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DAR - Darling Ingredients Inc to host U.S. Biofuels Corporate Call

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CORPORATE PARTICIPANTS

Melissa Gaither *Darling Ingredients Inc. - Director of IR*

Randy Stuewe *Darling Ingredients Inc. - Chairman & CEO*

John Bullock *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

John Muse *Darling Ingredients Inc. - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Adam Samuelson *Goldman Sachs - Analyst*

Craig Irwin *ROTH Capital Partners - Analyst*

Heather Jones *BB&T Capital Markets - Analyst*

John Quealy *Canaccord Genuity - Analyst*

Dan Mannes *Avondale Partners - Analyst*

Ken Zaslow *BMO Capital Markets - Analyst*

Tyson Bauer *Kansas City Capital Associates - Analyst*

JinMing Liu *Ardour Capital Investments - Analyst*

Jeff Gates *Gates Capital - Analyst*

PRESENTATION

Operator

Welcome to the Darling Ingredients Inc. conference call to discuss the current status of the US biofuel industry. With us today are Mr Randall Stuewe, Chairman and Chief Executive Officer of Darling Ingredients; Mr John Bullock, Executive Vice President North American Specialty Businesses and Chief Strategy Officer.

After the speakers' opening remarks, there will be a question-and-answer period. Instructions to ask questions will be given at that time. This call is being recorded and your participation implies consent to our recording this call. If you do not agree to these terms, simply drop off the line. I would like now to turn the call over to Melissa Gaither, Director of Investor Relations. Please, go ahead.

Melissa Gaither - *Darling Ingredients Inc. - Director of IR*

Thank you, Keith. Good morning. Thank you for joining us today. To augment management's formal presentation, please refer to the Presentation section of our IR website for the Biofuel slide deck. This conference call will contain forward-looking statements regarding Darling Ingredients business and factors that may impact its business opportunities and anticipated results of operation. Please bear in mind that this forward-looking information is subject to many risks and uncertainties which could cause actual results to differ materially from the Company's expectations.

Many of these risks and uncertainties are described in Darling's annual report on Form 10-K for the year ending January 3, 2015, in the Biofuel slide presentation located on our website and our other filings with the SEC. Forward-looking statements on this conference call are based on our current expectations and beliefs. We do not undertake any duty to update any of the forward-looking statements made in this conference call or otherwise.

With that, I would like to now turn the call over to Randy.



Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Good morning. Thanks, Melissa. Thanks everyone for joining us today for us to provide some views on the US biofuels industry. We've received numerous questions lately pertaining to the current status of the government programs surrounding this industry and how it relates to Darling Ingredients. Biofuels are a critical component of Darling's global platform. Not only are biofuels made from our inputs and they're good for the environment and they also help with the world's energy balance but they play a critical role in helping us manage our global commodity exposure.

Today, I've asked John Bullock, our EVP and Chief Strategy Officer to help us better understand these programs and their future impacts. Today, John will read a script. Then we'll open up to Q&A when we're done. Hopefully, we'll help you answer many of the questions you've been hitting us with. So with that, John, let's go ahead.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Thank you, Randy. As we all know, biofuel profitability has been and continues to be heavily influenced by the two primary federal biofuel policies: the Renewable Fuel Standard or RFS2; and the biodiesel tax credit. I will review the current status of each of those policies in a minute.

The other factor, which is just now starting to have an impact on biofuel margins, relates to the Low Carbon Fuel Standard or LCFS legislation which is currently being reintroduced in California, is standing law in British Columbia, Canada and just in the final stages of introduction in Ontario, Canada. In addition, similar programs are under consideration in the states of Oregon and Washington in the United States, with some early efforts beginning in Quebec, Canada as well as in the northeastern region of the United States. I will review the current status of the LCFS programs as well later.

First, however, I would like to review Darling's various businesses which are involved in the North American biofuel market. Darling, as many of you know, has a long history of biofuel processing; beginning with our 2 million gallon a year biodiesel plant in Butler, Kentucky. That plant began operation in the late 1990s, some seven years or so before the first biodiesel tax credit and was the first biodiesel unit in the United States designed specifically to use used cooking oils and animal fats as feedstock. These are commonly referred to in biofuel legislation as waste oils.

Darling added to its biodiesel portfolio with the acquisition of Rothsay, the Canadian rendering operations owned by Maple Leaf in 2013. A part of Rothsay's portfolio included a biodiesel plant in Montreal, Canada which is capable of producing between 15 million gallons and 16 million gallons of biodiesel annually. The Montreal plant, similar to the Butler plant, uses exclusively used cooking oils and animal fats as its raw material and actually is an integral part of our rendering supply chain in Canada.

We believe that both the Quebec and Butler plants are very competitive biodiesel production facilities, compared to the biodiesel industry as a whole, primarily due to their ability to utilize high Free Fatty Acid feedstocks and produce high quality biodiesel that substantially reduces both particulate and carbon emissions, two of the primary drivers in cleaning up North America's fuel supply.

The other Darling biofuel investment is Diamond Green Diesel. As most of you know, Diamond is a 50/50 joint venture with the Valero Energy Corporation. I would like to take just a moment and thank our very good partners at Valero Energy. From Darling's perspective, we could not have a better partner to work with than the folks at Valero. Joint ventures are notoriously hard to maintain but throughout the process of designing, building, and operating, the collaboration between the companies has been excellent. Every day, we appreciate the pride and professionalism demonstrated by the excellent management team which oversees the production, the commercial operations and the financial management of Diamond.

The plant, located in Norco, Louisiana, a suburb of New Orleans, is North America's largest biomass based diesel plant. Biomass based diesel is a definition used in RFS2, which includes biodiesel and renewable diesel. Originally designed to produce 136 million gallons of renewable diesel annually, the plant is currently operating at 160 million gallons annually. Diamond, just like our other two biodiesel plants, produces an environmentally friendly fuel that reduces carbon emissions calculated on a life cycle basis by over 85% and substantially reduces particulate emissions when compared to petroleum based diesel fuel.



Obviously, Diamond produces a lot more gallons of renewable diesel than do our other two biodiesel plants, which when combined produce 17 to 18 million gallons of biodiesel annually. It is also true that renewable diesel plants cost a fair bit more to build than biodiesel plants, as Diamond cost nearly \$400 million to construct.

So why did we invest in Diamond rather than adding to our biodiesel production capability? Simply stated is because we believe the renewable diesel process for the types of fats produced by Darling was a better fit. Darling produces fats that are higher in Free Fatty Acids than traditionally refined vegetable oils. That poses processing issues for the biodiesel process resulting in yield loss and higher operating cost when compared to biodiesel plants using just refined vegetable oils.

Biodiesel also has some limitations associated with distribution to the traditional petroleum pipeline and distribution system as well as some limitations on use during cold weather. The renewable diesel process on the other hand utilizes higher Free Fatty Acid feedstocks without the yield loss associated with the biodiesel process and produces a fuel which is entirely transportable through the current petroleum product pipeline with cold flow properties identical to or superior than traditional petroleum fuels.

The trick as we see it with renewable diesel plants is they must have scale and size. To date, we have not seen a technology that can, quote, mini-size a renewable diesel plant and contain all of the bells and whistles that we believe the plant must have to utilize waste oils.

Diamond is successful not only because we have a great partner and a great management team on the ground but because we've built Diamond with strong supply chain capabilities including: substantial raw feedstock storage with the ability to segment varying qualities of feedstock; a robust and unique pre-treatment facility; access to low cost hydrogen without substantial capital investment; the ability to cost effectively move the renewable diesel through multiple pipelines or via water transportation; and the ability to have the co-products from the facility cost effectively segregated into products of value, again without substantial capital investment.

In short, Diamond works because of its location, its capabilities and its size. In conjunction with Valero, we are currently going through an evaluation to determine whether to expand Diamond further, potentially to as much as 220 to 230 million gallons of renewable diesel annually. That evaluation is well under way. We hope to have it completed later this year.

I want to note that just because we have invested in renewable diesel does not mean we dislike biodiesel. We know how to efficiently process higher Free Fatty Acid feedstocks into high quality biodiesel. There are locations and opportunities where biodiesel plants represent a competitive alternative to renewable diesel. Specifically, if competitively priced raw material supply is not available to build a large scale renewable diesel plant, then biodiesel can be a competitive alternative. That is why Darling continues to evaluate whether to build or buy a biodiesel plant to service the California biofuel market.

Before I turn to the specifics of various legislative programs, which creates the foundation of the biofueled industry, let me take just a minute and discuss Darling's investment thesis in biofuels. Most of you have probably heard this from John Randy and John Muse over the last several years, so I will ring a bell when I have completed this brief explanation so you can start listening again.

