Corrected Transcript

11-Aug-2021

Darling Ingredients, Inc. (DAR)

Q2 2021 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.

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.

OTHER PARTICIPANTS

Ben Bienvenu
Analyst, Stephens, Inc.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Thomas Palmer
Analyst, JPMorgan Securities LLC

Craig Irwin
Analyst, ROTH Capital Partners LLC

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

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Sam Margolin
Analyst, Wolfe Research LLC

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients Second Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Jim Stark. Please go ahead.

James E. Stark

Vice President-Investor Relations, Darling Ingredients, Inc.

Thanks, Andrea. Welcome to the Darling Ingredients Q2 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; Mr. John Bullock, our Chief Strategy Officer; and Ms. Sandra Dudley, our Senior VP of Renewables and Strategy. 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, and 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'd like to hand the call over to Randy.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey. Thanks, Jim. Good morning, everybody. Thanks for joining us on our call this morning. It's great to have everybody here. Over the trailing 12 months, Darling Ingredients business has generated in excess of $4 billion in sales, and now more than $1 billion of combined adjusted EBITDA. To us, this is a significant breakthrough for all of our stakeholders and puts us on an accelerated path to continued growth across all of our business segments in the coming months and years.

Darling opportunistically repurchased approximately 76 million of common stock during the second quarter, because we believe that our diverse green global business will continue appreciate in value, in the near future. We saw many records in Q2 in all segments and including our joint venture Diamond Green Diesel. In total, our global Ingredients business generated approximately $222 million of EBITDA and DGD produced $132 million, which is our half, making our combined adjusted EBITDA, just shy of $354 million for the second quarter.

We are very excited about the anticipated start-up of the new 400 million gallon renewable diesel expansion in Norco. We are approximately 60 days from the largest project of its kind to begin – producing one of the greenest hydrocarbons on the planet. Also we are pleased that the start-up of the 470 million gallon renewable diesel plant located in Port Arthur, Texas has now moved to the first half of 2023 for start-up. Once Port Arthur is online, the DGD platform will have 1.2 billion gallons of renewable diesel production capacity and 50 million gallons of green gasoline capability.

With that, now I'd like to hand it over to Brad to take us through the financials. Then I'll come back and discuss our outlook and why we're raising our guidance for the balance of 2021. Brad?

Brad Phillips

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

Okay, thanks Randy. We'll take a look at the income statement first briefly. Net income for the second quarter of 2021 totaled $196.6 million or $1.17 per diluted share, compared to net income of $65.4 million or $0.39 per diluted share for the 2020 second quarter. Net sales increased 41.2% to $1.2 billion for the second quarter of 2021 as compared to $848.7 million for the second quarter of 2020.

Operating income increased 152.4% to $268.3 million for the second quarter of 2021 compared to $106.3 million for the second quarter of 2020. The increase in operating income was primarily due to the $104.3 million increase in gross margin, which was a 48.2% increase in gross margin over the same quarter in 2020.

Adding to our operating income improvement was our 50% share of Diamond Green Diesel's net income, which was a $125.8 million as compared to $63.5 million for the second quarter of 2020. A quick comment on gross margin percentage as it continues to improve year-over-year and sequentially. For the first six months of this year, our gross margin percentage was 26.5% compared to 24.8% for the same period a year ago, which comes out to a 6.8% improvement year-over-year.

We continue to experience higher protein and fat prices in the second quarter, compared to the same period a year ago while at the same time maintaining historically high volumes. This better pricing environment and strong volumes are driving the improved results for the first half of 2021 and that trend we believe will continue for the balance of this year.

Depreciation and amortization decline $4.1 million in the second quarter of 2021 compared to the second quarter of 2020. This decline is primarily in our food segment where certain assets became fully depreciated and or amortized by the end of 2020. SG&A increased $8.9 million in the quarter as compared to the prior year. The main drivers for the higher cost in the quarter were related to FX, travel and insurance increases. Interest expense declined $2.7 million for the second quarter 2021 as compared to the 2020 second quarter.

Now turning to income taxes, the company recorded income tax expense of $55 million for the three months ended July 3, 2021. The effective tax rate is 21.7% which differs from the federal statutory rate of 21% due primarily to bio-fuel tax incentives, the relative mix of earnings among jurisdictions with different tax rates and certain taxable income inclusion items in the US-based on foreign tax – foreign earnings. For the six months ended July 3, 2021, the company recorded income tax expense of $83.7 million and an effective tax rate of 19.2%.

The company has also paid $25.3 million of income taxes as of the end of the second quarter. For 2021, we are projecting an effective tax rate of 22% and cash taxes of approximately $20 million for the remainder of this year. Our balance sheet remains strong with our total debt outstanding as of July 4 at approximately $1.44 billion and the bank covenant leverage ratio ended the second quarter at 1.71 times.

Capital expenditures were $65.3 million for Q2, 2021 and totaled $126.1 million for the first six months of 2021 which is in line with our planned spend of approximately $312 million on capital expenditures for fiscal 2021. As a reminder, this CapEx spend does not include our share of the capital spend at Diamond Green Diesel which continues to be funded by internal resources at DGD.

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

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey, thanks, Brad. As our global ingredients business and Diamond Green Diesel continues to perform well, we are once again updating our combined adjusted EBITDA guidance for 2021. We are raising the guidance for the year to $1.275 billion as we indicated in the press release yesterday and also on slide 5 of our IR deck.

