

September 30, 2022

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## Return on Investment

|                     |         |
|---------------------|---------|
| Current Share Price | \$66.15 |
| Target Price        | \$97.00 |
| Dividend Yield      | 0.00%   |
| Implied Return      | 47%     |
| Conviction Rating   | 2       |

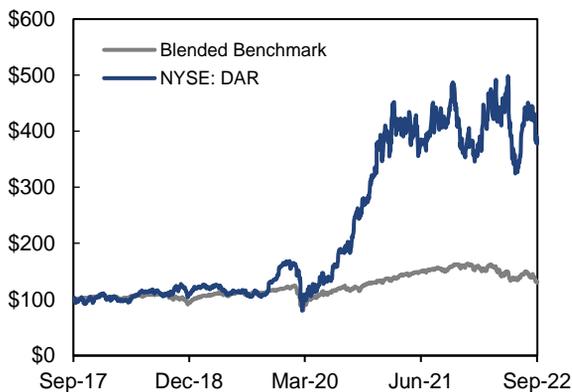
## Market Profile

|                                |                   |
|--------------------------------|-------------------|
| 52-Week Range                  | \$55.71 - \$87.59 |
| Market Capitalization (US\$mm) | \$11,663          |
| Net Debt (US\$mm)              | \$2,873           |
| Enterprise Value (US\$mm)      | \$14,683          |
| Beta (5-Year Monthly)          | 1.23              |

## Metrics

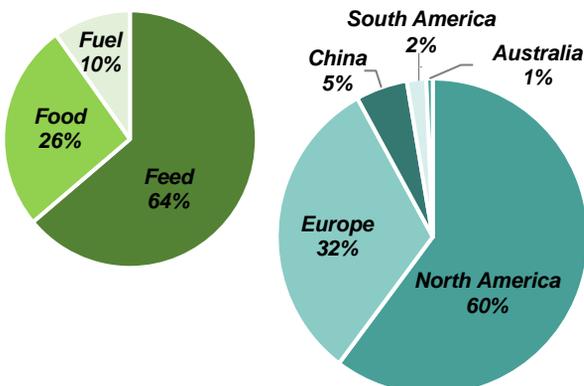
|                  | 2021A   | 2022E   | 2023E   |
|------------------|---------|---------|---------|
| Revenue (US\$mm) | \$4,741 | \$6,307 | \$6,655 |
| EBITDA (US\$mm)  | \$851   | \$1,638 | \$1,856 |
| EPS              | \$4.82  | \$9.29  | \$10.53 |
| EV/EBITDA        | 17.3x   | 9.0x    | 7.9x    |

## Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

## Figure 1: FY2021 Revenue Segmentation



Source: Company Filings

Darling Ingredients

## Business Description

Darling Ingredients (NYSE: DAR) provides sustainable rendering of animal by-products as a global leader in the agricultural product industry. The Company is a developer, producer, and marketer of specialty ingredients for edible and non-edible animal feedstock. DAR operates three main segments: Feed, Food, and Fuel. The Company's Feed segment collects and converts non-food grade oils, fats, and protein meals for animal and pet food industries. The Food segment produces and markets collagen, natural casings, and heparin for pharmaceutical, nutraceutical, and food industries. The Fuel segment is comprised of DAR's joint venture with Valero Energy (NYSE: VLO) and its equity investment in Diamond Green Diesel (DGD), currently producing 700mm gallons per year (mmgy) of renewable diesel (RD). DAR operates over 250 processing plants across five continents with ~10,000 employees.

## Industry Overview and Competitive Landscape

The agricultural product landscape consists of many companies servicing industries such as pharmaceutical, nutraceutical, pet food, animal feed, industrial, fertilizer, and bioenergy. DAR's competitors in the animal feed and food segments include Archer-Daniels-Midland (NYSE: ADM), Ingredion (NYSE: INGR), and Bunge (NYSE: BG). However, given these players are conventional agricultural processing businesses, strong commodity prices in corn, canola, wheat, and soybean crops served as a headwind in the first half of 2022. Non-conventional agricultural processing of animal by-products has seen growth, with U.S. meat production growing an annual ~1.2% over the last 20 years. The meat rendering landscape expects further expansion as U.S. meat consumption continues to drive high waste generation. As the dominant player in the animal rendering space, DAR holds ~50% of the market share.

