canada and the European continent that were going to rendering. They're coming back to us, so supply is picking up a little bit there. And then in the fuel segment, both Ecoson and Rendac typically have pretty good first quarters with their business model. So overall, we're setting up pretty good there.

Diamond Green clearly weaker without the tax credit into the end of the quarter, and then also with the turnaround coming down to change out a little bit of catalyst. But I think we carry pretty good momentum into the quarter here, and the weather -- the good news is we didn't really carry a super-hard winter in the Midwest into our business, but overall, it looks pretty good right now.

Adam Samuelson: That's a lot of helpful color. I'll pass it along. Thanks.

Operator: Tom Palmer of JPMorgan.

Tom Palmer: Congratulations to you, John.

Given the pending facility expansion on the Diamond Green Diesel side, I was a little surprised to see the \$25 million dividend. Was this just related to profitability in that segment being really strong today; and the expectation that even without the blenders tax credit, you can finance most of the facility? Or are you changing tactic in terms of how you're looking at the facility construction and maybe looking on the debt side or something else?

Randall Stuewe: You've answered a lot of your own questions there, but I think it's a great point, Tom. This is Randy. I think what you're seeing is out of us a confidence of what we see right now as the margin structure, the underlying margin structure, within the business. We've built a lot of cash in that facility. Our partner is somebody that likes to have cash in there. Our agreement with them, as we always remind people, Valero was there to provide the financing to the venture when the Department of Energy wasn't. So we're indebted to them and we're thankful they did. It's been a great investment. So we built cash.

As we said, we're looking at a \$0.60 to \$0.80 margin. Without the \$1 a gallon going for 2017, that's \$100 million to \$260 million. Remember if the tax credit, which has been typically made retro somewhere between Thanksgiving and middle December the last several years, then you'd file it and that wouldn't be received until either late Q1 2018 or maybe even April of 2018. So you've got a lot of moving parts there, like John Bullock referred to.

But what the common theme out of all of it is, is when you run a cash mass balance and you take out what we're going to spend for the turnaround, what we're going to spend for the expansion, you still see that the facility is completely delevered under the current margin structure in early 2018. So at that point in time, in a sense, it becomes completely transparent to the base business model. And we then have the potential or the ability to then begin to pull out dividends as cash builds probably on a quarterly basis. So that's what we're looking at.

So what we're seeing evolve in the business is we're seeing, number one, the facility has been up on its third year here, fourth year, three and a half. And at the end of the day, it had road fuel contracts that were through the pipeline. As we've tried to remind shareholders, most of those contracts, if not all of them, expire here at the end of 2017 and we begin to move more and more tonnage to the low-carbon fuel markets. And low-carbon fuel markets are defined as both here and abroad and so those margins today are much nicer than road fuel.

And we're also bringing on line here in Q1, with our partner Valero, the new ability at Diamond Green Diesel to basically load out a very high percentage of our production by rail to go to California.

So all of that, when you piece that all together, that says -- that answers how can you have margins in Diamond Green Diesel when the biodiesel industry is operating at zero? It's because we have the ability to use the cheapest feedstock in the world, the lowest operating costs of any plant in North America, and our ability now to access the low-carbon fuel markets coming on -- all to be topped off if the blenders tax credit is put back in. And then once that's put in, as we believe, it will be in 2018, then you start -- you have the potential to pull meaningful dividends.

Tom Palmer: Okay. Thank you for that. I'll leave it at that.

Operator: Heather Jones of Vertical Group.

Heather Jones: John, thanks for all your help over the years (inaudible) the business and hope you enjoy your retirement.

I just had a details question first. On the expansions, can you give us a sense of how much that will increase fee capacity in the U.S.?

Randall Stuewe: I'd prefer not to answer that, Heather, but let's put -- I'll kind of walk around the horn here. San Francisco was an old factory that was basically a city plant running route material. We've seen an expansion of poultry in California, and so we converted that plant here in January to what we call an all-white meat plant, meaning it runs only poultry and makes pet grade. It's a pet grade conversion plant now for the West Coast. So that's a conversion of existing capacity and a modernization and a little bit of creep of capacity to handle the product.

In Turlock, California, we're adding an additional feather system in order to be able to take more of the feathers into that facility. In Los Angeles, there's a modernization to replace a smaller cooker with a larger line to give us enough capacity for many years to come out there. So we'd

operate two very large systems in Los Angeles, giving us the chance to go after additional business.

