Event Type: Definitive Agreement to Acquire All of The Shares of Gelnex Call *(Corrected version)*

Date: 2022-10-18

Company: **Darling Ingredients, Inc.**

Ticker: DAR-US

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

OTHER PARTICIPANTS

- Derrick Whitfield - Analyst
- Thomas Palmer - Analyst
- Ben Bienvenu - Analyst
- Kenneth B. Zaslow - Analyst
- Paul Y. Cheng - Analyst
- Sam Margolin - Analyst
- Benjamin Joseph Kallo - Analyst
- Matthew Blair - Analyst
- Jason Gabelman - Analyst
- Craig Irwin - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Darling Ingredients Inc. Conference Call to discuss the Acquisition of Gelnex. After the 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

Thank you for joining the Darling Ingredients' special investor call to discuss the acquisition of Gelnex. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; and Mr. Brad Phillips, Chief Financial Officer.

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 today'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 hand the call over to Randy.

Randall C. Stuewe

Hey, thanks, Suann. Good morning, everybody in the US, and good afternoon to all our shareholders and colleagues and friends in Europe. We're broadcasting live from one of our latest acquisitions last spring at the in Antwerp, Belgium, at Op de Beeck, one of our new green energy investments, where we take on a lot of 250,000 to 350,000 tons of plate waste leftovers from grocery stores, delis, commissaries and turn it into green electricity and organic biophosphate fertilizer. So it's great to see the team here and see the facility that is now part of the Darling family.

You know, today we wanted to get together and kind of remind everybody what we're doing and why we're doing it, I think as we've been on the speaking network and both in Europe and the US and South America, we've always talked about four pillars of growth and the pillars of growth were sustainable aviation fuel, we'll continue to keep you up-to-date as we evaluate those economics, additional basic specialty ingredient to processing the core rendering business, that would be Valley Proteins, that would be the FASA Group in Brazil. We talked about all kinds of different things and – but one of them that was very near and dear to us was the collagen business as an expansion mode for us as we look forward.

Today, we wanted to talk to you a little bit about a deal that we have been working on for some time. I think we've been very open with people that if opportunities come through the space that we will continue to look at them and take opportunities to grow when they can be done in a friendly, accretive manner. In this way, the Gelnex acquisition, once again, meets the three criteria near and dear to the success of our management team. And that is we're buying a great business with a great management team. We're paying a fair price for it. And Brad and I'll talk to you more about the capital structure that is going under it. I know there'll be lots of questions there, but I think as you've seen, or if you were connecting the dots over the last three months, you would be able to then know that the delayed draw of loans that were put out there were being put in place in case we were successful on this.

So today, Darling entered into a definitive agreement, as we've said, to acquire all the shares of Gelnex. I would refer to them as a top four leading global producer of collagen products. That's both gelatin and collagen peptides for approximately $1.2 billion and that's US dollars. The transaction is really the same as all of our deals. It's subject to customary regulatory approvals and we are hopeful that we can get this done through the Brazilian authorities sometime during the first quarter of 2023.

It's headquartered in Brazil, in Santa Catarina. It has five facilities in South America, but more importantly, it has one in Paraguay. So once again, we're growing the Darling footprint to another country. It produces a little under half of what we do today, a 46,000 metric tons of collagen products. And it exports about the same as we do into 60 countries around the world. And they have 1,200 wonderful employees that we welcome to the Darling family as we build the Rousselot brand to serve our global and worldwide customers.

So the brand we're talking about is Rousselot. We refer to Rousselot as a leading manufacturer of collagen and a worldwide supplier of hundreds of collagen products made from bovine, porcine and fish today.

To remind you, we operate 11 facilities, 3 of them are in China today, 4 of them are in Europe, 2 in South America, plus the other 5 we just acquired and then we have 2 in the USA today. So we will move our number of facilities up from 11 to 17. And we're also adding one in the US, so there'll now be 3 in the US, there will be 6 in South America, Brazil, and there'll be 1 in Paraguay.

So we're expecting, as we would be, share with you, the reason we've done the deal is we have been incredibly bullish and optimistic on collagen peptides as a growth vehicle for the Darling platform. We believe and fundamentally, we have studied it and studied it through different consulting groups and different trade associations. We believe that collagen peptides and their applications will nearly double, if not exceed that in the next five years.