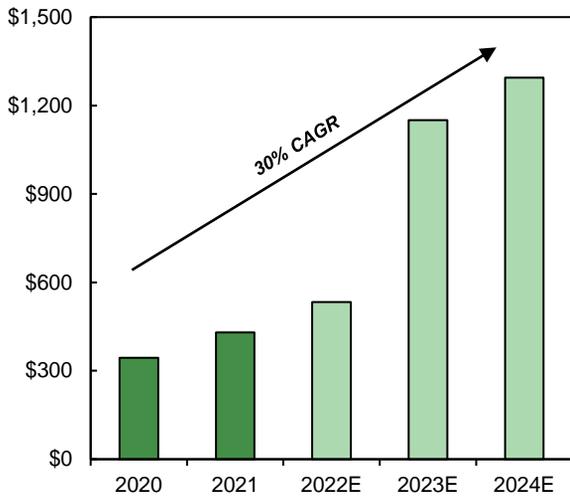
Within the renewable fuel (RF) industry, Neste (HLSE: NESTE) is the world's largest RD producer, with a dominant share in the European RF market. Recently, the regulatory landscape for RF has seen a push towards low-carbon fuels with the Inflation Reduction Act (IRA) introducing incentives for sustainable aviation fuel (SAF). The global RD market reached 2.6B gallons in 2021 and is expected to reach 7.5B gallons by 2027. Additionally, potential volume caps on crop-based feedstock within the Low Carbon Fuel Standard (LCFS) favours animal-based feedstock for clean fuel production.

## Mandate Fit

**Quality Management:** Randall Stuewe continues to serve as DAR's Chairman and CEO since 2003, as well as a board member of DGD. Stuewe has led the Company through over 15 successful acquisitions and has delivered ~US\$850mm to shareholders through buybacks. With more than 25 years of experience in the agricultural processing industry, Stuewe has successfully led the Company to independence from crop-based feedstock. Prior to his current role, Stuewe served as the President of ConAgra Foods (NYSE: CAG).

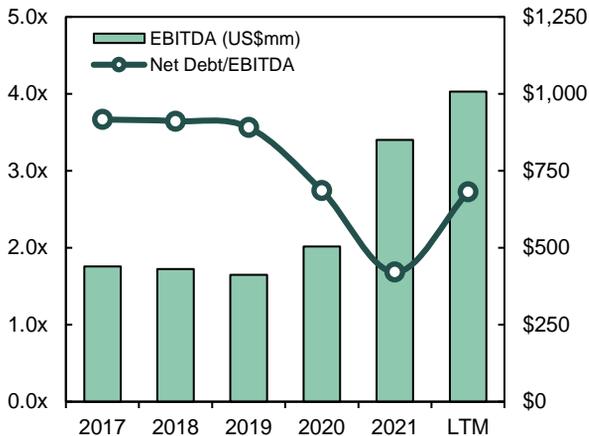
**Competitive Advantage:** DAR is the only publicly traded global ingredients company with products processed from animal by-products. The Company's first-mover advantage has allowed it to capture ~15% of the global meat industry waste and 70% of (cont.)

