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DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

PRESENTATION

Operator

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

I would now like to turn the call over to Melissa Gaither. Ms. Gaither, please go ahead.

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

Thank you, Danielle, and good morning, everyone. Thank you for joining us to discuss Darling Ingredients' earnings results for the third quarter ended September 29, 2018.

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

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

Now for the safe harbor statement. This conference call will contain forward-looking statements regarding Darling Ingredients business opportunities and anticipated results of operations. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Darling's annual report on the Form 10-K for the year ending December 30, 2017, 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 on this conference call or otherwise.

Now I will turn the call over to Randy.



NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

Thanks, Melissa. Good morning, everyone, and thanks for joining us. As referenced in our press release last night, our third quarter delta has many challenges. Specifically, the third quarter was negatively influenced by our extended downtime at Diamond Green Diesel, along with an unplanned catalyst replacement. In addition, our global Feed segment fought margin pressure from declining finished product prices throughout the quarter, along with our decision to revalue our plasma inventory in China due to African swine fever. Finally, as any of you are aware, we shipped a significant amount of our fat and used cooking oil to Diamond Green Diesel. The extended and unplanned downtime disrupted the supply chain significantly and forced us to move, sell and store product in nontraditional markets. As we have discussed in the past, each \$0.01 of discount or increase results in approximately \$4 million to \$5 million of annual EBITDA. In this case, we had to divert nearly a 1-month supply.

So before we review the segment details, let me make some quick comments about Diamond Green. As of October 1, post-catalyst replacement in one of our reactors, a facility restarted and quickly ramped up the full capacity of 275 million gallons annually. The plant has operated well during October, and we can say it produced an excess of 22 million gallons. Our Phase 3 Diamond Green Diesel expansion, called Super Diamond, adding a new parallel 400 million-gallon plant and taking annual production to 675 million gallons of renewable diesel, was approved by both Darling and Valero's boards. Estimated cost of the facility is around \$1.1 billion, and this new total includes a new 60 million-gallon renewable naphtha or green gasoline plant. We are clearing land as we speak, engineering and cost estimation is done and long-lead equipment will be ordered shortly. We anticipate startup in the latter half of 2021.

Now let's go on to some segment-specific items. In our Feed segment, we dealt with a lower pricing environment for both fats and proteins as our raw material formula chased markets lower throughout the quarter. Records slaughter levels drove raw material volumes up 6.1% over last year and provided ample supplies. Trade disruptions with China, Mexico and others further disrupted global protein values. And DGD being off line with other global players for most of the quarter clearly influenced fat markets, along with typical a hot summer weather impacting our quality. As mentioned earlier, earnings were also negatively impacted by a \$7 million inventory write-down in China for African swine fever and our blood plasma business. While the true extent of ASF in China is still relatively unknown, we have instituted strict biosecurity protocols in our facilities, and we'll continue to service our customers.

Traditionally, we see a seasonally stronger fourth quarter were protein and prices improve at colder weather and fat prices should move higher with DGD back online at its expanded rate. As we look to the fourth quarter, we also expect fat prices in the EU to strengthen when those markets address the cheap Argentinian biodiesel flooding their market and other bio players come back online. On November 29, we will celebrate the grand opening of Phase 1 of EnviroFlight, the largest and most sophisticated automated black soldier fly larvae production facility in North America, if not the world. Construction is nearing completion on the first stage of our potential 4-phase project. We expect Phase I to produce about 900 metric tons of new protein annually for the global market.

Now let's move to the Food segment. Food segment results improved sequentially and delivered consistent results year-over-year with much improved performance from Rousselot, our global collagen and gelatin platform. Globally, we continue to see growing demand for Peptan, our specialty collagen product. We're on a leading edge of innovation and continue to work with customers to develop new applications for this higher-margin nutrition and health-focused product. Our 2 new Peptan plants in Brazil and France are expected to come online during the first and early second quarter 2019.

Our edible fats business delivered slightly lower earnings as it chased the global oils down, namely palm oil, lower impacting our refining spread. CTH, our casings business, also reported lower earnings due to a lower sales price and lower volumes in China. Overall, the Food segment should have a modestly improved fourth quarter.

Now let's turn to the Fuel segment. Strong volumes supported consistent performance across Europe. Ecoson, our bioenergy business, leveraged strong demand and higher production capacity from both our new Belgian biogas digester and the return of our Netherlands facility to full capacity after being curtailed last year. Rendac, our European disposal rendering business, contributed stable earnings on strong volumes in both the Netherlands and Belgium.



NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

North American biodiesel results moderated in Canada due to lower RIN pricing in the absence of the blenders tax credit. However, we remain confident that the blenders tax credit, even in light of the election results last night, will be reinstated for 2018, most likely late in fourth quarter which, in case it is reinstated, should add about \$8 million to \$9 million of earnings to the Fuel segment and approximately \$80 million to the Diamond Green Diesel joint venture.

As mentioned earlier, Diamond Green Diesel is now operating at its new capacity of 275 million gallons per year. With DGD back online, we expect to produce 65 million to 70 million gallons of renewable diesel in the fourth quarter and anticipate delivering over our targeted \$1.25 per gallon EBITDA margin on that volume. Spot margins even remained more attractive around \$1.35, as we discussed, and we're seeing LCFS markets continued to open well beyond California, into Scandinavian, Switzerland and other European markets.

As also announced in the earnings release, our board approved an increase in the company's previously announced share repurchase program from \$100 million to \$200 million and extended the term of the program for an additional year out to August 2020 to be exercised depending on market conditions.

With that, I'll now turn it over to Brad to discuss a little more highlights in the number and then come back before Q&A. Thanks, Brad.

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

Thanks, Randy. For the third quarter 2018, we reported consolidated net sales of \$812.6 million, a decrease of 13.2% compared to the 2017 period. This was primarily driven by lower finished product pricing and the extended downtime at Diamond Green Diesel, the deconsolidation of the company's Best Hides subsidiary in 2018, billed freight recorded in cost of sales in 2018 as compared to net sales in 2017 and the divestiture of our industrial residuals business earlier this year. We posted a net loss in Q3 of \$6 million or negative \$0.04 per diluted share compared to net income of \$7.8 million or \$0.05 per diluted share for the 2017 third quarter. The net loss reflects significantly weaker prices for our finished products, specifically in the Feed segment, the write-down of our China blood plasma as a result of the ASF outbreak and reduced production and higher expenses at Diamond Green Diesel.

SG&A was \$67.4 million for the 2018 third quarter, which was substantially lower than the \$82.2 million for the 2017 third quarter. The decrease was primarily due to 2 business interruption settlements that provided a gain of \$8.4 million on a combined basis as well as lower performance-based compensation expense and a general decrease in overall SG&A expenses.

Depreciation and amortization expense increased \$1.6 million in the third quarter of 2018 to \$78.8 million as compared to the same period of 2017. The increase is primarily due to the increase in capital expenditures made for organic growth projects in 2017 and 2018.

Interest expense was \$20.1 million during the 3 months ended September the 29, 2018, compared to \$22.5 million during the previous year quarter. The decrease of \$2.4 million is primarily due to a decrease in the interest rate on the company's EUR 515 million senior notes to 3 5/8% from 4 3/4% from the refinancing completed earlier this year and a decrease in the amortization of deferred loan costs as compared to 2017.

Now I'll address our tax expense for the quarter. The company reported an income tax benefit of \$1.4 million for the 3 months ended September 29, 2018. The effective tax rate is 21.5%, which differs slightly from the federal statutory rate of 21%, primarily due to the relative mix of earnings among jurisdictions with different tax rates, including form withholding tax and state income taxes, whilst it provided no tax benefit and discrete items. The company's effective tax rate, excluding the impact of certain losses that provided no tax benefit and other third quarter discrete items, is 28.8% for the 3 months ended September 29, 2018. The company also paid \$11.5 million of income taxes in the third quarter.

For 2018, we are projecting an effective tax rate of 25%, including our 50% of Diamond Green Diesel's 2017 biofuel tax refund. If the biofuel tax incentive is reenacted for fiscal 2018 before the end of this year, the effective tax rate is projected to be 15%. Finally, we are projecting cash taxes of approximately \$5 million for the remainder of fiscal 2018.

The company reported an equity and net loss of unconsolidated subsidiaries for the 2018 third quarter of negative \$2.8 million as compared to income of \$7.7 million for the 2017 third quarter. Decline is due to the extended downtime at the Diamond Green Diesel joint venture.



NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

Moving to our balance sheet. Our cash position ended the quarter at \$81.5 million, and our leverage ratio for the third quarter 2018 was 3.37, which was improved from the 3.56 in the third quarter 2017. Our liquidity remains strong, with approximately \$954 million available under our revolving credit facility. We made additional improvements on working capital in the third quarter over the second quarter, but working capital remains higher than year-end '17 levels primarily due to continued elevated inventories.

Debt payments for 2018 will be less than originally targeted, primarily due to the acquisition executed this year as well as the extended downtime at Diamond Green Diesel. However, we do anticipate a dividend from Diamond Green in the fourth quarter of 2018.