As I said, we were full before, double in Georgia as the addition of a new cooker, and in the southeast United States, we were full. As you follow the poultry industry, we were full down there and needed additional capacity there. So the addition -- it's basically the addition of two to three new cookers for us of all different sizes.

Heather Jones: Okay. And as far as going to your comments about the low-carbon markets and the differentiated fats markets right now, so as you pointed out, fats prices in Europe is surging. So I was wondering, given that the BTC hasn't been renewed, and given that fats prices in other parts of the world are higher, can you give us a sense of what you think your competitive advantage is against other exporters to the U.S. like a Neste and all? Do you believe you have a meaningful cost advantage, given these diverging fat prices?

John Bullock: Yes, this is John Bullock. We think we do and I think that the numbers over the past 2 or 3 years have demonstrated that. The fact of the matter is the key to the low-carbon fuel standard is being able to originate fats that have a low CI value, or in essence, that reduce greenhouse gas emissions on a lifecycle basis the most. And of course, that's the beautiful marriage between Darling and being part owners of Diamond Green Diesel is that in essence, if you think about it in oil terms, we own the oil field in terms of the fats that make the low-carbon fuel standards the most meaningful as a producer.

And we're located geographically extremely close, and the U.S. is one of the most major producers of the types of fats that create the low-carbon fuel standards. So when you combine our location being in the United States, with our location to fat and the competitive advantages we feel we have from a processing standpoint with our location next to the Valero refinery, the combination of all those things mean that on a landed cost basis, we think we have a significant competitive advantage over anybody else in the industry.

Heather Jones: And how meaningful is this thing where [CARB] changed the pathway for distillers' corn oil, and so it increased its CI score? Like how big of a deal is that for Yellow Grease or UCO demand in California? Like how can we think about what that could do to pricing for your production there in California?

John Bullock: Well, obviously -- and I don't know if everybody follows this stuff as detailed as you do -- but [CARB] did change their CI value late last year. And it used to be that distillers' corn oil had a significant competitive advantage on a CI basis. They were like a 4 and an 8, and used cooking oil and animal fats were 29, 30s, in that type of an area. Now, used cooking oil is around 17 and distillers' corn oil is up in the high-20s as far as the CI.

I think what that does is obviously, to the extent that that CI has gone up on distillers' corn oil, is it means that the same gallons produce less of a benefit in terms of meeting the standards and goals that are established by the State of California, and ultimately, should be beneficial in terms of raising the overall LCFS prices.

So I think it's -- we use distillers' corn oil at Diamond Green Diesel; it's one of the feedstocks that we use. Overall, we think the pathway changes that the California Air Resource Board make just mean the competitive suite of fats that we utilize at Diamond Green Diesel are even more competitive.

Heather Jones: Thanks. And my final question is on new build of RD facilities. So I think if I remember correctly, Neste, on its last call, talked about considering new build. So I was just wondering if you could give us a sense of if they chose North America -- or they or anyone chose North America, like how long of a process do you think it would be from a permitting perspective, etc.?

John Bullock: Well, it depends on where they build, obviously. They try to go on the West Coast of the United States, I can tell you that any plant that is sited on the West Coast of the United States faces significant permitting [sequel] issues associated with that, particularly a large plant like that. I think one of the things we've seen over the years, and noted in the oil industry, is -- and renewable diesel processing -- is an oil type of a process. It's essentially hydro-trading and isomerization.

Those types of processes are extremely difficult to permit in the State of California. So it's my guess, but I'm guessing that if anybody wanted to be out there, they'd be hard-pressed to be in the 2-year range and are probably looking at 3 to 4 years on a greenfield basis.

Heather Jones: Okay, perfect. Yes, okay, thank you so much.

Operator: [Garrett Wubbin] of Gates.

Jeff Gates: Hi, this is Jeff. First, John, I also would like to say how much we appreciate your contribution over the years and wish you well on the next chapter.

Just a couple of quick questions. First, Randy, how are you guys looking at the core rendering profitability, especially with regards to some normalization of yellow grease prices and bakery profitability versus peak or more normalized levels over the course of the cycle versus what you reported in 2016, number one.

Number two, can you talk about the 4 new plants that you've added, how much capital you put in; what contribution you got in 2016 and what those assets might generate in 2017 on an EBITDA basis?

