04-Nov-2020

# Darling Ingredients, Inc. (DAR)

## Q3 2020 Earnings Call

# CORPORATE PARTICIPANTS

**James E. Stark**
*Vice President-Investor Relations, Darling Ingredients, Inc.*

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

# OTHER PARTICIPANTS

**Adam Samuelson**
*Analyst, Goldman Sachs & Co. LLC*

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*

**Manav Gupta**
*Analyst, Credit Suisse Securities (USA) LLC*

**Ben Bienvenu**
*Analyst, Stephens, Inc.*

**Craig Irwin**
*Analyst, ROTH Capital Partners LLC*

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

**Matthew Blair**
*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

**Thomas Palmer**
*Analyst, JPMorgan Securities LLC*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to the Darling Ingredients Inc. Conference Call to discuss the Company's Third Quarter 2020 Results. After the speakers' prepared 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 would like now to turn the call over to Mr. Jim Stark. Please go ahead.

## James E. Stark

*Vice President-Investor Relations, Darling Ingredients, Inc.*

Thanks, Matt. Welcome to the Darling Ingredients earnings call. Participants on the call this morning are Randall C. Stuewe, our Chairman and Chief Executive Officer; Brad Phillips, Chief Financial Officer; and John Bullock, our Chief Strategy Officer, and a few other senior executives of Darling Ingredients. There is a slide presentation available and you can find that presentation on the Investor page under the Events and Presentations link on our corporate website.

During this call, we will be making forward-looking statements, which are predictions, projections, or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in yesterday's press release and the comments made during this conference call and in the Risk Factors section of our Form 10-K, 10-Q, and other reported filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Now, I would like to turn the call over to Randy.

## Randall C. Stuewe

*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

Thanks, Jim. Good morning, everyone, and thanks for joining us on the day after the election. First off, let me thank our 10,000 plus Darling employees around the world. COVID-19 remains a constant in our daily work and home lives. Our team has been able to rapidly adapt to a very dynamic situation and I sincerely appreciate their ongoing efforts to deliver the products and services we provide to our customers around the world.

For the third quarter of 2020, our combined adjusted EBITDA was $218.5 million as our global ingredients platform continues to be resilient. Our health, nutrient and bioenergy businesses continue to prosper and make the necessary adjustments to keep our momentum for a record 2020 and set the stage for even a better 2021. Our fuel segment and our food segment showed improvement year-over-year and growth sequentially to the second quarter of 2020. Overall, we continue to see an improving and positive trend on our gross margin percentages across our business lines.

As I talked with you back in May, we continue to work diligently on cost control measures and widening our gross margins, thus improving our returns. Our USA team has done an exceptional job. As expected, our feed segment for the third quarter declined from the strong performance we had in the second quarter, as protein prices in the third quarter moved lower sequentially compared to Q2 and prices for Q3 2020 were also lower when you compare them to 2019.

With the positive upward movement in the grain and oilseed complex we're experiencing a better pricing environment for our protein products and for our fats and oil products in the fourth quarter. And this should provide a positive catalyst heading into 2021.

In the food segment, there was a nice recovery of hydrolyzed collagen sales for the quarter. We're in the process of commissioning our third new collagen peptide production facility in Presidente Epitacio, Brazil as we speak, which broadens our ability to supply this on-trend food ingredient to our customers worldwide. The food segment led by Rousselot, the number one collagen provider in the world is poised to provide meaningful earnings growth in 2021.

The fuel segment performance was significantly better than a year-ago, both in our international green energy businesses and at Diamond Green Diesel. Diamond Green Diesel achieved a $2.41 per gallon EBITDA margin on record sales of 80 million gallons for the quarter. We recorded $96.4 million of EBITDA, which is Darling's share of the joint venture.

Energy market did show some improvements from a demand standpoint during the quarter. Although, oil and diesel prices remain significantly lower than the same time a year-ago. Diesel is currently trading $0.80 a gallon under Q4 of 2019.

On the positive side, the green premium we're able to capture for the renewable diesel has offset the majority of this downward price in the current environment. As we noted in our press release yesterday, the turnaround at Diamond Green Diesel was completed on time and the plant is running at full capacity. And we expect that Diamond Green will sell between 55 million and 60 million gallons of renewable diesel in the fourth quarter and should average between $2.30 and $2.40 a gallon for those gallon sold.

On a year-to-date basis, Darling has generated $627 million of combined adjusted EBITDA for the company, putting us on pace to finish what most everyone considers to be a challenging year with record results.

We currently believe that we can finish 2020 with combined adjusted EBITDA between $800 million and $810 million. We certainly believe this gives us a solid platform as we move into 2021 for what we believe will be a transformative year as the 400 million gallon expansion or what's known as DGD II comes online in late 2021.

If you've not had a chance to look at our refresh corporate website or read our 2020 ESG report, I encourage you to do so. Our ESG team did an excellent job in publishing our 2020 fact sheet, which gives us an exciting story to build on as we move forward. It outlines our goals and initiatives and how Darling will play a significant role in the de-carbonization of our planet.

For Darling, we take great pride in our green leadership position in the world and we plan to do our part in conserving water, energy, and reducing greenhouse gas emissions directly and indirectly by our DGD business producing more low carbon renewable fuels for the world to consume.

So that completes my comments. And I'd like to turn it over to Brad to give us a few financial highlights. Brad?

## Brad Phillips

*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

Okay, Randy. Thanks. Okay, everyone. I'll touch base on a few of the highlights. So, this quarter and year-to-date, net income for the third quarter of 2020 totaled $101.1 million, or $0.61 per diluted share compared to a net income of $25.7 million, or $0.15 per diluted share for the 2019 third quarter. For the first nine months of 2020, net income was $252.1 million, or $1.51 per diluted share compared to $70 million, or $0.42 per diluted share for the same period of 2019.