Slides 4 and 5 of the PowerPoint presentation contain a summary version of what you're about to hear. Darling is engaged in the renewable fuel business because it is the perfect fit for further value creation of one of Darling's two primary rendering products, fat; both animal fat and used cooking oil. Traditionally, Darling has marketed the fat it produces from its rendering operations and used cooking oil activities into the feed and oleo-chemical industries. Because the US has traditionally produced more animal fat and used cooking oil than it has domestic demand for, exports have represented a significant demand market for the US and Darling products; sometimes up to as much as one-third of the US production.

The introduction of the biodiesel tax credit and the mandated volumes established by the Renewable Fuel Standard creates a natural value added market for Darling's rendered fats. We believe it not only provides an opportunity for increased margins and satisfactory returns on incremental capital deployed, but it also puts us in a position to further process one of the primary products from our rendering operations. This is particularly important when a key historical demand component is the export market, which means the demand is subject to currency fluctuations and the complexities of international trade including non-tariff barriers, et cetera.



Additionally, biofuel provides a much needed hedge or risk management tool to offset the commodity exposure in our North American core rendering and used cooking oil collection activities. We believe the counter cyclical and decoupled nature of food, feed, and fuel provide that mechanism. Traditionally, the higher Free Fatty Acids which are part and parcel with the raw materials that Darling produces are less expensive than processed vegetable oils. That means we have the opportunity to produce as long as we utilize the proper technologies. Biofuel is at a competitive advantage to the market in general.

We believe that means both margins and stability of demand providing the perfect complement to our base rendering and used cooking oil activities. However, as we all know, there is no US biofuel industry without the support provided by key government programs. These programs combine to create a key component of the value proposition for renewable fuels. While each of the programs I will discuss are separate programs, they combine to create the green premium, which provides the incremental value over traditional diesel fuel that helps to create the biofuel margin.

Darling does not think of the market in terms of an RFS2 RIN or a tax credit in isolation; rather, it is the combination of incentives provided by these programs that total to the, quote, green premium. Whether that green premium is paid by a RINs generation, through the RFS2 program or through a tax credit, the combination of these economic contributions is an essential element of the margin for biofuels. Darling further enhances its profitability by utilizing the lowest cost feedstocks in processes which are competitive with other technologies available.

As you all know, there are currently two US federal biofuel policies which impact Darling's investment in biodiesel and renewable diesel. The first and the foundation piece is the Renewable Fuel Standard, RFS2, created by the Energy Independent and Security Act of 2007, with the initial administrative rules issued by the Environmental Protection Agency in March of 2010. The legislation requires that obligated parties, parties defined by the law who must fulfill the mandate, to either blend a certain amount of biofuel with their traditional petroleum based fuel or if they have not done that purchase RINs from a party that is either created or owns a RIN that has no obligation.

The concept is to create a market based mechanism that will incent the production of various types of renewable fuels. RFS2 sets up several classifications of biofuels in what is called a, quote, nested concept. The legislation requires that a certain amount of renewable fuel is blended into the fuel supply each year. Renewable fuel in turn has two primary categories, including conventional biofuel, which is essentially corn-based ethanol, and advanced biofuels. The market place can fulfill the total renewable fuel obligation with either conventional RINs, called D-6 RINs, or with advanced biofuel RINs, called D-5 RINs.

In turn, advanced biofuels have several sub-categories including cellulosic and biomass based diesel. Biodiesel and renewable diesel are the only two products which can fulfill the biomass based diesel sub-category or bucket. Cellulosic RINs are called D-7 RINs, while biomass based diesel RINs are called D-4 RINs. The obligation created under RFS is for specific amounts of both cellulosic and biomass based diesel to be produced and for a specific amount of the total advanced biofuel to be produced.

If you add up the total volume of cellulosic and biomass based diesel, you will see that the total advanced biofuel obligation is greater than the sum of the cellulosic and biomass based diesel obligations. That is not a math error. It is actually how the law was intended to work. Congress intended that the law provide for the marketplace to produce more advanced biofuels than the volume specifically specified for biomass based diesel and cellulosic.

The, quote, undifferentiated advanced volume, which is the difference between the sum of the volume for biomass based diesel and cellulosic can be fulfilled with other biofuels that meet the carbon reduction standards established for each category or from production of cellulosic and biomass based diesel in excess of their specific requirements. Currently, the only fuel of significant quantity which meets the requirements to be an undifferentiated fuel is sugar-based ethanol. In calculating the total overall advanced biofuel mandate, there is, however, one very important but subtle point that must be considered.

The volume obligation specified by Congress and issued by the EPA for biomass based diesel is a gallon obligation. Congress further specified that while the EPA was provided some flexibility associated with other mandates, the minimum volume obligation for biomass based diesel was 1 billion gallons. It could be more but it could never been less. Therefore, when we talk about the volume obligation for fulfilling the biomass based diesel sub-category under RFS2, we are talking only about gallons. However, biomass based diesel is nested within the total advanced biofuel category.



The production of biomass based diesel helps to fulfill the total advanced biofuel obligation. The twist is that for purposes of the total advanced biofuel obligation, biodiesel has a multiplier of 1.5 times, while renewable diesel has a multiplier of 1.7 times. The obligation for total advanced is not an obligation for specific gallons, but rather an obligation for total number of RINs. All other products within RFS2, with the exception of one category of cellulosic biofuels, has a 1 for 1 equivalency, meaning one gallon equals one RIN. In the case of biodiesel, 1 gallon equals 1.5 RINs. In the case of renewable diesel, 1 gallon equals 1.7 RINs.

This all sounds complicated and it does take some time to fully grasp; however, the basic principle is fairly straightforward. Congress intended for RFS2 to both increase the use of corn-based ethanol and at the same time, dramatically increase the use of advanced biofuels, such as cellulosic and biomass based diesel because these fuels substantially reduce carbon emissions. When Darling made its investment in Diamond, the RFS2 program was the backbone policy on which that investment decision was made. Unfortunately, the EPA has not followed the clear mandated volumes established by Congress.

In 2013, a fundamental problem developed in the volume of total renewable fuel was increasing to the point that the marketplace could not blend enough corn-based ethanol. Due to the B10 blend wall issue, no more than 10% ethanol could be blended into gasoline due to the inability of older engines to utilize higher blends of ethanol. The result was the effective mandate for ethanol from RFS2 was greater than the ability of the marketplace to blend because of the blend wall issue.

The fact that the market could not consume as much ethanol as was required under RFS2 caused a spike in D-6 RINS. As the demand for D-6 RINs exceeded the ability of the marketplace to utilize the number of RINs designated by the statute. Since both D-4 and D-5 RINs can fulfill the D-6 RIN requirement, they went up as well, not because of the supply and demand economics within the advanced biofuel category, but as a direct consequence of what was going on with corn-based ethanol and the B10 blend wall.

The EPA utilizing what it has claimed to be waiver authority provided by the statute began to lower the required volumes established by Congress, reducing them in order to control the rapid rising cost of RINs. Whether the action taken by the EPA to reduce the effective mandate for corn-based ethanol makes sense or not is not an issue for this call. However, in the process of reducing the mandate for corn-based ethanol, the EPA also reduced the mandates for the total advanced biofuel category.

In part, the EPA took this action because the volume of cellulosic was not reaching the levels anticipated by Congress; therefore, the EPA concluded the total advanced mandate needed to be reduced. What was confusing to us and frankly, everybody else in the industry, was that the EPA failed to take advantage of an obvious alternative in fulfilling the total advanced category by simply holding to the volumes established by Congress for the total advanced bucket and allowing biomass based diesel which was already built and operating to fulfill these requirements.

When you consider that a carbon reduction -- that the carbon reduction associated with biomass based diesel exceeds the requirement for the cellulosic category, it is hard to understand why the EPA would have failed to implement the target established by Congress when a biofuel was available that actually exceeded the goals of the program as established by Congress. The biomass based diesel mandate, which was 1.28 billion gallons for 2013, was held steady in the original proposal released by the EPA in 2013 at 1.28 billion gallons for both 2014 and 2015.

The issue was that the biomass based diesel industry was already producing at a rate in excess of 1.28 billion gallons. Once the RIN market was no longer being driven by the B10 ethanol issue, the prices for RINs quickly dropped. In essence, the EPA threw the baby out with the bath water when they reduced the total advanced category and did not increase the biomass based diesel mandate.

