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COMPANY PARTICIPANTS

- Suann Guthrie - Darling Ingredients, Inc., Vice President-Investor Relations, Sustainability & Communications
- Randall C. Stuewe - Darling Ingredients, Inc., Chairman & Chief Executive Officer
- Brad Phillips - Darling Ingredients, Inc., Executive Vice President & Chief Financial Officer
- Unverified Participant

OTHER PARTICIPANTS

- Adam Samuelson - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Darling Ingredients Incorporated Conference Call to discuss the company's Third Quarter 2022 results. After the speaker's 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 Ms. Suann Guthrie. Please go ahead.

Suann Guthrie

Good morning and thank you for joining the Darling Ingredients Third Quarter 2022 Earnings Call. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; Mr. Brad Phillips, Chief Financial Officer; Mr. John Bullock, Chief Strategy Officer; and Ms. Sandra Dudley, Executive Vice President of Renewables and US Specialty Operations.

There is a slide presentation available on the investor's page under the Events and Presentations 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 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 will turn the call over to Randy.

Randall C. Stuewe

Thanks, Suann. Good morning, everybody, and thanks for joining us for our third quarter 2022 earnings call. Darling Ingredients reported a strong third quarter financial results. This was created by our more than 14,000 employees around the globe. I'm so proud of the Darling Ingredients family, particularly those who are new to us from 00:01:47 Valley Proteins, the FASA Group. In August, I took our Board of Directors to visit several of our new facilities that came with the Valley Proteins acquisition. I cannot be more proud of the dedication, pride and transparency I saw from our new Darling employees as they work hard to integrate into our business. A few weeks ago, I was at our Op de Beeck facility in Belgium, the green energy facility we acquired last spring. I was able to see firsthand the ingenuity, the entrepreneurship and commitment from our new employees. And it's truly remarkable. While I have not yet had the chance to personally see our new employees at the FASA Group in Brazil, I know how hard they're working as we bring our businesses together. The success of our company begins with our people. As I made my way to many of our factories across the US and Europe this summer, I saw a tremendous amount of energy from our employees who're constantly looking for ways to make our company safer, our plants more efficient, better for the environment, and ultimately more profitable. I can absolutely say our team now understands their role in an evolving ESG world.

Now turning to the third quarter, extremely hot weather in North America. Escalating energy prices in Europe a one time inventory step up charge from the FASA acquisition and foreign currency translations impacted our base earnings this quarter. Our global ingredients business came in at $274.4 million, in EBITDA. The Feed Ingredients segment ended the quarter at $198.6 million. Our Specialty Food Ingredients segment had another record quarter, posting $68.2 million in EBITDA and our Fuel segment earned $143.4 million for the third quarter with $120.3 million coming from Diamond Green Diesel. Turning to the Feed Ingredients segment globally, raw material volumes were up 39.6% quarter-over-quarter and 21.8% year-to-date. Summer heat and regional droughts made raw material quality a challenge and processing difficult. The results were lower grade fats with DGD not ready to accept, and these fats had to be discounted to be sold in North America. However, both domestic and export demand for North American and European proteins was exceptional in the third quarter. We continue to see strong export demand for our Brazilian and European fats as demand for low carbon intensity feedstock for renewable diesel continues to grow. Container availability improved in the third quarter and is expected to continue to improve in the fourth quarter. Energy costs in Europe continue to be challenging more than doubling year-over-year. However, we have made raw material procurement adjustments and have recovered 85% to 90% of these costs now going into the fourth quarter. Valley protein facilities struggled during the quarter. As we have openly discussed, we are making progress bringing these facilities up to our standards but converting from a run to fail mode will take a bit of time. Summer was brutal. Ultimately, as we bridge the margin variants in the feed segment, it was valley proteins, plants, animal fat, price discounts, foreign exchange, and the FASA inventory step up, all of this is behind us going into fourth quarter. On November 2nd, we announced that we entered into a definitive agreement to purchase Sipowicz rendering company MIRA PoS Group for approximately €110 million, MIRA PoS processes around 250,000 metric tonnes annually through three large poultry rendering plants in southeast Poland and as around 225 employees. The acquisition will provide a nice bolt on to our existing three plants in central and western Poland and displays our commitment toward building out our global supply of low carbon feedstocks as global demand for low carbon intensity renew renewable diesel continues to grow. Our specialty food ingredient segment had another record quarter, earning $68.2 million in EBITDA. Our continued product mix shift from gelatin to collagen peptides helped drive margin and EBITDA improvements. We are very encouraged about the future growth in our food ingredients business. We expect the college and peptides market to double in the next five years. We have additional collagen capacity coming online in early 2023. You can reference the chart in earnings slide deck. You'll see a performance in the food segment that tells a story of why we are growing with our global customers in the peptide space. On October 18, we announced that we entered into a definitive agreement to acquire all the shares of Gelnex, a leading global producer of collagen products for approximately $1.2 billion in cash. Headquartered in Brazil, Gelnex has six facilities, four in Brazil, one in Paraguay and one in Portage, Indiana, in the USA, with a capacity of around 46,000 metric tons to produce gelatin and collagen peptide products. Gelnex is a very well-run business and will increase our production capacity for grass-fed bovine collagen in South America. When this acquisition is completed, most likely in the first quarter of 2023, Darling Ingredients will operate 17 state-of-the-art collagen facilities on our four continents around the world.

