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DARLING INGREDIENTS INC.

Form 10-Q

November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2018

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-13323

DARLING INGREDIENTS INC.

(Exact name of registrant as specified in its charter)

|                                                                   |                                            |
|-------------------------------------------------------------------|--------------------------------------------|
| Delaware                                                          | 36-2495346                                 |
| (State or other jurisdiction<br>of incorporation or organization) | (I.R.S. Employer<br>Identification Number) |

|                                          |            |
|------------------------------------------|------------|
| 251 O'Connor Ridge Blvd., Suite 300      |            |
| Irving, Texas                            | 75038      |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (972) 717-0300

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

X No \_\_\_\_

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes X No \_\_\_\_

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |   |                   |
|-------------------------|---|-------------------|
| Large accelerated filer | X | Accelerated filer |
|-------------------------|---|-------------------|

|                       |                       |                           |
|-----------------------|-----------------------|---------------------------|
| Non-accelerated filer | (Do not<br>check if a | Smaller reporting company |
|-----------------------|-----------------------|---------------------------|

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smaller  
reporting  
company)

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    Yes            No ☒ X

There were 164,657,928 shares of common stock, \$0.01 par value, outstanding at November 1, 2018.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2018

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## DARLING INGREDIENTS INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

September 29, 2018 and December 30, 2017

(in thousands, except share data)

|                                                                                                                                                                             | September 29,<br>2018 | December 30,<br>2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                                             | (unaudited)           |                      |
| <b>ASSETS</b>                                                                                                                                                               |                       |                      |
| Current assets:                                                                                                                                                             |                       |                      |
| Cash and cash equivalents                                                                                                                                                   | \$ 81,470             | \$ 106,774           |
| Restricted cash                                                                                                                                                             | 103                   | 142                  |
| Accounts receivable, net                                                                                                                                                    | 363,312               | 391,847              |
| Inventories                                                                                                                                                                 | 361,679               | 358,183              |
| Prepaid expenses                                                                                                                                                            | 43,305                | 38,326               |
| Income taxes refundable                                                                                                                                                     | 8,356                 | 4,509                |
| Other current assets                                                                                                                                                        | 20,253                | 56,664               |
| Total current assets                                                                                                                                                        | 878,478               | 956,445              |
| Property, plant and equipment, less accumulated depreciation of<br>\$1,196,680 at September 29, 2018 and \$1,075,448 at December 30, 2017                                   | 1,631,036             | 1,645,822            |
| Intangible assets, less accumulated amortization of<br>\$408,307 at September 29, 2018 and \$383,836 at December 30, 2017                                                   | 593,234               | 676,500              |
| Goodwill                                                                                                                                                                    | 1,233,545             | 1,301,093            |
| Investment in unconsolidated subsidiaries                                                                                                                                   | 398,794               | 302,038              |
| Other assets                                                                                                                                                                | 54,574                | 62,284               |
| Deferred income taxes                                                                                                                                                       | 15,550                | 14,043               |
|                                                                                                                                                                             | \$ 4,805,211          | \$ 4,958,225         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                 |                       |                      |
| Current liabilities:                                                                                                                                                        |                       |                      |
| Current portion of long-term debt                                                                                                                                           | \$ 11,100             | \$ 16,143            |
| Accounts payable, principally trade                                                                                                                                         | 177,769               | 217,417              |
| Income taxes payable                                                                                                                                                        | 5,906                 | 12,300               |
| Accrued expenses                                                                                                                                                            | 291,056               | 313,623              |
| Total current liabilities                                                                                                                                                   | 485,831               | 559,483              |
| Long-term debt, net of current portion                                                                                                                                      | 1,668,129             | 1,698,050            |
| Other non-current liabilities                                                                                                                                               | 101,878               | 106,287              |
| Deferred income taxes                                                                                                                                                       | 234,070               | 266,708              |
| Total liabilities                                                                                                                                                           | 2,489,908             | 2,630,528            |
| Commitments and contingencies                                                                                                                                               |                       |                      |
| Stockholders' equity:                                                                                                                                                       |                       |                      |
| Common stock, \$0.01 par value; 250,000,000 shares authorized;<br>168,092,637 and 167,892,500 shares issued at September 29, 2018<br>and at December 30, 2017, respectively | 1,681                 | 1,679                |
| Additional paid-in capital                                                                                                                                                  | 1,530,924             | 1,515,614            |
| Treasury stock, at cost; 3,434,709 and 3,239,063 shares at<br>September 29, 2018 and at December 30, 2017, respectively                                                     | (47,696)              | (44,063)             |

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|                                      |              |              |   |
|--------------------------------------|--------------|--------------|---|
| Accumulated other comprehensive loss | (277,324     | ) (209,524   | ) |
| Retained earnings                    | 1,046,857    | 981,227      |   |
| Total Darling's stockholders' equity | 2,254,442    | 2,244,933    |   |
| Noncontrolling interests             | 60,861       | 82,764       |   |
| Total stockholders' equity           | \$ 2,315,303 | \$ 2,327,697 |   |
|                                      | \$ 4,805,211 | \$ 4,958,225 |   |

The accompanying notes are an integral part of these consolidated financial statements.

## DARLING INGREDIENTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Three and nine months ended September 29, 2018 and September 30, 2017

(in thousands, except per share data)

(unaudited)

|                                                            | Three Months Ended |                    | Nine Months Ended  |                    |
|------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                            | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Net sales                                                  | \$812,576          | \$ 936,262         | \$2,534,596        | \$ 2,709,702       |
| Costs and expenses:                                        |                    |                    |                    |                    |
| Cost of sales and operating expenses                       | 648,101            | 742,511            | 1,979,201          | 2,129,721          |
| Selling, general and administrative expenses               | 67,447             | 82,153             | 232,907            | 253,608            |
| Restructuring and impairment charges                       | —                  | —                  | 14,965             | —                  |
| Depreciation and amortization                              | 78,842             | 77,202             | 235,915            | 221,306            |
| Total costs and expenses                                   | 794,390            | 901,866            | 2,462,988          | 2,604,635          |
| Operating income                                           | 18,186             | 34,396             | 71,608             | 105,067            |
| Other expense:                                             |                    |                    |                    |                    |
| Interest expense                                           | (20,080 )          | (22,531 )          | (66,220 )          | (66,657 )          |
| Debt extinguishment costs                                  | —                  | —                  | (23,509 )          | —                  |
| Foreign currency loss                                      | (2,106 )           | (2,055 )           | (7,082 )           | (4,430 )           |
| Gain/(loss) on disposal of subsidiaries                    | 3,038              | —                  | (12,500 )          | —                  |
| Other expense, net                                         | (2,786 )           | (2,533 )           | (4,103 )           | (8,383 )           |
| Total other expense                                        | (21,934 )          | (27,119 )          | (113,414 )         | (79,470 )          |
| Equity in net income/(loss) of unconsolidated subsidiaries | (2,792 )           | 7,703              | 109,598            | 16,669             |
| Income/(loss) before income taxes                          | (6,540 )           | 14,980             | 67,792             | 42,266             |
| Income tax expense/(benefit)                               | (1,403 )           | 6,296              | 3,992              | 15,856             |
| Net income/(loss)                                          | (5,137 )           | 8,684              | 63,800             | 26,410             |
| Net income attributable to noncontrolling interests        | (900 )             | (923 )             | (2,952 )           | (3,671 )           |
| Net income/(loss) attributable to Darling                  | \$(6,037 )         | \$ 7,761           | \$60,848           | \$ 22,739          |
| Basic income/(loss) per share                              | \$(0.04 )          | \$ 0.05            | \$0.37             | \$0.14             |
| Diluted income/(loss) per share                            | \$(0.04 )          | \$ 0.05            | \$0.37             | \$0.14             |

The accompanying notes are an integral part of these consolidated financial statements.