The biomass based diesel industry quickly mobilized and through discussion with the EPA and the White House established that both the total advanced biofuel mandate and the bio-based diesel mandate should be raised for the years 2014, 2015 and beyond, because the industry was already producing cost effective carbon reducing fuels in excess of the volumes proposed by the EPA in its 2013 proposed rule.

Fortunately, the EPA listened and the revised proposed volumes were increased for both biomass based diesel for the years 2014, 2015, 2016 and 2017, as well as for total advanced biofuels for the years 2014, 2015 and 2016. The EPA proposed biomass based diesel volumes of 1.63 billion gallons for 2014, 1.7 billion gallons for 2015, 1.8 billion gallons for 2016 and 1.9 billion gallons for 2017, are substantially higher than the 1.28 billion gallons proposed in 2013 by the EPA for both 2014 and 2015.



Importantly, the EPA also increased the total advanced RINs from the 2013 proposal of approximately 2.2 billion RINs to 2.68 billion RINs for 2014, 2.9 billion RINs for 2015 and 3.4 billion RINs for 2016. The EPA did not propose a total advanced biofuel mandate for 2017, that will come in a later rule making process. These numbers not only represent a significant increase from the EPA's 2013 proposed mandates, but the substantial increase in the total advanced volume for 2016 of 3.4 billion RINs represents an opportunity for biomass based diesel to help fulfill the undifferentiated part of the proposed mandate as it relates to the advanced biofuel category.

These rules have not yet been finalized and comments are currently being reviewed by the EPA with the final review by the Office of Management and Budget scheduled for completion by the -- to be completed by the end of November of this year. Darling's view is that it's highly unlikely the EPA will increase demands for -- mandates for 2014 and 2015 above those currently proposed because by the time the final rule comes out, we will be talking about history. The volumes are simply designed to comport with what has already happened in the marketplace.

However, we believe the industry has put forward a persuasive case that the mandates for 2016 forward, for both biomass based diesel and total advanced biofuels, should be further increased. We are hopeful the EPA, just as they've done before, will be listening when they increase the -- and increase the volume commitments from the original 2013 proposal and from the most recent proposal. We'll know if we made our case on this when the final rule is published.

So why have D-4 RINs' prices fallen since the revised proposal was published in June of this year? Domestic production of biomass based diesel has ranged from 1.45 billion gallons in 2013 to 1.383 billion gallons in 2014. The proposed rule for 2015 is 1.7 billion gallons with the mandate increasing to 1.8 billion gallons in 2016 and 1.9 billion gallons in 2017. On the surface, it looks like the volumes mandated should result in RIN prices that will help to provide the adequate green premium needed to incent production. However, the RFS2 volumes can be fulfilled with either domestic production or from imports.

Indeed, Darling currently markets a significant portion of its biodiesel produced in Montreal to the United States. There are also significant quantities of renewable diesel which come from Singapore and from Finland, as well as biodiesel from a variety of countries including Argentina. The EPA in the proposed rule issued this year has the imports of all biomass based diesel at 340 million gallons in 2013 and 322 million gallons in 2014.

So if you simply add up the US production for the 2013 and 2014, it averages to 1.4 billion gallons, with the average of 331 million gallons of imports, you're at 1.73 billion gallons, which means that the historical supply is approximately equal to the current mandates proposed for biomass based diesel. Remember, though, that biomass based diesel is not totally determined -- demand is not totally determined by the biomass based diesel mandate. Because biomass based diesel can also fulfill the larger total advanced biofuel mandate.

As we just mentioned, the EPA in its current proposed rule substantially increased the total advanced biofuel mandate for 2016 to 3.4 billion RINs. If you take the proposed 2016 biomass based diesel mandate of 1.8 billion gallons and multiply it by a 1.53 multiplier, an average of biodiesel and renewable diesel, you get 2.75 billion RINs produced by the mandated biomass based diesel volume.

Since the EPA is projecting only 206 million RINs to be provided by cellulosic in 2016, that means there is a potential demand of 440 million RINs or 288 million gallons of biomass based diesel created by the advanced biofuel bucket. However, there will be competition from sugar-based ethanol and cellulosic to fulfill this incremental demand. Biomass based diesel should be able to fulfill some of the incremental undifferentiated demand proposed by the EPA in its current rule that could have the effect of tightening RINs for both D-4 and D-5 RINs next year.

Whether that happens or not, though will be largely dependent upon the volume of imported biomass based diesel, which will help fill both the biomass based diesel mandate and the total advanced mandate as well as the imports of sugar-based ethanol which can help fill the undifferentiated volumes of the total advanced mandate. Whether those imports increase or decrease depends upon a large number of factors including currency exchange rates, incentives for export such as exist in -- biodiesel such as exist in Argentina and the relative price of world fats to diesel fuels.

What we do know is that imported biomass based diesel is not new news. Indeed, the EPA, in the current proposed rule, details that in 2013, 132 million gallons of biomass based diesel was imported from Argentina, 164 million gallons of biomass based diesel was imported from Singapore



and 36 million gallons from Finland. We expect imports to be a part of life within the RFS2 program. These will ebb and flow depending upon a complex set of variables.

Darling's hope is that the EPA will continue to increase the biomass based diesel and total advanced biofuel mandates to accommodate the changes in imports. They appear to have taken this in consideration in the development of the current rule, although in our view, they could have raised their sights and increased the mandates for both biomass based diesel and total advanced biofuels. I should note that the chart on page 6 of the PowerPoint describes the program as currently proposed by the EPA.

The second US federal incentive relating to biomass based diesel is the biodiesel tax credit. Do not be confused by its common name as it applies to both biodiesel and renewable diesel. The tax credit is an entirely separate program from RFS2. It is administered by the IRS, while the EPA administers the RFS2 program. From an administrative point of view, these programs have nothing to do with each other.

However, if you remember how Darling looks at biofuels from an economic point of view, both the RINs associated with RFS2 mandates and the tax credit are part of the green premium provided by the US government to incent production of environmentally friendly fuels. If you have no tax credit, then RINs should be higher as there is a certain amount of green premium that must be present to incent the volumes mandated by RFS2.

Just as the application of the RFS2 mandates have been erratic by the EPA, the US government's handling of the tax credit has been uneven at best. As a way of review, the \$1 tax credit has been in effect for each of the last several years. However, it is not a long-term tax credit and has been extended not as a standalone tax bill but rather as part of the tax extender's package. For those not familiar with the tax extender's package, it is a broad ranging set of tax-related legislations ranging from tax incentives for grade school teachers to buy supplies -- school supplies, to incentives for accelerated depreciations.

It generally includes some 50 to 60 different tax-related bills and as a result, has broad support for extensions. The biodiesel tax credit is simply 1 of the 50 to 60 tax credits and generally just moves along with the other tax credits. Darling believes that will be the situation this year as it has been in the past years. However, the extender's package is typically not dealt with until late in the calendar year by Congress, which usually means November or December. This year will probably be no different.

The frustrating part of the tax credit has been that Congress last year started just extending the tax credit for one year at a time. Since they do not deal with the extender's package until late in the year, that means the tax credit has become a retroactive tax credit. The money is still there but it comes at the end of the year. So it makes earnings from the biofuel activities appear very uneven.

The reality is that at the current price of RINs, the tax credit as it almost always is, is an integral part of the green premium. We believe that Congress and the folks in DC know this and will continue to support the tax credit extension. Whether that is for 2015 only or whether it is both for 2015 and 2016 remains to be unseen. The version of the tax credit recently passed out of Senate Finance was for both 2015 and 2016. If indeed that happens, the income associated with biofuels should become more even in 2016 on a quarterly basis.

The Senate Finance version also contains an interesting twist for 2016. It converts the credit from a blender's tax credit to a producer's tax credit. This is a significant change and frankly it creates both opportunities for Darling's US operations and could, but not necessarily will, create some challenge for our Canadian biodiesel facility.

First, the good news, which could be significant. If only US producers of biomass based diesel can qualify for the tax credit, that creates a competitive advantage for US producers of biodiesel and renewable diesel and will enhance our position at both Diamond and Butler versus imported biomass based diesel. Depending upon whether EPA finalizes the biomass based diesel volumes and the total advanced mandates, we could see an increase in RINs associated with the RFS2 program.

However, whether that happens depends upon more than just whether the tax credit is for US producers only; factors like currency exchange rates and supportive tax policies in other countries also impact this equation. A straight producer's tax credit as currently proposed by Senate Finance would mean that our biodiesel production from Montreal would no longer be able to qualify for the US blender's tax credit. It does not mean that



our product would not be able to come to the United States, as we would still qualify for the RFS2 RINs and for the Low Carbon Fuel Standard carbon credits, which we'll talk about in a little while.