As Randy mentioned earlier, our gross margin continues to show improvement as we reported 24.9% for the third quarter of 2020 compared to 22.5% for the same period in 2019 as net sales increased $8.5 million and cost of sales and operating expenses decreased $14.6 million.

Operating income improved $67.7 million in the third quarter 2020 as compared to the prior-year, reaching $127.5 million for the third quarter and totaled $356.6 million year-to-date 2020 compared to $182.5 million for the 2019 period. In addition to the improved gross margin, the improvement in operating income benefited from a $59.1 million increase in Darling's equity and net income from Diamond Green Diesel.

SG&A expenses was higher by $6.4 million in the quarter, partially attributable to the higher cost related to COVID-19, certain insurance increases as we recently renewed our coverages across the business and higher benefits more than offsetting lower travel cost.

Interest expense was $18.8 million for the third quarter of 2020 compared to $19.4 million for the prior-year period. We currently project quarterly interest expense to be approximately $15 million per quarter over the next several quarters.

The company reported income tax expense of $4.8 million for the three months ended September 26, 2020. The effective tax rate is 4.5%, which differs from the federal statutory rate of 21%, due primarily to the bio-fuel tax incentives, the relative mix of earnings among jurisdictions with different tax rates and discrete items including the recognition of a previously unrecognized tax benefit and the favorable impact of certain US Treasury regulations issued during the quarter.

For the nine months ended September 26, 2020, the company recorded income tax expense of $43.1 million with an effective tax rate of 14.5%. Excluding discrete items, the year-to-date effective tax rate is 18.2%. The company also paid $24.9 million of income taxes as of the end of the third quarter. For the remainder of the year, we project the effective tax rate to be about 20% with cash taxes for the year totaling approximately $35 million.

For the three months and nine months of 2020, Darling's share of Diamond Green Diesel's earnings was $91.1 million and $252.4 million as compared to $32 million and $94.4 million for the same period of 2019. A reminder that there was no BTC in place or recognized during 2019 until the fourth quarter.

Capital expenditures of $184.9 million were made for the nine months of 2020 as we continue to take a disciplined approach during the pandemic, prioritizing compliance and safety needs of the business in our reduced CapEx spend.

Now turning to the balance sheet. In the third quarter, we were successful in amending and extending our $1 billion revolving credit facility with favorable terms. The amendment extends a maturity date of the revolving credit facility under the credit agreement from December 16, 2021 to September 18, 2025.

In addition, we paid down our term loan balance by $145 million to a new balance of $350 million outstanding at the end of the quarter. With our improved financial results and the pay down of the term loan B, our bank covenant leverage ratio for Q3 was 1.93 to 1. We continue to make progress toward achieving investment-grade rating.

Our liquidity remains very strong with approximately $934 million available under our revolving credit facility at the end of Q3, providing strategic flexibility while at the same time maintaining a very solid capital structure.

I'll turn it back to you, Randy.

## Randall C. Stuewe

*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

Hey, thanks, Brad. As I mentioned earlier, our share of the 2020 DGD earnings should be approximately $330 million based on the ranges I laid out for you. With the strong performance of Q3 and prices for our products improving as we work through the fourth quarter, we believe we can produce EBITDA of approximately $4.70 to $4.80 in 2020 in our global ingredients business. That is back in line with the guidance we were anticipating back in February of this year pre-COVID.

As you saw in the press release, we issued last week, the gated development process of DGD III to be located in Port Arthur, Texas remains on track for both joint venture partners, boards of directors to be in a position to approve moving forward with the project in early 2021. The permitting process for these types of facility is no easy task, and I once again thank our teams, especially Valero's engineering and construction team for knocking this huge hurdle out of the way.

Once approved construction should begin immediately putting DGD III in a position to be operational in early 2024. We understand that there is concern with oversupply of renewable diesel and potentially a shortage of low carbon feedstocks in the future.

Our simple answer is we plan to take advantage of the first mover position, we have to be the largest low cost producer of renewable diesel in North America. While others are trying to figure out how to build or convert existing 80-year old refineries to renewable diesel, we continue to focus on building new facilities with the lowest operating cost structure, the latest technologies incorporating the trade secrets we've learned over the last seven years of operating our plants.

Darling's vertically-integrated supply chain will continue to provide DGD with superior low cost feedstock, which enhances that first mover advantage for DGD. And finally, as you may have read in our earnings release yesterday, we were successful in acquiring a three-plant Belgium poultry rendering processor and a food waste recycling business. This was especially challenging for diligence, given COVID 19 protocols, but our Euro team did a nice job and we expect even while small, this acquisition to strengthen our already successful Belgium system and immediately be accretive.

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

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

---

**Adam Samuelson**
*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Thank you. Good morning everyone.

---

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Morning, Adam.

---

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

A

Good morning.

---

**Adam Samuelson**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. So, I guess, first question, maybe just thinking about Diamond Green Phase III a little bit, as we get closer to the final investment decision. Any more color on potential financing and likelihood or possibility of structured finance to get that Diamond Green to cash flow from the JV, because they're flowing up to the parent sooner than 2024?

---

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

A

Yeah. Adam, this is Brad. There is that possibility. We are talking to the partner – our partner regarding that. So, yeah, that's something that could become a possibility.

---

**Adam Samuelson**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. And then, just more broadly on Phase III, any more color you could have on the low carbon feedstock sourcing, they're just kind of how you think about the Gulf position as a base for imports and just where you think you can get the feedstock that others building in the market can't?

---

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah, Adam. This is John Bullock. I think, we've discussed this a lot with everybody out there. The feedstock supply is one of really two critical analysis we run from a commercial standpoint. We always feel that we'll run a unique and advantaged position, because quite frankly, we have an enormous supply of low carbon feedstocks that we control within our system and are able to bring the Diamond Green Diesel, as Diamond Green Diesel needs that feedstock.