Now moving to our fuel segment, we saw strong volumes this summer from our European brand 00:06:54 which collects fallen animal stock and converted into green energy. In our food, in our waste food, food waste to energy business, expansion plans at our newest green energy facility 00:07:05 are now underway. On October 31, we closed the acquisition of De Jong Recycling, a collector and trader of organic waste based in the Netherlands. This strategic acquisition provides Darling Ingredients with additional feedstock for its own bio gas plants in the Netherlands and Belgium. Our green energy business in Europe is delivering as planned and we continue to believe in green energy in Europe and it will provide superior returns and help diversify our European assets.

In the third quarter of 2023, Diamond Green, 2022, sorry, Diamond Green Diesel sold 190 million gallons of renewable diesel and recorded $1.26 per gallon in EBITDA. Year to date, the joint venture has sold $545.5 million gallons of renewable diesel at a $1.9 average EBITDA. Now, we have begun commissioning the unit at Diamond Green Diesel Now we have begun commissioning the unit at Diamond Green Diesel 3 in Port Arthur, Texas. The catalyst is loaded and we expect to be online in mid-November with a ramp up to capacity shortly thereafter. For the full year, we are forecasting approximately 800 million gallons of renewable diesel to be sold at Diamond Green Diesel 1, 2 and 3 and are estimating a $1.10 to EBITDA for the final part of the full year.

Now with that, I'd like to turn it over to Brad to take us through the basics on financials, and I'll come back and talk about our outlook for 2022 and beyond. Brad?

Brad Phillips

Thanks, Randy. Net income for the third quarter of 2022 totaled a $191 million or a $1.17 per diluted share compared to net income of a $146.8 million or $0.88 per diluted share for the 2021 third quarter. Net sales were $1.75 billion for the third quarter 2022, as compared to $1.19 billion for the third quarter 2021, or 47.4% increase in net sales.

Operating income increased 30.4% to $268.3 million for the third quarter of 2022, compared to $205.7 million for the third quarter of 2021, primarily due to a $50 million increase in the gross margin from our Global Ingredients business and a $49.5 million increase in Darling share of Diamond Green Diesel earnings.