## DARLING INGREDIENTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

Three and nine months ended September 29, 2018 and September 30, 2017

(in thousands)

(unaudited)

|                                                                      | Three Months Ended |                    | Nine Months Ended  |                    |
|----------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                      | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Net income/(loss)                                                    | \$(5,137)          | \$ 8,684           | \$63,800           | \$ 26,410          |
| Other comprehensive income/(loss), net of tax:                       |                    |                    |                    |                    |
| Foreign currency translation                                         | (5,584 )           | 46,211             | (65,126 )          | 111,002            |
| Pension adjustments                                                  | 668                | 759                | 2,001              | 2,278              |
| Natural gas swap derivative adjustments                              | —                  | 22                 | 22                 | 22                 |
| Soybean meal derivative adjustments                                  | 3                  | —                  | 3                  | —                  |
| Corn option derivative adjustments                                   | (40 )              | 850                | (1,198 )           | (1,121 )           |
| Foreign exchange derivative adjustments                              | 309                | —                  | 309                | —                  |
| Total other comprehensive income/(loss), net of tax                  | (4,644 )           | 47,842             | (63,989 )          | 112,181            |
| Total comprehensive income/(loss)                                    | \$(9,781)          | \$ 56,526          | \$(189 )           | \$ 138,591         |
| Comprehensive income/(loss) attributable to noncontrolling interests | (538 )             | 109                | 1,981              | (62 )              |
| Comprehensive income/(loss) attributable to Darling                  | \$(9,243)          | \$ 56,417          | \$(2,170 )         | \$ 138,653         |

The accompanying notes are an integral part of these consolidated financial statements.

## DARLING INGREDIENTS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 29, 2018 and September 30, 2017

(in thousands)

(unaudited)

|                                                                                   | September 29,<br>2018 | September 30,<br>2017 |   |
|-----------------------------------------------------------------------------------|-----------------------|-----------------------|---|
| Cash flows from operating activities:                                             |                       |                       |   |
| Net Income                                                                        | \$ 63,800             | \$ 26,410             |   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |   |
| Depreciation and amortization                                                     | 235,915               | 221,306               |   |
| Loss/ (gain) on disposal of property, plant, equipment and other assets           | 472                   | (537)                 | ) |
| Loss on disposal of subsidiaries                                                  | 12,500                | —                     |   |
| Asset impairment                                                                  | 2,907                 | —                     |   |
| Gain on insurance proceeds from insurance settlements                             | (1,253)               | ) —                   |   |
| Deferred taxes                                                                    | (15,708)              | ) (14,242)            | ) |
| Increase/ (decrease) in long-term pension liability                               | (375)                 | ) 1,574               |   |
| Stock-based compensation expense                                                  | 13,606                | 14,710                |   |
| Write-off deferred loan costs                                                     | 8,163                 | 443                   |   |
| Deferred loan cost amortization                                                   | 6,265                 | 6,581                 |   |
| Equity in net income of unconsolidated subsidiaries                               | (109,598)             | ) (16,669)            | ) |
| Distributions of earnings from unconsolidated subsidiaries                        | 27,418                | 26,600                |   |
| Changes in operating assets and liabilities, net of effects from acquisitions:    |                       |                       |   |
| Accounts receivable                                                               | 9,657                 | (5,311)               | ) |
| Income taxes refundable/payable                                                   | (9,838)               | ) 18,332              |   |
| Inventories and prepaid expenses                                                  | (25,960)              | ) (31,058)            | ) |
| Accounts payable and accrued expenses                                             | (23,004)              | ) 39,937              |   |
| Other                                                                             | 4,731                 | (19,305)              | ) |
| Net cash provided by operating activities                                         | 199,698               | 268,771               |   |
| Cash flows from investing activities:                                             |                       |                       |   |
| Capital expenditures                                                              | (213,726)             | ) (196,446)           | ) |
| Acquisitions, net of cash acquired                                                | (51,301)              | ) (12,144)            | ) |
| Investment in unconsolidated subsidiary                                           | (10,000)              | ) (4,750)             | ) |
| Proceeds from sale of investment in subsidiaries                                  | 82,805                | —                     |   |
| Gross proceeds from disposal of property, plant and equipment and other assets    | 3,361                 | 4,953                 |   |
| Proceeds from insurance settlement                                                | 1,253                 | 3,301                 |   |
| Payments related to routes and other intangibles                                  | (1,253)               | ) (5,635)             | ) |
| Net cash used by investing activities                                             | (188,861)             | ) (210,721)           | ) |
| Cash flows from financing activities:                                             |                       |                       |   |
| Proceeds from long-term debt                                                      | 623,698               | 24,069                |   |
| Payments on long-term debt                                                        | (661,268)             | ) (94,250)            | ) |
| Borrowings from revolving credit facility                                         | 386,436               | 142,000               |   |
| Payments on revolving credit facility                                             | (362,463)             | ) (147,327)           | ) |
| Net cash overdraft financing                                                      | 3,361                 | 2,590                 |   |
| Deferred loan costs                                                               | (9,668)               | ) (1,177)             | ) |
| Issuance of common stock                                                          | 182                   | 22                    |   |
| Minimum withholding taxes paid on stock awards                                    | (2,215)               | ) (2,140)             | ) |
| Acquisition of noncontrolling interest                                            | —                     | (429)                 | ) |

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|                                                                   |           |             |   |
|-------------------------------------------------------------------|-----------|-------------|---|
| Distributions to noncontrolling interests                         | (8,005    | ) (2,513    | ) |
| Net cash used by financing activities                             | (29,942   | ) (79,155   | ) |
| Effect of exchange rate changes on cash                           | (6,238    | ) 16,676    |   |
| Net decrease in cash, cash equivalents and restricted cash        | (25,343   | ) (4,429    | ) |
| Cash, cash equivalents and restricted cash at beginning of period | 106,916   | 114,857     |   |
| Cash, cash equivalents and restricted cash at end of period       | \$ 81,573 | \$ 110,428  |   |
| Supplemental disclosure of cash flow information:                 |           |             |   |
| Accrued capital expenditures                                      | \$ (5,295 | ) \$ (3,532 | ) |
| Cash paid during the period for:                                  |           |             |   |
| Interest, net of capitalized interest                             | \$ 58,731 | \$ 58,219   |   |
| Income taxes, net of refunds                                      | \$ 28,682 | \$ 13,719   |   |
| Non-cash financing activities                                     |           |             |   |
| Debt issued for assets                                            | \$ 24     | \$ 3        |   |

The accompanying notes are an integral part of these consolidated financial statements.