Through the first half of 2021, we have produced $638.5 million of combined adjusted EBITDA and we believe based on what we see in our markets at the present time, the second half performance of 2021 will be as strong as the first. DGD has sold a 162 million gallons of renewable diesel in the first half of 2021 and with the DGD II starting up in Q4 we should see over 200 million gallons sold in the back half of 2021.

I do want to point out that we would expect the EBITDA margin per gallon for DGD to normalize back into the original guidance range that we gave you up to $225 per gallon to $240 per gallon over the next six months. And I would also add that's not a bad thing. Earning $297 EBITDA per gallon in the first half was well above our expectations and with margins normalizing in the second half, DGD can still put up EBITDA per gallon north of $250 per gallon during all of 2021.

Remember that our focus at DGD is to improve our efficiencies, lower our carbon index scores, and innovate production of renewable diesel and other renewable products that we can make like renewable naphtha and soon sustainable aviation fuel. With the largest platform in North America, DGD will continue to take full advantage of its first mover position for a long time to come.

Now that we are less than five months away from 2022, we think it might be time to frame up our expectations for the next calendar year. With our current global ingredients businesses approaching $800 million of EBITDA for 2021, we believe that our base business could grow in the range of 5% to 10% for 2022. Our assumption for this growth is continued higher demand for animal proteins and fats and continued growth of pepsin product sales around the globe.

We anticipate that DGD will earn $225 per gallon in 2022 and at a 700 million gallons sold rate that puts Darlings half of the DGD EBITDA at approximately $800 million. Our DGD outlook for 2022 is based on DGD's ideal location, our incredibly flexible logistical platform, our processing capabilities and the fact that we have by far the most experienced and capable team of people which makes DGD the lowest cost producer of renewable diesel in the world.

Adding it all up Darling Ingredients combined adjusted EBITDA for 2022 should be in the range of approximately $1.6 billion to $1.7 billion. For a quick comparison, last year we reported $841.5 million of combined adjusted EBITDA. Where we stand today, the 2022 estimate is double what we earned in 2020.

Yes our team needs to execute to deliver this performance next year and I am very confident that they will because for the last half -- year and a half our 10,000 employees have delivered stellar results in what has been one of the most challenging environments, a business or a community or our people and people around the world have ever faced with the ongoing pandemic. I'm very thankful for the hard work and dedication in finding ways to make our global platform hum on all cylinders in the face of COVID-19.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Ben Bienvenu of Stephens. Please go ahead.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Hey, good morning, guys, and congrats on a nice quarter.

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

A

Good morning, Ben.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

So I want to talk about capital allocation, you bought back some stock in the quarter, while in absolute terms it was not a significant amount. I think it's important that you guys send the signal obviously of the confidence in the business and your commentary on 2022 underlies that as well.

Can you help us think about, given all of the cash flow coming in the door in 2022, how do you think about capital allocation priorities, how do you toggle between buybacks or potential special dividends or M&A, and just help us think about that paradigm you're using?

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

A

Yeah, Ben, this is Randy and Brad and I can tag team as obviously over the last couple of years you know we've used some buybacks opportunistically. Once again you know as the market tried to digest the – some global commodity volatility during the quarter you know as we looked at our base earnings, the DGD, current earnings and outlooks, it just – it just say our earnings are robust and the forward look is very strong at this time.

So it just felt like the right thing to do to allocate capital to it. I mean, our M&A slate has not developed to a point out there, where anything's eminent. Obviously, we'll always look at things. We've been very, very kind of gentle in our approach and controlled over the last four years to five years as some things have come to market to not overpay.

I mean clearly allocating capital, the DGD is absolutely been the right thing due to the returns that are available to us. We're at an inflection point and that – that's the reason we decided to step out and talk about 2022 today. While we put 800 million and 800 million out there or you can go 750 million, 850 million whatever you want to do, you can – you can do it plus or minus 50 million or 100 million.

That doesn't change the trajectory that the company is on now. And what I mean trajectory the amount of free cash flow that's going to be available to it to either buyback stock, put a meaningful dividend or acquire supply chain or growth assets. That makes sense as we go forward. I mean as we've tried to tell people as you look into October here and God willing a nice startup at DGD and all of a sudden you've got a 700 million, 750 million gallon asset at $2.25, $2.40 a gallon, now generating significant cash that puts meaningful dividends in the 2022 portfolio, absolutely significant dividends in 2023 and 2024.

So, this is not just a snapshot of the world. As we look forward, we're going to have incredible flexibility as we look to either pay down debt. We've got two bonds out there. We've got a little bit of term B pre-payable and then we'll go forward from there. I know that we'll probably get questions on sustainable aviation fuel. We might as well hit them up right now.

John Bullock and Sandy are working hard on the technology there as to whether it's a bolt-on or whether it's an additional plant as we go forward. But I think the thing that we feel confident about it is now that we understand what it takes to make that fuel, we'll comment more later as questions come on what it takes to develop that market.

But ultimately we don't see our business stopping growing here in the next three to five years. We kind of see a platform now that is really agitated to the point that it can continue to grow and have a lot more fun.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

That's great. Thank you for the color. If I think in the near-term quickly, obviously we're awaiting some sort of verdict around RVO and the RFS. You alluded to turbulence in the commodity markets last year as an opportunity to buy back stock. Could you talk about that dynamic particularly if we juxtapose it with your outlook and the confidence there, the opportunity around SAF, the inflecting cash flow?