SG&A increased $7.8 million quarter-over-quarter and depreciation and amortization increased $27.2 million due to the FASA and Valley Proteins acquisitions. In the third quarter of 2022, we incurred $4.5 million in acquisition and integration costs primarily related to our acquisitions of Op de Beeck, Valley Proteins and FASA as well as the previously announced pending Gelnex acquisition. During the third quarter of 2022, the euro weakened against the US dollar as compared to the third quarter of 2021.

again the US dollars compared to the third quarter of 2021. The foreign currency exchange impact for Q3 was approximately negative $18.4 million, using an average rate assumption of 1.01 in Q3 2022 as compared to the average rates of Q3 2021 of 1.18. For the nine months ended October 1, 2022 the foreign currency exchange impact was approximately negative $41.6 million, using an average rate of 1.06 compared to an average rate of 1.20 for the nine months ended October 1, 2021.

Interest expense increased $24.4 million in the third quarter of 2022, as compared to the third quarter of 2021, primarily due to increased debt. We also incurred a $2.5 million charge due to a fire at our Tacoma rendering facility.

Now turning to income taxes, the company recorded income tax expense of $35.2 million for the three months ended October 1, 2022. The effective tax rate is 15.5%, which differs from the federal statutory rate of 21% due primarily to biofuel tax incentives and the relative mix of earnings among jurisdictions with different tax rates.

For the nine months ended October 1, 2022 the company recorded income tax expense of $108.6 million and an effective tax rate of 15.6%. The company also paid $88.9 million of income taxes as of the end of the third quarter. For 2022 full year, we are projecting an effective tax rate of 18% and cash taxes of approximately $25 million to be paid the remainder of this year.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, which includes a new 15% alternative minimum tax based upon book income, a 1% excise tax, excise tax and stock buybacks and tax incentives for energy and climate initiatives, among other provisions. The provisions of the IRA are generally effective for periods after December 31, 2022 with no immediate impact to our income tax provision or net deferred tax assets. We do not currently expect the new book minimum tax and or excise tax on stock buybacks to have a material impact on our future financial, financial results. The blender tax credits, which are refundable excise tax credits, have been extended two years through December 31, 2024.

After 2024, the Clean Fuels Production Credit, a non-refundable income tax credit becomes effective from 2025 through 2027. We are assessing these tax incentives which prematurely change our pre-tax or after tax amounts and impact our tax rates and future years. We will continue to evaluate the applicability and effect of the IRA as more guidance is issued.

Now turning to debt, the company's total debt outstanding at the end of the third quarter 2022 was $3.28 billion as compared to $2.91 billion at the end of the second quarter.

Our bank covenant leverage ratio ended the quarter at 2.48 times the increase in debt in the third quarter was primarily a result of the acquisition of the FASA Group. We continue to maintain strong liquidity with $1.35 billion available on a revolving credit facility as of quarter end October 1.

Capital expenditures totaled $105.6 million in the third quarter and $257.1 million year-to-date. We received a $90.5 million cash dividend from the Diamond Green Diesel Joint Venture during the third quarter. The company also repurchased approximately 609,000 shares The company also repurchased approximately 609,000 shares of its common stock for $37.2 million during the third quarter, which brought the year-to-date total shares repurchased to 1.58 million for $103.1 million. We completed two delayed draw term loans during the third quarter, which are intended to be drawn to complete the Gelnex purchase upon regulatory approval. Additionally, we issued $250 million of additional 6% senior notes due 2030 with the same terms as a previously issued $750 million 6% senior notes. With that, I'll turn it over to you, Randy.

Unverified Participant

Thanks, Brad. Throughout the year, we continued to strengthen our diversified portfolio through accretive acquisitions that will enable long term growth in our specialty ingredients and green energy businesses, all by turning animal byproducts and food waste into sustainable ingredients to feed and power the world. Today, 1 in every 6.5 slaughtered animals is processed through one of our 270 factories around the world. The strategic investments we've made in all three of our business segments are delivering sustainable solutions to feed a growing population, while also helping the world achieve its decarbonization goals. We were a first mover into the renewable diesel market and continue to be one of the only vertically integrated renewable diesel producers in the world. Darling Ingredients carries tremendous momentum into the final months of 2022. Raw material volumes remain robust, fat prices reflect their carbon value while the DGD III begins to ramp up. Global specialty protein demand and pricing continues to be solid. Collagen peptide demand continues to grow. Higher energy prices around the globe are being absorbed and adjusted for.