DARLING INGREDIENTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 29, 2018

(unaudited)

(1) General

The accompanying consolidated financial statements for the three and nine month periods ended September 29, 2018 and September 30, 2017, have been prepared by Darling Ingredients Inc., a Delaware corporation (“Darling”, and together with its subsidiaries, the “Company”) in accordance with generally accepted accounting principles in the United States (“GAAP”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary to present a fair statement of the financial position and operating results of the Company as of and for the respective periods. However, these operating results are not necessarily indicative of the results expected for a full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management of the Company believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company’s Form 10-K for the fiscal year ended December 30, 2017.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of Darling and its consolidated subsidiaries. Noncontrolling interests represent the outstanding ownership interest in the Company's consolidated subsidiaries that are not owned by the Company. In the accompanying Consolidated Statements of Operations, the noncontrolling interest in net income of the consolidated subsidiaries is shown as an allocation of the Company's net income and is presented separately as “Net income attributable to noncontrolling interests.” In the Company's Consolidated Balance Sheets, noncontrolling interests represent the ownership interests in the Company consolidated subsidiaries' net assets held by parties other than the Company. These ownership interests are presented separately as “Noncontrolling interests” within “Stockholders' Equity.” All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Fiscal Periods

The Company has a 52/53 week fiscal year ending on the Saturday nearest December 31. Fiscal periods for the consolidated financial statements included herein are as of September 29, 2018, and include the 13 and 39 weeks ended September 29, 2018, and the 13 and 39 weeks ended September 30, 2017.

(c) Cash, Cash Equivalents and Restricted Cash

The Company considers all short-term highly liquid instruments, with an original maturity of three months or less, to be cash equivalents. Cash balances are recorded net of book overdrafts when a bank right-of-offset exists. All other book overdrafts are recorded in accounts payable and the change in the related balance is reflected in operating activities on the Consolidated Statement of Cash Flows. In addition, the Company has bank overdrafts, which are considered a form of short-term financing with changes in the related balance reflected in financing activities in the

Consolidated Statement of Cash Flows. In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-18, Restricted Cash. This ASU amends Topic 230, Statement of Cash Flows, which includes new guidance on the classification and presentation of restricted cash in the statement of cash flows in order to eliminate the discrepancies that currently exist in how companies present these changes. This ASU requires restricted cash to be included with cash and cash equivalents when explaining the changes in cash in the statement of cash flows. The Company adopted this on December 31, 2017 and it did not have a material impact on the Company's consolidated financial statements.

Restricted cash represents amounts required to be set aside to cover self-insurance claims and collateral for environmental claims. The following table provides a reconciliation of cash, cash equivalents and restricted

cash on the consolidated balance sheet that sum to the total of the same amounts shown in the consolidated statement of cash flows (in thousands):

|                                                                                                    | September<br>29, 2018 | December<br>30, 2017 |
|----------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Cash and cash equivalents                                                                          | \$ 81,470             | \$ 106,774           |
| Restricted cash                                                                                    | 103                   | 142                  |
| Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flow | \$ 81,573             | \$ 106,916           |

#### (d)Accounts Receivable and Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from customers' non-payment of trade accounts receivable owed to the Company. These trade receivables arise in the ordinary course of business from sales of raw material, finished product or services to the Company's customers. The estimate of allowance for doubtful accounts is based upon the Company's bad debt experience, prevailing market conditions, and aging of trade accounts receivable, among other factors. If the financial condition of the Company's customers deteriorates, resulting in the customers' inability to pay the Company's receivables as they come due, additional allowances for doubtful accounts may be required. The Company has entered into agreements with third party banks to factor certain of the Company's trade receivables in order to enhance working capital by turning trade receivables into cash faster. Under these agreements, the Company will sell certain selected customers trade receivables to the third party banks without recourse for cash less a nominal fee. For the three and nine months ended September 29, 2018, the Company sold approximately \$32.3 million and \$82.9 million of its trade receivables and incurred approximately \$0.2 million and \$0.4 million in fees, which are recorded as interest expense, respectively. For the three and nine months ended September 30, 2017, no receivables were factored.

#### (e)Revenue Recognition

The Company recognizes revenue on sales when control of the promised finished product is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for the finished product. Service revenues are recognized when the service occurs. Certain customers may be required to prepay prior to shipment in order to maintain payment protection related to certain foreign and domestic sales. These amounts are recorded as unearned revenue and recognized when control of the promised finished product is transferred to the Company's customer. See Note 19 to the consolidated financial statements.

#### (f)Foreign Currency Translation and Remeasurement

Foreign currency translation is included as a component of accumulated other comprehensive loss and reflects the adjustments resulting from translating the foreign currency denominated financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated into U.S. dollars at fiscal period end exchange rates, including intercompany foreign currency transactions that are of long-term investment nature. Income and expense items are translated at average exchange rates occurring during the period. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in determining net income. The Company incurred net foreign currency translation losses of approximately \$64.2 million for the nine months ended September 29, 2018 and net foreign currency translation gains of approximately \$114.7 million for the nine months ended September 30, 2017, respectively.

(g) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. In the consolidated statements of operations, previously reported amounts have been adjusted to reflect the correction of an immaterial classification error in net sales and cost of sales as disclosed in Company's Form 10-K for the fiscal year ended December 30, 2017. In addition, previous reported net periodic pension costs have been reclassified

in the consolidated statements of operations to conform to current year presentation, as described in Note 13 and previously reported amounts in the consolidated statements of cash flows have been adjusted to reflect the adoption of the presentation of restricted cash.

#### (h) Earnings/(loss) Per Share

Basic income/(loss) per common share is computed by dividing net income attributable to Darling by the weighted average number of common shares including non-vested and restricted shares outstanding during the period. Diluted income per common share is computed by dividing net income attributable to Darling by the weighted average number of common shares outstanding during the period increased by dilutive common equivalent shares determined using the treasury stock method.

| Net Income/(loss) per Common Share (in thousands, except per share data)       |                    |         |           |                    |         |           |
|--------------------------------------------------------------------------------|--------------------|---------|-----------|--------------------|---------|-----------|
| Three Months Ended                                                             |                    |         |           |                    |         |           |
|                                                                                | September 29, 2018 |         |           | September 30, 2017 |         |           |
|                                                                                | Loss               | Shares  | Per Share | Income             | Shares  | Per Share |
| Basic:                                                                         |                    |         |           |                    |         |           |
| Net Income/(loss) attributable to Darling                                      | \$(6,037)          | 164,656 | \$(0.04)  | \$7,761            | 164,735 | \$0.05    |
| Diluted:                                                                       |                    |         |           |                    |         |           |
| Effect of dilutive securities:                                                 |                    |         |           |                    |         |           |
| Add: Option shares in the money and dilutive effect of non-vested stock awards |                    | —       |           |                    | 4,759   |           |
| Less: Pro forma treasury shares                                                |                    | —       |           |                    | (2,313) |           |
| Diluted:                                                                       |                    |         |           |                    |         |           |
| Net income/(loss) attributable to Darling                                      | \$(6,037)          | 164,656 | \$(0.04)  | \$7,761            | 167,181 | \$0.05    |
| Net Income per Common Share (in thousands, except per share data)              |                    |         |           |                    |         |           |
| Nine Months Ended                                                              |                    |         |           |                    |         |           |
|                                                                                | September 29, 2018 |         |           | September 30, 2017 |         |           |
|                                                                                | Income             | Shares  | Per Share | Income             | Shares  | Per Share |
| Basic:                                                                         |                    |         |           |                    |         |           |
| Net Income attributable to Darling                                             | \$60,848           | 164,784 | \$0.37    | \$22,739           | 164,734 | \$0.14    |
| Diluted:                                                                       |                    |         |           |                    |         |           |
| Effect of dilutive securities:                                                 |                    |         |           |                    |         |           |
| Add: Option shares in the money and dilutive effect of non-vested stock awards |                    | 1,690   |           |                    | 3,645   |           |
| Less: Pro forma treasury shares                                                |                    | (700)   |           |                    | (1,751) |           |
| Diluted:                                                                       |                    |         |           |                    |         |           |
| Net income attributable to Darling                                             | \$60,848           | 165,774 | \$0.37    | \$22,739           | 166,628 | \$0.14    |

For the three months ended September 29, 2018 and September 30, 2017, respectively, 3,774,610 and 212,525 outstanding stock options were excluded from diluted income/(loss) per common share as the effect was antidilutive. For the three months ended September 29, 2018 and September 30, 2017, respectively, 2,258,646 and 437,897 shares of non-vested stock and stock equivalents were excluded from diluted income/(loss) per common share as the effect



was antidilutive.