Is that the sort of event that potentially presents an opportunity to be more aggressive with capital allocation from a buyback perspective? And how do you think depending on what the range of outcomes might be, how do you think that dynamic ultimately really has an influence on your business?

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

A

So I'm going to tag team this with John Bullock a little bit here. I mean it's really fascinating as you wake up again this morning and you see the palm oil numbers and palm oil up sharply, [ph] point (00:17:27) bean oil up back again another 150 points. I mean I don't know the volatility is going to be reduced here in the near future. And so, what we're looking at around the globe is strong protein demand for meat consumption. I don't see that waning. I think you can see the meat exports out of the US, whether year-over-year or frozen stocks.

Things are still pretty strong here. I think the US could produce more meat right now if we could find labor. And that's clearly a challenge that is out there. Proteins to feed animals seem to have stabilized. I think we would have felt that those might have backed off the back half of the year and the inverse that was out there.

But those have seemed to stabilized and then fats, I – to a degree and I get to you know – Jim Stark told me I couldn't take a victory lap but I always do. I don't listen to Jim. But at the end of the day our goals always been to get animal fats equivalent to bean oil. And we're very close to that right now, not refined bleach deodorize bean oil that some of the guys that are out there are having to buy today in the renewable diesel plants.

But from a standpoint of getting degummed bean oil and animal fats [ph] equal (00:18:42), we've been successful. And that's really been one of our 20-year goals around here. And Diamond Green Diesel too is starting to accumulate the feedstock in order to begin to run at its new rate in Sept – in October here. And so, I think we're seeing that impact now. And that's what gives us then the confidence that our core business is going to carry over strong both here, Canada and Europe in the supply chain side as we go into 2020. John, anything 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 put this in context, I've been saying for years that both with the VION acquisition, the Maple Leaf acquisition and the subsequent growth we did which was extremely aggressive for five years on building plants, expanding plants. Our volume base has increased magnificently since the last time we had a strong commodity cycle. And we told everybody listen, we know we're acquiring assets from below the 10-year average price.

But when the average price swings back to the 10-year or as it has now above the 10-year, you're going to be surprised at what rolls out of our base business. Well, surprise it's happened. The interesting thing about these commodity cycles that we're now in is we're talking about a demand-driven cycle here. This is not supply disasters around the world. We've got a few cases of that going on like with Canola in Canada.

But largely this is demand driven, it's demand driven by the ASF issue which has caused a repopulation of the pig herd in China. We don't know whether that is in a process that if it still lasts for a while. A lot of the big commodity companies, the grain companies are saying they think it's going to sustain for quite a period of time. And it's from a biofuel policy that is based on solid climate change issues that have to be addressed by the world.

So from our view what we see is an extremely strong I wouldn't call it a commodity cycle, it's a demand cycle that's being created by strong fundamentals. And we would anticipate that would last for a period of time with the volume that we're processing through our machine at this point in time. That gives us great confidence to think that our trajectory which has been pretty spectacular has a long ways to go as we move forward. And on top of that we got cash to be aggressive if we can find the right places to allocate that cash too. So it's a nice position.

Ben Bienvenu
Analyst, Stephens, Inc.

Q

Okay. Randy, John, thanks so much. Congrats and good luck with the back half.

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

A

Thanks Ben.

Operator: The next question comes from Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes thanks. Good morning.

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

A

Good morning.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

I think [indiscernible] answered about half my questions in those answers previously, Randy but I'll give it a shot. Maybe first on the -- on the base business as we think about kind of the [ph] feed (00:21:32) business kind of where it is exiting? The second quarter you talked about -- you talked about veggie oil, used of fat, use of [indiscernible] (00:21:42) prices approaching kind of commodities, soya oil and then food grade pricing.

To make sure, [indiscernible] (00:21:50) the implied deceleration in earnings in the feed segment in the back half of the year, if those spreads continue to narrow especially with Diamond Green ramping up, it does seem like you're implying that the second quarter might have been a little bit of a high watermark on feed EBITDA, I'm just wondering what drives that?

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

A

Yeah. I don't know that we'd imply that the second quarter was high water. I think, you know I think in the words of Zac Brown, the tide is still rising here. And what I mean by that is, as Diamond Green Diesel's you know, what they're paying for fat down today is in the mid-60s. And so you know that was my comment about above crude degummed soybean oil now.

And if you think through in second quarter, those numbers were in the 50s. And so you know obviously Sandy can address if we need to you know, the margin structure a DGD. I mean, clearly, there's some margin compression to normalization off of the higher feedstock prices. But the higher feedstock prices are now giving us the confidence Adam, for you know third quarter and fourth quarter.

So I don't see any weakness in the feed segment in the third or fourth quarter. Seasonally the third quarter is always – seems like it's a little weaker. And that's due to the discounts that we would take on selling animal fats of – that were of lesser quality or higher acid during the summer. We now have a machine that can take those. And so that should bring a different value into the North American system than we've had in the past.

You know the one risk that we see out there today is they're taken six days now in a slaughterhouse to kill what they were processed, what they were in five days in a lot of cases and that's just due to the absolute shortage of labor that's happening everywhere in the country, whether it's rural or urban as we go forward.

And I don't know that I see a fix in the near future on that. Clearly animals are coming in of weight and that seems to be working just fine. But at the end of the day if you think through our system then we now have to run 6 days where maybe we're running 5 days or 5.5 days to keep up with them. So we're trying to manage the cost structure and things around that to maintain margin as these guys go forward.