Darling Ingredients is set to deliver another record year. We'd like to reaffirm our forecast a $1.55 billion to $1.6 billion in combined adjusted EBITDA for the full year of 2022. Now we're not showing any signs of showing any signs of slowing down into 2023 in our global specialty and green energy platform. Demand for our ingredients and inputs remains rock solid. We are busy integrating our new acquisitions and the results will become more visible in 2023. The DGD portfolio of facilities ready to deliver over 1.2 billion gallons of renewable diesel next year. Our collagen peptide business is growing and expanding and our team is poised to deliver another record year in 2023.

So with that, let's go ahead and open it up to questions.

QUESTION AND ANSWER SECTION

Operator

We will now begin the question-and-answer session. The first question comes from Adam Samuelson of Goldman Sachs. Please go ahead.

Analyst: Adam Samuelson

Question – Adam Samuelson: Yes, thanks. Good morning, everyone.

Answer – Unidentified speaker: Good morning, Adam.

Answer – Unidentified speaker: Good morning.

Question – Adam Samuelson: Good morning. Randy, I was hoping to start in the, in the feed segment in the quarter and just make sure we understood kind of the drivers of that to kind of give us some color around it. But segment profit was down, EBITDA was down a little over $50 million quarter-on-quarter and I was hoping you could kind of break apart with some of the key factors that you kind of alluded to in terms of Ali and FASA and currency. And as we think about the go forward on that, just how much of those should be kind of cleared out of the system as we, as we get into the fourth quarter and year, maybe in a, in a more constructive operating environment, given commodity prices?

Answer – Unidentified speaker: Yeah, no. Fair enough, Adam. And, you know, I, I fully understand everybody trying to reconcile the feed segment after the, you know, the really rock star performance in Q2. You know, Q3 is always a bit of a challenge for us around the world because of the summer heat. This year was, was as bad as I've seen it in my 20 years and I'll give you a little bit of input on it here. You know, Brad talked about Years, I want to give you a little bit of input on it here. Brad talked about the FX impact of $18.4 million with the euro at $101 million. You know, at the end of the day, with the feed segment being, well, I don't know, 80% of our volume and revenue, et cetera, you kind of would say then, you know, 80% of that number had to go through the feed segment in one way or shape. The you know, the Pfizer is a standard purchase accounting. I think it was $8.5 million, $9 million that flowed through the P&L in period nine for us. And then when you look at valley proteins and I want to give really hats off credit to Rick Elrod and the operations team and Royal Winter and the Valley team that are becoming part of the family or, you know, those plants as we've told people, we're not well taken care of, it was a business that was being set up to to transition.

And we're in the process of rebuilding about 15 different plants there in one way, shape or form. And when we got hit with excessive amounts of raw material this summer, you know, as different markets opened and closed for the poultry producers, 100 degree weather made for, you know, incredibly challenging problems of operating those plants. And, you know, that I you know, I can't really I do know that number. I won't put it out there. But let's say that it was significant of what was unable to be processed. But you pay for the raw material and you don't get it through your plant in very significant amount of money.

It also happened in the Midwest to us, as we've never seen a summer as hot as it was in the Midwest, the summer and the fall in stock business. You know, as we referenced in the script out and we talked about the you know, when you -- when perishable products degrade in summer heat, it's very difficult to get the fat to separate from the protein.