CapEx for the first 9 months of 2018 totaled \$213.7 million compared to \$196.4 million for the 2017 9-month period.

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

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

Okay. Thanks, Brad. It is at these times that our World of Growth Strategy demonstrates its value. From our vantage point and as we witness shifting global trade, changing dietary trends and expanded energy markets around the world, we are well positioned to leverage our multi-continent portfolio of businesses to adapt to an evolving demand and capitalize on growth opportunities. To that end, on October 5, we acquired substantially all the assets of Triple T Foods, a wet pet food ingredient operation. This acquisition is immediately accretive and is an excellent strategic fit with our growing specialty pet food ingredients portfolio in Nebraska and Kentucky. Triple T has a legacy of providing high-quality proteins to leading pet food companies, and we look forward to building on that reputation.

Additionally, I'm pleased to announce that we just closed on an agreement to acquire an edible fat processing plant in Poland. While a small acquisition, it continues to build out our footprint in Poland's rapidly growing meat sector.

And finally, we just signed an asset purchase agreement to acquire a feed mill in California. This facility will immediately be converted to an organic fertilizer production facility and will be another step in growing our North American nature-safe brand on the West Coast.

As we enter the fourth quarter, we see a lot of positive momentum. Diamond Green Diesel at its higher capacity level should help fat markets and protein prices will see a boost with seasonal increase in feed demand. Volumes in October globally were once again very strong. Our global collagen business remains strong, and we are seeing increasing contributions from our specialty products. We expect to finish the year on strong footing and see good momentum into 2019 as we build a premium diversified portfolio of feed, food and fuel ingredients.

Additionally, we are excited to see the progress being made in our commitment to corporate social responsibility disclosure. Our Sustainability Committee elected to elevate our sustainability reporting by adopting the Sustainability Accounting Standards Board, or SASB framework, as a structure for our CSR reporting. Going forward, we will report on Darling's impact on our 3 key pillars: clean air and water, safe food and feed and communities and workplaces.

We don't have time today to talk in depth about the great work our teams are doing, but we'll share regular KPI updates on our website as well as success stories that highlight our commitment to social responsibility. As always, I'd like to thank our shareholders, employees and customers for believing in the long-term Darling story.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Ken Zaslow of Bank of Montreal.



NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

A couple of questions. One is for the last 12 or 24 months, how many shares have you guys purchased? Can you remind us how many shares you guys have purchased?

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

We purchased \$10.9 million.

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

I mean, this new program that you have, how is that going to differ? And will you accelerate it from the current levels?

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

Ken, what the board has opted to do, we put out our strategy long term as we move forward to continue to build out, supply our fat around the world to support our low-carbon initiative, which is our expansion of Diamond Green Diesel. As we rolled out on our Investment Day, we wanted to add flexibility to our portfolio here and we view acquiring back or purchasing back our stock as one of the options for deploying capital as we go forward. As we said, we'll do that if the market warrants it. We're not going to give any more detail about that today, but it is very much a tool within our arsenal that the board has authorized now as we go forward.

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

Okay. My second question is on the acquisition strategy. How much have you spent on acquisitions? And when do you expect the return to be? Can you help us out with that?

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

This year, I want to say that we've spent would be around \$110 million to date. In addition to greenfield capital buildout, that capital, as we've made promises to people, is being deployed at a 15% to 20% return.

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

And then my last question is the election -- obviously, the midterm election yesterday, I think that the word that you said is in spite of but -- or I forgot the exact terminology but...

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

In light of.

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

Oh, in light of. Oh, okay. Yes, because I -- do you view the election as a positive, a negative or a neutral? And it just seems like it will be a positive. Maybe I'm missing something.



 NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

No, we share that. I don't see really the impact on what we're trying to do here and specifically to the blenders tax credit was my comment. And I still feel the momentum is there to once again move that forward and at least a multiyear fashion is the signals were getting out of D.C.

Operator

The next question comes from Heather Jones of Vertical Group.

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

So just a quick detail on blenders tax credit. You're not -- you are expecting to be at least for '18 and '19. Or could you elaborate on what -- how many years you're expecting?

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

Yes. Heather, this is John Bullock. I think '18 and '19 is probably logical. I know that the industry is requesting a longer term, potentially up to 5 years. Typically in the past, we've seen this issue go into December, and they usually go just to a reset button on the existing blenders tax credit for either 1-year or 2-year type of a time frame. There might be enough push at this point in time to make it a longer-term program, potentially 3 to 5 years. We would certainly hope that Congress would evaluate that alternative. But I think it's 2 to 5 years is probably a pretty good range estimate on what will happen.

