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Darling Ingredients, Inc. (DAR)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients Inc. Conference Call to discuss the company's fourth quarter and fiscal year 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 now like to turn the call over to Mr. Jim Stark. Please go ahead.

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

Thanks, Elisa. Welcome to the Darling Ingredients Q4 and fiscal year-end earnings call. Participants on the call this morning are Mr. Randall C. Stuewe, our Chairman and Chief Executive Officer; Mr. Brad Phillips, our Chief Financial Officer; and Mr. John Bullock, our Chief Strategy Officer. 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 everybody and thanks for joining us. 2020 was a year with many facets. We started the year confident that the commodity price headwinds faced over the past several years would ultimately transform into tailwinds. Then, a pandemic hit and basically turned all of our worlds upside down.

Like most other public companies have started in the earnings cycle, navigating the choppy waters of 2020 was truly a challenge. Our priorities during the COVID-19 pandemic continue to be protecting the health and safety of our employees while continuing to provide our essential services to the industries and communities we serve. We implemented significant changes in safety protocols across our global operations to protect our employees, serve our customers, and ensure business continuity.

We did incur direct costs of about $7.5 million related to these actions to protect our employees from COVID. This doesn't include the plant disruptions, production slowdowns or customer order delays. The result of our efforts allowed us to continue our operations through fiscal 2020 with minimal disruption. So, a big thank you to all our employees for going above and beyond last year. Your hard work made 2020 one of our best years in Darling's long history.

Okay. We finished the year strong with a combined EBITDA, adjusted EBITDA of $214.5 million in fourth quarter. All of our segments in the Global Ingredients platform put up solid results as $146.3 million of EBITDA in the base business was the best quarterly performance of 2020 and reflected the growing momentum of an improved pricing cycle.

The Feed segment ended the year with a solid performance of $90.2 million of EBITDA, driven by the higher raw material volumes and better prices in both proteins and fats for the quarter. The commodity price momentum has certainly carried into 2021 as prices are close to their tenure mean reversion average. We believe that 2021 results for the Feed segment should increase significantly over the previous year. I'll dive into that a little later in the call.

Our Food segment continued to show strength, finishing 2020 with its best quarterly performance in our history. Our collagen peptide sales drove better results posting approximately $50 million of EBITDA for fourth quarter. With our three new Peptan facilities online last year, we anticipate solid growth in this segment for 2021.

Now, as we had indicated, on our third quarter call, Diamond Green Diesel had its turnaround in early fourth quarter which led to DGD selling approximately 57 million gallons of renewable diesel at $2.40 per gallon or contributing $68.2 million of EBITDA to Darling during fourth quarter. For the year, DGD certainly met our expectations selling 288 million gallons of renewable diesel at an average of $2.34 per gallon. Darling's share of EBITDA from DGD for 2020 was $337.3 million. Our European bioenergy business reported another solid quarter, which we believe will be steady through 2021.

As we stated in our earnings release, yesterday, Darling has shut down its two biodiesel facilities located in Montreal, Quebec, and Butler, Kentucky. This decision was based on the go-forward unfavorable industry economics for biodiesel. Our action does free up valuable low carbon feedstocks that can be sold to DGD and also helps us focus our energy on making DGD the best low-cost renewable diesel producer in the world. Brad will cover the particulars of the asset impairment charge related to these shutdowns a little later in the call.

Our current take on the economic recovery is bullish. Ag commodity markets are experiencing very favorable pricing environment. The energy market also is stronger than a year ago with ULSD trading above where it was at the end of February 2020. These two together make for a strong operating environment for Darling and DGD. We believe as the U.S. and world economies reopen, later this summer, demand for eating out, taking road trips will help us to maintain a good percentage of the improved commodity price environment we are experiencing today.

So, with that, now I'd like to turn the call over to Brad to take us through some financial highlights. And I'll come back to you and talk about the outlook and guidance we're willing to give for 2021. Brad?

Brad Phillips

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

Okay. Thanks, Randy. At the top, we'd like to point out that our fiscal 2020 was a 53-week year with the extra week in our fourth quarter. Also, I will speak to several adjusted amounts, which reflect the shutdown of our two biodiesel plants with a restructuring and asset impairment charge recorded in the fourth quarter of 2020, and also adjusting the Q4 2019 and fiscal year 2019 results for the retroactive blenders tax credits related to 2018 and 2019, all being recorded in our fourth quarter 2019 results. We think this will give a better comparison of our results period-to-period.

The previously-mentioned pre-tax restructuring and asset impairment charge of $38.2 million related to the shutdown of the two biodiesel facilities included a goodwill impairment charge of $31.6 million, other long-lived asset charges of $6.2 million and $0.4 million of restructuring charges.

Now, for a few of the highlights, net income for the fourth quarter of 2020 totaled $44.7 million or $0.27 per diluted share compared to a net income of $242.6 million or $1.44 per diluted share for the 2019 fourth quarter. Net income for fiscal 2020 was $296.8 million or $1.78 per diluted share compared to $312.6 million or $1.86 per diluted share for fiscal 2019. In the fourth quarter of 2020, we recorded a $30.6 million after-tax restructuring and asset impairment charge related to the shutdown of our Canada and U.S. biodiesel facilities. Excluding this charge, adjusted net income was $75.3 million or $0.45 per diluted share.

Additionally, the fourth quarter of fiscal 2019 included retroactive blenders tax credits related to 2018 as well as for all of 2019. Excluding these credits for periods prior to the fourth quarter of 2019 resulted in an adjusted net income for the fourth quarter of 2019 of $50.1 million or $0.30 per diluted share.

Excluding the restructuring and asset impairment charge related to the shutdown of the two biodiesel facilities, adjusted net income for fiscal 2020 was $327.4 million or $1.96 per diluted share. Excluding the retroactive blenders tax credits related to 2018, adjusted net income for fiscal 2019 was $226 million or $1.34 per diluted share.