So, you leave more fat in it, your yields aren't as good and by the way, the fat has a higher free fatty acid content and really DGD III was not in position yet to take those fats and so we didn't have a market to move them to other than two different feed markets and you can do the corn equivalent that we've done 10 years ago and they had to be discounted substantially from what their renewable diesel value should and could have been. So, I think I want to leave everybody with and not glossing over it, but I want to leave everybody with, that's behind us. I've seen the results coming in around for period 10 here. The weather's cooled off and the valley plants are back really online the team has done a great job there and we'll pick up, as we said momentum for the balance of the year and we don't see anything change in 2023, we have an aggressive CapEx program geared first hand at making those valley plants more reliable. And that's really our focus right now is reliability and efficiency there. And then, they'll be a strong contributor as we've thrown out there for next year and at this time, we haven't really stepped forward and given guidance for 2023. We want to see DGD III come online, make sure we've got everything working well there, and then we'll step forward and look in our crystal ball and tell you but in the core ingredients business, we see continued strength around the world, very little slowing of any type of raw material or demand for any of the products clearly, the FAF market is really pretty, pretty solid out there as we see it. So, Adam, I hope that answered as much color as I can give you.

Unidentified speaker

Question – Unidentified speaker: It's really helpful. And if I could ask a follow-up along those lines and so the EBITDA guidance for the full year was reiterated, I think I heard your prepared remarks 800 million gallons of DGD III $10. So, it's implies about $140 million of EBITDA contribution your share in the fourth quarter it wouldn't seem like about $140 million of EBITDA contribution your share in the fourth quarter? It wouldn't seem like there's a big implied step up in 4Q in the core ingredients businesses from the third quarter level and we talked about purchase accounting which I think would go away. And clearly the value business in some of your core rendering businesses had had summer heat pressures that wouldn't persist into the fourth quarter. So I just want to make sure I'm thinking about kind of the sequential kind of ramp in fourth quarter that doesn't seem all that big based on where you're EBITDA guidance is.

Answer – Unidentified speaker: You know, the team around always smiles when you do the math because they know that that my middle initial is C and it stands for conservative so at the end of the day, yeah, I mean you're backing into the correct numbers right there. But you know, I think at this point in time as we said, we've got two more up periods to go through here. But it feels it feels solid. I think Q4 will be much improved over that. And Sandy anything you want to add on DGD III and the dollar for the year.

Answer – Unidentified speaker: You know I think just really solid results from DGD, you know we're excited to have DGD III online here that'll come online this month. You know, we're getting so close to it. And you know, the great thing about DGD is we continue to sophisticate that organization both in terms of our feedstock origination, which I think is amazing. We've done just a tremendous job in terms of that, and I have to give our team kudos on that. And then really we expanded our finished product sales as well. So just a great shout out to the DGD team on that.

Unidentified speaker

Question – Unidentified speaker: Got it, really helpful, I'll pass it on. Thanks.

Operator

The next question comes from Derrick Whitfield of Stifel. Please go ahead.

Unidentified speaker

Question – Unidentified speaker: Thanks and good morning, all. On the Feed segment could you comment on the potential earnings power of the proposed transaction could you comment on the potential earnings power of the Miropasz transaction with the understand that earnings in the near-term would be compromised by higher energy costs? Also what potential synergies do you see with their operations as you integrate it into your own?

Answer – Unidentified speaker: Hey, Derrick, can you repeat your question?

Unidentified speaker

Question – Unidentified speaker: Absolutely. So staying on the feed segment, could you comment on the potential earnings power of the Miropasz transaction with the understanding that earnings in the near-term would be compromised by higher energy costs? Also, what potential synergies do you see with their operations as you integrate Miropasz into your own operations?

Answer – Unidentified speaker: Yeah. I'll take a little stab and I'll ask John Bullock, who worked on the transaction to assist me here a little bit with it. That transaction will not close till the back half of 2023. So I don't think that there's anything that we can really step out and predict at this time Derrick It's a small transaction. It gives us once again we have the plant in the outside of Gdansk and down by Warsaw in Krakow and Austin East and then and it just spreads us out with more opportunity in Poland, and as we've said, as the European Union comes under pressure on animal production and manure disposal, whether it's in the Benelux countries or Germany, both Poland and as we look forward, Spain will become more important into that portfolio. John, anything you want to add?