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

The Food segment, Randy, you mentioned that it would be modestly improved in Q4. Are you referring to year-on-year or sequentially?

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

I was referring more to sequentially here. Typically, we just see better demand in the fourth quarter.

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

Okay. Then on the Feed segment, so when I look at "fats prices," "meal prices," they've been this weak before, and yet, this is one of the weakest quarters we've ever seen in Feed. So my thought is and I just was wondering if you could affirm this or give greater details, it sounds like that you had to place a fair amount of your fats at -- for lack of a better word, you had to dump some of it during the quarter because of issues at Diamond Green and so you were placing product well at prices well below "markets." So I was wondering if you could elaborate on that and when you expect Diamond Green to be back in the market meaningfully buying fats to start helping support that market?

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

Yes. I know those are very, very fair questions. That's a large segment, fairly complicated. But to simplify it down to everybody, the protein prices although were lower and lots of volume there and we were just having to move protein to nontraditional markets, the real driver of the performance of that segment, if you look at Q1 versus Q3, most of that difference is the plasma right down in China. But at the end of the day, the difference between Q2 and Q3 is, remember, Diamond Green was really down June, July and then most on reduced rates in August, in the second half of August and the first half of September. So all in all, we're down about 90 days. When you think about the business in a simple sense here, every

NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

\$0.01 of discount that we had to take is worth \$4 million to \$5 million of EBITDA annually, and so we produced in North America somewhere between 160 million and 170 million gallons a month. And so we were down 3 months. And it's just really that last month when the disruption there forced us to move product, additional freight, additional demerge, additional tank storage and discounting. You can say I would estimate to the tune somewhere between \$10 million and \$14 million that we moved product around the country and try to get it out of nontraditional markets. The challenge is Diamond Green Diesel has been operating at capacity in its old form of 160 million gallons for multiple years. We've raised the price or the caloric equivalent, above the caloric equivalent, so we had to buy our way back into nontraditional markets. And you said it well, we dumped it somewhere around \$0.03 a pound below nontraditional markets to get it moved. Unfortunately, this is a sell it or smell it business, if you want to look at it that way. We carry little storage, if any, at any of our factories, and it just really backed up on us. And that's what flowed through the P&L.

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

My final question is just a detail-ish one. We've heard for some time that every \$0.01 is \$4 million to \$5 million in annual EBITDA. But at your Analyst Day, you mentioned \$10 million. So my thought is...

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

That's global. Global.

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

Okay, so the \$4 million to \$5 million is just U.S.

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

Right.

Operator

The next question comes from Adam Samuelson of Goldman Sachs.

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

Maybe just first, Randy, I just want to make sure I understand on the bridge you just gave on the Feed segment on the quarter so kind of \$10 million to \$14 million from lower fat realizations given the Diamond Green downtime, plus there was \$7 million or so of inventory write-down in China on the plasma inventory. So ex Diamond Green downtime and China, you would have been up a little bit on the EBITDA level quarter-on-quarter even with lower protein prices. Is that the right way to think about it?

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

Yes. I mean, it would have been modestly similar quarter-to-quarter because of -- at the end of the day, I mean, fat prices were up on the index, up about 7.7%. Protein prices were down, and we make a little more money on the fat than we do the protein, as we've said in the past. And so yes, I mean, that's a fair way of looking at it.



NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

Okay. All right, that's helpful. And then just Diamond Green in the quarter, I know operationally a lot of challenges. Just from a margin realization, kind of what was the extra cost that was put into the system from the unplanned downtime and kind of the fixed cost under absorption that drove the margins? Can help quantify that piece a little bit?

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

Yes, this is John Bullock. I mean, obviously, the big issue there, we had some extra catalyst expense a little over \$5 million as we had to replace that catalyst. The rest of it is essentially some additional expenses associated with a little bit of extra work around the turnaround that we had to do to replace the catalyst, but most of it is just lack of volume going to the facility. And that drives our per gallon cost up extremely high. And so once we get to return to producing like we are now, then our cost go right back in the line. It was a cost issue driven by both some additional cost associated with the catalyst issue and the lack of production because we simply were not up in operational enough days in the quarter.

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

Okay. And then last one for me. Just on -- as we think about 2019 in the base business, a little over \$100 million you deployed in the M&A, some greenfield capital. I mean, is -- were those -- talk about the earnings expectations from those acquisitions and kind of what the base kind of contribution from how those total growth investments we expect it to be in '19 as you roll forward?