And so as we look at growing out – I know everybody always likes to spend about 80% of our time, 90% of our time on Diamond Green Diesel and renewable diesel and sustainable aviation fuel, we happen to really believe in the food segment as another linkage that once again brings us closer to the slaughtered animal byproducts.

As I tell people, today around 15% of the slaughtered animal byproducts in the world goes through one of our factories, that's about one in every seven animals. And so we segment those between inspected and food-grade stuff that can't be fed to a human, but can be fed to an animal, that's our feed segment. And then the third category would be converted into green energy and that's our fuel segment.

So as we said, we expect that segment to grow maybe 50%, maybe a little more over the next couple of years as we integrate in Gelnex into it. We've been given open guidance in the segment for 2022 in that $220 million to $230 million EBITDA range, that's US dollars.

So let's quickly talk about collagen and what it is and then we'll kind of open it up to Q&A here in a minute. But collagen is the most abundant protein found in the human body. It plays a really interesting and increasing role in both health and nutrition, and consumers are continuing to seek benefits for their hair, nails, skin, joints, bones, muscles. And I think that's true with the aging demographic of the world. Collagen as a supplement has now been proven to be very effective in improving hair growth, nail quality, skin, joint, bone, and muscle behavior.

And so our – we built a portfolio that started here over the last nine years. And it started with one little collagen conversion unit in Brazil. And it's now grown to two or three in Brazil now, one in Ghent, Belgium, and one in Angoulême, France. And so we continue to see incredible demand for this product because of the breadth of applications that it can go into. It can go into powders, it can go into capsules, it can go into tablets, nutritional bars, drinks, dairy, confectionary. It can go into cosmetics. You're starting to see it. You see it on TV advertised by Jennifer Aniston in the Vital Proteins brand. You're seeing it with Gatorade Bolt now. You're seeing it with, I believe, L'Oréal and some of the other cosmetic companies. You're seeing it in PediaSure.

So it's a product that has numerous applications, which I would say, tend to be even broader than straight gelatin, which is an emulsifier and encapsulation agent. And we see it as a way to once again grow the base of Darling around the world. We can grow our earnings. We can grow our customer participation around the world with a product that's once again good for the population.

So with that, I'd like to go ahead and turn it over to Q&A. And we'll do our best to answer what we can. I would ask you to be respectful that we are in a regulatory filing period. So if we are shutting down a question or not answering it as deeply as you'd like to, it's because we're being advised until we get clearance to not do that.

So with that, let's go ahead, Sarah, and open it up, please.

QUESTION AND ANSWER SECTION

Operator

Thank you. We will now begin the question-and-answer session. Our first question comes from Derrick Whitfield with Stifel. Please go ahead.

Analyst: Derrick Whitfield

Question – Derrick Whitfield: Hey, all. Congrats on your acquisition.

Answer – Randall C. Stuewe: Thank you.

Question – Derrick Whitfield: I wanted to start with if you could – and ask if you could just share the earnings power of Gelnex's business today and what are the potential synergies you see with the business.

Answer – Randall C. Stuewe: Yeah. I mean, number one, it's being purchased at around a 10 multiple today, I think you could back into that with the 50% of the food segment growth earnings there, so no real surprises there. We look at it – as we looked at our system around the world, Derrick, we've added spray dryers and hydrolyzation units and reactors where we can, and we've maxed out our capacity that we have available to produce the product today.

And you have multiple choices, if you will, in these factories. You can either produce gelatin or you can produce collagen through two different processes. But the basic front-end extraction unit is the same. And so we've maxed it out where we have access to the raw material that the world prefers, and that would be bovine grass-fed high gelatin.

So, at the end of the day, it will integrate nicely into our management structure that exists down in Brazil. It will give us additional extraction capacity to add additional hydrolyzation and spray drying units where it makes sense as the market grows over time. So it's really a transition of product mix. And as we said, it's immediately accretive, and we believe it will even be more – even a growth vehicle for the next five-plus years for us.

Question – Derrick Whitfield: Terrific. And as my follow-up, I wanted to maybe ask if you could, for the benefit of investors, speak to the value of grass-fed bovine collagen versus grain-fed bovine collagen and the consumer markets? And note, if there's a noticeable margin difference between the two?