Now, turning to our operating income, we recorded $74.4 million of operating income for the fourth quarter of 2020 compared to $293.3 million for the fourth quarter of 2019. Excluding the pre-tax, $38.2 million restructuring and asset impairment charge, adjusted operating income for the fourth quarter of 2020 was $112.5 million.

Excluding the retroactively reinstated blenders tax credits recorded in the fourth quarter of 2019 for prior periods, the adjusted operating income for the fourth quarter of 2019 was $100 million. Therefore, on a comparative basis, the fourth quarter of 2020 adjusted operating income improved $12.5 million over the fourth quarter of 2019.

The fourth quarter 2020 gross margin increased $29.8 million over the prior-year amount, which partially offset the $38.2 million impairment charge and a $10 million increase in depreciation and amortization, which was partially attributable to the Belgium Group and Marengo acquisition assets added in the fourth quarter of 2020.

Operating income for fiscal 2020 was $430.9 million as compared to $475.8 million for fiscal 2019. Excluding the $38.2 million restructuring and impairment charge, the adjusted operating income for fiscal 2020 was $469.1 million. Operating income for fiscal 2019 was $475.8 million. Excluding the retroactive blenders tax credits related to 2018, adjusted operating income for fiscal 2019 was $389.2 million. The $79.9 million increase in adjusted operating income for fiscal 2020 as compared to fiscal 2019 was primarily due to a gross margin increase of $108.3 million and a larger contribution in equity earnings from our renewable diesel joint venture Diamond Green Diesel.

These improvements more than offset a $20 million increase in SG&A, asset sales gains of $20.6 million in fiscal 2019, and a $24.7 million increase in depreciation and amortization. SG&A increased $20 million in fiscal 2020, as compared to fiscal 2019, primarily due to increases in insurance premiums, labor cost, COVID-related costs, and foreign currency effect, which were partially offset by lower travel costs.

Interest expense declined $1.7 million for the fourth quarter 2020 as compared to the 2019 fourth quarter amount, and declined $6 million for fiscal 2020 as compared to fiscal 2019.

Turning to income taxes, the company's 2020 effective tax rate of 15.1% is lower than the federal statutory rate of 21%, primarily due to the biofuel tax incentives. Tax expense and cash tax payments for 2020 were $53.3 million and $36.8 million respectively. For 2021, we are projecting the effective tax rate to be 20% and cash taxes of approximately $40 million.

Looking at the balance sheet, at year-end January 2, 2021, debt was reduced $141.4 million during the year with a net pay down of $189.8 million. The bank covenant leverage ratio ended the year at 1.90. Capital expenditures totaled $280.1 million for 2020, as we plan to spend approximately $312 million on capital expenditures in fiscal 2021. The company received $205.2 million in cash distributions in 2020 from our Diamond Green Diesel joint venture. Lastly, we repurchased approximately 2.2 million shares of common stock, totaling $55 million during fiscal 2020, and paid approximately $29.8 million in cash, in the fourth quarter of 2020, for the Belgium Group and Marengo acquisitions.

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

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey. Thanks, Brad. Now diving into 2021, with the commodity price improvement and continued strong raw material volumes, we believe that our Food, Feed and Fuel segments, prior to adding Diamond Green Diesel, should generate between $565 million and $600 million of EBITDA. That's a conservative 12% to 20% improvement over 2020. DGD, we believe, will be able to earn at least $225 a gallon EBITDA in 2021, and should produce between 300 million and 310 million gallons this year, which would generate between $335 million and $350 million of EBITDA for Darling's share.

As we outlined on slide 5 of the investor presentation, our guidance is for the range in 2021 is $900 million to $950 million combined adjusted EBITDA. This range does not include any additional upside for renewable diesel gallons. It could be produced in 2021 as the 400 million gallon expansion is on track to commission in early Q4.

We should know better in the middle of the year the exact timing of when the Norco expansion will be approximately on line.

Now, the DGD Port Arthur location is making excellent progress with all key long lead equipment items ordered and site work nearing completion. This 470 million gallon renewable diesel facility should be operational by the back half of 2023, securing Diamond Green Diesel's leadership position, as the largest low-cost producer of renewable diesel in North America. We anticipate all costs of both expansion projects will be funded by the internal cash flow of Diamond Green Diesel. However, we still anticipate DGD putting a non-recourse revolver in place shortly.

Now, let's do something different, and turn to the feedstock question. I will try and answer this question now, but sure you will ask it again during the Q&A. Darling believes there is adequate low-carbon feedstocks to supply the 1.2 billion gallon renewable diesel platform of DGD. We do expect growth in animal fats and certainly think that used cooking oil will recover a little this year and grow in the future years.

Our approach for keeping our feedstock advantage for DGD is twofold. What can darling do to render or collect more out of our footprint today either through process or technology improvements or competitive positioning? And what are the bolt-on opportunities to grow our volumes of animal fats and waste oils around the world? We do believe there are multiple avenues for us to pursue in expanding our feedstock footprint. And we have faith that our large global presence will put us on a pathway to get results that others might not be able to achieve.

Operating animal by-product businesses on five continents allows us to see what no one else can see, and provide supply chain arbitrages that will make our renewable diesel platform second to no one. As we grow another year older and wiser, we continue to position our company in the best place to take advantage of the changing times. We are excited about our outlook for 2021, encouraged by the growth of our low carbon fuel standards around the world. And we are doubly pleased with the great progress at Diamond Green Diesel and our joint venture partner Valero as we are now inside of nine months of the biggest renewable diesel project in North America starting up.

So, with that, Elisa, let's go ahead and open it up to question-and-answers.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thanks. Good morning, everyone.

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

A

Good morning, Adam.