That said, animal production economics in North America are still favorable and they're favorable around the world as people have the wealth to buy the products. So, if you think back in the mid-2000s as corn ran up to $6 or $8, animal feeding economics became challenged. No one could figure out, could the producer, could the retailer pass it along, how much would be the lead lag time in that process. Well, the people have money. They're eating at home. They're eating out and they're paying the prices.

And so, you may need an armed guard to get a steak at whole foods these days, but at the end of the day I don't see really meat consumption slowing down. As we said earlier, protein, whether they're mixed species, species specific or poultry proteins, everything seems to be in sync around the world today. The other challenge if we highlight it which is no different than a lot of businesses, clearly container freight around the world has been disrupted for various reasons.

It's not only 50% higher, but it's 50% less dependable right now as we try to move step around the world, causing some logistical backups at plants here and there, but nothing we're not used to managing to. So, long story, feed segment solid. We don't see really any degradation there, probably stronger in Q4.

As we look forward the feed – the food segment, we've been challenged there by the reduction of slaughter due to COVID in South America. And that's when our gelatin, our peptone businesses down there where we process basically bovine hide or beef hide. And so, we're continuing to deal with those challenges as we go forward.

We've been able to get through it and we continue to grow our peptone sales around the world. But it's come with some real challenges on origination there. But I think those will start to improve as the vaccines roll out in different parts of the world. John, anything you want to add?

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

No. I mean you hit it.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then just quickly if I could follow-up you mentioned earlier about sustainable aviation fuel about being a bit of a more of a plant bolt-on to some of the existing infrastructure. At this point anyway to dimensionalize maybe what the capital intensity of that looks like or what it would take from a policy perspective before you'd think about moving forward with any of that kind of investment?

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.
A

Yeah. So this is Sandy. We have looked at the capital and I know – it's going to obviously mean that we have to either add more equipment or if we're building another facility that there is specific equipment that will need to be added there. We've kind of studied the yield profile and what that would look like.

And then we've done all the background work in terms of like the feedstocks and talking to little logical markets. And then, we've also looked at the preliminary engineering of Valero and we've evaluated those economics. In terms of what we've said on last quarters call, currently today, those economics just don't pan out. But we think that things look very positive, I mean what we've seen between last quarter and this quarter as we saw in the EU, the Fit for 55 program came out and under that, they are proposing a mandate for SAF. And so that's very positive.

And if you look at that mandate, we don't know that it will turn out the way that it's written today. But it starts off at 2% 2025 and it grows to like 62% by 2050, and so that's huge. We think that that's the path that the EU's going down. We think that's also a model that we hope the US gets to today. And what we've been hearing more in the US is we've been hearing more about incentive-type programs.

And those are typically you know people have been talking about those in terms of a $1.50 level with you know, if you use low carbon feedstock, it may progress up from there. So I think both of those are very positive things that we're seeing right now. And I think that if we can get the right mandates and the right incentives in place, the market will do what it's supposed to do and it will produce the gallons that are needed. And as long as those things are in place, DGD will be a part of that.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

All right, great. I really appreciate all the color. I'll pass it on. Thanks.

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

A

Thanks, Adam.

Operator: The next question comes from Manav Gupta of Credit Suisse. Please go ahead.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey guys, congrats on the good quarter and the guidance raise. You had always said, and I wish people were listening that renewable diesel is a learning curve. There's a lot of learning that has gone over the years between you and Valero, which is allowing you to deliver these results. Now, one of these refiners who initially thought all you need is a broken hydrotreater to bring it on is now coming out and saying, I actually may not even start my plant.

So, just sitting here and wondering there's a lot of capacity announced here, but as some of these new entrants try and copy your model and realize the margins you are generating are absolutely elusive to them, do you actually think this capacity comes on and doesn't really start or do you think some of these capacity announcements are actually canceled here?

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

A

Yeah. Manav, this is John. At the end of the day, I think we never want to disparage anybody who's a competitor or a potential competitor. What I would repeat is that building a machine that is well located, that can handle the low carbon and feedstocks that allow you to maximize your profitability, that has flexibility to hit all of the best markets in the world is not easy and everybody that's jumped into this business, many of them have pretended that this is like being in a little wave pool that you can walk through it and be fine. Running renewable diesel plants is difficult. It takes tremendous expertise.

And I will tell you the sophistication that's occurring to manage margins and take advantages of margins and feedstocks that's occurring in Diamond Green Diesel is absolutely startling when you look underneath the covers. So, the fact of the matter is we see a lot of announcements out there. Some may happen, some may not.

We have built Diamond for the long haul. We will – we believe always be in the position to have the best margins in the industry. And the other people will do what the other people do. And we're prepared for the competition and we welcome the race.

So, if others want to come. That's up to them. That's their choice. But we're prepared to have an excellently run facility in the right place with the right capabilities and it's not easy to do that and it takes a lot more money than a lot of people are pretending that it takes to get into this business. So they'll do what they're going to do. We're going do what we're going to do.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

No. Perfect. It looks like you're absolutely on the right path. My quick follow-up here is obviously the feed segment was very strong. If you look at – dig a little and look at the revenue line items of all the components you provide in the 10-Q, quarter-over-quarter fats was up, the revenue line item was materially up and proteins was also up, but fats was up a lot more.