Overall our assessment is, while it's something that everybody needs to watch that wants to get in the renewable diesel business. We feel comfortable that if we move forward with Diamond Green Diesel III, we are going to have the supply of low carbon feedstocks we need to supply that facility.

But I must emphasize, one of the reasons we look at it probably differently than everybody else in the world is, because we are the only company that has a large source of low carbon feedstocks in our control and we have a renewable diesel facility that we're partnered with Valero.

**Adam Samuelson**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. I appreciate the color. I'll pass it on. Thank you.

**Operator**: Our next question comes from Donald McLee with Berenberg Capital Markets. Please go ahead.

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*

Q

Good morning, guys. Can you hear me?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Morning. Sure.

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*

Q

So, just to touch on the acquisition of those rendering plants a bit. Could you talk about how that fits in your overall strategy and maybe what type of capabilities it unlocks with the recently commissioned collagen peptide production plants there?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. This is Randy. It's a rather small by tonnage acquisition. As we described over the years and been around the business for a long time, still Western Europe is still a little bit of the Wild West with still a lot of small-family [indiscernible] (00:16:44) rendering plants. And this was just a series of brothers that had three small little rendering plants that will be consolidated into our much larger Belgium system today, so it was a nice fit.

As these family succession businesses come and they're priced right then we'll fold them in, if it meets our strategy of both controlling fat and protein and to a degree rendering production within different geographies around the world. And so this was just a nice natural bolt-on for us.

I would tell you, I don't get that excited about moving the needle, but it was nice, it's accretive and we'd like to have 10 more of these if we can find them. It gives us more fat, more protein and once again gives us more control in the Belgium poultry rendering market.

And poultry rendering is puts out a series of products that are premium products to the high end pet food ingredient business. So, you're not only get the fat that can go into different food applications and also into fuel applications you get the proteins.

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*
Q

Okay. That's helpful. And then just looking at the fuel segment, there was some pretty significant top line growth and margin expansion there, which it sounds like from your comments was driven by the performance of the international fuel segment. But I was wondering, if you could maybe provide more color on what some of the specific underlying dynamics were that supported that strength?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*
A

Yeah. This is Randy again. You know that – within the fuel segment, obviously, we roll up Diamond Green into the operating income side there, but above that is really the – predominantly our mortality processing business in Europe. And then our digesting business where we take food waste, pig manure and produce green energy and put it into the grid.

Both of those businesses had very strong earnings in the quarter, what we call the Rendac business, which is our seven plant mortality disposal or destruction business. It was a very hot summer, if you remember in Europe this summer and we just had a lot of extra tonnage in there that flowed through with good pricing of and demand for what are considered to be [ph] cat 1 (00:19:01) fast to go back into bio-fuels into renewable diesel in Europe. So, we had – that was the primary driver of those businesses along with the strong DGD performance.

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*
Q

Okay. Thanks. And then last one for me. So, there is clearly a big push in renewable diesel with all the growth going on at the JV. And I was just curious, what do you think about the longer term fit to biodiesel business, just given the emphasis on renewable diesel.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*
A

Look let me clarify the question. You're asking, what's the long term fit of biodiesel in the industry versus renewable diesel...

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*
Q

within the company...

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*
A

Oh, within the company. Clearly, we've been on a strategy to expand the renewable diesel business, clearly from a logistics, earnings, transportability and product demand standpoint. It's a superior product. We only operate the small facility up in Montreal today, and then a very, very tiny facility in Butler, Kentucky today.

Clearly, those businesses in the quarter were very, very challenged again as biodiesel margins were sometimes below breakeven and very – not even really contributing to fix. So, ultimately, we're going to have to make a decision there on Montreal.

And as John Bullock said, given the location of Diamond Green Diesel II and Diamond Green Diesel III, we now have a home for the fat out of Montreal, out of Ontario to move south, and we're looking at those economics all the time whether it makes more sense to arbitrage the fat into the USA versus leaving it up north. So good question, Donald. Clearly, renewable diesel is a more fungible superior earning investment than a biodiesel plant in Montreal today.

**Donald McLee**
*Analyst, Berenberg Capital Markets LLC*

Q

All right. Thanks guys. That's all my questions. I appreciate it.

**Operator**: Our next question comes from Manav Gupta with Credit Suisse. Please go ahead.

**Manav Gupta**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you for taking my question. In your opening remarks, you had mentioned that there are a number of refiners that are trying to figure out how do retrofit and fix the 80-year old refineries to produce renewable diesel. Can you help elaborate on it?

And there's a little bit of skepticism there as to us to all of these projects actually do come online. So, can you help us understand what some of the problems these refineries might run into as they try and enter into renewable diesel, which they have never done before?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. I'll take a little stab here and then I'll let John Bullock kind of clean up the mess that I start.

Number one, we spend no time worrying about other people entering the business, because of our vertically-integrated supply chain and the location economics of DGD I, II and soon to be number III. And that's both outbound and inbound.

Keep in mind the low carbon fuel standard is simply not a California program. Every one of those retrofitted, or to be retrofitted, or to be engineered, or to be studied, or to be permitted facilities that they're talking about are old, out of place locations, with high cost that they're trying to convert over. It has nothing to do in my opinion with the longevity of putting an asset in the right place with the right economics. That's number one.

Number two, when you look at what it takes to be effective in this business, look at the carbon intensity scores of the feedstocks that each one of these places, "says, they're going to run." We've not seen anybody put in pre-treatment necessary, as we call it, the secret sauce to make this business work. So, when you start to look at businesses and you say, we're going to run soybean oil, that's great.

However, you got to look at the price differential of refined bleach soy today and it's probably anywhere from a $0.08 to $0.10 a pound premium to waste fats and grease is today. That doesn't mean that waste fats and greases won't come up in the future or core business will benefit. And ultimately, we'll have some gain there too.