Answer – Randall C. Stuewe: Yeah. Clearly, it deals back, I would say this is way above my pay grade in that space. But as I've looked at it, once again, it's the clean label. And you get the clean label organic versus the who knows what it was fed. So it is clearly the growth category. The consumer has spoken and they're willing to pay a premium for that product.

Question – Derrick Whitfield: Great. Thanks for your time and congrats on the transaction.

Answer – Randall C. Stuewe: Thank you.

Operator

Our next question comes from Tom Palmer with JPMorgan. Please go ahead.

Analyst: Thomas Palmer

Question – Thomas Palmer: Hi, good morning and congrats on the third acquisition, third larger one of the year. Wanted to ask, I guess on – maybe to start off just on the bandwidth, so it is the third larger one, I guess fourth, if you include the fuel one. How do you think about bandwidth, both from a balance sheet and personnel standpoint? Might we expect a pause to pay down some debt and integrate these businesses or are there still more captive M&A opportunities in the pipeline?

Answer – Randall C. Stuewe: Yeah. This is Randy, and I'll tag team this with Brad. Bandwidth, we're done. Hey, I know that can be many things to people listening on the call right now, but from an internal resource standpoint, we're going to focus on integrating. We're making great strides in integrating the Valley Proteins acquisition. The FASA Group is a very well-run group in Brazil and Diamond Green Diesel III is in process of commissioning here over the next two weeks.

So bandwidth wise, people wise, we're done. We've got to spend some time putting in the control systems both from a SOC's timing, from IT, from banking, treasury, FX, risk management, all those things that have to happen here. So, I think as Brad will comment on leverage ratios and how he's going to pay for my buying binge again, he'll sit there and make you comfortable. Brad?

Answer – Brad Phillips: Okay. Yeah. Hi, Tom, Brad. So, we paid for earlier in the year Valley Proteins, now FASA back in August. And after that, obviously, we're not at our Q3 call yet, but ballpark, somewhere in that 2.5 times, you've had FX, of course, moving around, too. So subsequent to that, depending on when Gelnex closes, right, we're looking at some time, hopefully, earlier part of 2023 and depending on the base business, we've been saying that guidance around 1.6 times.

So given that, we'll probably be a little over – pro forma, a little over 3 times. And then as Randy said, we're going to pause and delever like we've always done before. We've said before we want to stay consistently down below 2.5 times. So, that leaves us more than a turn of availability. We have delayed draw of term loan As that were put in place. We did an upsize on our bond and freed up our revolving facility back at several months ago. And so, it leaves us with very adequate liquidity availability, and there we'll be looking to pay down debt in 2023, which will be supplemented, of course, by the Diamond Green Diesel startup and the JV being debt-free.

Question – Thomas Palmer: Okay. Great. Thanks for all the detail. And maybe I could just quickly follow up on the funding, I think you both in the prepared remarks and just now you've referenced it, but I just want to confirm. So you've got the two delayed draw term loans, that $800 million. You upsized the prior offering in mid-August by about 2.50 times. And then the balance, if there is any, would just be the revolver, is that right?

Answer – Brad Phillips: Right. The balance in excess of the term loans would be all available cash/revolver.

Question – Thomas Palmer: Okay. Right. Thank you

Answer – Brad Phillips: And the only reason I mentioned the upsize on the bond that freed up revolver availability. So you'll see that clearly here in Q3.

Question – Thomas Palmer: Understood. Thanks for the detail.

Answer – Brad Phillips: Okay.

Operator

Our next question comes from Ben Bienvenu with Stephens, Inc. Please go ahead.

Analyst: Ben Bienvenu

Question – Ben Bienvenu: Hey, thanks so much for taking my question. I want to ask first a question just following up on some details of the Gelnex business and then a second kind of higher level strategic question. The first is you gave the facility breakdown. But if you think about the split of revenue of the business or EBITDA, however you want to look at it, how much of it is US-based versus South America? (17:26) you can provide it.