And I'm just trying to understand you have repeatedly said look, this is a demand-driven cycle. Can you help us quantify those markets between fats and proteins? We understand there's an up cycle on both but between those how are the two trending?

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

A

Yeah. Let me take a shot at that. So I think what you see with most production of fats and proteins in the world is most sources of those produce more protein than they do fat. So, when you see a large increase in production of vegetable material around the world and as we're starting to see an increase in the up cycle on some of the low CI feed stocks as we have higher prices here too, you'll see a combination of a little more fat than you do a meal coming into the marketplace.

And I think obviously with the demand coming from China which has been both a protein and an energy or fat-based demand and then the biofuels market focusing in the low CI biofuels market focusing on the energy side a little bit more. You're seeing a little bit more of a drive up in the price up fats. But I would say quite frankly and Randy alluded to it earlier, protein pricing is very, very good at this point in time as well.

It's not kind of gone up as much. But you really get a combination of fats and proteins from the supply chain that come to us a little less fats normally than protein. That means fats gone up a little bit more. But proteins have been very, very strong force as well.

Manav Gupta
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you so much for taking my questions.

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

A

Thanks, Manav.

Operator: The next question comes from Tom Palmer from JPMorgan. Please go ahead.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Good morning. Thanks for the question.

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

A

Good morning.

Thomas Palmer
Analyst, JPMorgan Securities LLC
Q

You noted your assumption for the second half at DGD at $225 to $240 EBITDA per gallon. This would imply some slowdown from current levels. In your assumptions what drives this? Is it the startup at DGD pushing off low CI prices just some conservatism? And to what extent have you already begun to build inventory for the expansion meaning some of the demand pull is already reflected in market pricing?

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.
A

So I think you know what you saw in Q2 is that the stars really aligned for us. You know we came into the quarter and we had purchased feedstocks. And those were lower priced than what we -- what we saw during that quarter. And I also saw – what you saw was we had the machine that allowed us to take advantage and really run those lower priced feedstocks. And we didn't have to run the RBD soybean which is what the marginal producer was using. You also saw that soybean prices went up.

RINs had to work really hard. And then you saw that because of that you know the margins fell to our bottom line. And then I think what you had also asked is you know where are we in preparation for DGD II in coming online in terms of feedstocks and things like that. And we're already loading feedstocks into our tanks right now so we're preparing as we speak.

Thomas Palmer
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you. And I just wanted to follow up -- this was brought up on our earlier question but I'm not sure you fully addressed it just on that on the RVO side I mean we get a lot of questions, I could think as well just on how this might shake out for 2022.

Do you have any thoughts just on kind of the likely scenario for biomass based diesel? Do you think volume will take into account capacity that's coming online? I would assume you're kind of pushing that side of it at least?

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.
A

Yeah. I don't think that we know for sure. The Biden administration has been very carbon intensity focused, very GHG reduction focused. So I think that there is probably a push to keep volumes where they are not accelerated. But I don't know that. I can't answer that. But it would look strange I suppose if volumes reduced for any reason and didn't grow.

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

Yeah. If I can just add on top of that; we have what the Biden administration the most environmentally focused administration that we've ever had in the history of the United States of America. It is very apparent that biofuels substantially reduce carbon emissions.

It would be extremely odd for a administration that is basing his marker on reducing carbon emissions, to do something that would not promote the additional production of carbon emissions. So, we feel very good about how this works. The other thing I would point out is this, we are now late in the process of developing the RVOs for 2021, 2022.

Historically when we've gotten into these type of a positions, we have never seen them reduce the mandate as they move forward. They always go and hold it where it is which with COVID has put the [ph] D6 (37:17) RINs or ethanol RINs into a very tight issue and being able to reach compliance. So, we feel that this market is where it is for a while.

The administration is clearly taking their time on coming out, because this is always a political hot button, when they do this. But this administration is focused for the interest of Diamond Green Diesel on exactly the right issue which is carbon emissions. And we would anticipate they would stay true to their DNA and be supportive of low carbon emission reductions as we move forward.

Thomas Palmer
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: The next question comes from Craig Irwin of ROTH Capital Partners. Please go ahead.

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

Hi. Good morning, and congratulations on that really solid results.

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

A

Thanks, Craig.

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

So Randy, this is you know an exciting time right. You've got line of sight on a double from $800 million to $1.6 billion, $1.7 billion in EBITDA. And we really haven't seen the biggest tailwind ever for the industry on the rendering side cutting it, right? The 15 give or take plants that are either announced or unannounced in renewable diesel.

Can you talk about you know how you see that potentially cutting in say a third or a half of those get built. And you know is this a multi-year process as far as how it impacts feedstock prices, and is there may be an opportunity for you to get bigger on the rendering side to service that?

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

A

Yeah. I think, there's a bunch of questions hidden in there. I think, as John, John talked about, I mean you know we are not in the boardrooms and the inside baseball of the thinking of some of the petroleum industry or even independents that are trying to enter the business. I mean, they have various drivers from margin to environmental, you know the deference cost to compliance avoidance who knows what their spreadsheet truly is driven off of.

I mean what we know from a fact out here is the one plant of a 180 million gallons or 185 million gallons in Dickinson North Dakota truly upset the supply and of RBD soybean oil in the United States.

And that's a pretty – you don't have to go to Harvard to see what that happened to – in the sense of the lack of capacity of the deodorization or a different way, the lack of pre-treatment. And pre-treatment is an easy word that a lot of people use out there. I'm not sure they know what it means and what it requires and what it gets you and what it doesn't get you.