But the other side is, is then when you look at the net effect of the carbon intensity score of using a soybean oil between the cost of the raw material and the CI differential, you're talking anywhere from $1 to $1.5 a gallon difference to Diamond Green Diesel running today. And so you look at that and you say well how does this work as the business goes forward.

Number one, today the economics look good, because the blenders tax credit is there, it may be there in the future, it's been there for a lot of years since 2007, so it's hard to handicap. But if it's not there, a soybean oil based out of position retrofitted doesn't look also good on paper, as you go forward.

And so, you know, that's how we're kind of looking at, we spend no time worried about who is doing what? All we know is, we're under construction. We'll be up before the end of 2021 here on number two. Number three is progressing nicely with the permit, which was a big hurdle. And hopefully, we'll come online within a couple years of pushing dirt here. John, anything there you want to add?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah. I think it's important to realize, we evaluated California as a location for a renewable diesel facility and chose Port Arthur over trying to do anything in California. We did that for a number of reasons.

One, the cost of doing anything in California is a 1.5 to two times what you're doing in Texas. And quite frankly, California has a [ph] law called sequel (00:24:55), which is the process you have to go through to permit a facility or a revise facility in California. It is a difficult process with a lot of public comment. And inevitably, the [ph] sequel process (00:25:06) in California takes folks longer than you think it's going to take to be able to get it done.

We felt speed to market was important. And the reason we felt speed to market was important was not only because of the increasing CI or carbon requirements in California, but we see rapidly developing markets in New York, Canada, potentially Washington state, potentially Oregon, or under RED II in Europe we see rapidly developing markets there. So, we know that there are folks out there that are either thinking about or trying to, or might put additional renewable diesel capacity in, we like where we're located, we like the technology that we're using and it is really important for everybody to understand that while a part of a renewable diesel facility looks like a traditional petroleum facility, that is a bit of a mirage, it only looks like a diesel facility. It's a quite different technology.

And from our perspective, anybody that builds one of these things that doesn't hook a pre-treatment system up and all the supply logistics around it that requires is not developing a competitive facility going forward.

So, we know there's going to be competition out there. Quite frankly, there needs to be additional capacity with the demand for credits that's going to be coming on from these new markets that are developing. We're really comfortable with where we're positioned, our partner, our technology, our vertically-integrated feed supply. We're building Diamond Green Diesel to compete not only now, but for five, 10, 15 years into the future.

**Manav Gupta**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you so much. That was a very comprehensive answer. I have a quick follow-up. Can you give us some idea quarter-to-date what you're seeing with protein prices, fats prices and other ingredients, which kind of make up your segment income? So, any update on quarter-to-date pricing of fats and proteins?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. And I think what – this is Randy again. On fats and proteins around the world, if you think back, we came into – to the January, February and COVID hit. You saw a lot of shuttering of slaughterhouse capacity in both North American and Europe, as it reacted to COVID protocols. That's a different way of saying that some of these large slaughterhouses were curtailed in their production.

And thus we saw protein and fat prices, because of the reduction in supply, run up very rapidly towards the end of Q2 or mid Q2 and then fall off as we saw the slaughterhouses restart. In Q3, we kind of hit the bottom, we've now seen the grain and oilseed complex, meaning the price of corn, soybean, palm oil, all start to feel like they've hit a bottom here and are starting to move back up to where we thought they would be. And so we're carrying pretty good momentum. We're carrying really good momentum into Q4 both here, Canada and in Europe today as we go forward.

I mean, ultimately, I think the Chinese demand out there for grains and oilseeds continues to be unbelievably large. I don't see that tailing off anytime soon. And that goes to the hog herd replenishment. I mean, our trans – our ability, our transparency to animal production in China is pretty optic. And what I mean by that is we're a big buyer of pig skin, animal bones, hives and also blood in China. And we have just not seen animal numbers come back yet in China. However, we know that they're now – that the animals are underproduction and being grown. So, we're probably a year to 18 months out, that's bodes well for continued demand of soybeans and corn in the China as we go forward here. John, do you want to add anything to that?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah. I think nobody should underestimate the tremendous power of the Chinese economy. One, turning around and looking like it's performing very strong. And two, the fact that they are reconstituting their pig herd, but not only are they reconstituting their pig herd, but they are also doing more of it in concentrated large growing that will use more of the meals and the corns as opposed to the garbage and waste that was being fed by the small private family farm. This is a fundamental shift and that dynamic has a tremendous impact on the world.

And clearly, China needs to come to the United States to buy those products and they are in massive quantities. It's going to take a year or two to reconstitute that pig herd in China. So, we would anticipate the demand is going to remain extremely good for all of those products, as well as meat out of the United States in the term of pork and poultry, which is very good for the volumes we handle in the US.

**Manav Gupta**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you for taking my questions.

**Operator**: Our next question comes from Ben Bienvenu with Stephens. Please go ahead.

**Ben Bienvenu**
*Analyst, Stephens, Inc.*

Q

Hey, thanks. Good morning everybody.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Morning, Ben.

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

A

Hi.

---

**Ben Bienvenu**
*Analyst, Stephens, Inc.*

(

I want to ask a follow-up to Adam's question about DGD III. You announced the air permit for Port Arthur. You said that was a big milestone. Can you help us think about what other critical milestones are in front of us on the critical path to getting this facility approved? And I'm more focused on the external critical path than the internal deliberations that you might have. What should we be monitoring going forward? Thanks.

---

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah. This is John Bullock. I'm not sure you can distinguish between the two. We are on track with our cost estimates, the detailed Phase III engineering. We are on track with the analysis. We always update our analysis from a commercial perspective, both companies do. We will be in a position to make a final decision on Diamond Green Diesel III in January-February of 2021, just as we said.