Answer – Unidentified speaker: Yeah, I think the last half of your question involve whether or not we're able to adjust higher energy prices. And I think that this is beyond Miropasz answer. This is largely a Darling answer. The fact of the matter is, our margin management tool that we use in this company really allows us to reflect higher energy cost and maintain our margins in the business. And that's kind of a hidden story about Drilling, whereas higher energy costs have impacted many, many businesses around the world. The fact of the matter is, how we manage our business allows us to really deal with those higher energy costs without substantially impacting the bottom line of the company. So very possibly the same as the rest of our organization.

Answer – Unidentified speaker: Yeah. And I think Derrick, I mean, clearly we've seen Poland energy prices escalate much faster and higher than the other parts of Europe. But at the end of the day, we are able to manage the raw material, as John says. And, you know, margins in the meat production business remain fairly good. And we're able, given our model and our relationship to adjust for not only labor, but energy and diesel prices.

Unidentified speaker

Question – Unidentified speaker: Terrific. And then as my follow-up kind of staying on the same topic, but shifting over to the fuel segment, I recall that you guys had spent quite a bit of time in Europe over the last quarter, and you guys noted that in the prepared remarks as well. In light of the energy crisis we're facing there could you speak to the near to medium term outlook for that business and where you see the greatest opportunity for growth?

Answer – Unidentified speaker: Talk about green energy in Europe.

Answer – Unidentified speaker: Green energy in Europe. Yeah, this is John. So this is one of our key platforms that we've been really dynamically growing over the last two to three years and still have a lot of growth plans on the board. Not necessarily acquisitions, but stuff we can do to kind of expand our core business. It is so well related to our activities. It allows us to help with our meat slaughter byproducts as well as opens us up to a whole new raw material stream with the organic food waste that we traditionally don't render, and the platform in Europe both from a pricing of natural gas as well as the green programs that are embedded in Red II and coming in Red III are just perfectly tailored for that business. And this is another example, I think, where I'm proud of Darling, because we've been on the leading edge of this. We've been expanding and growing this business a well before We've been expanding and growing this business a while before everybody else thought that being in the digestion business was cool in Europe, and now we've built a tremendous platform in both Belgium and the Netherlands in relationship to this, and we're really, really excited about what it can do for our business model over there.

Unidentified speaker

Question – Unidentified speaker: That's helpful. Thanks again for taking my questions.

Operator

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

Unidentified speaker

Question – Unidentified speaker: Good morning. Thanks for the question. I just wanted to circle back on the Speed Segment Outlook. So you previously indicated Fossil had around $100 million EBITDA annually. Valley was expected to contribute $60 million to $70 million in 2022, which works out to about $8 million per month. So I just want to confirm, when we think about the fourth quarter, do these businesses return to that run rate? And then is the $150 million outlook for Valley next year still appropriate?

Answer – Unidentified speaker: Yeah. Tom, this is Randy. Yeah, I was trying to say that in so many words. So I'll say yes to your answers. I mean, there were there were several one-offs going on with the Valley plants during really period eight and period nine with the summer, those will come back. They're going to pick up momentum. We're making adjustments in that business. And yeah, well, you know, those are both numbers that we put out there before 150 for Valley and the FASA acquisition rate was at about $100 million EBITDA. So yeah, those are those are real numbers for next year.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you.

Answer – Unidentified speaker: Run rate now in period in Q4 so --

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Unidentified speaker

Question – Unidentified speaker: Okay. Thank you for that. And then I just wanted to ask on next year, I mean, maybe it wasn't formal guidance, but I think it's you know, earlier this year, you discussed the potential for $1.8 billion to $2 billion EBITDA for the business in 2023.

I guess as you think about the current operating environment. Are there changes in the industry pricing environment needed to hit that range or just given current operations and internal improvements that you are instituting at these acquisitions? Is that still a reasonable consideration?