I mean what I know that it's gotten us is eight years of a head start here of learning what are good fats, what are not so good fats and what you can't process and what kills catalyst. And then you get into the processing technologies. Those are still evolving. I mean clearly we partnered with UOP to develop a technology. But remember we've spent eight years of the expertise in the system here of refining that process to get not only yield, but catalytic life and really product quality that we're looking for around the world.

So, I ultimately believe that someone's going to try. Obviously now you've seen other people try. One is now deferred their startup. And at the end of the day if they all startup, you bet there's going to be a feedstock war like never before.

What John highlighted before was ultimately whether you were in the high fructose business, the soybean crushing business, the ethanol business, at the end of the day you got to be in the right origination and right logistical location and have the right cost structure.

And I truly believe that the location economics that that the team has put together between Norco or St. Charles and Port Arthur are beyond superior.

And it's hard to put a cents per gallon on it. I won't try but at the end of the day, we can look at different locations that are in the rare road, single rare road, we have double railroads, you can bring it in by barge, you can bring it in by ship. You can ship it out by ship. Jones Act, non-Jones Act, out by pipeline. The flexibility is truly incredible that's been designed in these facilities.

And as Sandy highlighted, well, now do we bolt on a jet unit that we build another jet unit. We're looking at the product mix, we're looking at the next 5 years to 10 years as we go out. The learnings that we've had, the expertise that's been developed. And then, you marry it with the supply chain that we have here, Europe and South America.

I mean the answer is you bet Craig. If we can find bolt-on acquisitions that once again give us access to feedstock arbitragers that make economic return sense for the shareholders. We've got the cash to do it. We've got the aptitude. We've got the appetite and the expertise because it's in our fair way to deliver that.

So, nothing's off the table. We're just trying to keep – as we say we're focused on our execution and our execution only what the rest of these guys do. We'll watch and learn. We'll have a chuckle here and there and someone will be successful at and I'm pretty sure.

Craig Irwin
Analyst, ROTH Capital Partners LLC

Q

Excellent. Well, I can't wait for that feedstock order to be in full effect. Congratulations on the progress.

Operator: The next question comes from Matthew Blair of Tudor, Pickering, Holt & Co. Please go ahead.

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

Q

Hey, good morning. Thanks for taking my question. Sandy, I was hoping you can size the R&D opportunity in Canada with the CFS coming up in about a year, right? December 2022, on a big picture basis, the Canadian diesel market is roughly twice the size of the California diesel market. But of course some of the provinces already have blending requirements and then DC has an existing program too. So I guess, how do you think about that Canadian opportunity coming up in about a year in renewable diesel?

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.

A

I think you know we're very positive about Canada. You know that's a market that we're suffering today and a market that will grow for us especially as there's more and more demand out of Canada. It's a market that I think that we're well set to serve. We now are able to produce our fixed diesel which I think is going to be very positive for Canada. And we're able to supply them volumes all year long, which is going to be something new for them. And that's great. And so I think that Canada is probably one of the highlighted markets for us.

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

Q

Sounds good. And then in terms of a feedstock [ph] slate (00:44:43) for a DGD II you know with the understanding that you'll pick a pretty flexible approach and run you know whatever is the most economic, do you think about this being your most likely Tallow and white grease, well there's been a UCO in that DGD II slate, any sort of general modeling help would be appreciated?

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.

A

Yeah. I think what you'll continue to see is, you'll continue to see you know our typical mix. And that mix may change in terms of percentages, but you'll continue to see us using UCO. You'll continue to see us using DCO and of course then the animal fats. The animal fats are likely to become a little bit more important as we go forward. But I don't expect anything else to change beyond that.

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

Q

Sounds good. Thanks.

Operator: The next question comes from Ken Zaslow of Bank of Montreal. Please go ahead.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning, guys.

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

A

Good morning, Ken.

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

A

Hi, Ken.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Could you tell us the cost structure difference between you and the rest of the industry? And have you – I must well – I guess my first question is, have you mapped it? And then can you tell us the spread, because I think there's probably a pretty high return difference on the assets that are coming online versus what you guys do. Is there a way to quantify it or at least give some parameters to it?

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

A

Yeah Ken. This is John. I think as this industry has s gone there's a lot of folks out there that are now publishing weekly data on what the margin structure is of various types of biomass-based diesel, biodiesel and renewable diesel facilities from various sources. So that's fairly well-known in the marketplace at this point in time.

And the answer to that is it's breathtaking when you start to look at a renewable diesel plant that works with CI fats versus any other type of facility that produces biomass-based diesel whether that be any type of a biodiesel facility or whether it'd be any other type of renewable diesel facility. So, those numbers are pretty well in the marketplace out there. I don't have them off the top of my cuff right now.

But they're out there and it's breathtaking. Beyond that though, when we just get down to competition between us and other renewable diesel producers, when you look at those folks, you've got to look at do they have a full chain capability? Do they have the right logistics infrastructure? Can they take in rail from multiple railroads? Can they take in truck? Can they take in fat by water either on the river with barges or oceangoing vessels? How can they get their product out? Are they located well to service multiple LCFS markets?

What type of pre-treatment capacity do you have and what's the flexibility in that pre-treatment capacity is because as Randy alluded to earlier all pre-treatment units are not built equally. We've seen a lot of stuff as we've looked around the world that very often – various opportunities at some pre-treatment plants are quite frankly, when we get back into our car, we look at each other and say oh my god.