I will tell you everything is going on track, just exactly as we had hoped it would. The analysis continues to show that we should be moving in a positive direction at that facility. Then we see the marketplace as being very good and we're going to be very well positioned at Port Arthur. We love the location. We love the logistics flexibility we're going to have down there. It is just a fabulous location as a second overall logistics site for our Diamond Green Diesel system.

---

**Ben Bienvenu**
*Analyst, Stephens, Inc.*

Q

Okay. Great. And the second question is, as it relates to debt pay down on term loan B, the refinancing of the revolver. You guys already are at a pretty modest leverage level. You've got more cash coming, given the increase in production and presumably the inflow of cash from the JV for coming down the road. What are your priorities on cash deployment, given that it's poised to ramp pretty meaningfully here over the next few years?

---

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. This is Randy. And Brad will help me out here. I mean, our priorities haven't changed. I mean we're on an investment-grade glide slope here. Clearly, the timing, weather, outflows as relative to DGD II here as we approach 2021 and then the margin structure as we come into next year, I mean, we're thinking, we're going to get a fourth quarter start up God willing and then weather willing into next year, could put up some extra gallons next year higher than the 285 million this year. And we see the margin structure again somewhere between $2.25 and $2.50. We don't see much changing there, coming into next year.

So, relative to cash out of DGD next year will depend on the timing of the construction and the aggressiveness that goes there. Along with as Brad kind of telegraphed, clearly, the momentum for outside finance on DGD II and DGD III has more momentum than it's had in the past. And we remain very optimistic that the leadership team at Valero understands the importance of that cash availability to Darling. Interesting as the oil, crack spreads cycle, cash becomes important to them too.

So, for the first time in seven years, I think, we're absolutely aligned. The cash is king. So, hopefully that will lend itself to a positive outcome. So with that comes Brad, Brad paid down $140 million on the term loan B, we've got $350 million of pre-payable debt left out there today $960 million or something left on a revolver, if we ever found something that was wonderful.

And then at the end of the day, we've kind of a – we've tightened our purse strings. I mean, we listen to our shareholders, our investors on deploying cash. The last several years, we were building out our supply chain and expanding with our customers on rendering. We're getting the margins back in that business now where we thought we would, they dipped down. People always have to remember. This business is still from the commodity exposure side, we're still way below the 10-year averages on fats and proteins in this business.

And obviously, if you came back and modeled it at those levels, you would see some pretty tremendous growth in the base ingredient business. So, with that comes, I think, we'll – with the $350 million, I think next spring or summer, the Eurobond comes callable [indiscernible] (00:34:50), if we can get the rating agencies to give us the respect that Brad and I believe we deserve, then we might go back out and then put some longer term capital underneath this in a very attractive interest rate as we go forward.

But we've got a lot of things that have to happen here in the next six months for that to become a reality. Otherwise, it's just keep paying down the term B and manage it from there. Brad, anything you want to add?

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*
A

That's good, Randy.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*
A

Okay.

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*
A

Perfect.

**Ben Bienvenu**
*Analyst, Stephens, Inc.*
Q

Yeah. That's great color. Thanks. And best of luck guys.

**Operator**: Our next question comes from Craig Irwin with ROTH Capital Partners. Please go ahead.

**Craig Irwin**
*Analyst, ROTH Capital Partners LLC*
Q

Morning, and thanks for taking my questions. So, Randy, you had $30 million in EBITDA outside in the third quarter. And it sounds like you're pretty much keeping the guide that you've been talking about for a while, $800 million to $810 million for the full year.

Is there anything in the fourth quarter maybe extended turnaround for Diamond Green longer than the couple of weeks we've seen previously or on the margin side or on the operational side that maybe has you a little bit more conservative about the fourth quarter or should we interpret this as maybe you could be a little bit conservative as you guide to that $800 million to $810 million?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. First off, Craig, I think, number one, we try to be conservative in the view here. Fourth quarter has three major things in there. It has two holidays between Thanksgiving and Christmas. Not sure, how the slaughterhouses in here and Europe will run during what's been a very challenging year for their employees. So, we're going to have to see how tonnage really holds in there.

We're optimistic about the feed segment improving in Q4 versus Q3. Q3 was – it came off of the utilization of the 40 loads of hogs a day in Q2, and a nice price run up that we got on the backside of, if you will in Q3. That's come back. Prices have improved in here, Canada and Europe. So, the feed segment feels more positive for Q4.

The food segment absolutely feels – the orders feel very good in that business now. It's still challenging around the world. I mean, our China operations are doing quite well, but finding raw material in China continues to be challenging. In South America, we're still dealing with lots of COVID-related absences, but we're doing quite well. And in Europe, now we're getting the benefit with Germany being shut off from shipping port material into China – it's allowed pigskin to get cheaper in Europe. So, now we're going to have some improved margins there. So, the food segment feels very good.

And then the fuel segment, we did take down 18 to 20 days here, came up nice and strong. I think, we'll be around that 60 million gallon level maybe a little more for Q4. We'll just see how we run through it. John, anything you want to add on the fuel segment here.

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

No, Diamond Green Diesel's turnaround was excellent. The guys did a great job. We had a hurricane come close to us during the middle of our turnaround and yet they still managed to bring that tonnage around a day or two and earlier than we thought it was going to be. And that facility is operating perfectly post the turnaround.

**Craig Irwin**
*Analyst, ROTH Capital Partners LLC*

Q

Great. Great. So, feed had margins up 150 basis points year-over-year. We all understand the gyrations from COVID in the second and third quarters this year. But it seems like your initiatives in there, things like making Peptan converting to collagen versus gelatin, having a little bit of a nice margin bump in that segment. Can you maybe describe how this is likely to follow through? Do we have the potential for another 150 basis points over the next year? Any other color on the margin growth in this segment would be helpful.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. And Craig, I think we'll talk to feed segment. We came into the year and challenged our global operating team. We said, look, we've deployed $1 billion of capital into these plants over the last five years. We've got it -- we need to be paid for it. It's becoming increasingly expensive to run these businesses, because of environmental, waste water, steel costs, et cetera.