Answer – Unidentified speaker: Yeah. I mean, you know, whatever you what, 45 days, 50 days now from 2023, we're carrying pretty, pretty solid momentum. I mean, not even pretty solid. We're carrying momentum in and if you look at the base business and you take the Valley and Pfizer and where we're going to finish this year, yeah, it's not hard to get a $1.2 billion number out of the core ingredient business were pricing is today if you depends on what you want to put the on your on the dartboard here on DGD we know we've got capacity to run 1.2 billion gallons and we averaged a $1.09 or will average $1.09, $1.10 this year. You know, so then you're sitting there going, okay, that's, $1.32 billion. You know, we've got a couple of turnarounds that are going to have to happen next year early and work through that. And then the bigger, better machine with working capital. And so yeah, I mean, at the end of the day, you can sit there and look at and say you had and 650, you get 1,850. And you know, I guess if we were snapshot in it today, that's where we would put it out there.

Unidentified speaker

Question – Unidentified speaker: Okay. Thank you.

Operator

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

Unidentified speaker

Question – Unidentified speaker: Hey, good morning, guys.

Answer – Unidentified speaker: Good morning.

Answer – Unidentified speaker: Good morning.

Unidentified speaker

Question – Unidentified speaker: Let me ask a question a different way. If you didn't have the acquisitions, would you with the feed business be sequentially flat?

acquisitions, would you, with the feed business, you sequentially flat?

Answer – Unidentified speaker: You mean sequentially, okay...

Unidentified speaker

Question – Unidentified speaker: There might be some slightly down just because of the seasonality. But my sense is it probably would have been more like the acquisitions being in my mind to have been just this quarter, is that I mean, would you not have said that the profitability for feed would have been largely flat, maybe just slightly down?

Answer – Unidentified speaker: Let me, let me answer it in a different way and just say FASA and Valley really didn't contribute in Q3 to us.

Unidentified speaker

Question – Unidentified speaker: But when I say there is, with a negative, I get the sense that they might have been negative through the quarter.

Answer – Unidentified speaker: Together, they were minimal, minimal.

Answer – Unidentified speaker: So, I wouldn't say negative. And then you've got the currency piece there and then you've got the really the fat price degradation that happened from the downgrades of the Yellow Grease.

Unidentified speaker

Question – Unidentified speaker: I see. And that's why...

Answer – Unidentified speaker: Ken, we're trying to say that Q4 is going to be much better.

Unidentified speaker

Question – Unidentified speaker: Okay. And the best cases for both those, or the business case for both those are still intact for 2023. There is nothing that happened this quarter that would alter the business case for either one of them. Is that a fair statement or am I...

Answer – Unidentified speaker: Absolutely. And then we want to reaffirm it. We still think that the Valley, and I mean, Pfizer was a one-off with the inventory mark to market and unwinding some hedges and stuff down there. And at the end of the day, the Valley is just a, an operational challenge. It's been overcome. Lots of changes have been made. And summertime rendering is difficult when you know what you're doing, let alone when you have plants that aren't ready to run in the summer and wastewater unit. So, that's behind us. Cooler temperatures make it easier. So, you know, between now and next summer, we've got it. We've got a capital program in position to fix many of those plants and those challenges that we had. And so, yeah, it's behind us. We're at the run rates. We're at the business case where we thought we would be and thank God, you know, September is over.

Unidentified speaker

Question – Unidentified speaker: And then a lot of CEOs in our space have had a wide variance of discussing the Inflation Reduction Act. There is one CEO who says this is life changing and there's other CEOs who, like this, were kind of an evolution. Can you give us your view on how inflation reduction would change Darling's model over the next two or three years? Is this a game changer is this something that's slightly positive or is this neutral? Just kind of trying to figure that out? There's been a, again, a pretty wide variance of commentary by CEOs in our business.