Answer – Randall C. Stuewe: Yeah. I mean, what I can tell you there's one facility in Portage, Indiana, the fiber in Brazil. But I don't know that that's relevant because remember, all of our hydrolyzed collagen peptides that are bovine in nature come out of Brazil today. So that's the backdrop or the strategic investment decision was where is the home of the most affordable and most available height in the world. And, fundamentally, as we've said, which is reflected in our FASA investment, we believe that Brazil – and to a degree, let's say, Paraguay, Uruguay, Argentina, are going to feed the world. They have the land. They have grains. They have the water. They have the people. And from a food security standpoint, we believe in significant protein in the form of chicken, pork, beef in that part of the world over the next decade. So we wanted to be there. This is just another rate furtherance of that investment thesis.

Question – Ben Bienvenu: Okay. Great. My second question is just related to some of the composition of the capital you spend around M&A and how you think about kind of balancing the overall earnings contribution across all the different businesses in which you participate. Obviously, the feed ingredients business is benefiting from higher (19:02) oils and grains, proteins environment, which there are some clear structural demand drivers for. But when you think about balancing across all the different business segments, more cyclical earnings streams versus more secularly growing earnings streams with more stable margins like this business, the collagen, you know there's a long-term growth profile of the business. How should we be thinking about where your head is in terms of the type of business that you want to build over the long-term?

Answer – Randall C. Stuewe: Yeah. And those are really great, I mean, deep think questions, and we do spend a lot of time thinking about it. Clearly, the food segment, as we've talked about the parts of the slaughterhouse inspected, et cetera, we're able to provide a superior economic proposition to the slaughterhouses of the world with our access to value-added products that we can create. And when we look back at the food segment, that came 100% from the Vion acquisition back in 2014, 2015. And if you go back and look at it for the last seven years, I think we've grown it somewhere between 13% and 15% every year. And so it's got nice margins, it's attracting capital, and it has the thing that's so important to us and that is it has the lack of cyclicality, seasonality, whatever you want to call it, of commodities here.

Now, I 100% agree with you. We have structurally figured out a way now to change the world dynamic of fats in the form of animal fats use cooking oil and distillers corn oil. But at the end of the day, value-adding proteins was the next thing we wanted to do. And so once again, you see us doing that here. Like I said, we're coming to you live from Antwerp, Belgium, and one of the coolest facilities I've ever been in that where we're segregating plate waste and grocery store waste and we're making biogas and we're making biophosphate fertilizer and we're recapturing nitrogen. And so both of them – what do they have in common? They're both part of the food supply chain, but they're also both very much annuitized and very predictable earning power businesses.

So we all know that that feed segment has had some volatility in it over the years. And so anything we can do to balance the portfolio that meets our return standards and growth opportunities or beliefs is something we will continue to do.

Question – Ben Bienvenu: Okay. Thank you, Randy.

Operator

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

Analyst: Kenneth B. Zaslow

Question – Kenneth B. Zaslow: Hey. Good afternoon or good morning wherever you guys are. A couple of questions I had. One is, when you think about the 330 to 350 bps (22:11) once you combine everything together, what will the growth rate be from there? How do you think about that? Just what the longer term view on how are you going to grow off that 330 to 350 bps (22:24)?

Answer – Randall C. Stuewe: I would use right now, Ken 5% to 7%. I mean, clearly, we've seen the collagen product line grow rapidly in the last couple years as the – and it's really a US-dominated demand point at this time. We were bringing on all the three spray dryers in Brazil, when COVID hit. And so, that really – this is a – somewhat it is B2B, but it's B2C also. And there were some some really some supply chain challenges. There were some consumer not getting to the store challenges that happened here. And so, only now are the products really coming out with big brand support behind them. And only now are they being launched in Europe.

So as we look forward, there's an immediate success story here. Once we're integrated and then as we go forward, it will be converting capacity to make the products that we think will trade in the world. In Angoulême, France today, we make fish collagen and that's great for skin beauty. In Ghent, Belgium, we make porcine. And so at the end of the day, this is an expansion into not only gelatin, but also gives us an expansion in the collagen business for the hide or the (23:54) bovine and grass-fed material. So, I think longwinded answer, somewhere 5% to 7% in two to three years out. These products you will saturate at some point. But I think it's still a ways out. And the applications are only beginning to become be unveiled out there.