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

A

Good morning.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

So, I guess first I want to appreciate giving kind of more clear kind of EBITDA guidance. It's much appreciated by the analysts and investors alike. But I wanted to just hone in a little bit on the assumptions underneath that in the base business if you could, specifically in the feed business, Randy, just thinking about the commodity environment today which, to me suggests that $380 million to $400 million of EBITDA in feed does not seem like a terribly high bar even embedding current commodity prices persist through the year. So, what commodity prices are actually embedded in the $380 million to $400 million, and if you could just remind us especially on the fat side kind of the leverage that the fat prices, as they potentially could move higher in the back half of the year with all the R&D startups?

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

A

Yes, Adam, great question. For us, it's a big step to try to sit out there and frame guidance, but we also understand our responsibility to try to provide some outlook there.

The reality that we're seeing right now is, and I would just say you have to – for those that follow the Chicago Board of Trade, and follow palm oil, soybean meal, soybean oil, and corn, you've got one of the steepest inverses that we've seen probably, I don't know, in the last maybe 10 years or 20 years, in the markets, meaning that today's prices are much higher than they are six months to nine months or new crop now.

So, the conservatism you're seeing in the Feed segment reflects the back half of the year and not seeing what – where that can actually go right now. I mean if you put it in perspective on fats right now, we're seeing fat prices FOB factory and delivered Diamond Green Diesel in the high-40s, which puts us back in that 2008, 2010, 2011 era, which I'm sure you can benchmark back there. I mean, as we've said, globally, each penny improvement in fat prices put somewhere between $8 million and $10 million of EBITDA to the annual earnings, so, got some really nice leverage there.

Clearly, we're seeing in Q1, as we came out of December, if you look at the prices in December versus November, they were only up slightly. And remember, most of our fat heads down, or half of it today, somewhere heads down to Diamond Green Diesel and it's somewhere in that like 45- to 75-day pipeline or supply chain that's always inbound to keep the machine fed.

And so, you will, I think we'll have a better visibility of the true run rate of that Feed segment here for you in Q1. Clearly, in January, we started to get some of the leverage, we saw that. February has just ended. So, we haven't seen that although we have, you know, did have eight factories down in full transparency in February for almost four days or five days with the Snowmageddon as we phrased it down here in Texas.

So, I think, you know, I know it's a long answer to your question. We feel very strongly the Feed segment has the most optionality in it. As Jim Stark put together kind of the outlook, we looked at it, and said, okay, you know, know strong fat prices, strong protein prices for the first nine months of the year, and then kind of tailing off unless there's some type of harvest disruption or growing disruption in the world on the back half.

Jim, anything you want to add to that?

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

No, Randy.

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

Okay.

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

I think that covered it.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC
Q

Guys, that's really helpful color. And I guess my second question is really thinking about capital. I mean, clearly, with the BTC in the margins, you're targeting Diamond Green as one way to finance the expansions at the JV level. Just one, is there any thought or any update on potential kind of financing kind of arrangement at the JV level that can accelerate cash distributions back to the parent, and just kind of corollary to that is how should we think, be thinking about kind of capital priorities at the parent over the course of the next 12 months.

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

Yes. Adam, this is Brad. As Randy mentioned, we are making progress on some financing within Diamond Green, so kind of stay-tuned for that. With the announcement weeks ago that there was the approval for the Port Arthur facility, and this is kind of, I think, to your reference point that we have two projects now simultaneous underway with the margins. Like we said earlier, these will self-fund. However, with the timing, this year and the next two quarters or three quarters of particular probably, we're probably looking to be a dividend light there, after number II comes up. And assuming there is some financing in place there, we'll see here for the year. I would suspect that there will be dividends out in the tail end of the year, but what's the cadence on the spends there? As far as capital priorities this year, we're looking at paying down at least $100 million in debt with where we're looking at on the guidance, if not more. And then we'll move into 2022, the dividends and the payouts from the JV will be much greater than we've seen in the past.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I really appreciate that color. I'll pass it on. Thank you.

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

A

Thanks, Adam.

Operator: The next question is Ben Bienvenu with Stephens Inc. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Hi. Thanks. Good morning everybody.

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

A

Good morning, Ben.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

I want to start, like Adam's question, focusing on the guidance, but pivoting to the Feed Ingredients business. So obviously, it has been a bright spot for you guys, as you brought on the Peptan facilities. We've seen margin expansion, and now we're seeing volume expand, as those facilities come online. When you look to your 2021 guidance what do you think the balance is of margin expansion versus topline growth?

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

A

Yes. That's really difficult to me to answer, Ben, and without a lot – it's got a lot of moving parts. And I mean, as Jim put out there, you know, Q4 ran at $90 million. So, if you take $90 million, and minus a little extra week that was in there, then you take it back to $84 million and times four quarters. And you're in that $330 million to $340 million range. And we're now pointing out that would be that $380 million to $400 million.

And really, what I want to highlight there is, that Feed Ingredients segment is the largest global exposure that we have other than the Rousselot gelatin business. And as we go around the horn here, improvements are going to come from better fat pricing and protein pricing in Canada. We shut down an unprofitable biodiesel business. There should be no surprise. We've been telegraphing that all year even with the $1 a gallon, that business is $0.30 to $0.50 a gallon red with fat pricing where it's at. So it didn't make sense to operate it. So Canada's going to have a better year.

Our U.S. rendering team really worked hard last year in widening margins and really getting paid for the services they provided. I mean, I understand it was a pandemic year, essential services in that. And I don't want to play that down and say that we leveraged that. Before we came into the year, there was a plan, given the amount of capital that we put in place that we needed to go out, and do the little things to tack on an extra $10 to pick up, to change make sure yields are right, and to make sure we're marketing the product to – into the right markets.

And so, the U.S. rendering team did a masterful job there. The specialty businesses that John Bullock also runs are just that. Those are different ways of diverting what I would call, streams that are in the Feed segment to higher value markets of the pet food, organic fertilizer area. And really, we've grown our footprint tremendously with two more organic fertilizer plants last year, and major expansions in the pet food business.