Answer – Unidentified speaker: So Ken, this is John. I will say from Darling's perspective, the Inflation Act is the most supported piece of legislation we've ever seen in the history of this company. Hands down bar holds nothing is perfect for us because we are positioned as guys that have the integrated feed stream of waste that's feeding into renewable fuels. And what's now happened is that the federal program now recognizes the value of low carbon fuels as opposed to not really rewarding if you're producing a lower carbon feel. Now it does. And so the result, from a Darling perspective, it was a wonderful piece of legislation. We were fully supported. Getting five years was great. We are very appreciative that the federal government went in that direction. And I will tell you from Darling's perspective, we love that program. We think it's absolutely phenomenal and great.

Answer – Unidentified speaker: Brad, why don't you comment to Ken on the tax phenomenal and great.

Answer – Unidentified speaker: Brad, why don't you comment to Ken on the, on the tax side of how that will, could work.

Answer – Unidentified speaker: Yeah. Good morning, Ken. So as you probably know, I mean we said it earlier. It goes from excise tax credit to an income tax credit after, after 2024. So, you know that the next two years, nothing changed in terms of the, of the P&L. After that, John touched on the, on the benefits from a producers standpoint, but it also goes to an excise tax credit. So it's going against your, against your tax liabilities or your tax bill, if you want to put it that way. So that from a cash perspective, there's a, you know, a bit of a delay there offsetting of your, say, quarterly estimated tax payments. But really, when you're, the big, one of the bigger things from an investor standpoint is really as we talk about it internally, you start begin to think about it. You know, it really we become more of a, I dare to say a bit more of an EPS oriented company with it going down below the line, and, and the other thing is it's going to be more geared toward the CI score. And I think that's also what John was referencing, which is definitely beneficial to us because, you know, it's just going to get more benefit and I guess, John, you already addressed that. But yeah, let me just add back on top of this, this is a producers tax credit. Obviously, we're the guys that have built the unit that convert waste fats to low carbon fuels in the United States, which means we're producing in the right area to be able to maximize the benefit associated with this. As I said, hands down the best piece of legislation I've ever seen for Darling in the history of drilling.

Unidentified speaker

Question – Unidentified speaker: Okay. Life changing it is. My last question is ...

Answer – Unidentified speaker: It is.

Unidentified speaker

Question – Unidentified speaker: ...is a diamond green diesel, it sounds like, you know it's not, that you guys have shifted to purchase to using soy bean oil. How much can you use soybean oil. How much can you use? How does that work? And does that have an impact on the business? How do you think about that maybe I'm wrong, but it seems like that's been the shift and what is the business decision based on?

Answer – Unidentified speaker: Yeah. So I think we don't typically give out an exact percentage of any of our feedstocks, and traditionally and really going forward we are always a waste feedstock user. That's our primary – and feedstock that's really the premise of what we built with Diamond Green is to take and use the waste feedstocks. And because they typically give us the highest value in terms of CI scores et cetera, they're typically the most preferred, so different customers want that. And so that's what we focus on. That doesn't mean to say that, on occasion we don't use soybean oil because there are sometimes in the market, where soybean oil after you adjust for CI scores and things like that. And there are markets that do like soybean oil that we run that. And so we do. We are constantly a profit maximizer. And on occasion when that happens, when the starts align, we will use soybean oil. And then there are operational reasons that we use soybean oil too. So on startup, that's an important thing for us to use in a certain stage of our process. So again just for clarity, we are by far just a waste oil – we focus on the waste feedstocks, but on occasion we will run some soybean oil.

Answer – Unidentified speaker: Yeah, and I think I think that's fair Sandy. I mean I know Nestlé throws 96% or whatever waste oils so we're probably way above that. But time to time if the food service business goes to – go slow out there then the soybean guys are trying to move volume and from time to time either operationally or if animal fats go sky high and you get a $0.05, $0.06 discount on being oil, then you've got customers that you can arbitrage it in and maximize the facility.

Unidentified speaker

Question – Unidentified speaker: Right. I appreciate it as always Brad.

Operator

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

Hey, thanks, guys. We appreciate everyone's time today and hope you stay safe. I look forward to seeing you at the upcoming events that are listed in our presentation on the earnings slide deck and we'll talk to you soon. Thank you.

Operator

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