We've not talked about some other consumer products. We're talking health, nutrition and wellness here. And yet at the end of the day, you're starting to fix coffee creamers, salad dressings. There's a whole bunch of application areas. I mean, I think it's safe to say that the product has a pretty good following of believers in the health benefits of it for an aging population. So, I'll kind of leave it at that. If Brad or anything.

(24:45)

Question – Kenneth B. Zaslow: When you think about your leverage, just making sure, what is the rate at which you expect to be delevering? Does this change your ability to provide a dividend? Does that flow? Does it delay the year, or how do you think about that? And is there a line in the sand that limit your debt-to-EBITDA just going forward? And I know you said this is the end, but making sure that that is without hesitation, no change to that.

Answer – Brad Phillips: With DGD III coming on, Ken, and with the level, that ballpark that I mentioned earlier that will be at Q3 and with the JV debt-free and with the base business performing as it is, no, I mean, we see ourselves at the end of 2023 being – we go to the rating agencies here in a few weeks and see ourselves being well at our target, I'll just kind of put it at that, by the end of next year, so – or sometime in 2023. So it leaves us really with – as we've been saying for over a year, really the – and I think this one was on the M&A side, what we'd said before, we can do some of all the above. We'll still be in a position for that discussion in 2023 for consideration in 2024, Randy.

Answer – Randall C. Stuewe: Yeah. I mean, number one, we're committed to maintaining a strong balance sheet 2.5 times. First dollars are going to go there to get that done. We've got a couple of bonds coming due in the next three years. And ultimately, we're going to add – I'm hopeful and confident that we're going to add an investment-grade rating here. And so, that's our focus. And then as – if we're correct with our prediction on Diamond Green Diesel's performance and the sustainability of the core business earnings, then, clearly, as Brad says, there'll be enough to do a little bit of everything.

We've continued to buy back stock opportunistically as we can and we're not going to go out there and announce any giant buyback to that end, but at the end of the day, delever, buy back opportunistically and then we'll be in a position to evaluate a meaningful dividend.

Question – Kenneth B. Zaslow: And you alluded to the rendering business, obviously, doing well. Is that what you're implying by being able to do this that it's actually at least in line, if not, better than your expectations that you're going to be able to delever? I mean, I can't do the math that quickly in my head, but it seems like that's what you're implying. Is that a fair assessment?

Answer – Randall C. Stuewe: You're trying to put words in my mouth, but that's okay. No, it can – protein prices and fat prices have continued to maintain, if you look at protein prices around the world, they're pretty close to the 10-year average, maybe a little over in a couple products. Fat prices kind of fell off here a little bit, but not much. But we are in process of starting number three. You're – there's just a ton of demand for HBO or RD (28:07) projects or potential projects out there. So I think the core business stays at – where it's at and we'll just kind of see.

I mean, clearly, I think that you always have to take a little downside that I've always tried to be conservative, Ken with it, I mean. After Spain and I've been in Europe now for a week and yesterday I was in Poland and we had fighter jets fly over us. And so, this place is a bit crazy. I watched my Polish team put a slide up to say that energy prices are up 500% year-over-year. So, I mean, clearly, we've got some challenges here. We're doing what we know how to do in maintaining margin, but that said, we're signaling a very strong core business for this year and next year. There's no change in our voice. There's some moving parts here, but we're bigger and I think that'll do a lot of the offset.

Question – Kenneth B. Zaslow: Great. I appreciate it. Thank you, guys.

Operator

The next question comes from Paul Cheng with Scotiabank. Please go ahead.

Analyst: Paul Y. Cheng

Question – Paul Y. Cheng: Thank you. Hey, Randall, just two questions. First, you mentioned that your (29:19) existing plant is already running at full capacity. And so, you are adding this new set of assets. And what is the asset current utilization rate or, in other words, that how much of the business that you can improve there before you reaching (29:39) trying to expand or debottleneck, and what kind of debottleneck opportunity set is there?

And the second question is that just curious, when you're buying this business that is it primarily you're buying the capacity or you are buying the relationship with the slaughter house and all of that? In other words, that if you don't buy this and you're trying to go in and trying to build this facility yourself, is it a feasible option at all? And if it is, what are the economics between to buy or to acquire? Thank you.