For the nine months ended September 29, 2018 and September 30, 2017, respectively, 2,773,030 and 723,052 outstanding stock options were excluded from diluted income per common share as the effect was antidilutive. For the three months ended September 29, 2018 and September 30, 2017, respectively, 1,448,719 and 650,758 shares of non-vested stock and stock equivalents were excluded from diluted income per common share as the effect was antidilutive.

### (3) Investment in Unconsolidated Subsidiaries

On January 21, 2011, a wholly-owned subsidiary of Darling entered into a limited liability company agreement with a wholly-owned subsidiary of Valero Energy Corporation (“Valero”) to form Diamond Green Diesel Holdings LLC (the “DGD Joint Venture”). The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate a renewable diesel plant (the “DGD Facility”), which as a result of the recent expanded capacity is now capable of processing approximately 20,000 barrels per day of input feedstock to produce renewable diesel fuel

and certain other co-products, and is located adjacent to Valero's refinery in Norco, Louisiana. The DGD Joint Venture reached mechanical completion and began the production of renewable diesel in late June 2013.

Selected financial information for the Company's DGD Joint Venture is as follows (in thousands):

| (in thousands)                          | September<br>30, 2018 | December<br>31, 2017 |
|-----------------------------------------|-----------------------|----------------------|
| Assets:                                 |                       |                      |
| Total current assets                    | \$ 178,875            | \$ 202,778           |
| Property, plant and equipment, net      | 567,092               | 435,328              |
| Other assets                            | 26,949                | 4,655                |
| Total assets                            | \$ 772,916            | \$ 642,761           |
| Liabilities and members' equity:        |                       |                      |
| Total current portion of long term debt | \$ 182                | \$ 17,023            |
| Total other current liabilities         | 46,502                | 40,705               |
| Total long term debt                    | 8,535                 | 36,730               |
| Total other long term liabilities       | 533                   | 450                  |
| Total members' equity                   | 717,164               | 547,853              |
| Total liabilities and members' equity   | \$ 772,916            | \$ 642,761           |

| (in thousands)                                                                 | Three Months Ended<br>September<br>30, 2018 |            | Nine Months Ended<br>September<br>30, 2018 |            |
|--------------------------------------------------------------------------------|---------------------------------------------|------------|--------------------------------------------|------------|
| Revenues:                                                                      |                                             |            |                                            |            |
| Operating revenues                                                             | \$ 104,811                                  | \$ 175,585 | \$ 407,121                                 | \$ 451,768 |
| Expenses:                                                                      |                                             |            |                                            |            |
| Total costs and expenses less depreciation, amortization and accretion expense | 103,794                                     | 154,446    | 169,632                                    | 395,743    |
| Depreciation, amortization and accretion expense                               | 6,516                                       | 6,733      | 18,890                                     | 22,867     |
| Total costs and expenses                                                       | 110,310                                     | 161,179    | 188,522                                    | 418,610    |
| Operating income                                                               | (5,499)                                     | 14,406     | 218,599                                    | 33,158     |
| Other income                                                                   | 556                                         | 408        | 1,348                                      | 959        |
| Interest and debt expense, net                                                 | (318)                                       | (455)      | (637)                                      | (2,306)    |
| Net income                                                                     | \$ (5,261)                                  | \$ 14,359  | \$ 219,310                                 | \$ 31,811  |

As of September 29, 2018 under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately \$358.6 million on the consolidated balance sheet. The Company has recorded an equity net loss of approximately \$2.6 million for the three months ended September 29, 2018 and an equity net gain of approximately \$7.2 million for the three months ended September 30, 2017. The Company has recorded an equity net gain of approximately \$109.7 million and \$15.9 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. In February 2018, the blender tax credits for calendar year 2017 were retroactively reinstated by the U.S. Congress. Fiscal 2017 results do not include any blenders tax credits, while in the first nine months of fiscal 2018, the DGD Joint Venture recorded approximately \$160.4 million for the 2017 reinstated blenders tax credits. The DGD Joint Venture recorded the blenders tax credits in the first quarter of fiscal 2018 as a reduction of total costs and expenses in the above table. The biodiesel blenders tax credit have not been reinstated for fiscal 2018. In the second quarter of fiscal 2018, the Company received a dividend distribution of \$25.0 million from the DGD Joint Venture.

In addition to the DGD Joint Venture, the Company has investments in other unconsolidated subsidiaries that are insignificant to the Company.

(4) Acquisitions and Dispositions

In September 2018, the Company liquidated a consolidated joint venture that was part of the Company's international operations. The transaction resulted in the Company recording a gain of approximately \$3.0 million.

In May 2018, the Company acquired substantially all of the assets of Kruger Commodities, Inc. (the “Kruger Acquisition”) including protein conversion facilities in Hamilton, MI and Tama, IA, along with a protein blending operation and used

cooking oil collection business in Omaha, NE. The Company paid approximately \$51.3 million in cash for assets and assumed liabilities consisting of property, plant and equipment of approximately \$15.2 million, intangible assets of approximately \$15.9 million, consisting of routes, permits and non-compete agreements, goodwill of approximately \$19.6 million, and other of approximately \$0.6 million. The purchase price allocation was finalized in the third quarter of fiscal 2018 and the Company does not expect any further working capital adjustments. The identifiable intangible assets have a weighted average life of 15 years.

In May 2018, the Company sold its Terra Renewal Services (“TRS”) industrial residuals business to American Residuals Group, LLC. TRS is a provider of environmental services focused on the collection, hauling, and disposal of non-hazardous, liquid and semi-solid waste streams from the food processing industry. All of the used cooking oil business originally acquired as part of TRS was retained by the Company. The transaction price for the industrial residuals business sold was \$80.0 million in cash and resulted in the Company recording a loss on the TRS sale of approximately \$15.5 million, due to a substantial portion of the original purchase price of TRS being allocated to the industrial residuals business.

In January 2018, the Company through a wholly-owned international subsidiary, sold a portion of its interest in a majority owned consolidated subsidiary for approximately \$2.8 million. This transaction resulted in the foreign subsidiary being deconsolidated and accounted for using the equity method of accounting, effective January 2018.

In October 2018, the Company acquired substantially all of the assets of Triple - T Foods - Arkansas, Inc. including a wet pet food ingredient operation in Springdale, Arkansas and a cold storage operation in Rogers, Arkansas for approximately \$50.0 million.