So, those are the big drivers there. When you go to Europe, you've got a couple things driving there. One, tonnage was extremely strong for the year because China blocked the Germany pork exports. So, as we say, the rendering barrel or the rendering tonnage was very strong, poultry tonnage was good, especially out of Poland. And so, and pricing improved or was steady. It was much higher than the U.S. for most of the year, and then actually started to improve even more in fourth quarter, so we got some lift there.

So, really the driver as we look at the Feed segment into 2021 will be the optionality that more or less exist in North America than Europe. I look at Europe as steady for next year depending on tonnage could be just a little weaker, if the tonnage, if the animal numbers contract a little bit. And then ultimately the U.S. other than the slight disruption we had in February here, the poultry guys are going to be killing on Saturday here for the next six weeks. So, end of the day, the tonnage should be strong. We're seeing the strongest protein prices and strongest fat prices we've seen in an inverse. You stay sold up. And so, we're doing our best to manage the margins there.

But I wouldn't be surprised, if we don't see additional margin expansion, driven by the U.S. Also like to point out, and Brad was pointing it to me, when you compare 2020 against 2019, why was 2019 where it was because it had the retroactive BTC for 2019 and 2018 for North America in it. And so – and that's at the total company level. So, we kind of got it. That's where he was trying to, in his script, trying to normalize 2018, 2019 and 2020, so you could see the continued improvement we have, and now we've got a strong pricing environment that should carry over very nicely into the Feed segment.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Yes. Okay. Thanks for all the details. My second question is the decision to shut down the two biodiesel plants makes perfect sense. I'm curious when you look across the rest of your asset portfolio, do you have additional opportunities like that? You mentioned the opportunity to bolt on additional feedstock sources that support your Feed Ingredients business but also potentially support your feedstock raw materials for DGD. What exists internally? And when you look out at the landscapes externally, how competitive is the market for acquiring assets like that?

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

A

Well, 2020 was a pretty slow year in the world of relationship-making. The platform that we've assembled over the last 20 years has come at the – from a relationship-developed acquisition bias here, where we look for companies that share our values that want to be part of our global family. And really, that's so key to us, and that's the reason we've been so successful integrating acquisitions.

We were able to do that with the [ph] LIPA (29:26) acquisition in Belgium. That's three poultry plants last year. That's the one, if you say came flying by our door and we paid a fair value for it. Brad mentioned in the specialty group, we acquired the Marengo tank company. Marengo has been a longtime supplier to us of our indoor used cooking oil tanks. But it now gives us the ability to, if you will, ratchet up that, and put more indoor tanks and the large operators and franchisees. We're working on additional technology there that in the AI world that makes us smarter as to when to pick it up and help operators with what they're using, and producing in the restaurant. So, we're excited about that.

And then, you kind of got to step outside of the U.S. We're seeing major meat company potential expansion in Canada. Canada has a license to trade with the world in more cases than the U.S. We're seeing opportunities now pop up in Europe, South America and Australia. So, we'll continue, as we've always done, nothing crazy here. But if we see something to bolt on that can, you know, that makes our return standards that supports our supply chain needs, make no mistake, we will go after it.

We see ourselves as a truly a growth company. We see with Diamond Green Diesel II and III coming on line that, as we've said in our boardroom, we have a high-class problem coming on. And that is what to do with the cash that we're going to generate. As Brad says, we have about $300 million pre-payable debt out there before we have to start calling bonds or ultimately change our cap structure and put a dividend. But that's where we're at today. And stay-tuned. Nothing imminent. I don't want to signal anything that we've got anything near swimming into the net today. We don't. But we're open for business and hoping that with COVID that we can get back out and continue to look at the market around the world for what makes sense.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Very good. Thank you, Randy. And good luck with 2021.

Operator: The next question is from Manav Gupta with Credit Suisse. Please go ahead.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Guys, so one thing which is encouraging is yesterday we had Valero at our Energy Conference. And Joe Gorder, Lane, and Martin said exactly what you have just said that the feedstock will not be a constraint as it appears for DGD II or DGD III. So, it's very good to see that both managements are exactly in sync.

I just wanted to get your take on one of the comments they made. They said you guys do have the ability to add a DGD IV at Port Arthur, if you wish to choose to do so. It's a little early, but they did indicate it can be done. And what they said was that feedstock would not even be a constraint, if you guys do eventually decide to go with DGD IV. So, if you could give your comments on that.

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

A

Yes. I'll comment, and then I'll give John Bullock a chance to comment. Obviously, the good thing is clearly Valero and Darling and Mr. Gorder and myself, Lane, and Martin Parrish, we're all on the same page. We spend a lot of time making sure that we're in sync. And what we've always said about who you do business with is we share values with the Valero team. And they're just an excellent team to work with.

And so, the feedstock side, obviously, that's been Joe's and my, you know, we got to get comfortable. And obviously, if everybody builds every announcement out there, that statement wouldn't be true. So, the counter to the statement that Joe and I are making is we don't believe all those plants will be built. And then, we also believe strongly in our partnership and the supply chain advantages that we have, not only in North America but by location of St. Charles and Port Arthur, our ability to originate fats out of our European, our South American, our Chinese and Australian operations. So, we feel very good there.

Relative to DGD IV, absolutely, when number III site was picked, land was, if you will, put aside for a parallel plant there. Lots of dreams on number IV. I think probably into 2022 that discussion will get more and more traction. I suspect that we will do some pre-engineering on IV. As we've always told people, you can't go get a permit until you design it and you have to know what equipment you're going to order before you can design it and then before you can permit it. That's the reason any of these announcements out here are probably a little more hot air than they're real at this moment.

And then ultimately, the thing that truly gets us excited is, as we've said in the past, the sustainable aviation fuel narrative is gaining traction. Admittedly, the airlines are a little challenged still right now. The freight haulers aren't, but they're under this continued climate pressure, and especially now with the Biden administration that we're actually having real discussions and looking at real engineering on an SAF unit that can either be bolted on to number II, number III, or number IV could be an SAF facility in itself.