Answer – Randall C. Stuewe: No, great questions, Paul. I think pretty simple to answer, to be honest, number one, this is a very well-run business. These are excellently constructed and managed plants with a great management team, sales team, commercial team, et cetera. The alternative as we evaluated it was to go build one or two plants to add the extraction capacity we needed, and the timing of that was three to five years and between equipment delays, design, permitting, location. And so we kind of believe, as we've said, we've been growing at 15%, 13% to 15% for the last seven years, we think that those rates can be obtained and it just made sense to jumpstart this by adding a well-run business that was seeking a new owner. And so it just met all of the criteria.

As far as operating efficiencies, I'm going to challenge the Darling team. I think they can teach us something. And I know those might be words that I'm going to hear back from my colleagues and team members. But no, this is a well-run business. I can't wait to put them together. And I think that clearly one plus one is a very solid two plus here. And so not only geographically, but globally and our ability to service our customers. We're at a point here where we were out of capacity and unable to take additional orders to meet the demand that our customers were bringing us. So this is something that we really – the team worked hard on and then we look forward to getting it through the regulatory agencies.

Question – Paul Y. Cheng: Randall, can we go back into my first question that assets that you're buying? Are they already running at full capacity or that there's still quite a fair amount of room for you to be able to grow the business without adding new capacity?

Answer – Randall C. Stuewe: Yeah. I mean, just – the number that I'll give you is the boilerplate number until we're through regulatory, they have the ability to produce 46,000 tons and we'll just say they're running that or very close to it.

Question – Paul Y. Cheng: Okay. Thank you.

Answer – Randall C. Stuewe: Thank you.

Operator

Our next question comes from Sam Margolin with Wolfe Research. Please go ahead.

Analyst: Sam Margolin

Question – Sam Margolin: Hello. Thanks so much.

Answer – Randall C. Stuewe: Hey, Sam.

Question – Sam Margolin: Thanks for the comments on the valuation, easy enough to back into the EBITDA from that. But I was wondering if you could speak to anything worth knowing as far as operating nuances between producing collagen or other products that come out of food, whether there's like an energy intensity aspect that influences margins. And essentially, I'm just trying to see if I can triangulate around the top line value uplift from these products versus your legacy products in food.

Answer – Randall C. Stuewe: I think it's pretty similar to – from an operating standpoint. I think at the end of the day, they're a little lower cost than we are today. But – and that would come from, remember, the geographies they're operating in and really, you get down to the energy costs now of my four European factories. So, end of the day, this – and I don't know that I can triangulate enough without stepping over the line today, Sam. So bear with me on that and we'll give more detail as we get closer here.

Question – Sam Margolin: Understood. That's all I had. Thanks so much for all the color up to me.

Operator

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

Analyst: Benjamin Joseph Kallo

Question – Benjamin Joseph Kallo: Hey Randy. Maybe two questions. First of all, thoughts for collagen, economic sensitivity as you get more levered to that, I guess as we make less money, maybe we don't do all the health and wellness stuff. How do you think about that? That's my first one.

Answer – Randall C. Stuewe: Well, we've spent a lot of time with our customers, and I don't know that we're seeing that yet. I think that you're probably – and I'm not saying if we don't – if we go into a deep recession or that we don't see some impact, but we're not really – we're seeing some slowing around the world of the higher-end products. But I don't want to call it material at this time.

So there's a whole bunch of brands out there that are all fighting for share. And really, at the end of the day, there's a clear leader out there that we support and respect. But as I said, the applications that this is going in are very much growing in both intensity and timing here. So there's a difference of buying that 100% jar full of collagen and adding it to your coffee or water or juice. And then there's all kinds of little blending that is now putting collagen on the label.

And as we tell people, remember, this is a micro ingredient around the world. I don't know what the final size of the whole collagen gelatin market is, but somewhere 450,000, 500,000 tons around the world. So, it doesn't take much demand for this to be a pretty significant mover in the sense for us. So, I mean, it's a product (35:49). We've always talked also, Ben, that we're seeing – we're moving up the value chain not only with the gelatins, the collagens, and then into the biomedical area. So this is just part of an execution of an overall larger strategy of taking residues out of slaughterhouses and making value-added products.