#### (5) Inventories

A summary of inventories follows (in thousands):

|                    | September<br>29, 2018 | December<br>30, 2017 |
|--------------------|-----------------------|----------------------|
| Finished product   | \$ 184,989            | \$ 171,277           |
| Work in process    | 88,073                | 101,540              |
| Raw material       | 36,050                | 33,173               |
| Supplies and other | 52,567                | 52,193               |
|                    | \$ 361,679            | \$ 358,183           |

#### (6) Intangible Assets

The gross carrying amount of intangible assets not subject to amortization and intangible assets subject to amortization is as follows (in thousands):

|                                                        | September<br>29, 2018 | December<br>30, 2017 |
|--------------------------------------------------------|-----------------------|----------------------|
| Indefinite Lived Intangible Assets                     |                       |                      |
| Trade names                                            | \$53,742              | \$54,682             |
|                                                        | 53,742                | 54,682               |
| Finite Lived Intangible Assets:                        |                       |                      |
| Routes                                                 | 368,327               | 397,808              |
| Permits                                                | 488,808               | 512,659              |
| Non-compete agreements                                 | 3,796                 | 3,963                |
| Trade names                                            | 72,881                | 76,558               |
| Royalty, consulting, land use rights and leasehold     | 13,987                | 14,666               |
|                                                        | 947,799               | 1,005,654            |
| Accumulated Amortization:                              |                       |                      |
| Routes                                                 | (139,846 )            | (136,592 )           |
| Permits                                                | (230,284 )            | (211,264 )           |
| Non-compete agreements                                 | (2,431 )              | (2,387 )             |
| Trade names                                            | (31,915 )             | (30,235 )            |
| Royalty, consulting, land use rights and leasehold     | (3,831 )              | (3,358 )             |
|                                                        | (408,307 )            | (383,836 )           |
| Total Intangible assets, less accumulated amortization | \$593,234             | \$676,500            |

Gross intangible routes, permits, trade names, non-compete agreements and other intangibles partially decreased in fiscal 2018 as a result of approximately \$5.5 million of asset retirements, \$44.6 million from the TRS sale and increased approximately \$15.9 million from the Kruger Acquisition. Amortization expense for the three and nine months ended September 29, 2018 and September 30, 2017, was approximately \$18.3 million, \$20.0 million and \$56.7 million and \$58.4 million, respectively.

## (7) Goodwill

Changes in the carrying amount of goodwill (in thousands):

|                                  | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Total        |
|----------------------------------|---------------------|---------------------|---------------------|--------------|
| Balance at December 30, 2017     |                     |                     |                     |              |
| Goodwill                         | \$ 848,167          | \$ 344,471          | \$ 124,369          | \$ 1,317,007 |
| Accumulated impairment losses    | (15,914 )           | —                   | —                   | (15,914 )    |
|                                  | 832,253             | 344,471             | 124,369             | 1,301,093    |
| Goodwill acquired during year    | 19,629              | —                   | —                   | 19,629       |
| Goodwill disposed of during year | (61,088 )           | (371 )              | —                   | (61,459 )    |
| Goodwill impaired during year    | —                   | (461 )              | —                   | (461 )       |
| Foreign currency translation     | (13,185 )           | (7,786 )            | (4,286 )            | (25,257 )    |
| Balance at September 29, 2018    |                     |                     |                     |              |
| Goodwill                         | 793,523             | 336,314             | 120,083             | 1,249,920    |
| Accumulated impairment losses    | (15,914 )           | (461 )              | —                   | (16,375 )    |
|                                  | \$ 777,609          | \$ 335,853          | \$ 120,083          | \$ 1,233,545 |

## (8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

|                                                 | September  | December   |
|-------------------------------------------------|------------|------------|
|                                                 | 29, 2018   | 30, 2017   |
| Compensation and benefits                       | \$ 89,916  | \$ 102,474 |
| Accrued income, ad valorem, and franchise taxes | 31,706     | 30,546     |
| Accrued operating expenses                      | 61,816     | 61,230     |
| Other accrued expense                           | 107,618    | 119,373    |
|                                                 | \$ 291,056 | \$ 313,623 |

## (9) Debt

Debt consists of the following (in thousands):

|                                                                                                                              | September<br>29, 2018 | December<br>30, 2017 |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Amended Credit Agreement:                                                                                                    |                       |                      |
| Revolving Credit Facility                                                                                                    | \$23,000              | \$—                  |
| Term Loan A (\$35.8 million and \$53.1 million denominated in CAD at September 29, 2018 and December 30, 2017, respectively) | 79,033                | 96,365               |
| Less unamortized deferred loan costs                                                                                         | (447                  | ) (671 )             |
| Carrying value Term Loan A                                                                                                   | 78,586                | 95,694               |
| <br>Term Loan B                                                                                                              | <br>495,000           | <br>505,000          |
| Less unamortized deferred loan costs                                                                                         | (9,364                | ) (10,578 )          |
| Carrying value Term Loan B                                                                                                   | 485,636               | 494,422              |
| <br>5.375% Senior Notes due 2022 with effective interest of 5.72%                                                            | <br>500,000           | <br>500,000          |
| Less unamortized deferred loan costs                                                                                         | (5,240                | ) (6,638 )           |
| Carrying value 5.375% Senior Notes due 2022                                                                                  | 494,760               | 493,362              |
| <br>4.75% Senior Notes due 2022 - Denominated in euro with effective interest of 5.10%                                       | <br>—                 | <br>617,356          |
| Less unamortized deferred loan costs - Denominated in euro                                                                   | —                     | (8,675 )             |
| Carrying value 4.75% Senior Notes due 2022                                                                                   | —                     | 608,681              |
| <br>3.625% Senior Notes due 2026 - Denominated in euro with effective interest of 3.83%                                      | <br>596,499           | <br>—                |
| Less unamortized deferred loan costs - Denominated in euro                                                                   | (8,486                | ) —                  |
| Carrying value 3.625% Senior Notes due 2026                                                                                  | 588,013               | —                    |
| <br>Other Notes and Obligations                                                                                              | <br>9,234             | <br>22,034           |
|                                                                                                                              | 1,679,229             | 1,714,193            |
| Less Current Maturities                                                                                                      | 11,100                | 16,143               |
|                                                                                                                              | \$1,668,129           | \$1,698,050          |

As of September 29, 2018, the Company had outstanding debt under a term loan facility denominated in Canadian dollars of CAD\$46.6 million. See below for discussion relating to the Company's debt agreements. In addition, as of September 29, 2018, the Company had capital lease obligations denominated in Canadian dollars included in debt. The current and long-term capital lease obligation was approximately CAD\$0.3 million and CAD\$0.2 million, respectively.

As of September 29, 2018, the Company had outstanding debt under the Company's 3.625% Senior Notes due 2026 denominated in euros of €515.0 million. See below for discussion relating to the Company's debt agreements. In addition, at September 29, 2018, the Company had capital lease obligations denominated in euros included in debt. The current and long-term capital lease obligation was approximately €0.1 million and less than €0.1 million, respectively.

Senior Secured Credit Facilities. On January 6, 2014, Darling, Darling International Canada Inc. (“Darling Canada”) and Darling International NL Holdings B.V. (“Darling NL”) entered into a Second Amended and Restated Credit Agreement

(as subsequently amended, the “Amended Credit Agreement”), restating its then existing Amended and Restated Credit Agreement dated September 27, 2013 (the “Former Credit Agreement”), with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents from time to time party thereto.

Effective December 18, 2017, the Company, and certain of its subsidiaries entered into an amendment (the “Fifth Amendment”) with its lenders to the Amended Credit Agreement. Among other things, the Fifth Amendment (i) refinanced the term B loans under the Amended Credit Agreement with new term B loans in an aggregate principal amount of \$525.0 million with a maturity date of December 18, 2024; (ii) adjusted the applicable margin pricing on borrowings under the term B loan; (iii) modified certain of the negative covenants to increase the allowances for certain actions, including debt and investments; and (iv) made other updates and changes.