John, anything you want to add?

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

A

Yes. I mean when we designed number III at Port Arthur, we actually laid out all the logistics and supply necessary, as well as a specific plot, and the specific design for Diamond Green Diesel IV. So quite frankly, IV is approaching ready to go in the tank whenever we make an ultimate decision on it. And we have pre-planned that as we put III in place.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect, guys. I've been covering Valero for a long time and I can see why you guys get along so well. You share so many of the common values they do. I have a quick follow-up here. One of the reasons you're seeing some pressure on your stock in the sector is because we have seen so many announcements come out on renewable diesel side.

Now sometimes, experienced people like you are trying to build extra capacity, which makes sense. But then other times, you have a refiner coming out and saying, okay, I have a shot hydrocracker somewhere, and if somehow I can restart it, that uniquely positions me to create renewable diesel. And for those of us who are from more on the energy background, can you help us understand why is it more important than just to have like one-shot hydrocracker, and that's not enough to make you a renewable diesel producer overnight, if you can restart a hydrocracker.

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

A

Yes. This is John. The fact of the matter is our renewable diesel plant is very different than our traditional petroleum plant, especially in renewable diesel plant that's capable of handling the low carbon feedstocks that has the type of supply chain that's necessary. I think what most people don't realize is that the cost to build Diamond Green Diesel's, only 30% to 35% of that cost is the actual cost to convert the fat to fuel.

That's not the key success dynamic involved in this business. You have to have the massive logistics infrastructure in place. You have to have the pre-treatment in place. You have to have the logistics on the outbound side. You have to be able to minimize your carbon intensity levels. You have to be able to have flexibility to hit all the different low carbon markets around the world, which have extremely different dynamics in terms of margin management.

You have to have the ability to be able to capture your naphtha and be able to get your low CI value off of that, as well as the ability to use the other feedstocks to lower your renewable – make your hydrogen that you're using in your facility renewable to lower the carbon intensity. So, there is a simplistic view of this business that all I have to do is convert a unit and I can somehow make as much money as Diamond Green Diesel does. Good luck with that.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you for taking my questions. That was very detailed response. Thank you.

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

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

Great. Thanks for taking my questions. Randy, so you're going to have more than a billion gallons here in the U.S., right? The trajectory is pretty well-set at this point. But when we look to other global markets, Europe is a particularly attractive opportunity. So, I know, I guess some banker let it slip out there that you were working with one of the potential partners over there in Europe. But I assume you have had multiple potential shots on goal. Can you maybe frame out for us the scope of possible projects you might be looking at in Europe? And would they take a similar timeline to what's going on here in the U.S.? And what do you feel about the regulatory environment in Europe? Neste seems to be doing pretty well with that. Is it something that Darling can leverage as well?

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

A

Yes. This is John. So, we agree the regulatory environment in Europe is excellent, RED II, and I think there's even some conversation of a "RED III" coming down the line. We have evaluated whether or not we wanted to be in the renewable diesel business in Europe quite extensively. Yes, I've looked at several opportunities in-depth. At the end of the day, we may or may not play as a renewable diesel player in Europe. What we do sit on top of, in Europe, is a very, very unique position in relationship to how we can sell our fats into the renewable diesel business in Europe.

And you have to remember, Europe is very, very different than the United States, in terms of geography. It's very hard to have a stand-alone pre-treatment system in the United States just because of the size and distance that we have here, whereas in Europe we have the opportunity to put ourselves in a position to be able to maximize low CI feedstocks to the renewable diesel business. And quite frankly, our team there has done a phenomenal job, in positioning us, allowing us to maximize value.

So, we'll continue to evaluate whether or not we want to be in the renewable diesel business in Europe. At this point in time, we've obviously made the decision that we like, our investments in renewable diesel being in North America particularly in the Gulf Coast of North America. But that doesn't mean that we don't think that we can participate in the value chain associated with the renewable diesel in Europe, and point of fact, we're excellently positioned for that. We've been working on establishing the right type of machines and the right type of marketing capabilities in Europe. And we really like our position and the advantage that renewable diesel is going to bring to us in Europe as well.

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

Excellent. Excellent. So, then the only major regulatory change, since your last earnings call, is the release of the low-carbon standard up in Canada. They do consume a little bit of renewable diesel biodiesel now obviously. Randy, your biodiesel was challenged and I understand that. But what do you guys think about the potential in the Canadian market. I know their diesel consumption is something sort of similar in magnitude to the State of California, so potentially a multi-billion gallon renewable diesel market. How are you guys looking at this? Is this something where there is additional business development activity going on, or would you look to maybe serve the Canadian demand out of U.S.-based facilities?

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

A

Yes. This is John. We would right now look at servicing out of our U.S.-based facilities. We are phenomenally well-positioned to service the Canadian marketplace. We can get to Canada on either coast. That's not Jones Act freight, so it's cheap freight out of Norco or out of Port Arthur, once we put Port Arthur in place, we're going to have [ph] seeing load-out capability (41:35) out of our facility in Norco so we could get directly to the interior in Canada. So, we see ourselves as just extremely well-positioned to be able to hit the Canadian market.

And the other thing that's very, very exciting is we have the capability to make an Arctic grade renewable diesel product, which obviously is extremely important for a rapidly-expanding Canadian market, because it actually does get cold in Canada a fair bit of the time, at least 10 months of the year. So, the fact of the matter is we have a great capability to hit that marketplace. It's a wonderful, wonderful market for us. We have wonderful relationships with the folks in Canada, and we just love how we're positioned in relationship to servicing the Canadian market.

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

Thanks, John and thanks for taking my questions.