**Figure 2: Free Cash Flow (US\$mm)**



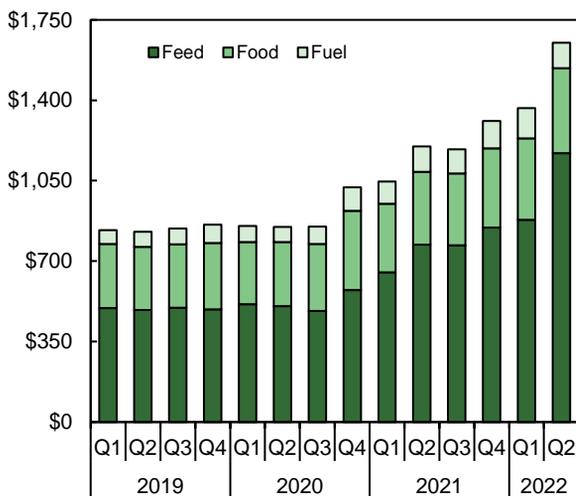
Source: S&P Capital IQ

**Figure 3: LHS Net Debt/EBITDA vs RHS EBITDA**



Source: S&P Capital IQ

**Figure 4: Segmented Revenue (US\$mm)**



Source: Company Filings, S&P Capital IQ

North America’s waste fats and greases, securing contracts with over 200,000 restaurants. DAR’s strategy of growing through acquisitions has allowed the Company to add 32 rendering facilities over the past year; recent acquisitions include Brazil’s largest rendering company, FASA Group (US\$543mm), and the U.S.’s second-largest rendering company, Valley Proteins (US\$1.1B). DAR’s rendering operations for RD are positioned to benefit from the IRA, confirming five years of certainty for biofuel tax credits due to its domestic production. Additionally, DAR is recognized as a leading sustainable rendering company with attractive ESG metrics. The Company’s DGD production possesses the lowest average carbon intensity (CI) of its peers at a score of ~23. Additionally, DAR is recognized as a 2022 ESG Top Rated Company by Sustainalytics and possesses an ESG score of AA from MSCI’s ESG ratings.

**Strong Balance Sheet:** DAR currently has net debt of US\$2.9B, with US\$147mm in cash and equivalents. DAR demonstrates strong solvency with an interest coverage ratio of 14.2x, as well as its US\$1.5B revolving credit facility. The Company utilizes a LTM Net Debt/EBITDA of 2.7x to invest in growth opportunities, compared to the peer average of 2.3x. Additionally, the Company closed a US\$250mm private offering of unsecured senior notes due in 2030 to fund its recent FASA acquisition. DAR is expected to prioritize debt reduction until 2026, however, the Company remains open to enhancing its dominant position in the U.S. rendering industry through M&A opportunities. DAR has a credit rating of BBB- and Baa2 from S&P Global and Moody’s, respectively.

**Growing Free Cash Flow:** DAR has demonstrated its ability to grow FCF through acquisitions and expenditures towards DGD operations, with a five-year CAGR of 15%. In Q2 2022, the Company repurchased US\$48mm of shares as part of its share repurchase program, the US\$500mm program is set to end in August 2024. Starting in 2023, DAR is expected to incur a large FCF inflection as DGD plans to distribute 100% of net income to its partners. Management expects that strong FCF will allow DAR to increase shareholder returns in 2023 and thereafter.

**Risks**

Potential long-term risks for DAR include threats to the soybean meal market, and in turn, the animal meal market, as soybean capacity continues to be used for the biofuel industry. Although DAR’s inputs are not affected by rising crop prices, sharp increases in fats could negatively impact the RD segment’s net income. Furthermore, the recent downward trend in California’s LCFS credit prices is a near term factor to consider as regional regulation looks to strengthen the credit market.

**Investment Thesis and Valuation**

The CPMT valued DAR using a five-year DCF analysis at a WACC of 9.8%. The target price of US\$97 was determined using a 50/50 blend of (1) the Gordon Growth method (assuming a terminal growth rate of 2.0%) and (2) a five-year EV/EBITDA multiple of 10.2x, implying a return of 47%.

The CPMT believes DAR’s feedstock and sourcing advantage is positioned to benefit from RD demand. Being the largest independent renderer in North America, the Company’s integrated business model has surpassed its peers in supplier contracts for waste food and animal by-product collection. With the expansion of rendering operations as well as DGD facilities expected to drive volume and profit growth, the CPMT favours DAR as a prospective leader in the renewable energy space.