Effective December 16, 2016, the Company, and certain of its subsidiaries entered into an amendment (the “Fourth Amendment”) with its lenders to the Amended Credit Agreement. Among other things, the Fourth Amendment (i) extended the maturity date of the term A loans and revolving credit facility loans under the Amended Credit Agreement from September 27, 2018 to December 16, 2021, subject to a 91-day “springing” adjustment if the term B loans are outstanding 91 days prior to the maturity date of the term B loans; (ii) reset the amortization schedule of the term A loans to their original schedule; (iii) adjusted the applicable margin pricing grid on borrowings under the term A Loan and revolving credit facility which adjusts based on the Company's total leverage ratio as set forth in the Amended Credit Agreement; (iv) eliminated the secured leverage ratio financial maintenance covenant so that from and after the effective date of the Fourth Amendment the Company's financial covenants consist of maintaining of total leverage ratio not to exceed 5.50 to 1.00 and maintaining an interest coverage ratio of not less than 3.00 to 1.00; (v) modified certain of the negative covenants to include a senior leverage ratio incurrence-based test and to increase the allowances for certain actions, including debt, investments and restricted payments; and (vi) made other updates and changes.

The Company's Amended Credit Agreement provides for senior secured credit facilities in the aggregate principal amount of \$1.88 billion comprised of (i) the Company's \$350.0 million term loan A facility, (ii) the Company's \$525.0 million term loan B facility and (iii) the Company's \$1.0 billion five-year revolving loan facility (approximately \$150.0 million of which is available for a letter of credit sub-facility and \$50.0 million of which is available for a swingline sub-facility) (collectively, the “Senior Secured Credit Facilities”). The Amended Credit Agreement also permits Darling and the other borrowers thereunder to incur ancillary facilities provided by any revolving lender party to the Senior Secured Credit Facilities (with certain restrictions). Up to \$948.3 million of the revolving loan facility is available to be borrowed by (x) Darling in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender, (y) Darling Canada in Canadian dollars and (z) Darling NL, Darling Ingredients International Holding B.V. (“Darling BV”) and Darling Ingredients Germany Holding GmbH in U.S. dollars, Canadian dollars, euros and other currencies to be agreed and available to each applicable lender. The revolving loan facility and term loan A facility will mature on December 16, 2021. The revolving loan facility will be used for working capital needs, general corporate purposes and other purposes not prohibited by the Amended Credit Agreement.

The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.00% per annum or base rate/Canadian prime rate plus 1.00% per annum, subject to certain step-ups or step-downs based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal the base rate plus 1.00% or LIBOR plus 2.00%.

As of September 29, 2018, the Company had \$43.3 million outstanding under the term loan A facility at LIBOR plus a margin of 2.00% per annum for a total of 4.25% per annum, \$18.0 million outstanding under the revolver at LIBOR plus a margin of 2.00% for a total of 4.16% per annum and \$5.0 million outstanding under the revolver at base rate plus a margin of 1.00% per annum for a total of 6.25% per annum. The Company had \$495.0 million outstanding under the term loan B facility at LIBOR plus a margin of 2.00% per annum for a total of 4.25% per annum. The Company had CAD\$46.6 million outstanding under the term loan A facility at CDOR plus a margin of 2.00% per annum for a total of 3.9159%. As of September 29, 2018, the Company had unused capacity of \$953.9 million under the Amended Credit Agreement taking into account amounts borrowed and letters of credit issued of \$23.1 million. The Company also has foreign bank guarantees that are not part of the Company's Amended Credit Agreement in the amount of approximately \$18.0 million at September 29, 2018.

5.375 % Senior Notes due 2022. On January 2, 2014, Darling Escrow Corporation, a wholly-owned subsidiary of Darling, issued and sold \$500.0 million aggregate principal amount of its 5.375% Notes due 2022 (the “5.375% Notes”). The 5.375% Notes, which were offered in a private offering in connection with the Company's acquisition in January 2014 of its Darling Ingredients International business from VION Holding, N.V. (the “VION Acquisition”), were issued pursuant to a 5.375% Notes Indenture, dated as of January 2, 2014 (the “Original 5.375% Indenture”) (as supplemented,

the “5.375% Indenture”), among Darling Escrow Corporation, the subsidiary guarantors party thereto from time to time, and U.S. Bank National Association, as trustee (the “5.375% Trustee”).

3.625% Senior Notes due 2026. On May 2, 2018, Darling Global Finance B.V. issued and sold €515.0 million aggregate principal amount of 3.625% Senior Notes due 2026 (the “3.625% Notes”). The 3.625% Notes, which were offered in a private offering, were issued pursuant to a Senior Notes Indenture, dated as of May 2, 2018, among Darling Global Finance B.V., Darling, the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. The gross proceeds of the offering, together with borrowings under the Company’s revolving credit facility, were used to refinance all of the 4.75% Notes by cash tender offer and redemption of those notes and to pay any applicable premiums for the

refinancing, to pay the commission of the initial purchasers of the 3.625% Notes and to pay the other fees and expenses related to the offering. The refinancing of the 4.75% Notes was completed during the second quarter of 2018.

The 3.625% Notes will mature on May 15, 2026. The issuer will pay interest on the 3.625% Notes on May 15 and November 15 of each year, commencing on November 15, 2018. Interest on the 3.625% Notes accrues from May 2, 2018 at a rate of 3.625% per annum and is payable in cash. The 3.625% Notes are guaranteed on a senior unsecured basis by Darling and all of Darling's restricted subsidiaries (other than any foreign subsidiary or any receivable entity) that guarantee the Senior Secured Credit Facilities. In addition, the Company capitalized \$8.8 million of deferred loan costs for the issuance of the 3.625% Notes in the second quarter of 2018.

4.75 % Senior Notes due 2022. On June 3, 2015, Darling Global Finance B.V. (the "4.75% Issuer"), a wholly-owned subsidiary of Darling, issued and sold €515.0 million aggregate principal amount of the 4.75% Senior Notes due 2022 (the "4.75% Notes"). The 4.75% Notes, which were offered in a private offering, were issued pursuant to a Senior Notes Indenture, dated as of June 3, 2015 (the "4.75% Indenture"), among the 4.75% Issuer, Darling, the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee (the "4.75% Trustee") and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. The Company retired the 4.75% Notes in the second quarter of 2018 using the proceeds from the issuance of the 3.625% Notes and incurred charges of approximately \$23.5 million in debt extinguishment charges including the write-off of deferred loan costs.

As of September 29, 2018, the Company believes it is in compliance with all of the financial covenants under the Amended Credit Agreement, as well as all of the other covenants contained in the Amended Credit Agreement, the 5.375% Indenture and the 3.625% Indenture.

#### (10) Income Taxes

The Company has provided income taxes for the three and nine month periods ended September 29, 2018 and September 30, 2017, based on its estimate of the effective tax rate for the entire 2018 and 2017 fiscal years. The Company's estimated annual effective tax rate is based on forecasts of income by jurisdiction, permanent differences between book and tax income, the relative proportion of income and losses by jurisdiction, and statutory income tax rates. Discrete events such as the assessment of the ultimate outcome of tax audits, audit settlements, recognizing previously unrecognized tax benefits due to the lapsing of statutes of limitation, recognizing or derecognizing deferred tax assets due to projections of income or loss and changes in tax laws are recognized in the period in which they occur.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company expects to have access to its offshore earnings with no material U.S. tax impact. Therefore, the Company does not consider earnings from its foreign subsidiaries to be permanently reinvested offshore.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. As of September 29, 2018, the Company had \$2.1

million of gross unrecognized tax benefits and \$1.1 million of related accrued interest and penalties. It is reasonably possible within the next twelve months that the Company's gross unrecognized tax benefits may decrease by up to \$1.8 million, excluding interest and penalties, primarily due to potential settlements and expiration of certain statutes of limitations.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act" or "U.S. tax reform") was signed into law, effective January 1, 2018, that, among other things, lowered the corporate income tax rate from 35% to 21%, moved the country towards a territorial tax system with a one-time mandatory tax on previously deferred earnings of foreign subsidiaries, and introduced new provisions regarding the taxation of Global Intangible Low-Taxed Income ("GILTI") of foreign subsidiaries. The Company is subject to the GILTI provisions beginning January 1, 2018. The FASB allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat such as a tax cost in the year incurred. The Company's accounting policy election is to account for GILTI as incurred. The Company has reasonably estimated GILTI with no material impact to the estimated annual effective tax rate.