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

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

Q

Hey, all. Thanks for taking my questions, and thanks for all the detail here. Can you talk just maybe just briefly on Port Arthur, and then on the naphtha and jet fuel opportunity, is one thing that we haven't heard about yet. And then, how we should think about that in terms of overall margin going forward? I know there's a lot of puts and takes out there. And then I have a few follow-ups.

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

A

Yes. So, this John. So, the naphtha has been something that we are going to be doing both in Port Arthur as well as Norco. When we start off Diamond Green Diesel II, we're going to have the ability to strip the naphtha out. And that means that we can market the naphtha as a low CI feedstock – low CI fuel into the various LCFS markets. When you do that, for the amount of the naphtha that you're stripping out, which I believe we've indicated is about 40 million gallons or 50 million gallons, out of the Norco facility, and then there will be a similar amount that'll come out of, a little less than that, that will come out of Port Arthur, that means that we'll get the upgrade on the LCFS value for that amount of naphtha.

In addition to that, we are also taking our [ph] light end strains propane butane (43:49) and we're going to be able to feed those into hydrogen reformers, be able to have renewable hydrogen to feed our unit which means we'll be able to lower our CI value for every gallon of both naphtha and renewable diesel that we produce at both facilities. Those are significant economic upgrades. They come at a capital cost. But those are significant economic upgrades. And again, this is the overall competitive positioning of Diamond Green Diesel versus what other folks are doing out there. This is not just a flip a switch and make a lot of money. You have to have the right type of capabilities and the right type of locations and the ability to separate out the naphtha and to make renewable hydrogen. Those are all key capabilities.

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

A

John, hey, Ben also mentioned the jet fuel [ph] and what that has to do with the margins (44:39)?

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

A

Yes. And jet fuel is an interesting market. We see it as a developing market. It's probably a few years off. There is a lot of conversation about sustainable jet at this point in time. We believe that will be a product in our portfolio as we move forward. But quite frankly, it's probably a couple three years out there because at this point in time, we have more than enough demand on the roadside for any product that we can make. But we do believe that sustainable jet is going to be a key product in the Diamond Green Diesel portfolio at some point in time as we move for the next few years.

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

A

John, do you want to comment a little bit on? You mentioned arctic-grade term.

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

A

Yes.

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

A

And why that's important in the product mix.

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

A

Yes. Arctic-grade is in the short-term much more important than sustainable jet is to us, because so many of the markets that we go to have periods of the year where it's cold. And quite frankly, by being able to make an arctic-grade product, we're able to substantially improve the blending economics for our customers. That would be places like Canada, Norway, Sweden, Switzerland, all places that have a significant part of the year where the temperature is relatively cold. That puts us at a tremendous economic advantage on being able to service our customers, and dramatically increase the amount of value gallons that we sell on an annualized basis. So, we're really excited to be able to have arctic-grade product as part of our portfolio.

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

Q

Got it. Maybe Randy, from a strategy perspective, how much, this goes to your feedstock commentary, how much is, you know, it's a land grab, the quicker you build capacity like Port Arthur and the harder it is for people to get capacity, or is it because it's just – because it's transactional does it not work like that, or is that part of your thinking?

And the second thing I want to go back to, you've made a ton of acquisitions since you started, and now the balance sheet doesn't have a lot of leverage on it. I know you said you don't want to do anything crazy, but where would you do something not crazy?

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

A

Everybody is looking to me like I'm already crazy but that's okay. No, it's interesting. Ben, as we look at the world here, and I'll digress a little bit, first-mover advantage test was key because of the supply chain. And clearly that's the reason number II or the expansion in number I with the new 400-plus million gallon line, we're seven months out from starting up now. And that's really exciting.

What happens then? Well, then, all the sudden, 40% – 35% to 40% of North America's waste fats and grease is defined as used cooking oil, animal fats, distillers' corn oil are destined to Norco, Louisiana. Now, let's fast forward about another 15 months, then Port Arthur comes on line, and now you're up to 65% of North America's waste fats and oils consumed by Diamond Green Diesel, Darling and Valero.

So, clearly, with the plants under construction today, and I mean Port Arthur, I mean anybody wants to do a flyover, foundations are poured, guys. The equipment is starting to arrive and steel will be going up here shortly. So, that's a little different than an announcement on paper. And I would suggest the other announcements probably need to have another look at their financial model.

And then, the second thing is, is if you look at the world today of these non-pretreatment retrofits, I mean [ph] the run in RBD soybean oil (48:29), and last time I checked that's somewhere between, I don't know, $0.55 and $0.60 a pound delivered the plant. And so, at the end of the day, you got that, and then you got a CI score in the high-50s versus a 19 to 20 for Norco and Port Arthur.

And so, those economics really don't look all that good relative to where they were. And then, they look okay, if you will, as long as that blenders tax credit is there for them, beyond 2023. If it's not there after 2023, those are horrible investments. And so, obviously when we built Diamond Green Diesel I, we looked at it on a 10-year look-back and obviously made the decision to go forward. And we've been spot on with what we told you guys last year we would be, and we're pretty confident where we're at this year.

Now going forward, Ben, to your questions, we're going to generate a ton of cash. John Bullock's famous line is "This is when management teams do stupid things." We've got to – we're looking for the next big thing. But, and also with that John, as the strategy officer also heads up our specialty group, which includes our EnviroFlight business.

Brad talked to you about $312 million of capital going out the door. There's a chunk of capital in there that we are doubling the size and investment in our bug business. We think we've got something there. We're not sure what we got right now, to be 100% transparent and honest, but we think we've gotten something, and we are in production. It's legitimate. We know how to do it. We're scaling it. And we're confident enough that we're scaling it and going to build number II.

And so, where will capital go? It could be there, as we build a platform out there. And the idea is ultimately we see the world's short protein, and all – and this is just a wonderful product that has various attributes that are right now being in government regulation and getting permitted and authorized to be used in different applications. We can't comment about those yet, but it's a pretty exciting time.