Darling is actively engaged in the discussions around the tax credit, just as we have been on the issues associated with the RFS2 mandate. Obviously, it would be better for Darling if we had a producer's tax credit that contained a North American Free Trade exception, the NAFTA exception. Darling, as well as key industry groups and other biomass based diesel producers, have and will continue to lobby for implementation of such an exception. We obviously, want it because we have an investment in a Canadian biodiesel plant.

However, we believe that a producer's tax credit with a NAFTA exception would actually help the US defend the producer's tax credit from either a NAFTA or World Trade Organization challenge to unfair trade practices. We believe there is time and a willingness of Congress to listen to our perspective on this issue. Whether the tax credit is changed to a producer's tax credit with or without a NAFTA exception remains to be seen. There is time for additional discussions in DC. We are actively engaged in those discussions.

While there is lots of smoke around the tax credit and whether it is going to be changed in 2016 to a producer's tax credit and whether if it is a producer's tax credit, there is a NAFTA exception; the bottom line is that typically when tax legislation is renewed in the extender's package, it is simply an extension of the current law. If that happens this time that will mean an extension of the existing blender's package. What is different this time is that the Senate Finance committee has proposed language that would convert the tax credit from a blender's to a producer's tax credit in 2016.

That does not mean that will be the final language when the tax extender's package is dealt with by the Senate, the House, and the White House later this year. Darling believes while we would prefer a producer's tax credit with a NAFTA exception, we are well-positioned with our suite of biofuel assets as they utilize the very lowest cost raw material to benefit from any tax credit extension, whether it is an extension of the existing blender's credit, a straight producer's credit or a producer's credit with a NAFTA exception.

It is also important to remember that it is entirely possible the tax credit extension could be just for 2015, just as Congress did last year when they extended the tax credit for just 2014. In addition to the US federal policies of RFS2 and the tax credit, there is a very interesting development happening regarding the state and provincial carbon emission reduction policies. As many of you know, the California Air Resource Board, CARB, is in the final stages of re-implementing the Low Carbon Fuel Standard.

The reason it is re-implementing it is because a judge had stayed the original implementation of the program and required CARB to go back and redo some of the regulatory process. CARB has now done so and the rule is now awaiting final approval. When will that happen? The rule is scheduled to be released in September of this year but the re-implementation has been delayed a couple of times now. So I would simply hope for sometime later this year.

Why are we so excited about the LCFS? Simply stated, it represents a third layer of green premium for our biofuels. The carbon credit is an additional credit supporting biofuel production. California is a huge market for biofuels as it represents almost 7% of diesel fuel usage in the United States. The LCFS program is also tailor-made for the types of biofuels we produce.

Because our fuels are made from waste oils, animal fats, used cooking oils and now oil from the corn ethanol industry, the carbon intensity reduction is extremely good, resulting in a competitive advantage on the credit for our biofuels versus crop-based biofuels. California represents opportunity for Darling and the biofuel industry in general in two ways. First, it represents a market we can ship out of the Midwest and even out of Canada. Second, since Darling has significant supplies of fats from its rendering operations on the West Coast, there may be an opportunity for Darling to either buy or build a biodiesel plant in or near to California.

Why would we do this instead of building a renewable diesel plant? The reason is simply that the fat we have available to supply a biofuel plant on the West Coast is not adequate to support the size of plant that would be required to economically build a renewable diesel plant. Biodiesel plants can economically be built on a smaller scale. Given the weather in California, the cold flow property issues associated with biodiesel are not an issue.



Why have we waited to make an investment in this area? We have waited for the California Air Resource Board to firm up the revised LCFS rules and that has now been substantially accomplished. That puts us in a position to consider our options and determine if we want to supply California from afar or have a biofuel plant located near or/to California or a combination of both.

In addition to the LCFS program being re-instituted in California, there is a similar program already in place in British Columbia, Canada and one in the final stages of implementation in Ontario, Canada. The province of Quebec has talked about the idea from time to time, although we suspect the actual adoption of such a program is off a ways. Finally, LCFS-type programs have been actively considered in both the states of Oregon and Washington. There has been some early discussions about a similar program in the northeastern part of the United States.

Given the competitive positioning of waste oil biodiesel and renewable diesel, further adoption and implementation of these types of programs continue to provide Darling with support for our current investment as well as provide us with additional opportunities in the future. We have covered a lot of points about Darling's investment thesis in the biofuels arena and the basic issues and opportunities associated with what appears to be a very complex and moving set of government support mechanisms on which the industry depends.

At times, it may all seem like chaos. There are a lot of moving pieces. As those various programs adjust, there will be ebbs and flows to bottom line profitability. However, when you simplify it down, we believe we have assets which are competitively positioned to provide low cost biofuels that substantially improve our environment.

You can get lost in what the price of diesel fuel is doing or what specific action is being taken by a particular government entity, but at the end of the day, we are comfortable in our positioning in the biofuel industry because: one, it's such a natural value-add to our core rendering activities and allows Darling to solidify and maximize the margin associated with its natural product stream; two, all of our biodiesel units utilize the lowest cost feedstock available to make biomass based diesel; therefore, we have a competitive advantage in supplying that market which equates to greater margins.

Three, all of our biofuel units are designed to be able to convert the higher Free Fatty Acid, lower cost feedstocks into high quality renewable diesel and biodiesel. Darling and the biodiesel arena and through its joint venture with our friends at Valero have strong capabilities in this skill-set. We are not the only ones but there is a lot of specific knowledge that we believe provides us with competitive positioning.

Four, while there is always a lot of smoke surrounding the government programs, the simple fact is that the RFS2 remains law. Indeed, both biomass based diesel and total advanced biofuel mandates are being increased; it may not be by as much as we would like, but there is no indication that the mandates are going the wrong way. The tax credit has been around for every year except one since its initial introduction in 2005. The current practice of renewing the credit late in year on what is basically a retroactive basis is frustrating but the support has always been there for the tax credit. I know of no reason to think that support will not continue into the future.

I realize that it makes the quarterly earnings seem a bit uneven but at the end of the day, the clear history is that Congress supports the very successful biomass based diesel industry as they should given the tremendous track record of the industry. Finally, there is a new and potentially very powerful third layer of green premium support with the re-implementation of the LCFS in California and other key states in the United States as well as various provinces in Canada. Darling believes it is well-positioned as a low cost provider in a market that continues to have critical government support.

We recognize there are a lot of moving pieces but we have always known that this is life in the renewable fuels business. We spend a great deal of time making sure we have a perspective on the changes and that our views are well-known to the decision makers. That does not mean they will always agree with us, nor does it mean that we will not face challenges in one of our plants or the other over time. But we believe the fabric of support for biomass based diesel is strong. We have well-positioned plants to maximize the opportunity that exists.

With that, I will turn it back over to Randy.



Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

All right. Thanks, John. Lengthy message there, but let's go ahead now and open it up to Q&A. We'll go from there.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

I want to thank you for that pretty lengthy and detailed kind of review of the policies. It's a pretty complex matter. John, was hoping to get your thoughts on 2016, given where the proposed RFS2 mandates are and the step-up in both biomass based diesel and the gap in the undifferentiated advanced mandate, how you think about feedstock usage in 2016? Where that incremental feedstock demand is going to go?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Can you -- I'm not sure I understand what you're asking of me, Adam. Can you restate that?

Adam Samuelson - *Goldman Sachs - Analyst*

Yes. So you look at next year, you've got 100 million more gallons of biomass based diesel mandated. There's a gap in the advanced mandate of potentially 300 million gallons or so of biomass based diesel incremental to 2015. How do you think about the feedstock that's going to be sourced to supply that increment biomass based diesel?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

We believe that obviously the most competitive biofuels around are the ones that are made from waste oils. So I would anticipate that we'll see a lot of that come out of the waste oil business. But a lot of that's going to depend on where sugar-based ethanol imports are in the undifferentiated. I think that probably is as much of a driver as there is. But on a pure competitive basis, we would believe that since the waste oils have the most competitive position in the marketplace, that would be a big driver for the increase.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. That's helpful. Then maybe on Diamond Green Diesel, I mean, you're almost two years into the plant operating. I know it's not been running complete -- full out that entire time. But can you talk about the margin advantage that Diamond Green Diesel has enjoyed relative to your traditional vegetable oil based biodiesel in the Midwest, who we would typically think of as the marginal source of biomass based diesel in the US. How big of a cost advantage do you think Diamond Green has actually enjoyed over the last couple years versus those higher cost producers?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

All right. So several different categories of advantage that Diamond Green Diesel we believe has. One, we're using waste oils versus refined oils. You can go back and see that there's traditionally been a spread in that category of \$0.10 to \$0.16 a pound, which equates to a fairly good per



gallon advantage. Diamond also in the RFS2 program gets a 1.7 multiplier as opposed to a 1.5 multiplier in biomass based diesel and that's a competitive advantage.