Accounting Standards Codification 740, Accounting for Income Taxes, requires companies to recognize the effects of changes in tax laws and tax rates on deferred tax assets and liabilities in the period in which the new legislation is enacted. Due to the timing of the Tax Act and the substantial changes it brings, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which provides registrants a measurement period to report the impact of the new U.S. tax law. During the measurement period, provisional amounts for the effects of the tax law are recorded to the extent a reasonable estimate can be made. To the extent that all information necessary is not available, prepared or analyzed, companies may recognize provisional estimated amounts for a period of up to one year following enactment of the Tax Act.

As a result of U.S. Tax Reform, the Company recorded a provisional tax benefit at December 30, 2017 of \$12.1 million related to the mandatory deemed repatriation including an adjustment to the U.S. deferred tax liability associated with foreign earnings that were not permanently reinvested outside the U.S. and \$62.9 million for the re-measurement of deferred taxes at the reduced 21% federal tax rate. The Company recorded provisional amounts for the mandatory repatriation including its impact on the Company's deferred taxes because certain information related to the computation of earnings and profits is not readily available and there is limited information from federal and state taxing authorities regarding the application and interpretation of the recently enacted legislation.

The Company revised its 2017 provisional estimates under SAB No. 118 and recorded a provisional tax benefit of \$1.6 million during the three months ended June 30, 2018 and an additional provisional tax benefit of \$0.1 million during the three months ended September 29, 2018 due to additional guidance by the Internal Revenue Service (IRS) and the continued refinement of the Company's mandatory repatriation including refinements of earnings and profits calculations and the impact of the Company's deferred taxes. While the Company does not anticipate any remaining adjustments related to the Act, the measurement period under SAB 118 remains open as there is still anticipated guidance clarifying certain aspects of the Act. Any subsequent adjustment to the amounts will be recorded to deferred tax expense in the fourth quarter of 2018 when the full analysis is complete.

The Company's major taxing jurisdictions include the United States (federal and state), Canada, the Netherlands, Belgium, Brazil, Germany, France and China. The Company is subject to regular examination by various tax authorities and although the final outcome of these examinations is not yet determinable, the Company does not anticipate that any of the examinations will have a significant impact on the Company's results of operations or financial position. The statute of limitations for the Company's major tax jurisdictions is open for varying periods, but is generally closed through the 2010 tax year.

#### (11) Other Comprehensive Income/(Loss)

The Company follows FASB authoritative guidance for reporting and presentation of comprehensive income/(loss) and its components. Other comprehensive income/(loss) is derived from adjustments that reflect pension adjustments, natural gas swap adjustments, corn option adjustments, foreign exchange forward adjustments and foreign currency translation adjustments. In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU amends Topic 220, Income Statement - Reporting Comprehensive Income, which will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The ASU is effective for fiscal years beginning after December 15, 2018; however, the Company elected to early adopt ASU No. 2018-02 during the quarter ended March 31, 2018. The adoption resulted in a \$4.8 million reclassification from accumulated other comprehensive loss to retained earnings resulting from the Tax Cuts and Jobs Act.

The components of other comprehensive income (loss) and the related tax impacts for the three and nine months ended September 29, 2018 and September 30, 2017 are as follows (in thousands):

|                                                                      | Three Months Ended    |                       | Tax (Expense)         |                       | Net-of-Tax            |                       |
|----------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                      | Before-Tax<br>Amount  | Before-Tax<br>Amount  | or Benefit            | or Benefit            | Amount                | Amount                |
|                                                                      | September 29,<br>2018 | September 30,<br>2017 | September 29,<br>2018 | September 29,<br>2017 | September 29,<br>2018 | September 30,<br>2017 |
| Defined benefit pension plans                                        |                       |                       |                       |                       |                       |                       |
| Amortization of prior service cost/(benefit)                         | \$9                   | \$ 9                  | \$(3 )                | \$( 3 )               | \$6                   | \$ 6                  |
| Amortization of actuarial loss                                       | 888                   | 1,204                 | (226 )                | (451 )                | 662                   | 753                   |
| Total defined benefit pension plans                                  | 897                   | 1,213                 | (229 )                | (454 )                | 668                   | 759                   |
| Natural gas swap derivatives                                         |                       |                       |                       |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | —                     | —                     | —                     | —                     | —                     | —                     |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | —                     | 36                    | —                     | (14 )                 | —                     | 22                    |
| Total natural gas swap derivatives                                   | —                     | 36                    | —                     | (14 )                 | —                     | 22                    |
| Soybean meal option derivatives                                      |                       |                       |                       |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | (4 )                  | —                     | 1                     | —                     | (3 )                  | —                     |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 8                     | —                     | (2 )                  | —                     | 6                     | —                     |
| Total soybean meal option derivatives                                | 4                     | —                     | (1 )                  | —                     | 3                     | —                     |
| Corn option derivatives                                              |                       |                       |                       |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | (563 )                | (1,352 )              | 147                   | 525                   | (416 )                | (827 )                |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 507                   | 2,740                 | (131 )                | (1,063 )              | 376                   | 1,677                 |
| Total corn option derivatives                                        | (56 )                 | 1,388                 | 16                    | (538 )                | (40 )                 | 850                   |
| Foreign exchange derivatives                                         |                       |                       |                       |                       |                       |                       |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 468                   | —                     | (159 )                | —                     | 309                   | —                     |
| Total foreign exchange derivatives                                   | 468                   | —                     | (159 )                | —                     | 309                   | —                     |
| Foreign currency translation                                         | (5,749 )              | 46,211                | 165                   | —                     | (5,584 )              | 46,211                |
| Other comprehensive income/(loss)                                    | \$(4,436)             | \$ 48,848             | \$(208)               | \$( 1,006 )           | \$(4,644)             | \$ 47,842             |