And so what used to be in a historically old business, if you will, a fair margin doesn't work anymore. And so as we started to look at our North American and our European business, we looked at where we could, if you will, push the envelope from a standpoint of processing margins, where do we have a key leverageable location. We challenged each of the teams to figure out how to take out 2%, 3%, 5% of their operating costs out of this, you know? And so, at the end of the day, you either figure out how to get a better return or you're not getting capital. It was a little bit of a chicken and egg here.

And then, ultimately, we started charging in different businesses, more for our services. And some of it was COVID-related. It really – when COVID hit and you became an essential service and you had to pay a little more per hour or you had 25% absenteeisms in some locations around North America. You really got to see your cost structure and action very rapidly and transparently. And so we were able to react to that.

And so, yeah, I think where we're at in the feed segment is as we look forward in the margin structure, clearly there is commodity risk there that goes up and down 100 points or so. But at the end of the day, I think, we still got more room and more work to do in there as we come into 2021 and the teams will be challenged.

In the food segment, clearly, the demand destruction we saw of our near consumer product in our Peptan line was very obvious to us. We went in the April-May, part of June period, basically without any orders with new plants coming online. Those are now commissioned online approvals and we're going to carry some pretty nice momentum into next year.

And you can start to look back on the food segment and you look at the EBITDA, basically now around $39 million to $40 million per quarter. As we've telegraphed in the past as those Peptan investments come online, we think the food segment over the next year-and-a-half will trend on up towards the $200 million – maybe north of $200 million level. So, you'd be $50 million a quarter there as we look forward.

And then the fuel segment is really just as it is. It's probably – it's a tariff-related business and very, very transparent other than Diamond Green. And as we said for 2021, if we can get number two on line here with good weather, instead of 285 million, maybe we make 300 million gallons next year, maybe we make a little more. We see the margin structure similar between $2.25 and $2.50 for the year.

So, as you start to put this together, you can start to see while we're talking an $800 million to $810 million total here, maybe it ends up being a little higher than that in – with a strong Q4, but we got that same momentum in the next year that will even – should show us even better earnings next year, provided we've got the markets forecasted right here.

**Craig Irwin**
*Analyst, ROTH Capital Partners LLC*

Q

Great. Well congrats on the impressive result.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Thanks.

**Operator**: Our next question comes from Ken Zaslow with Bank of Montreal. Please go ahead.

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

Q

Hey, morning, guys.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Morning, Ken.

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

A

Morning.

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

Q

My first question is how much demand the LCFS is available, soak up any new supply that comes on? How do we frame that?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah, Ken. This is John Bullock. I think, obviously, California is extremely important and I have to remind everybody, California is heading to a 20% carbon reduction by 2030 on a steady path all the way up. And I think today we're at less than 8% in that total. So, we've got a long ways to go in California. That's a huge market.

In addition to that, though, Washington state has been very close to putting in an LCFS that's again possible this year. New York is going to put in an LCFS we believe that's an enormous market up there and could lead to an even bigger market if the entire Northeast decides to put in an LCFS program. The clean fuel standard in Canada is in place and is in process of the rules being promulgated. And we believe that's going to be online in 2022, 2023. That's again an enormous market that it goes for.

And under RED II, we see strong increases in renewable diesel demand and all of the Nordic countries and potentially as well in Germany, potentially France, potentially Spain, potentially Italy. So, I think it's a mistake for everybody to just look at all the production capacity coming online and look at that versus today's demand.

What makes us most excited about this business is the fact that carbon reduction is a thing and it's a thing going forward. And quite frankly, that means there is going to be a lot more demand for a person that can supply renewable credits to that marketplace. And so we look at that supply and demand balance all the time. It's the other critical thing we look at before we make a final investment decision. We're very comfortable with the way that this market is developing.

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

Q

So, how much would you frame that as? Would you say, you could absorb 2 billion, 1 billion, like how much renewable diesel can be absorbed in the next couple of years? How do I think about it? Or how do we all think about it? I agree with you, I just kind of figuring out [indiscernible] (00:44:58) mathematically what you are thinking of the demand?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. The LCFS market is different than a traditional biodiesel or bio-fuel mandate market like RFS 2, you're looking to reduce carbon emissions in these various marketplaces and they allow the various products to compete to reduce those emissions. So, the analysis on how you determine what the LCFS demand is complicated. You have to go and dig into the weeds and look at how the LCFS credits are generated under each of the programs and how many deficits are going to be generated underneath the programs.

Quite frankly, it's something that we've looked at for a long period of time, but it's not something that I necessarily want to start to throw gallon estimates out there on. We believe that there's plenty of demand for everything we're building, plus a lot of the stuff that other people might be building out there too.

And I think we've said that consistently, Ken, for a long period of time. And as shorter period of time as two or three years ago, we had tons of people that said, "Oh, there is just not going to be enough demand for this product." There's plenty of demand for this product today. We've got great demand into 2021, 2022, and forward. We see the market – we're selling obligation is what we're doing and compliance. We see the market as being very, very good for our product as we look forward.

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

Q

And my second question that I have is, when you think about the base of your business. So, you have rendering business and you have obviously the 50% of Diamond Green Diesel. At this point higher input prices are good for you, right? You want higher fat prices, higher – all the rendering products. Is there a point in time where that doesn't move that way, that you'd prefer to have lower input prices? And at what capacity levels does that work out to be? And then, I'll leave it there. And very much appreciate it.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Yeah. It's a fascinating academic question. I mean, clearly the downturn in fat prices in Q2 translated to better earnings in Diamond Green Diesel. So, that's the model we've been trying to talk to people about.