Relative from that, we'll see what the world offers up this year. I think if you look at the family-held rendering companies around the world, they went through the same five years of challenges that we did. And when they get a good year, I don't know, does that say I don't want to go back to the prior five years, and do they do they come for a succession and event here? We'll see. We hope they do, because we're in a position now to grow and obviously we've got demand for the product and knowhow to run those businesses.

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

That's all good. Thank you guys, very much. All of you guys, thanks.

Operator: Next question is from Tom Palmer with J.P. Morgan. Please go ahead.

Thomas Palmer
Analyst, JPMorgan Securities LLC — Q

Good morning, and thanks for the question. I wanted to ask on just the guidance around DGD. We've seen a bit stronger EBITDA this year on a per gallon basis and in 2019 from the $225 you're guiding for. Is this just conservatism or is there anything maybe to call out either just given moves and feedstock costs that might cause the year to start off a bit lower? Or if there's startup costs late in the year that we should be factoring in that are driving that number? Thanks.

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

Yes, Tom, this is John. No. At the end of the day, we feel very confident in the $225 call for the year. Quite frankly, we're starting off extremely strong both in production and margins as we move through Q1. So is there a possibility that we could end up higher than $225 for the year? Sure.

What I'll say is this though, functionally the difference on a 300 million gallon or if we can get Diamond Green Diesel II in production in Q4 may be better than 300 million gallons, and whether we're making $225 a gallon or $235 a gallon is largely irrelevant. Both are fabulous. And that's particularly when you consider the fact that we've seen fat prices move materially higher.

And I think what really needs to be emphasized here is the fact that Diamond Green Diesel has made $225-ish a gallon plus. And we've made that when we had diesel fuel prices at $0.86, when we've had them at $2.20, when we've had fat prices at $0.22, when we've had them at $0.45.

The fact of the matter is the fundamental thesis that we've said time and time again is that the green premium adjusts, and as long as we have the strong driver for low-carbon fuels around the world, and the demand is there for the product, as long as you have the right type of facility, in the right location, with the right type of capabilities, margins can remain strong in this business. And we feel good about where we are in the business as we move through 2021 and on into 2022.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks, John. And then, Randy, I do have a question on feedstocks, as you've predicted some of us would have, on the prepared remarks. As we look towards sourcing animal fats from outside the U.S., how does procurement, in terms of pricing, compare both in terms of underlying fat prices and then just shipping costs as you look at shipping via freight versus shipping domestically?

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

A

Go ahead, John.

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

A

Yes. This is John. Obviously, the fat market is a worldwide market at this point in time. And the prices are going to be established by where the demand is and where the highest and best use is. So, we see this as a fungible market. We think product will move around the world, as it needs to, to supply the highest and best use. Our focus has been to develop the best machine at converting fat to fuel, and having it in the right location, and having the right type of capabilities. And in line with that, as we open up Diamond Green Diesel II, we are going to be opening up both vessel and barge receiving capability as part of Diamond Green Diesel I and Diamond Green Diesel II. So, we're going to have the ability to collect fat from anywhere in the world, if it's right-priced, and it's the right fat for us to be processing.

So, it's capability. The marketplace will determine what the price is. The most important thing here is this though. You've got to have the best machine economically at converting fat to fuel. And if you do, then you get to buy the fat, and you get to make the most money than anybody does in the renewable diesel business. And that's what we hope, and think we've designed, at both Norco and at our new facility coming on in Texas.

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

A

Yes. And, Tom, this is Randy. I think I'd add to that, because John's exactly right. It's a real estate play, location, location, location. But I think the thing the market misses today is that we closed Montreal and our Butler, Kentucky biodiesel plant because the economics don't work. And I – while I can't make that, as a general statement, for the biodiesel industry, I would tell you that superior technology and [ph] Gen 2 renewable diesel (55:50) with the right locations, and there really isn't going to be a feedstock issue in the U.S., because it'll come straight from the biodiesel producer in the U.S. and North America going forward. That's the reason we're so comfortable.

If you look at $2.25 versus minus $0.50 today, in classic biodiesel, I mean there's no comparison. And then you saw that in the December production numbers of the U.S. biodiesel industry, where 60-plus-percent of it's now being made out by the integrated soybean oil guy, that's either going to make salad oil. He's going to sell it as crude to gum to the Gulf for export, or he can run it through as biodiesel. So, that's a different arbitrage within the crushing industry than it is for a stand-alone biodiesel guy going forward here. So, you're going to see the marketplace rationalize itself. And as Diamond Green Diesel II comes on, that'll just really start to really crystallize for the market.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Great. Thank you for the insight.

Operator: Your next question is from David Fernandez with Simmons Energy. Please go ahead.

David Fernandez
Analyst, Simmons & Company International

Q

Hi, guys. Thanks for taking the question. I'm subbing in for Ryan Todd here. I think most of what I had has been covered, but just wanted to ask on the free cash flow side. So, obviously post to start-up of Phase 2, DAR will be in a very advantageous situation from free cash flow. In terms of kind of how you think about returning that cash back to shareholders, in light of expectations, to finalize a [ph] noncore revolver soon which that leads us (57:36) acknowledges the importance that that's placed on shareholder distributions by the market.

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

A

David, it's great question. And I'll tag team this with Brad. Obviously, we feel very confident that with our partner Valero, we realized the importance of returning cash to shareholders. Valero has been a master of it in their industry and for their shareholders. They're working with us on getting the revolver in there, so we can clearly make that happen for our shareholders.