So at the end of the day, you know it's all about the capabilities, we believe we're varnish versus other renewable diesel guys, we'll see as we move forward?

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

A

You know I think John, you know, I mean try to give Ken a little more granularity there. I mean RBD is what trading -

Sandy Dudley
SVP Renewables & Strategy, Darling Ingredients, Inc.

A

... probably $0.25 to $0.30 above crude to gums.

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

A

Yeah. So $0.25 to $0.30 above crude to gum, simple math at $0.08, I mean you're $2 to $2.40 negative to DGD today. And then you take the CI differential, and whether that's you know if you're running soybean oil or used cooking oil that can be anywhere from $0.20 to $0.50 a gallon.

So you know the non-animal fat UCO, choice white grease, whatever you want to call it low CI, you know is anywhere from a $2 to a $2.75 disadvantage to the logistical you know Mecca that John has built and Sandy have built with the Valero team down in Diamond Green Diesel in Norco and Port Arthur.

And that's where we get and we you know try not to exude arrogance on it. That's where we have the confidence that you know in a last man standing competition, there is no competition from that standpoint, because of where you're located.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Great. My next question is Randy, you're going to have a whole lot of cash. You guys did buyback some stock, is that a new direction for you, is that something, how do you think about cash deployment going forward again you're going to have a lot of it. So, how do you plan on using it?

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

A

Yeah. Ken, we obviously as during the quarter as whether it was the RVOs that were confusing people, whether – I really don't know what drove the equity or the stock price behavior during the quarter. But as Jim and Brad and I looked at each other, we said, oh my gosh, we're on a $1.275 billion if not higher run rate. This supports you know $75 to $80 a share today. And you're 45 days out from a $1.6 billion to $1.7 billion run rate.

And so, opportunistically the board had authorized I think up to a couple hundred bucks. We just stepped in over the course of time there. And I don't know that there was anything magical about $75 million or $76 million. Brad and I looked and said, okay, that's enough. And clearly we will continue as it makes sense as we go forward there.

Clearly the long-term cap structure will be determined on how quick we start to repatriate cash out of Diamond Green Diesel. And clearly as we've said be patient with us. Clearly we're bringing Diamond Green Diesel II online here and in early October, that will be a new run rate.

And then clearly as Valero and we've said in our call here, we've accelerated number three to the degree we can with labor materials and all the items into the first half of 2023. That means there's a little stronger spend in 2022 to get you there in early 2023. But after that they're giant numbers. And clearly in 2023 you start to look at dividends that are extremely significant to the meaning of the company.

And will require action by the board. And while I can't speak for where the board's appetite is today for buybacks, dividends and then ultimately you know we're hoping that there's all options to continue to grow, whether its sustainable aviation fuel as Sandy alluded to. But we need some mandates and legislation there or whether it's supply chain opportunities around the world that make sense to bolt-on.

And we'll do that smart and not overpay if we have to. But we also believe that feedstock management and origination also gives that competitive advantage in Diamond Green Diesel that we've referred to. So pretty, pretty easy analysis right now; hang with us and for the balance the year, watch DGD II start up. Watch the cash come on board, watch the new run rate and then it'll be a fun discussion.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

And I'm going to sneak one more in. I know we're only allowed two questions, but I'm going to ask another one. Collagen you didn't talk much about that. I know you moved the food to 200. It may not be as sexy as all the other businesses, but can you just give us an update and this seems to just be a nice cash generator with a little bit of growth?

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

A

Yeah. Actually internally we're extremely excited about Collagen. Collagen peptide, I mean the growth trajectory on them is maybe got a double-digit attached to them now, at least the high-single-digit in both food, pharmaceuticals, nutraceutical and cosmetic application. Our challenge in that business is has been able to get the capacity online and get the product to people around the market sorting of wanting to buy. We're finally getting that acceleration. We've been challenged in South America with the hide availability due to the reduced slaughter due to COVID, challenges within the slaughter houses. By all means we're on target where we thought we would be.

We're expanding again in that business. We see a great business there that from a margin perspective it really will attract capital. It really is a great business. You'll see it. Clearly you know I watched that food segment for four to five years in that 130 to 140 range. And then to see it go up you know 40% to 50% is really exciting. And I think we've only touched the tip of the iceberg on the applications of collagen peptides half.

And then you look to our – you know in our pipeline here our biomedical applications we're only beginning to talk about those today and what we can do in that area and our X-Pure product. And you know so as peptone matures if you will in three to five years, here comes the next round of biomedical applications. We're really excited about that business and where it fits with Darling. So hang on there. The food segment will play catch up here and -- and stay tuned.

Kenneth B. Zaslow
Analyst, BMO Capital Markets Corp.

Q

Thank you very much.

Operator: The next question comes from Sam Margolin of Wolfe Research. Please go ahead.

Sam Margolin
Analyst, Wolfe Research LLC

Q

Hey everyone. Thanks a lot.

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

A

Hi, Sam.

Sam Margolin
Analyst, Wolfe Research LLC

Q

I have a theory I want to run by you and I'll catch it by saying I stole it from someone. So if you don't like it you can say it's not my fault. But it's about the effect of the renewable diesel startup.