And then the third question is that \$0.60 to \$0.80 margin range for Diamond Green Diesel, are you assuming that the other folks in the industry sort of run for fun, and also expecting to get the tax credit retroactively? And therefore, the [ren] values are still somewhat depressed for the entire year to get that \$0.60 to \$0.80 margin?

Randall Stuewe: Jeff, this is Randy, and John will help me here. If I don't say -- John Bullock will if I don't say it right. Yes, the industry is running for fun. We participate in the biodiesel industry in Canada and Butler, Kentucky, and to a degree, we're running for fun there or hope on

the dollar a gallon there. [Rens] have not reacted to where they should be if the dollar isn't coming, and that'll be once again a big surprise if it doesn't come to the industry. But for now, it's just a rewind of the movie that we've seen before going forward there.

The \$0.60 to \$0.80, as we said, is just really the competitive advantage of the mix of feedstock that we have, the operating cost advantage relative to biodiesel and then the ability to hit more and more a greater portion of our production hitting into the low-carbon markets. And I think we want to be clear that that will grow over the course of the year as we're able to work out of arbitrage and [in] some of the road fuel contracts.

In the base business, when you look at 2016 versus -- or 2015 versus 2016, most of the improvement there came out of volume. Margins within the global rendering business were pretty steady around the world. They're very consistent quarter-over-quarter in Europe and also in Canada.

In the U.S., as you've known the business for many years, you have the non-formula piece, which is the -- typically would be a route business in the city as a small portion, and then what we call the fallen stock or the dead animal business in the Midwest. The dead animal business is the one that probably weighed on us the most here in Q4 in the U.S. because in that business, you're putting a small charge to pick up an animal and you're hoping to, as we -- to have three earning streams out of that animal -- the fat, the protein, and the hide.

Hide values continue to be depressed around the world, as China and Mexico are the largest consumers or buyers of untanned hides for the leather industry. And that industry has been in the doldrums with kind of a global economic slowdown for about a year. So we see pretty much business as usual in the rendering business going forward for the year.

Bakery had a good year from 2015 to 2016. We made some fundamental improvements about how we procure the tonnage there. We also had a very effective margin management business that John Bullock was able to manage there, use in derivatives. And then we carried pretty good momentum into next year.

The other big change that's hidden in this segment, as you know, is the used cooking oil business. And with John Bullock's leadership and Todd Mathes, we've been able to, in the U.S.A. and North America, go back and widen our margins and change how we go to market with both tanks, people and the infrastructure in that business. And we were able to put some pretty good money back in the feed segment.

I see that as only improving in 2017 here and bakery being pretty close to steady, maybe down just a little bit, but corn came back sharply here the last day, day-and-a-half.

Operator: Craig Irwin of Roth Capital Partners. .

Craig Irwin: So first, John, congratulations on your retirement and I guess it's good to end on a strong point. Congratulations for the strong finish to 2016.

So my first question is about the biodiesel tax credit. We're hearing that the conversation in DC is sort of heading towards 5-year reinstatement as a producer's credit, but a ramp down on the value of that credit where it would probably be eliminated at the back end of the 5 years.

So can you maybe talk about what a potential ramp-down would do for Diamond Green Diesel as a low-cost producer, \$0.50-plus below everyone else in the market? And what would you see is an ideal solution for the reinstatement and maybe phase-out of the biodiesel tax credit over the next number of years?

John Bullock: Yes, this is John Bullock. I think our view on the tax credit -- and we've talked about this I think many times out there -- we built Diamond Green Diesel on the basis of the carbon concept, which is really RFS2 and ultimately, as it evolved, the low-carbon fuel standards. The existence of the tax credit is really just an element of the green premium; what drives the value of our product are the mandates both here and around the world. So when the biodiesel is in effect, it simply allows those mandates to work more effectively.

The difficulty we've had with the tax credit is that Congress has dealt with it in such a herky-jerky fashion, where sometimes it's there, sometimes it's not there; sometimes it's there retroactively.

It always ends up being there, but the way they deal with it is -- I think in one of the earlier questions, somebody said is the industry running for fun right now? And the answer is the biodiesel industry basically is; there's not much margin out there on biodiesel today. Everybody is running on the anticipation that Congress will retroactively reinstate the biodiesel tax credit because they've trained us to believe that that's what's going to happen since they've done it two or three other times in history.