As competition picks up for waste fats and greases or low CI inputs, you're going to have two markets ultimately that happened. One, you're going to have the people that can run it, they have pre-treatment and the people that can't run it. And as Diamond Green Diesel II comes online and Diamond Green Diesel III, we will use up to 65% of the North American supply of waste fats and greases. So, ultimately, we will be the biggest and best home between Port Arthur and Norco, Louisiana for those products as we go forward.

Who then becomes challenged in that operating environment? Ultimately, it would be the biodiesel industry that that feedstock would initially then be diverted from, because they can't compete with the margin structure. The same thing goes, Ken, and you wrote a very nice summary, as you were looking at the crushing industry. Make no mistake. A renewable diesel plant cannot compete with Kraft Salad Dressings for vegetable oil. And the world's going to find out that argument again in a very hard fashion.

So, ultimately, the pre-treatment side, the first mover, the advantage that we have, I think, is pretty special. It'll translate into better margins in our non-formulate business, in our core business. It also helps us then provide superior values to our slaughterhouses and make meat more competitive to feed the world. So, there's a little bit of an esoteric side to it. As we often tell people, our job is to make our raw material suppliers more and more competitive, so they can sell more product and we can pick up whatever's left over. John, anything you want to add?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

I think it is always interesting, because how the margin in Diamond works over a period of time is fairly complicated. There's the price of diesel fuel, there's the price of fat, there's what's happening with the green premiums. But all I would point out, Ken, is that since the LCFS markets are really developed about three or 3.5 years ago, we've seen the diesel fuel market anywhere from $2.20 a gallon to $0.86 a gallon.

We've seen the [ph] Jacobs (00:49:33) anywhere from $0.18 a gallon to $0.29 – or $0.18 a pound to $0.29 a pound. And guess what? Diamond Green Diesel has made $2.25 when you allocate that tax credit to the appropriate year, $2.25 to $2.50 every single year. So, if the market adjust this is a competitively advantaged product, if you have the right facility, with the right capability and you can get to the various LCFS markets. And we have adjusted over time; we anticipate that's going to continue going forward.

**Kenneth B. Zaslow**
*Analyst, BMO Capital Markets Corp.*

Q

Great. Thank you very much.

**Operator**: Our next question comes from Matthew Blair with Tudor, Pickering, Holt. Please go ahead.

**Matthew Blair**
*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Hey. Good morning, Randy, Brad and John.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Good morning.

**Brad Phillips**
*Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.*

A

Morning.

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Morning.

**Matthew Blair**
*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

I'd like to circle back to the pricing front. Earlier there was talk that fats and protein prices were up a little bit in October. Soybean prices have also moved up about 6% so far this quarter. How does that compare to any trends you're seeing on the UCO pricing front?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

UCO has remained very strong the whole time. Clearly, it's the preferred feedstock and there just really isn't on a macro basis all that much UCO that's out there. I mean, you started to see fats and proteins move back up here as we started to rationalize what the size of the US corn crop was after the straight line wins, [indiscernible] (00:51:13), or whatever you call that thing in Iowa.

And then ultimately, as we've started to see the global demand for bean oil move back up. So, ultimately, as we look around the world, it looks pretty solid going into next year. I mean, it looks even better than where we're at today. I mean, when we look at it, we stopped the macro world. We look at where we see animal fat prices, soybean meal prices, and then where we see pet food demand for our specialty ingredients and all three of them look really, really positive going into 2021. John, anything you want to add?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

No. Absolutely. The demand picture for all of the products that Darling is producing is quite frankly the best I can remember in maybe three to five years.

**Matthew Blair**
*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Sounds good. And then, I guess on the feed side, you've highlighted previously that you collect about 40% of North America used cooking oil. Can you talk about efforts to protect and potentially even grow that collection business? If you start to face more competition from, I guess, new renewable diesel plants looking for low CI feedstocks?

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Well, number one, the market share that you represented is pretty close. What we would say that we collect in the US with a specialty truck fleet in 130,000 customers. I don't think, Mr. New Renewable Diesel plant is going to go buy trucks and collect used cooking oil. That's number one.

We have a value proposition that's very, very difficult for anybody to overcome. If you look at the UCO market, and I think this is a relatively important optic. We've seen it come back from the April COVID lows to about 85% to 90% of normal. I would still tell you, we're off 25%, 30% in the Northeast as New York, New Jersey refused to open. But overall the rest of the country, especially the Southeast, which is kind of the king of fried foods is really come back strong, so that looks good.

The second thing is, is hidden within Darling is a changed approach to how we do business with customers. And we have built a customer engagement platform now that really takes us to a new level. No longer, are we knocking on the door of a restaurant saying, can we buy or remove your waste cooking oil. John, do you want to comment a little on what you've done there?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah. Yeah. This is something we've been working on for about four years now. We've totally revised our marketing and our go-to-market strategy associated with used cooking oil. And right now, quite frankly, while we're in operation that looks like something that Microsoft or one of the tech companies would be running. As we've changed as we know the restaurateurs that we go out and talk to, quite frankly, our millennials and generation Z and they wanted to be communicated in a different way.

We are doing that and actually that platform has been built, has been in place now for a couple of years. We're really proud of it, because it's a total redo of how we were approaching our customers out there. It has strengthened our market position and quite frankly in a sustainable world, in an ESG world we have the number one message to anybody that has used cooking oil. Your product is going to be made, turned into what amounts to a highly sustainable, carbon reducing, vertically-integrated chain that Darling controls. That is a statement that quite frankly most of the other people out there picking up used cooking oil cannot claim.

**Matthew Blair**
*Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.*

Q

Sounds good. Thanks.

**Operator**: Our next question comes from Ben Kallo with Baird. Please go ahead.

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey, thanks for fitting me in guys. Could you remind us about just the percentage of fats that would go into the Port Arthur facility, if you go forward with that in the US and then do you plan on importing them? And that's my first question.