The thing is, as Brad pointed out, he's got $300 million pre-payable before we start to build cash. That becomes then the discussion of what we do with it. We've never been in this position before. In a sense, Brad and I share two dreams, as we get up in the years here, and gray hair, and that is we want to be investment-grade. And then, we'd like to put a dividend underneath the business that will attract a long-term meaningful shareholder into it. Maybe I don't mean to offend any of the hedge funds on the call. They provide nice liquidity, but I'd rather have long-term growth people that believe in the model going forward. And I think that's one way of doing it. So clearly, it's a discussion within the boardroom today. Obviously, opportunistic buybacks of the stock while maybe not in vogue with Elizabeth Warren on CNBC right now. But ultimately, it is a way of returning cash to shareholders, if necessary. So, as we say, we call it operation high-class problem within the boardroom today. Stay tuned.

David Fernandez
Analyst, Simmons & Company International

Q

Awesome. Thank you very much. That was really helpful. And one quick one. We've gotten some questions around kind of the African strain virus, sorry the African swine fever strains and reports that it's impacting the hog herd. Is there any impact that you guys have around kind of what's going on with that?

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

Yes. I mean it's one that I'm surprised it took this long in the conversation today to be brought up. But I would have told you, and I will tell you that starting November, December, we saw a much-improved hog herd in China. And our visibility to that is in the form of being able to procure hog skin to make gelatin in our Wenzhou plant and blood, pig blood, at our five processing facilities across North and South China. And so, we saw a pretty nice increase.

What we've seen in China just recently is that we've seen the plasma. If you think, if you spin the pig blood, red and white cells, red go to aquaculture, white go to baby pig starter feeds, we saw an increase in plasma demand in China, which is symbolic of a replenishing baby herd. Now plasma prices in China are about 40% of what they are in the rest of the world today.

So, it's not back to where I would tell you that I thought it was or where it's going. And now we're starting to see different strains of the African swine fever in China today. I think they've got an uphill battle. I would tell you that they've done a lot of the right things in the large scale, biosecure farms and processing plants now.

But remember, that's a third of the population has access to kind of commercial protein today. Two-thirds of the population still tries to grow it in the backyard, and trying to control the disease there and vaccinate, I'm sure China can get that done if they need to, but it really, it hasn't really transpired today. Then you move to the continent, and between Poland and Germany, and we're continuing to still see cases of ASF in the world.

So, I would tell you, for 2021, we're still not out of the animal disease issue in the world. And that's what's going to keep demand for replenishment of China's herd and strong feed grade and soy demand in the world as we go forward here.

David Fernandez
Analyst, Simmons & Company International
Q

Perfect. Thank you for taking my questions. Appreciate it.

Operator: Your last question today comes from Matthew Blair with Tudor, Pickering, Holt. Please go ahead.

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

Randy, you touched on the backwardation in the fats prices making you conservative on feed prospects in the back half of the year. Does that same dynamic make you bullish in fuel for H2 2021, or is it more of a dynamic market, where maybe rents have come down, if feed cost drops?

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

Yes. This is John. I think what we've seen consistently here is as the grain premium is adjusted, as we've seen various fuel prices, and we've seen various fat prices, and we seem to be in this to $225, maybe a little bit better, type of a range. As far as the backward integration, the inverses that we're facing in the commodity markets, at this point in time, they are what they are. But as long as the Chinese demand remains strong, we would anticipate that we would continue to see relatively good pricing for our products as we move forward.

We have to remember that we are getting down to very low inventories on both soybeans and on corn, as we move through and into our new crop year here. So, we can't really forecast the current prices for the rest of the year because that's not what we see in the marketplace today. But I would tell you that we feel good about where the demand side looks on this. China continues to drive this as they reconstitute their pig herd. Obviously, they're going to hit some short-term struggles with ASF but that doesn't mean that they still don't have the demand for the pigs. They do, and they're going to raise the pigs for their people. So, they'll figure it out.

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

And Matt, I would also add, this is Randy again. I think John did a great job of laying it out there. I mean, obviously, if feedstocks do back off, in the back quarter of the year, a third of the year, we'll see what the situation is [ph] on the rim side. But I would tell (63:57) you given the negative earnings in biodiesel today that they probably have a better chance of staying firm, and ultimately than, we would widen margins back out in DGD in excess of that $2.25.

And so, ultimately, we built and participated with Valero and DGD as a cyclical or a hedge to the ups and downs of the global grain markets, but we have no control over them. And if fats aren't going into renewable diesel, they're being fed to an animal as a calorie. And so ultimately, if corn goes down, the price of the caloric value of fat goes down. So, I think we're in a perfect situation. We've been waiting for the tailwind. I think we've been trying to tell people, hey, we've got a model between all the different things that we do at Diamond Green Diesel that allow us to capture enhanced margins and manage even if the feedstock. Who would have thought the feedstock one year ago today was $0.22 to $0.25, and today it's $0.45 to $0.50, and we're still telling you the same margin? So, I mean I think we got something here and it's pretty exciting.

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

Sounds good. And then, I just wanted to clarify on the DGD volume guidance that [ph] previously at (65:16) 300 million gallons to 310 million gallons, which I think is above what Valero guided to. And I just want to clarify does that number exclude any contribution from a Q4 expansion startup?

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

Yes. This is John. Yes. With Diamond today is running at a 300 million gallon pace. But just as Diamond Green Diesel I, if we're able to get Diamond Green Diesel II on board, then, we should be able to produce better than 300 million gallons. And we'll just have to see how quickly we'll bring Diamond II on as to how many gallons that could end up being in 2021 or 2020?

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

Great. Thank you very much.

Operator: This concludes our ...

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

All right. Really appreciate.

Operator: ...question-and-answer session.

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

A

Go ahead, Elisa.

Operator: I'll turn it back over to you Randy for any closing remarks.

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

Okay. Thank you. Hey, we appreciate everybody's time today. Hope that you stay safe, stay healthy. Jim's got a list of coming IR events in our deck for, I think in hearing about another week and a half, we kick off again. We know there's a ton of demand for non-deal roadshows, and we'll be participating in those. And we look forward to talking to you in May, and bringing you up to speed on our progress. Have a good one. Thanks, everybody.

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

Thank you.

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