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

Yes. I mean, from Triple T, Kruge and then the organic feed business, I mean, we're targeting somewhere of contribution there of \$15 million to \$20 million of new EBITDA annual run rate next year off of those, off of the approximately \$100 million of additional growth capital that's being deployed. That will be staged over the year as Grapeland, Texas doesn't really come up until mid-first quarter, and that will be a ramp-up with the poultry supplier as they bring online. The new Wahoo facility has been now delayed a little bit as is Costco's factory in Nebraska is not going to complete as early as we thought it would. And then several other projects that are out there. As we've talked about, the 2 big ones are the Peptan spray dryer complexes for hide Peptan down in Brazil and then in Angoulême, France. Those should be online March, April of next year and then have pretty nice run rates off of those, which will be very similar to our normal capital return.

Operator

The next question comes from Craig Irwin of Roth Capital Partners.

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

So Randy, if we're in the camp that we're going to see a 5- to 7-year reinstatement of BTC with a tail on it, and we're firm believers of that. It's going to have an impact on fats prices, right? Can you maybe discuss for us your Darling supply to Valero, whether or not this is actually impact pricing of fats potentially to the joint venture? And then what do you think the impact would be for core fats in your rendering operations? Is this likely to drive up profitability, given that a lot of third-party guys buy from other vendors and from you? If you could frame this out.

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

This is John Bullock. Yes, I mean, obviously, with the Diamond Green Diesel now online in expanded capacity and excellent LCFS demand, we anticipate that fat prices are going to go higher. And we do believe that, that will have a benefit, I think, as we consistently said, into our non-biofuel businesses, so we should see an improvement in profitability in those businesses as we move to the next couple of years. I'm not sure what the rest of the question -- kind of like quite understood the rest of the question but we do see fat prices is moving higher.



 NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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

Yes, I'll take it from there little bit, Craig. I mean, at the end of the day, we're going the -- the marketplace has not seen the new 115 million gallon expansion that we added at Diamond Green Diesel. That's another 1 billion pounds. That's another 6% to 8% of U.S. supply that's now going to be diverted to Diamond Green Diesel, along with I think there are some other demand that's happening. There's some coprocessing going on in the Northwest United States now. And all in all, there's just a little bit more fat going into the markets now that should absorb the excess here. I mean, if you look back over the last 5 years, we moved from caloric value to a \$0.03 to \$0.05 premium to caloric value. And I think it is safe to say as we go forward here that we're going to move that on up a couple of more cents, I suspect, as we run fuller and fuller both here and over in Europe. And when we bring Super Diamond on, I think that's anyone's bet as to how that all sorts out, but you probably won't see that impact until mid-to late '21 when we start buying there. But at 675 million gallons, I mean, you're about 6 billion pounds. You're 1 out of every 2.5, 3 pounds of North American fat have to end up in a half square mile in New Orleans. So I suspect it will make a pretty nice Harvard case study one day as to what dislocation of what markets happens and what the ultimate price of fat. It's driven by carbon intensity, as you know, and we've been very, very clear about that. There's a lot of fat in the world to use, whether it's palm oil, soybean oil, canola oil, sunflower oil. But it doesn't have the carbon intensity scores that the waste fats and greases and the distillers corn oil has. So I think overall, clearly, we will chase that product. And if there is any other competition that comes out there, they will to and the impact will be to drive that price up.

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

My second question is about the Low Carbon Fuel Standard. So I know this wasn't the cleanest quarter as far as being able to parse the impacts on the P&L, but it appears that you actually did a better job capturing LCFS in Diamond Green in the quarter. You saw the benefit of some of the positive movements we've seen on LCF credits. Can you comment about mix going to California and where you see this mix heading over the next couple of quarters?

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

Yes, this is John Bullock. We move 100% of our product today to the Low Carbon Fuel Standard markets, whether it be California or the rest of the world. And I think that's probably an underreported part of this story. This story is just not California. There are tremendous LCFS markets around the world, and we move some product to a lot of those markets today. We continue to get a greater percentage of the LCFS each and every single year as we contract our renewable diesel, and that's going to continue now for the next couple of years. So we are receiving a greater share of the LCFS as we go forward. Our carbon intensity scores over time have been coming down, so that increases the value of the product that we sell out of Diamond Green Diesel as well. So we see the demand is extremely robust. For the next several years, we can sell a lot more product than we can make. We're actually limiting customers on how much they can take.

Operator

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

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

Thanks, Danielle. Thanks again, everyone, for joining us. Hope everyone enjoys the upcoming holiday season, and we look forward to reporting our fourth quarter and year-end performance early next year in March. Have a great day.

Operator

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

NOVEMBER 07, 2018 / 1:30PM, DAR - Q3 2018 Darling Ingredients Inc Earnings Call

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