My second is, is palm oil and using that as a feedstock and I think [indiscernible] (00:55:37) does that, but how do you think of that? And then the third question is, does it make sense for the JV to be a JV or how far down [indiscernible] (00:55:52) looking at different strategies for it being a standalone or something else? Thanks.

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah, I'll answer the first two. And then, I think, I might be able to start the third answer and I'll let Randy finish up. Yeah, we anticipate that as the world gets more renewable diesel capacity, you're going to start to see some fat move around the world a little bit more. Whereas today it's mostly we've just been using North American based feedstocks.

We announced about, well, I don't know, seven or eight months ago that we had entered into a throughput arrangement with IMTT in New Orleans. One of the really critical aspects of that, is that gives us an excellent facility, not only receive fat off of the river, barge off of barges, but also to receive fat as it becomes available in the world to bring in too and we can directly pipe it over to Diamond Green Diesel, which is absolutely wonderful.

So, we've got full scale capability, obviously, as folks get bigger in renewable diesel capacity, a larger and larger portion of the waste fats in North America are going to go to the renewable diesel capacity, but they're only going to go to those folks that have pre-treatment capacity, because if you try to run waste fats on one of these facilities, one of these renewable diesel plants without pre-treatment facility, you are not going to like the results that you're going to get in a very short period of time. And we've got to pull pre-treatment capability both at Diamond Green Diesel I and II, in Norco, in Louisiana. But also at Port Arthur, we're going to have the full pre-treatment capability.

So, we're going to be buying a larger and larger percentage of waste fat, IMTT gives us full flexibility to bring fat in from anywhere in the world, which we love. That logistics flexibility we think is critical moving forward to compete in this business. You had asked Tom (sic) [Ben] (00:57:40) that your second question was...

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Ben. Palm oil, palm oil.

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Palm oil. Yeah. We're going to use palm oil.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

And then, Ben, your third question...

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Ben, I'm sorry.

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Why not palm oil, I guess...

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Because our primary market is North America and palm oil doesn't qualify in the North American markets.

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Got it.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

It doesn't have a pathway, Ben. So – and your third question is, I'm going to speak for my partner, Joe Gorder at Valero. We're very happy with our relationship today and how it's structured and have no intent. Never say never. But at this time, we're going to get number three built out and then we'll see where we're at from there.

**Benjamin Joseph Kallo**
*Analyst, Robert W. Baird & Co., Inc.*

Q

Sounds good. Thanks guys.

**Operator**: Our last question will come from Tom Palmer with JPMorgan. Please go ahead.

**Thomas Palmer**
*Analyst, JPMorgan Securities LLC*

Q

Morning. Thanks for the question. It's has been only half a day, but since your press release said it feels much longer. I just wanted to ask on the feedstock side. And I know you've gotten a lot of questions about this, but I just wanted to maybe revisit the mix.

A couple of years ago at the Investor Day, you estimated that Super Diamond would run, I think, it was 15% to 20% used cooking oil, 50% animal fat and then the remainder mostly comprising corn oil. Could you give us an idea of what the feedstock mix would be today, if that proposed mix is kind of still how you're thinking about Super Diamond? And then how we might think about that mix evolving, if you do go ahead with Port Arthur? Thanks.

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

Yeah. This is John. As we move forward with larger sized diamonds, what you will see is there is only so much used cooking oil out there, although it's expanding not only in the United States but around the world. You'll see a greater mix of animal fat as opposed to used cooking oil, although we see a lot more corn oil too.

But generally, you'll see our usage of animal fat as a percentage increase a little bit. We're fully capable of handling all those mixes that are our pre-treatment systems in both Norco and what we're building in Port Arthur, Texas. So, whatever that mix is that's one of the beauties of the system that we built and are in the process of building in Port Arthur. However, that mix of product works out there, we're okay, because we're going to adjust and be able to buy what's the cheapest price feedstock is.

**Thomas Palmer**
*Analyst, JPMorgan Securities LLC*

Q

Okay. And just to clarify, does soybean oil become a factor as you think about Port Arthur or you think that kind of those other three are going to continue to be the driver?

**John Bullock**
*Executive Vice President – Specialty Ingredients and Chief Strategy Officer, Darling Ingredients, Inc.*

A

This is John, again. We would think the waste fats would continue to be the driver. It's a possible and from time to time indeed at Diamond Green Diesel, we have processed soybean oil. I'm not going to say that's out of the question going forward, but our primary focus is still on the waste fats at this time.

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

A

Tom, this is Randy. It's on the waste fats and really that's the reason as John continues to stress to people. It's logistics – it's not, we're not at the end of a rail line in [ph] Shyane or Dickinson (01:01:00) or Artesia, New Mexico. We're sitting on the Gulf of Mexico, where we can bring in animal fat out of Brazil, Argentina, Australia. We have 0.5 million tons of fat in Europe today, if it works can arbitrage in here, depending on FX spread.

So, that's what's driving the location is Darling's access, it's just not North America, it's Europe, it's our presence in Australia, it's our presence in China, it's our presence in South America. We have a visibility to origination that is second to none here. And once we're – as John said, with the terminals that are going in, it's going to put – we're putting in a little more storage, because the longer lead time and boatload quantities, lots of flexibility here will allow us to be the best guy on the block.

**Thomas Palmer**
*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks for the detail guys.

---

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

---

**Randall C. Stuewe**
*Chairman & Chief Executive Officer, Darling Ingredients, Inc.*

Thanks, Matt. Appreciate it. Appreciate everybody's time today. Hope you stay safe. Have a wonderful holiday season and the upcoming time with your families. And hopefully, as Jim gets forward here, we'll have some upcoming events in our IR. We'll keep you posted and look forward to talking to you soon again. Stay safe.

---

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