Diamond is located, so that it's in the natural flow of animal fats and used cooking oils and, frankly, corn oils from the ethanol industry. That's one of the reasons why we chose Norco, Louisiana is because that's the natural flow for the US railroad system. We've talked about this in the past, Diamond uses almost 10% of all animal fats, used cooking oil and corn ethanol produced in the United States. So it's necessary for us to be able to competitively draw our raw material feedstock to that location.

We have a further advantage in that Diamond on the outbound side has connections to two different pipelines as well as we can move our product out via water. That means and essentially since renewable diesel is a true hydrocarbon, it has no problem going through the pipeline systems, just like any other refined petroleum product. So on an outbound marketing perspective, we're able to access essentially the entire northeastern and southern part of the United States, on a very cost effective basis. Through our ship loading to other pipeline destinations can get to almost any pipeline on a very, very competitive basis.

Then finally, because Diamond is an exothermic process, meaning it -- the process actually creates energy, the actual operational cost of Diamond is extremely efficient when compared with biodiesel plants. You wouldn't think that would be the case for a plant that cost a lot more than a biodiesel plant to build but because of the exothermic nature of the production it actually is. So all that, and I think we've released charts in the past that have talked about the various competitors, that change is over time.

But you combine the feedstock with the fact that we get a little higher multiplier under RFS2, its location to be able to economically source. That's been the advantage that Diamond has enjoyed in the marketplace. I think if you look at the results from our operations for the last couple of years, that shows itself pretty obviously that Diamond is an excellent converter of high Free Fatty Acids waste oils into the absolute best biofuel product that you can make.

Adam Samuelson - *Goldman Sachs - Analyst*

All right. That's very helpful. I'll pass it along. Thank you.

Operator

Craig Irwin, ROTH Capital Partners.

Craig Irwin - *ROTH Capital Partners - Analyst*

Thank you for holding this call. So, Randy, until just recently Diamond Green helped fund your buyback. It was pretty easy to argue that you weren't getting anything at all in Darling's valuation for Diamond Green. So now that DGD is up and running at full capacity, reliably producing volumes, you hit the goal that you laid out originally to develop an off take for 10% of North American fats. Would you consider maybe a sale of your stake in Diamond Green Diesel to unlock the value there? It's got to be worth a few hundred million. Or is there something else that you can do?

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

I think first thing, Craig, that we're looking at is obviously we believe in Diamond Green Diesel. It has played, as I said, a critical role in balancing our portfolio. Today's call is about once again trying to explain the complexities and the nuances of the biofuel hold in our portfolio. As we believe, Diamond Green is our number one returning investment we've ever made. We're now, as we stated in our earnings call, Craig, looking at future expansion there, whether or not we can efficiently and economically take it up to above 220, 230 million gallons. That's kind of what we're thinking.

We're also, as John said, looking at additional investments on the West Coast here to once again balance our portfolio. People always have to remember that as we rewind the movie before we added the Rothsays and The VION companies to our family of Companies, we were on a mission to find a new value addition mechanism to balance the risk of our portfolio of the legacy Darling business. As we've always said, the risk in the portfolio was the used cooking oil business and the bakery side. Those products are strictly commodities and they're tied to the value of corn. So we wanted to own a feed or a fuel arbitrage.

Ultimately, as you look back at the years of 2011, 2012, 2013, the decline in EBITDA of the legacy Darling business was related strictly to the decline in value for those two products as it was related to corn. So Diamond Green Diesel became a near perfect offset when you take our half of earnings last year of around \$80 million to that decline. Once again, that plays the same role again this year as we've given guidance out there that we expect Diamond Green will deliver at the entity level of 190 to 200 million again.

So that clearly offsets the risk -- the valuation decline that we've seen as the global supplies of grains replenish themselves. So, long answer to your question. No, I don't believe selling a portion of Diamond Green to either externally or back to Valero would release any value because the value that we bring to Valero and the value Valero brings to us, it's a mutual marriage of agriculture and big oil. The supply chain that we bring into it and then also the operational excellence and the logistics and all of the umbilical cords tied to that facility are critical and that's what gives it the unbelievable cost advantage that John talked about.

Craig Irwin - *ROTH Capital Partners - Analyst*

Thank you for that. So my second question is about the blender's credit. Producer's credit, whatever form it comes in, it seems to be coming maybe in a renewal through the end of 2016. So when we look backwards the last time it was active we didn't really get a full quarter from anyone. So we've got to go back several quarters back for industry levels of profitability. They're pretty attractive. Things recalibrate to much higher level of profitability than where we've been seeing with this regulatory uncertainty. Would you expect the history of higher levels of profitability to continue in 2016 if we did see the blender's credit and clarity around RVOs and obviously some of these other positive factors coming together, similarly to what we did in the past?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Well, first of all, just as a bit of clarification, as far as I know the tax credit has never been a producer's tax credit historically. It has always been a blender's tax credit. So we see good news or positive news coming from the fact that the EPA did essentially change its course from the original 2013 proposal of 1.28 billion gallons of biomass based diesel for 2014 and 2015 as well as increasing the total advanced category from 2.2 million for the 2 years, 2016 and 2017. That's all good news.

We don't think they raised it enough. We're back making that case to them now as are lots of key industry groups. We think we have a pretty persuasive case, that biomass based diesel and the total advanced category should be increased. I can't tell you that the EPA is going to listen to us. I can tell you that they did listen to us from the original 2013 proposal to the rules, proposed rules that were issued in June of this year. So that's good news.

The tax credit's been here. I think the vibes you get from us is, we expect it to be continued going forward. We believe that a producer's tax credit with a NAFTA exception makes sense. That if that were to happen, that would probably end up tightening up the RINs market a bit. But the third element that is really critical coming in here is the introduction of the LCFS programs. There is a critical difference between RFS2 and the LCFS programs in that under RFS2, if you have a certain amount of carbon emission reduction calculated on a life cycle basis, you are essentially invited into the club.

So if the threshold is 60% and your particular fuel has a 65% carbon emission reduction, you get the same RFS2 credit as the person that has an 85% carbon emission reduction credit. However, under the LCFS programs, if you have an improved or greater emission -- carbon emission life cycle basis reduction, then you get a greater carbon credit.



So the LCFS programs are tailor made for the types of both biodiesels and renewable diesels that we make out of waste oils. We see those as being very, very important programs as they get implemented, not only in California, but British Columbia, Ontario, Canada, if the states of Washington and Oregon ever move forward on it, if Quebec ever moves forward on it, if the northeastern part of the United States moved forward on it. Those are very, very powerful drivers for the specific types of fuels that we produce.

Craig Irwin - *ROTH Capital Partners - Analyst*

That's great. Thank you. Then my last question, Congressional record is very clear when the Renewable Fuel Standard was written into law. The EPA's waiver authority is based on the ability to meet production mandates. Clearly that's not an issue for the industry, the biodiesel, green diesel industry can step up. Their authority's not based on delivery infrastructure but that's the excuse they gave everyone for giving us RVOs below Congressional levels. So not consistent with the law. EPA knows they're going to get sued anyway. They always get sued by big oils. This question is probably fair in public but what do you think of a possible lawsuit to compel EPA to follow Congressional intent?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I don't know if I'm a qualified person to answer that question. As you say, there have been a number of lawsuits in and around this legislation. It is part and parcel with kind of the process that we are under way. We'll just have to take those as they come along and see what happens.

Craig Irwin - *ROTH Capital Partners - Analyst*

Thanks again for taking my questions.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Thanks, Craig.

Operator

Heather Jones, BB&T Capital Markets.

Heather Jones - *BB&T Capital Markets - Analyst*

Thank you again for the call. I have several questions and I'll just try to get through them quickly. One, I've heard that there's talk of trying to get the government to eliminate sugar-based -- sugar cane ethanol as a fulfillment of the advanced mandate. I was wondering if you could speak to that?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

No, I cannot as we've not heard anything about that.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Wouldn't be a bad thing, but --

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Yes. Strikes me as a great idea, but -- (laughter)

Heather Jones - *BB&T Capital Markets - Analyst*

Yes. We heard it from someone that should be pretty knowledgeable, so that's why I even brought it up. On the LCFS, what specific fuels qualify? I understand what you're saying, you get a higher carbon credit for the greater carbon reduction but what fuels even qualify for that?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

The LCFS is a carbon intensity reduction program. It is fundamentally different than a carbon volume reduction program than under RFS2. So what happens is, you actually calculate the carbon intensity reduction versus traditional petroleum fuels. Then that obligation can be met by a broad range of activities, electric cars, there's a whole variety of different things you can do to reduce your carbon intensity in California. It is a massively complicated program.