Question – Benjamin Joseph Kallo: But I guess maybe two more. Just one thing that I get a question a lot about is just from the Omega-3 and FMC and having to sell that business off. Is there anything analogous about that? (36:29) became more competitive, but does that relate in any way in your mind to what collagen (36:34)?

Answer – Randall C. Stuewe: Not really. I think collagen, especially animal-based collagen has, – remember, it has, I think, what 19 of the amino acids and there's 20 of them. And I think it lacks tryptophan. So it's kind of the full meal deal out there and that's what's being realized in it. Clearly, it's a pure protein in a sense. But what happens when you hydrolyze it, then as you create the ability for improved digestibility within – an absorption within the bloodstream. So, there's some benefits here that are so obvious that nothing else has at this time. So I'm not really, we're – as we would say in the gelatin business, in the encapsulation business, we can't get prices too high or HPMC, the alternative, which I still call them, is the chemical comes into play them, but there's no substitute derivative here that really is – that worth have any fear about.

Where do we take share from? We took share from the weigh business. And you think of the GMCs of the world and weigh and so that's probably the only what I'd call a really synthetic competitor that's out there today.

Question – Benjamin Joseph Kallo: And my final question is, I guess we can't do anything anymore because there's probably geopolitical risk everywhere. But you're kind of doubling down in Brazil there. And just how do you think about that? There's a (38:09) I think, going on and stuff. So, how do you think about that with these two big acquisitions? Thanks.

Answer – Randall C. Stuewe: Yeah. I mean, clearly, we're not putting our money on the pass line here, we're doubling down. Doubling down for the long term. We've got a great management team down there. We've managed in a hyperinflation economy. I think we feel pretty good. Clearly, the Lula-Bolsonaro issue is – it depends on who you talk to, how that's going to go. But at the end of the day, Brazil remains committed to continuing to grow its economy. And clearly, agriculture and food are a part of that.

And so, I feel pretty darn good about it. It's not for the faint of heart, as we always say, and there's always risks in doing business there. But if you had me handicap stuff today, I feel really good about Brazil, probably better than China for the near and long-term. So, I think at the end of the day – Brad, you got any feeling on – you want to...

Answer – Brad Phillips: Just – that's where the growth in animals are, too.

Answer – Randall C. Stuewe: Yeah.

Answer – Brad Phillips: You mentioned our management team...

Answer – Randall C. Stuewe: Yeah.

Answer – Brad Phillips: Already there (39:19).

Answer – Randall C. Stuewe: Okay.

Operator

Our next question comes from Matthew Blair with Tudor, Pickering, Holt & Company. Please go ahead.

Analyst: Matthew Blair

Question – Matthew Blair: Hey, Randy. Congrats on the deal. I was hoping you could provide just any sort of history on how this deal came about. How long were you talking to Gelnex and ultimately, why did they decide to sell?

Answer – Randall C. Stuewe: Yeah. Remember, (39:50), we spent a lot of time and me, pre-COVID, that's all I really do with my time when I'm not talking to you guys, is out seeing folks and trying to dream and scheme about growing the company. And Gelnex was always one of them on it. As we laid out the collagen peptide strategy for our board, it became very apparent that we had a kind of a significant issue come in on, relative to capacity.

I mean, the greatest thing you can ever do in my chair is build products for customers that want your product. And so, here we were with multiple customers wanting more and more of the product. And we were at a point where we were going to have to potentially say no or take three to five years to get there. And with very, very significant money to rebuild some of these facilities.

So we reached out to the Gelnex family, gave them the Darling story and then the Rousselot story and got them – I thought we got them interested. And at the end of the day, then they retained a Santander, the investment banker here about six months after we made the pitch about a year ago, I guess, today.

Answer – Brad Phillips: Yeah.

Answer – Randall C. Stuewe: And then Morgan Stanley assisted us with the Portuguese side here, and we got the deal done. And as I've said, I just welcomed the management team to the family here. They're sharp people and then they're a great cultural fit for us and we just look forward to putting the two companies together when the authorities give us the chance.

Question – Matthew Blair: Great. Thanks for all the color. How did margins on Gelnex compare to your existing food segment? And is there going to be any sort of like integration or synergy benefit over the next couple of years? For example, could you send some of your gelatin over to Gelnex for upgrading or vice versa?