If Congress will provide us with some steady road forward, a path that we can all define, so that we understand when the tax credit is going to be in effect, for how much and for how long, Diamond Green Diesel's natural competitive environment and what will happen with [renewables] and LCF, which will adjust around whether the tax credit is there or not, or what the tax credit level is, Diamond Green Diesel's margins are going to be just fine. We can survive and make good money at Diamond Green Diesel without a tax credit as long as Congress has provided us with certainty as to whether it's going to be there or not be there.

We believe that it should be there. We think it's good policy for America and we fully support the extension of the biodiesel tax credit. But if Congress decides that they're going to give us a 5-year path, and they're going to define that path at various levels, from our standpoint, that's the type of certainty that we look forward to; and that we would be able to structure and run our Diamond Green Diesel and our biodiesel businesses in a much more normalized basis than we've been able to operate in an environment which Congress passes in and out of the tax credit on a proactive, retroactive basis.

Craig Irwin: Great. Thank you for that. So I think we hosted a meeting for clients with Secretary Vilsack, and one of the things that kind of surprised me in the conversation was how constructive he really is on aviation biofuels. And I guess it's fair to ask the airlines to pay their fair share when we all got to put ethanol in our gas tanks and people using green diesel in their trucks.

But can you maybe discuss whether or not there's been a change in tempo on the conversation that Diamond Green about potentially participating in the aviation fuel market, whether or not this is something where you're taking a closer look at the potential for Darling to provide feedstocks; and if you see this as a credible growth opportunity over the next number of years?

John Bullock: Yes, this is John Bullock again. Yes, I think we will see aviation fuel as yet another driver for the renewable diesel demand both in the United States and around the world. We see almost every major airline looking into the possible use, and many have now started to incorporate, in one fashion or another, renewable diesel into their fuel fleet.

The fundamental issue with jet renewable diesel is that it has to present itself as an economic proposition that is as viable as producing road fuel for the LCFS markets. And as of this point in time, that pricing structure simply does not exist. There's not enough of a premium associated with jet fuel to deal with what is a yield loss that happens inside a renewable diesel refinery. I believe at some point in time, that probably will happen.

We don't believe at Diamond Green Diesel, at this point in time, that we need to do anything other than produce for the LCFS markets, which is our target markets on a road fuel basis. But we are closely monitoring that and that may be an opportunity in the future.

I'm sure that there will be demand for renewable fuel, diesel jet fuel, being created by the airline industry. There's just a lot of buzz on it out there right now. And it's just another demand for renewable diesel from our perspective and another demand for the types of fats that that we produce.

Craig Irwin: Great. Thank you for that and thanks for taking my questions.

Operator: David Cook of Wells Fargo.

David Cook: Actually, all of my questions have been asked. Thank you.

David Cook: William Baldwin of Baldwin Anthony Securities.

William Baldwin: Looking at the realizations per gallon out of your Diamond Green Diesel plant there in the fourth quarter, it was up substantially more versus the third quarter than the ultra-low sulfur diesel spot prices were up. What factors went into significantly improving the realizations per gallon there in the fourth quarter?

John Bullock: Yes, this is John Bullock. We had strong [ren] prices and we were starting to ship a greater portion of our product to the LCFS markets in the fourth quarter. And we had diesel fuel prices that had become stronger as the year went along last year, so a combination of various factors that led to an excellent margin environment for Diamond Green Diesel. And of course, the biodiesel tax credit was still in effect during that quarter.

William Baldwin: Right. Should we expect then going forward, as we go through 2017, that we'll be shipping on a consistent basis product into the low-carbon fuel markets next year?

John Bullock: I'm sorry, say that again, sir.

William Baldwin: I said looking at the shipment levels here in the fourth quarter into the low-carbon fuel market out to California, should we anticipate that that will continue as 2017 progresses and perhaps increase as 2017 progresses?

John Bullock: We don't talk specifically about what we're marking our product, but I think Randy has said in the past that starting in 2016, we were able to start just [laying] a gradually greater percentage of our product to the LCFS markets. And yes, it would be fair to think that during the course of 2017, we can see that trend continue, and then as we get into 2018, we anticipate virtually all of our product going to LCFS type markets.

William Baldwin: Thank you.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Randall Stuewe for any closing remarks.

Randall Stuewe: Thanks, Andrea. Thanks, everybody, for joining us and look forward to catching up with you guys and give you the first quarter review here in May. Thank you.

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