Each type of fuel with each type of feedstocks and the location of the plant that's processing it has a different pathway under the LCFS. There is a website you can go to, if you've got a lot of time on your hands and want to spend a lot of time sifting through it, that will tell you for each type of fuel and each type of feedstock what the carbon intensity reduction that is defined by the California Air Resource Board. But it's a massively complicated list.

Heather Jones - *BB&T Capital Markets - Analyst*

But are there targeted levels? I understand these credits get paid but is there like a minimum level of distillate volumes that need to come from these applicable renewable fuels? Or I mean how should we think about that? I'm trying to think of what volume capacity is already in place to supply that market? What could the size of the market be? You all are talking about the opportunity to construct a new plant or buy a plant out there. I mean, how much of that market could be fulfilled by what's already coming in from nearby plants? Or what's coming in from Neste? I'm just trying to wrap my brain around that.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

The program calls for a 10% carbon intensity reduction in California's emission profile by the year 2020. There is no specific mandate for any type of biofuel. There is great freedom allowed by those that are the obligated parties in ways to actually achieve. The practical reality is, what we've seen so far to date, is that biomass based diesel and sugar-based ethanol to some extent are really the two primary products that have been used during the original introduction and while the bill is -- while the program's kind of been idling here waiting for the reintroduction.

So what happens in the future, I can't tell you for sure. Our belief is that biomass based diesel will play a critical role in the fulfillment of the carbon intensity reduction proposed by the California Air Resource Board. But there are lots of different alternatives out there for people to fulfill that obligation.



Heather Jones - *BB&T Capital Markets - Analyst*

Is it because of ease of use? You mentioned electric cars. It sounds like there's a bunch of different ways but you already have this infrastructure in place. It sounds like it would just be easier to meet that target with the use of renewable diesel. I mean, let's just say, biomass based diesel. Is that why you believe it will be a big chunk of meeting that goal is just it's easier to get there with that?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

It's why, I think that's part of it is because the existing supply exists. We've got places where we can economically move biofuel into that marketplace. The other thing I think that is important is because we're cost effective versus the other alternatives. Really, what happens under these market based programs is that the obligated parties seek the lowest cost way of fulfilling that obligation. We believe that we're a competitive alternative.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. I just have two more on detailed questions. If the Grassley Amendment is approved -- ultimately approved, will it then become a permanent fixture of the biodiesel tax credit? So that we get to the end of 2016 and it needs to be renewed for 2017, will it automatically be a part of that renewal? Or will it have to be debated every single time?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Well, it's not a long-term tax policy. The Grassley Amendment -- the Grassley Bill that came out of the Senate Finance is for the law to be a 2015 blender's tax credit with a conversion to a producer's tax credit in 2016. That would mean for there to be a tax credit -- in 2017, there would have to be an inclusion in the blender's tax credit bill that would be contained at the end of 2017. Or if they didn't take action then -- or at the end of 2016, or if they didn't take action then at the end of 2017.

Heather Jones - *BB&T Capital Markets - Analyst*

So the Grassley thing will have to be re-upped every time as well? They will always be treated as separate entities? Whether the biodiesel tax credit gets renewed and then separately whether it's going to be a producer credit versus a blender's credit?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

That will always then be part of the discussion, just as it's part of the discussion this year. Traditionally, when the blender's tax credit has been renewed as part of the extender's package, there's simply been a change in date on the existing law. That's usually what happens in these extender package's legislation. They very seldom change anything substantive in them. If they do change, and make a change this year, then I think you would probably say, the inside position going forward would be for it to be a producer's tax credit in 2017. But if they change 2016 from a blender's to a producer's with this year's tax extender's package that would mean that it's always possible going forward as well.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. Final question. If it moves to producer and then the LCFS is being implemented in California, do you think the premiums in California are going to be enough that a Neste -- that volumes from Neste would still make sense even without them receiving the BTC? Or do you think without that, it pushes them out of the market?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I really don't talk to Neste about what they need for price to move product into California, so I can't speak to that.



Heather Jones - *BB&T Capital Markets - Analyst*

Okay. All right. Thank you.

Operator

John Quealy, Canaccord.

John Quealy - *Canaccord Genuity - Analyst*

A couple questions. First, back to Diamond Green Diesel and the pricing of RINs. I know you folks have the JV and perhaps some special treatment around the valuation of RINs. I don't know if you use what we all look at or what the market looks at. Can you talk about your relationship in RINs? The relative flexibility and/or competitive advantages that historical relationship with Valero gives you on the RINs side? Then I have got a couple follow-ups.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

No. The RINs we receive is the RIN number you see times the 1.7 multiplier.

John Quealy - *Canaccord Genuity - Analyst*

Okay. So there's no difference in the pricing and things like that?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

No. Valero does not subsidize the pricing of Diamond Green Diesel.

John Quealy - *Canaccord Genuity - Analyst*

Okay. Secondly, so M&A -- we're talking a lot about California and some structural changes in the market perhaps in the next several years. We've seen a competitor of yours buy a decent sized asset -- a good size asset up in Pac-Northwest. Can you talk about your relative appetite for M&A in North America? I realize Diamond Green needs to be recapped with the Valero and potential CapEx, but talk about that as a strategy?

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes. John, this is Randy. What we're trying to do here is -- we'll kind of, as I say, rewind the movie one more time a little bit. When we started down the road with Diamond Green Diesel in 2009, it was a nameplate, 10,000 barrels a day, talk in gallons, 136, 137 million gallons of boiler plate or nameplate capacity. The team's done an outstanding job of now creeping that up to 12,000 a day or 160 million gallons, is kind of where we're trying to operate at.

The goal was when we looked at it, it was looking at -- we assumed as the supplier to it that we would supply a major portion of the fat into Diamond Green Diesel and that would be a neat balancing effect for our production of, as John referred to, waste fats or high fat, Free Fatty Acids fats and greases. While that all looks good on an XL spreadsheet and a strategy board and that, the reality is what we've seen is the corn oil produced from the ethanol industry's continued to climb.

It sometimes finds export markets. It sometimes doesn't. It's a really good product. So Diamond Green's been able to cost effectively originate that product and use it to take in some of other Darling's products along the line. The good news with it is that's a low cost feedstock source. The good news is that then once again frees up more Darling feedstock now to expand Diamond Green on up to the 16,000 or 18,000 barrels a day, whatever the final engineering study and the Board members, Valero and Darling agree they want to do. That gives us then additional feedstock, such that we don't get into a feedstock or supply chain crunch down there.

So that's effectively the Diamond Green strategy. What it hasn't done is, it has not created the balancing that we need on our West Coast assets. We're the largest producer of fats and oils on the West Coast in the rendering industry. That product given the freight logistics and economics now of being able to move stuff around the country with the consolidation in the railroads. It doesn't work very well back here. Yes, we're even shipping California material back to New Orleans today. As any commodity trader would tell you, that's not a natural move.

But without any exports off the West Coast, that's the only move there can be because you're left to only feed animals on the West Coast then. There just aren't enough. So that's where our strategy that's going to be driven by LCFS entails looking at or trying to find an opportunity to convert those fats and oils into something -- some type of biofuel on the West Coast. So that would then once again create a margin balancing for that side of our portfolio, along with the expansion of Diamond Green to balance our growing North American portfolio between Canada and the US.

John Quealy - *Canaccord Genuity - Analyst*

Okay. Thanks, Randy.

Operator

Dan Mannes, Avondale Partners.

Dan Mannes - *Avondale Partners - Analyst*

Thanks for holding the call. A couple quick follow-ups. First, maybe an obvious question but in light of the investment you've made in Diamond Green and where the RFS stands today and where biodiesel production is and renewable diesel, are you somewhat surprised at the current level particularly the Yellow Grease prices and maybe -- I don't know if you can reconcile that for me a little bit given that we're trading give or take \$0.20 right now. Is that a seasonal issue? Or are you what surprised by where pricing is now as well, given everything that you and the industry's done to use this product?

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

I think surprised is probably a fair word. But not really. I mean, remember that as we've said, we can talk about the moment in time right now in pricing, yes. But the idea with Diamond Green Diesel all along was to offset what was going to happen right now that we're living, eating and breathing. That's exactly the theory and the thesis is proving out what we had. Now, did we see fats and oils backing off to bean oil at \$0.27 and the greases into the low \$0.20s? Not really.