Answer – Randall C. Stuewe: Yeah. And, Matt, the way I want to answer that today is I can't answer that, and once you file the regulatory anti-trust stuff here, you're really not, what you've seen in the CEM (42:10), as you know, on the due diligence process in the videos is essentially everybody got shared the same information, came to their same conclusions. And we don't have access to enough of that data today to give you a fair and honest answer. I mean, fundamentally, do we believe there's synergies there and product optimization and product mix and capacity potential of moving products around? Absolutely. Or we wouldn't have done it, but we don't have enough detail today to move any further than what I've said.

Question – Matthew Blair: Okay. I'll leave it there. Thank you very much.

Operator

Our next question comes from Jason Gabelman with Cowen. Please go ahead.

Analyst: Jason Gabelman

Question – Jason Gabelman: Hey. Congrats on the deal. A lot of my questions have been answered. I just wanted to ask, what's the collagen gelatin mix within the Gelnex business versus what our current food business is?

Answer – Randall C. Stuewe: That's, Jason, a great question. We don't know that answer yet today. We have a guess, but it's only a guess. And we're just going to – we'll say that when we announce the closing, we'll catch everybody up and talk a little more about the strategy of integration then. But that's to-be-answered question.

Question – Jason Gabelman: Okay. The rest of my questions have been answered, so thanks for the time.

Operator

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

Analyst: Craig Irwin

Question – Craig Irwin: Thank you and congratulations on another great acquisition. Randy, can you talk about geographic and customer exposure? I know 46,000 tons is pretty substantial capacity and production, but do they have maybe different geographic strengths in the core Darling business?

Answer – Randall C. Stuewe: I wish I knew that, Craig. That's one of those to-be-determined. I mean, like I said, you get to see margins, you get to see – but you don't get to see by plant margins or earnings, so I don't know the answer to that yet. But what I can tell you is they're very well-respected. And I got to believe they're doing business with people that haven't done business with us or they're doing more business with people we want to do business with. So stay tuned. We'll tell you more.

Question – Craig Irwin: Excellent. And then, over the last few years, you've really done an amazing job growing Diamond Green Diesel. And then when collagen kicked in as a great opportunity, you grew capacity there, and you've (44:47) just announced another substantial acquisition to really serve that market well. When you go elephant hunting now, do you look at it in different pastures? I mean, are there other areas of the business you'd call out as really exciting opportunities for similar growth to what you've done in collagen and Diamond Green?

Answer – Randall C. Stuewe: Yeah. I mean, clearly, and we've been open, Craig, and travelling lots around the world. I mean clearly, we look at the SAF as a real opportunity out there. I think we're getting closer. I really do and I'm bullish that can move forward over time here. Clearly, the collagen peptide, we just shot an elephant and we're going to have to render an elephant now and integrate it. But the core business, I mean clearly, as we look, we got our hands forward with Valley Proteins. That's a business that has an incredible amount of potential. It was tired and it's just going to take some time. And then, we continue to evaluate green energy in Europe.

And, what is so different about green energy in Europe and specifically digesting, I think in the Benelux countries, we may be the largest or Western Europe, largest digester here. You're seeing BlackRock and Shell chase Danish assets for billions. This is a business of collecting, transporting, separating waste that can't go to the landfill. And so, as you know, of travelling Europe, you've got all different level colors of containers. And at the end of the day, you've got different foods that can and can't from grocery stores. And I think you're going to see it move to the consumer level, down to the household residential, eventually here.

So, our collection network and our ability to put it into green energy is something that really gets us excited because it's what we know how to do. And so, high energy prices are painful for everybody, but this is really something that just gets us there. So the for green energy, for rendering and specialty ingredients growth, the food ingredients growth and then sustainable aviation fuel. And I think there's plenty of runway as soon as Brad gives me the green light again that I got some money to spend.

Question – Craig Irwin: Great. Well, keep on dreaming and scheming. We love the progress. Thank you.

Answer – Randall C. Stuewe: Thank you.

Operator

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

Hey, Sarah, thank you so much. Great to talk to everybody, share the Darling story one more time, appreciate the support. Earnings are coming up and we'll report again that and give you the updates as we know them. So, thanks again. Have a great night or a great morning.

Operator

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