So if we assume for a minute that everybody's going to be able to start up without any friction and the outcome of that is that the whole soybean oil, waste oil rendered fat complex is going to start to trade off of CI score, so that rendered fats might actually trade at a premium to soybean oil and obviously that has huge implications across all your segments and I'm just curious what you think about that if that's feasible or if that's an outcome that you might consider within the planning range.

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

A

So, this is John. I think the way to look at that is obviously when you're talking about renewable fuels, carbon intensity has a value proposition associated with it that it doesn't happen in the traditional feed cycles. We had expected for years that as we increased our renewable fuel space, we would see some type of an impact on the relationship of low fat waste CIs versus traditional vegetable oils and indeed we have seen some of them that impact.

Although, I would caution you that just because you see that impact for a couple of months doesn't necessarily mean that that's going to sustain. There's volatility around that spread relationship. We'll see as we move forward. I mean we're comfortable that the field that we're producing out of Diamond Green Diesel has an excellent margin structure because of our competitive positioning in the marketplace, the capability location all the stuff we've talked about time and time again.

At the end of the day, the question is does the price of the low CI feedstocks ultimately diminish the value of our margin proposition in Diamond, we don't think so. Could it have a positive value in relationship to Darling's business? Absolutely.

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

A

And I think Sam, I'd add on to John. Remember the location of St. Charles and Norco and Port Arthur, they were located there because we see the global CI business or the carbon intensity origination business of feedstocks as a global opportunity. If you – if you rewind the movie pre-Diamond Green Diesel, we were competing with other calories in animal feed.

You either had a small edible business for frying the bloom and onion and some other application. You had some very limited Oleo chemical applications for animal fats. And then you competed with the value of other calories to feed animals. That is still true on four other continents today. So, why – what John didn't allude to is, right now we are kind of a high priced island.

And from a standpoint of carbon intensity pull for the different markets we're serving. And I think over time yes, as we both redirect supply to Diamond Green Diesel and it's going to come from somebody, no secret, it will come out of the biodiesel industry as Gen 1 technology moves to Gen 2.

It will also come from around the world as it makes sense between currency and freight to move the product in. And so, all of that stuff will then renormalize the value of CI feedstocks around the world and that's positive for as we have a confidence positive for all of our businesses on the five continents we operate on. So ultimately it's a global origination business, but you've got to be in the right place to take advantage of that opportunity.

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

Can I add one more thing to that, Randy?

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

Sure.

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

I think oftentimes people tend to think of the Darling's core business and Diamond Green Diesel as being counteract each other one, when one's doing well the other is not doing well. They're not complementary to each other. And I think that's what you're seeing with the results so far this year.

How that'll work its way quarter-by-quarter or through the process over the next several years, that's going to change. But the fact the matter is what we have built is a complementary vertically integrated business structure where we can increase value and add value from both pieces and that is extremely unique. In fact, it's the only animal like that in the biofuel business in the world. So...

Sam Margolin
Analyst, Wolfe Research LLC
Q

Thanks a lot. That's it from me. Appreciate it.

Operator: The last question will come from Ben Kallo of Robert W. Baird. Please go ahead.

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

Hey guys. So just [indiscernible] (00:59:30) feedstock, where does palm oil rank in terms of the – I guess, environmental [indiscernible] (00:59:38) because you have a – [indiscernible] (00:59:40) out there trying to have a big multiple and they use a lot palm oil, I think. But I always thought that was not good. Then my second question is about [indiscernible] (00:59:51) consolidation. What that means to you? Thank you.

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

So I'll answer the first part of the question about palm oil. Palm oil is not considered a – as good appeal as certainly other vegetable fats are or in particular low CIP stocks are around the world. We don't believe you will see any usage at palm oil in the United States or Canada, in relationship to their carbon programs. Europe will allow some of it, particularly around the PFAD side.

So we're very comfortable with our feedstock, you have to talk to others about what feedstock they use. I'm not going to comment on that. But clearly we like the fact that we are using what has systematically and universally been described as the greatest carbon reduction feedstocks in the world, that is good for the environment and good for all sorts of environmental and sustainability purposes.

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

John, can you comment on the PFAD though specifically?

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

Yeah PFAD is considered a waste [ph] path (01:00:54) under some programs, it won't be in the United States or won't be in Canada, at least we don't believe it will be. In Europe it's allowed under the waste, essentially under our waste [ph] path (01:01:05) classification, so it's utilized in Europe and I'll leave it to others to argue whether that's correct or not as a designation for PFAD.

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

Yeah. And that's the real, that's kind of the answer is, is remember Neste purchases or procures a lot of PFAD into their mix, which is considered a waste oil into at least the markets they're serving today. So the second question Ben is related to Sanderson Farms. I first have to give a shout out to Joe Sanderson and Lampkin Butts and Mike Cockrell.

They've been great partners for us for a lot of years. And we play a significant role in rendering their product. And we've had a very close relationship with them. We don't anticipate if the transaction is approved and goes on through any changes or any risk to our business. We're in the right place for their factories. And we've been doing it for a lot of years. And I just don't see anything change in there in the relationship going forward.

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

Thank you.

Operator: This concludes our question-and-answer session q. 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, Andrea. We appreciate everyone's time today and hope you stay safe and healthy. There is a list of upcoming IR events that Jim has, is presenting at in the IR deck. And we look forward to getting back out on the road here, seeing everybody and talking to you and making you more confident in our model as we go forward into 2022. With that, thank you again for joining us today and we'll talk to you again in November.

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