I think that's being a little bit driven, as John spoke about, with the imports and kind of still the uncertainty as to what really -- are we producers? Are we blenders? Is there \$1? No \$1? How much is carryover into next year. So I think it's a little bit of that, little bit of seasonal. I think you get another demand point up here in Geismar coming back online. It should be fairly positive going forward.

I mean, Dan, you can model this out. As -- I know John and Heather asked the question, the balancing here is if we transition to a producers and as the LCFS comes back into play, you can put these fats and oils markets back into a pretty bullish fundamentals once those start to kick in. So I suspect by -- we'll start to see that as the market reconciles it. But they the near term here, a little bit of pressure as we grow what appears to be a rather large corn and bean crop globally again.



Dan Mannes - *Avondale Partners - Analyst*

Understood. Then switching over to Green Diesel you talked about the expansion up to 220 million gallons a couple times. Outside, just completing the engineering, any other gating items as it relates to whether it's the tax credit, RFS2, LCFS anything else? Or is this pretty much a go assuming the engineering and costs work out?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Number one, Valero runs a very sophisticated gated process as all oil companies do in their engineering. Very different than an ag facility as we talked before. That process is under way. It's been funded. But I think for Darling's Board and shareholders and Valero's management team, Board and shareholders, we want to get the right clarity and understanding of the markets. Then it will come down to both of our views on that here later this Fall.

Dan Mannes - *Avondale Partners - Analyst*

Got it. You mentioned expanding to California. Obviously, M&A is an option. If we wanted to rewind the clock a little bit, you went through a bit of a saga trying to build your own biodiesel plant in San Francisco. Can you talk about where that ended up? Is that an option on the table if an acquisition isn't a possibility?

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes. John went through therapy after that (laughter), so he asked me not to do that again. But no, we've got various options out there that we're looking at right now. I think, you're as knowledgeable as we are at what's available out there. Whether we choose to build or buy, it will come down to timing and location here. All things are still on the table right now.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Then one last one just on the LCFS. As we read through the LCFS documents, it seems like actually renewable diesel is meaningful preferred. CARB seems to have a negative view on biodiesel up to a point because of NOx emissions? Our view and least based on what CARB has said, it could be a plus 400 million gallon market for RD alone. Is that your view? If that's the case, how much of DGD could you even get into that market?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I think first of all, you are correct that under the LCFS renewable diesel is very much a preferred product. Biodiesel, it's one of the things we were waiting for, was to see what was going to happen in relationship to the NOx issue in biodiesel and we wanted clarification from the California Air Resource Board on that. We received clarification so that we now feel comfortable that biodiesel can be a component certainly for the type of volumes biodiesel that would be available of the satisfaction of the LCFS. How much of Diamond Green Diesel can we move into California? We have capabilities -- multifunctional capabilities on how to get product out of Diamond. We can get the product to California if California's the right marketplace for Diamond's product to go to.

Dan Mannes - *Avondale Partners - Analyst*

Okay. I'll just follow-up, one last one on LCFS. California's a 4 billion to 5 billion gallon diesel and heating oil. When I look at the other markets you're talking about, Oregon, Washington, even Ontario and Quebec, how meaningful are they even in aggregate or does California far and away dwarf all those opportunities?



John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

California is the largest market.

Dan Mannes - *Avondale Partners - Analyst*

Hands down.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Well, but you start to -- as they say in Washington, DC, add \$1 billion here and \$1 billion there and pretty soon you've got real money. The fact of the matter is, you start to add that volume up and it is meaningful.

Dan Mannes - *Avondale Partners - Analyst*

Okay. Thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Quick question for you. If I assume the EPA decision goes through and the \$1 biodiesel tax credit goes through as well, will supply and demand for biofuels be balanced in 2016?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I mean, obviously, we see things moving in a positive direction with the mandates being increased from where they originally were proposed in 2013. We'd like to see them higher. We see the tax credit as something that we think will be renewed by Congress. If we get the combination of a producer's tax credit with the existing or higher RFS2 and the re-implementation of the LCFS in California, those are all very positive things for the demand profile of renewable fuels. If you're asking for a supply and demand projection going forward, I don't know that I'm smart enough to do that.

Ken Zaslow - *BMO Capital Markets - Analyst*

Because from our basic calculation, we're thinking with how the advanced biofuel and biodiesel mandate, you get close to the capacity that is out there, a little bit short, 100, 150 million gallons short of it but that should create a greater stability of margins. Is that not how to think about it? I'm just trying to figure out --

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

We agree with that kind of basic rational. Again, we just see very positive developments in relationship to all of the programs that represent the green premium support, whether that be under RFS2, whether that be under the tax credit or whether that be under the LCFS or similar type

programs likes being introduced in Ontario now. All that is good news for our demand. As it soaks up that -- as the supply soaks up that demand, that's good news we think going forward.

Ken Zaslow - *BMO Capital Markets - Analyst*

But you're not getting ready to say that's actually going to be relatively balanced? You're falling short of that statement, I think.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

There are a lot of factors that roll into the supply of biofuels, whether it's Argentinean biodiesel that's coming into the United States and so forth. It feels to me like we're heading for better territory but there are a lot of complexities associated with that. But yes, we believe in the future. We wouldn't be considering further expansion of Diamond Green Diesel and making an investment in California, if we didn't believe in these programs and that they were all heading in the right direction.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Is that the yes you're looking for, Ken?

Ken Zaslow - *BMO Capital Markets - Analyst*

Yes. I just did the math. I'm trying to figure out because we've already done the math that you've kind of put together here. We come up with -- assuming that you get -- particularly if you get the producer's credit versus the blender's credit, it seems relatively balanced. Your margins should be positive territory. Maybe we're miscalculating, I just want to make sure I was on the right track here, sorry.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

No. You're not miscalculating. The producer's tax credit would be a benefit to our US operations. The other thing to consider in all this, that I think oftentimes gets overlooked in this, is the fact that whatever demand there is out there, we feel we have low cost assets because of the types of feedstocks, because of the technologies that we use and because of the location of those facilities. We feel we are a low cost producer to supply the marketplace. So whatever demand is out there we should be in a very, very good position to supply that demand. But producer's tax credit clearly benefits the S&D for the US.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. My last question is when I think about you expanding the Diamond Green Diesel asset, what will the factors be to tell you, yes, you should do it? Or no, you should not do it?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I think we're going to look to make sure that we see a finalization of the RFS2 rules in November. We'll have some view of the tax credit extension and what form that's in by November or December of this year. That quite frankly balances out what the timetable that we have for kind of the technical review and the cost estimate or what it's going to cost to increase Diamond. So that all comes together in kind of a common time frame that will allow us to have a pretty good perspective of what we see the playing field as being going forward.

Ken Zaslow - *BMO Capital Markets - Analyst*

So if the current environment -- if all the improved policies -- if all the policies that are in flux right now get approved, you would -- the probability of you actually expanding would be very, very high?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I think that's right. Depending on where we come out as cost for the expansion. Again that's under technical review at this point in time. But yes -- no, we would see the environment if we see LCFS introduced -- reintroducing California as the CARB anticipates this Fall, we see an extension of the tax credit. We see a confirmation or expansion of the RFS2 volume as is contemplated with the current proposal, that would be a positive environment from our perspective to increase Diamond Green Diesel.

Ken Zaslow - *BMO Capital Markets - Analyst*

I appreciate it. Thank you, guys.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Thanks, Ken.

Operator

Tyson Bauer, KC Capital.

Tyson Bauer - *Kansas City Capital Associates - Analyst*

Randy, jog my memory. When you have the LCFS initially talked about several years ago, Neste had made a comment or had even gone through the process of a possibility of putting a plant in Canada to service that market. Unlikely, they just walk away from 160 million gallons being sent over to the West Coast. If you combine their likelihood to try to be a direct participant, if we do go to a producer's tax credit, along with REGI's move in the northwest. Give us the mindset of -- you've already had the uncertainty of dealing with federal policy, now we're going to go and deal with California policy. How does that determination of whether you want to be a direct participant in that market as opposed to a feedstock supplier and avoid some of those regulatory uncertainties.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

I think, and John will help me out here with this, clearly our play into biofuels is from two perspectives. One is simply, we are the largest feedstock producer in the world anymore of waste fats and greases. California is no exception to that. So we look at it from a finishing capacity standpoint, is there something we can do from value addition. If the you think about our Montreal plant today, it plays the natural role of balancing the S&D of fats and greases in Canada -- much as to many peoples misunderstanding there is not a free border to move fats and oils back and forth between here and Canada. So that's the reason for that investment.

The investment for us in the West Coast would be driven off of the supply that we have out there, number one. Number two, the LCFS. Number three is making sure we can get a fair return for our shareholders. As John talked about, there isn't a pipeline out of New Orleans straight to the West Coast or that would be a pretty natural move for us. Can you move there by water? Yes, but you're back into a Jones Act issues. There's a limited number of vessels to move there.

Then to move that volume by rail becomes pretty much a logistical challenge. So at the end of the day, we'll do what's right for us, what Neste does, I have no idea. The purchase by REGI of the Imperium plant looked like a deal. At the end of the day, we're out to balance our portfolio and reduce risk and create value.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I think it all comes down to, can we make an incremental return? Or can we make a return on the incremental capital that we deploy? I think our track record so far and in our investment in biofuels, the answer to that question is yes. As long as we feel like the answer to that question is yes going forward, which if we have the supportive government policies continue, we believe it will be. Then we believe that we are well-positioned to value add the supply of fat that we have from our system and be in the biofuel market as opposed to supplying somebody else.

Tyson Bauer - *Kansas City Capital Associates - Analyst*

Would you consider the LCFS if it does get implemented fully to have better certainty going forward in a longer term than what we've seen with the RFS2 and the RVOs and some of these other metrics that are going into the federal policy? Because the question is, if we get a return on capital -- or return on assets invested here going forward but if we have that uncertainty as we've seen here, that all of a sudden is kind of like your core business where, yes we can run the numbers when oil's at \$80 and \$90, it looked great. Now all of a sudden, oil comes down \$35 and the model doesn't look as quite as clean as it once did.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

I guess the way I look at it -- I think obviously, I went through a pretty long story there. There are a ton of moving pieces around the legislation. There have been a ton of moving pieces around the legislation for each of the last three years. Yet at the end of the day, when you look at the investment that we have made in this business, the return is excellent. So I think that's part of kind of the -- it looks like chaos out there.

To some degree maybe it is but through all that chaos there seems to be a pretty stable return that comes from our investments in these businesses. Do I think the LCFS is more of a sure thing? I would have told you right after Congress passed the RFS2 legislation that looked pretty sure too because it was a clear table with mandates increasing through the year 2022 and limited waiver authority by the EPA.

So whether there are challenges to the LCFS, whether there are challenges to the RFS2, the fact of the matter is all these programs remain law and continue to be implemented on an increasing volume for the types of products that are mandated -- for the types of products we make that are mandated. I think that's all good news in terms of our belief that somehow through all the smoke, the margins seem to come out at the end of the day.

Tyson Bauer - *Kansas City Capital Associates - Analyst*

Okay. The last question. The consideration of palm oil obviously on these carbon scores which is getting greater review in Europe. I would assume the same thing when we're in consideration for the LCFS? What's the risk of any changes or the inclusion of palm oil? Or are we fairly safe that as a feedstock will not come into the North American market?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Well, remember that palm oil does not have a defined pathway under RFS2. So under the federal program, palm oil is not an issue. It does have a pathway as I recall under the LCFS, but again, that's a carbon intensity reduction. So we will have a substantial competitive advantage to palm oil based biofuels coming into California.

Tyson Bauer - *Kansas City Capital Associates - Analyst*

Okay. Thank you.

Operator

JinMing Liu, Ardour Capital.

JinMing Liu - *Ardour Capital Investments - Analyst*

Just one question left for me. So (inaudible) on the supply side, do you think we'll have enough supply to support the possible expansion of Diamond Green Diesel to 220 to 230 million gallons per year?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Your question is do we have enough supply of fat?

JinMing Liu - *Ardour Capital Investments - Analyst*

Right.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Yes, there is adequate raw material to supply Diamond Green Diesel. One of the things that you have to generally remember here and we've talked about this in the past is that if you look at the total US supply of tallow and animal fats, used cooking oil, this has traditionally been around 10 billion pounds. But you have the introduction over the past three years of another 2 to 3 billion pounds of corn oil from the ethanol industry. So there's been a substantial expansion in the available fat available for not only Diamond Green Diesel but the industry as a whole. So yes, we believe that there will be adequate supplies of fats and oils available.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. Just related to that, we notice that the palm oil production in the, I think, northeast increased dramatically over the past few years, whether that put pressure on the pricing for your fat/oil here in the states?

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

For the raw material or for the finished product?

JinMing Liu - *Ardour Capital Investments - Analyst*

For the raw material.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

Well, I think that the fact that palm oil and vegetable oil production in general has increased substantially throughout the world over the past 10 years, obviously has impacted the overall fats market. However, the majority of the vegetable oils that are produced in the world are used for food



usage and not for feed or fuel. So yes, probably some impact on the overall fat supply. Not sure that it's a direct one to one for the types of fats that we produce.

JinMing Liu - *Ardour Capital Investments - Analyst*

Okay. Thank you.

Operator

Roman Kuznetsov, Gates Capital.

Jeff Gates - *Gates Capital - Analyst*

It's actually Jeff. I'm just wondering from a capital allocation point of view, the expansion of Diamond Green Diesel, would you envision that being largely financed by at the entity level with the \$50 million or \$60 million in cash that's currently there plus what you generate at that entity? That's the first question. The second question -- or some recap of that entity? Then the second question is, how much capital would you be willing to spend on a California project?

John Muse - *Darling Ingredients Inc. - EVP & CFO*

Okay. Jeff, this is John. I'll take the first one. That's one of the things that we're going to be looking at the next Board meeting with Diamond Green Diesel. But it would anticipate that funding would come through Diamond Green Diesel. With the credit and the funding, that would be over a couple year period for that -- the lead time on the equipment and everything. We're talking out to 2017 before you would start -- into 2016, 2017 before you would start seeing funding requirements there.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

John, do you want to take a -- Bullock, you want to take a stab what a biodiesel plant -- we really haven't scoped this much more than thought about it right now. Yes. So part of this then would get into how large the biodiesel plant would be. I think I probably don't want to get into kind of providing a view on our hand of how large that biodiesel plant would be. One thing you could be for sure, if we could put a large facility out there, economically, it would be a renewable diesel facility. So we're talking about a very, very tiny facility in relationship to a renewable diesel facility. That would mean relatively smaller dollars of capital.

John Muse - *Darling Ingredients Inc. - EVP & CFO*

Yes. Jeff, the construction costs, I don't know, \$1 a gallon.

John Bullock - *Darling Ingredients Inc. - EVP North American Specialty Business & Chief Strategy Officer*

About \$1.25.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

\$1, \$1.25 a gallon. We just don't have a large amount of fat on the West Coast, but we've got enough to make an interesting plant, pretty similar to the size of Montreal, maybe a little bit larger.



Jeff Gates - *Gates Capital - Analyst*

So that would be, what? 16 million or something? In terms of dollar, it'd be like a \$20 million or \$25 million plant? Is that what you're saying?

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

Yes. That's pretty much an off-the-shelf plant if we chose to do that. Like we said, we're in the early stages. The plants we have in California and Los Angeles, I think there was a reference to our experience of trying to permit a plant in downtown San Francisco that didn't go so well. Then we have a couple Valley operations outside of Modesto and Fresno. Fresno doesn't work well for us. So really at the end of the day, there's fairly limited options within our existing infrastructure out there.

That's the reason it's kind of early for us to kind of tip our hands on what we're thinking about. Ultimately, the economics have really got to work. It's got to become the right investment for capital to be deployed here. We shied away from biodiesel in the mid-2000s because of really quality issues for us as far as the product being made from our fats. California's quite a bit warmer than the rest of the country, so biodiesel can play a small portion and work out there.

Jeff Gates - *Gates Capital - Analyst*

Okay. Thank you.

Operator

Thank you. This does conclude the question-and-answer session. So at this time, I would like to turn the call back over to Mr Randall Stuewe for any closing remarks.

Randy Stuewe - *Darling Ingredients Inc. - Chairman & CEO*

All right. Thanks, everybody. Appreciate your attention on this. I know it was a fairly lengthy presentation and Q&A session but we thought it was important to put our views out there. I'm sure it will create more questions. Melissa and John and John and I are more than happy to answer those as they come up. But as we said, our view of biofuels going forward is that they're a very integral and critical part to the balance of our portfolio globally.

There's a lot of positive things happening for them in the market. As John described it several times, a little bit of chaos here and there. But overall, the clarity is there. Then we'll see how things shape up. We'll once again look forward to talking to you here with our quarterly earnings report in November. Until then, thanks for your support.

Operator

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



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