|                                                                      | Nine Months Ended     |                       |                             |                       |                       |                       |
|----------------------------------------------------------------------|-----------------------|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
|                                                                      | Before-Tax<br>Amount  |                       | Tax (Expense)<br>or Benefit |                       | Net-of-Tax<br>Amount  |                       |
|                                                                      | September 29,<br>2018 | September 30,<br>2017 | September 29,<br>2018       | September 30,<br>2017 | September 29,<br>2018 | September 30,<br>2017 |
| Defined benefit pension plans                                        |                       |                       |                             |                       |                       |                       |
| Amortization of prior service cost/(benefit)                         | \$26                  | \$ 27                 | \$(7 )                      | \$( 8 )               | \$ 19                 | \$ 19                 |
| Amortization of actuarial loss                                       | 2,664                 | 3,610                 | (682 )                      | (1,351 )              | 1,982                 | 2,259                 |
| Total defined benefit pension plans                                  | 2,690                 | 3,637                 | (689 )                      | (1,359 )              | 2,001                 | 2,278                 |
| Natural gas swap derivatives                                         |                       |                       |                             |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | 14                    | —                     | (3 )                        | —                     | 11                    | —                     |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 15                    | 36                    | (4 )                        | (14 )                 | 11                    | 22                    |
| Total natural gas swap derivatives                                   | 29                    | 36                    | (7 )                        | (14 )                 | 22                    | 22                    |
| Soybean meal option derivatives                                      |                       |                       |                             |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | (4 )                  | —                     | 1                           | —                     | (3 )                  | —                     |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 8                     | —                     | (2 )                        | —                     | 6                     | —                     |
| Total soybean meal option derivatives                                | 4                     | —                     | (1 )                        | —                     | 3                     | —                     |
| Corn option derivatives                                              |                       |                       |                             |                       |                       |                       |
| Loss/(gain) reclassified to net income                               | (1,554 )              | (3,750 )              | 404                         | 1,455                 | (1,150 )              | (2,295 )              |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | (65 )                 | 1,918                 | 17                          | (744 )                | (48 )                 | 1,174                 |
| Total corn option derivatives                                        | (1,619 )              | (1,832 )              | 421                         | 711                   | (1,198 )              | (1,121 )              |
| Foreign exchange derivatives                                         |                       |                       |                             |                       |                       |                       |
| Gain/(loss) activity recognized in other comprehensive income/(loss) | 468                   | —                     | (159 )                      | —                     | 309                   | —                     |
| Total foreign exchange derivatives                                   | 468                   | —                     | (159 )                      | —                     | 309                   | —                     |
| Foreign currency translation                                         | (66,407 )             | 111,002               | 1,281                       | —                     | (65,126 )             | 111,002               |
| Other comprehensive income/(loss)                                    | \$(64,835)            | \$ 112,843            | \$ 846                      | \$( 662 )             | \$(63,989)            | \$ 112,181            |

The following table presents the amounts reclassified out of each component of other comprehensive income (loss), net of tax for the three and nine months ended September 29, 2018 and September 30, 2017 as follows (in thousands):

|                                    | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         | Statement of Operations<br>Classification |
|------------------------------------|-------------------------------------|---------|------------------------------------|---------|-------------------------------------------|
|                                    | 2018                                | 2017    | 2018                               | 2017    |                                           |
| Derivative instruments             |                                     |         |                                    |         |                                           |
| Soybean meal derivatives           | \$ 4                                | \$ —    | \$ 4                               | \$ —    | Net sales                                 |
| Natural gas swap derivatives       | —                                   | —       | (14                                | )—      | Cost of sales and<br>operating expenses   |
| Corn option derivatives            | 563                                 | 1,352   | 1,554                              | 3,750   | Cost of sales and<br>operating expenses   |
|                                    | 567                                 | 1,352   | 1,544                              | 3,750   | Total before tax                          |
|                                    | (148                                | )(525   | )(402                              | )(1,455 | ) Income taxes                            |
|                                    | 419                                 | 827     | 1,142                              | 2,295   | Net of tax                                |
| Defined benefit pension plans      |                                     |         |                                    |         |                                           |
| Amortization of prior service cost | \$ (9                               | )\$ (9  | ) \$ (26                           | )\$ (27 | ) (a)                                     |
| Amortization of actuarial loss     | (888                                | )(1,204 | )(2,664                            | )(3,610 | ) (a)                                     |
|                                    | (897                                | )(1,213 | )(2,690                            | )(3,637 | ) Total before tax                        |
|                                    | 229                                 | 454     | 689                                | 1,359   | Income taxes                              |
|                                    | (668                                | )(759   | )(2,001                            | )(2,278 | ) Net of tax                              |
| Total reclassifications            | \$ (249                             | )\$ 68  | \$ (859                            | )\$ 17  | Net of tax                                |

(a) These items are included in the computation of net periodic pension cost. See Note 13 Employee Benefit Plans for additional information.

The following table presents changes in each component of accumulated other comprehensive income/(loss) as of September 29, 2018 as follows (in thousands):

|                                                                                                       | Nine Months Ended September 29, 2018 |                           |                                        |              |
|-------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------|----------------------------------------|--------------|
|                                                                                                       | Foreign<br>Currency<br>Translation   | Derivative<br>Instruments | Defined<br>Benefit<br>Pension<br>Plans | Total        |
| Accumulated Other Comprehensive Income/(loss) December 30, 2017, attributable to Darling, net of tax  | \$ (183,161)                         | \$ 1,372                  | \$ (27,735)                            | \$ (209,524) |
| Other comprehensive gain/(loss) before reclassifications                                              | (65,126                              | )278                      | —                                      | (64,848      |
| Amounts reclassified from accumulated other comprehensive income/(loss)                               | —                                    | (1,142                    | )2,001                                 | 859          |
| Reclassification of tax effect (a)                                                                    | —                                    | 291                       | (5,073                                 | )(4,782      |
| Net current-period other comprehensive income/(loss)                                                  | (65,126                              | )(573                     | )(3,072                                | )(68,771     |
| Noncontrolling interest                                                                               | (971                                 | )—                        | —                                      | (971         |
| Accumulated Other Comprehensive Income/(loss) September 29, 2018, attributable to Darling, net of tax | (247,316                             | )\$ 799                   | \$ (30,807)                            | \$ (277,324) |

(a) Stranded tax effects reclassified from accumulated other comprehensive income (loss) to retained earnings from the adoption of ASU 2018-02.

## (12) Stockholders' Equity

Fiscal 2018 Long-Term Incentive Opportunity Awards (2018 LTIP). On January 29, 2018, the Compensation Committee (the "Committee") of the Company's Board of Directors adopted the 2018 LTIP pursuant to which they awarded certain of the Company's key employees, 637,115 stock options and 295,514 performance share units (the



“PSUs”) under the Company's 2017 Omnibus Incentive Plan. The stock options vest 33.33% on the first, second and third anniversaries of the grant date. The PSUs are tied to a three-year forward-looking performance period and will be earned based on the Company's average return on capital employed (“ROCE”), as calculated in accordance with the terms of the award agreement, relative to the average ROCE of the Company's performance peer group companies, with the earned award to be determined in the first quarter of fiscal 2021, after the final results for the relevant performance period are determined. The PSUs were granted at a target of 100%, but each PSU will reduce or increase depending on the Company's ROCE relative to that of the performance peer group companies and is also subject to the application of a total shareholder return (“TSR”) cap/collar modifier depending on the Company's TSR during the performance period relative to that of the performance peer group companies.

On August 7, 2017, the Company's Board of Directors, approved the extension for an additional two years of its previously announced share repurchase program of up to an aggregate of \$100.0 million of the Company's common stock depending on market conditions. As of September 29, 2018, the Company has approximately \$100.0 million remaining under the share repurchase program approved in August 2017. On November 6, 2018, the Board approved an increase in the share repurchase program from \$100.0 million to \$200.0 million and extended the term of the program for an additional year to August 13, 2020.

### (13) Employee Benefit Plans

The Company has retirement and pension plans covering a substantial number of its domestic and foreign employees. Most retirement benefits are provided by the Company under separate final-pay noncontributory and contributory defined benefit and defined contribution plans for all salaried and hourly employees (excluding those covered by union-sponsored plans) who meet service and age requirements. Although various defined benefit formulas exist for employees, generally these are based on length of service and earnings patterns during employment. Effective January 1, 2012, the Company's Board of Directors authorized the Company to proceed with the restructuring of its domestic retirement benefit program to include the closing of Darling's salaried and hourly defined benefit plans to new participants as well as the freezing of service and wage accruals thereunder effective December 31, 2011 (a curtailment of these plans for financial reporting purposes) and the enhancing of benefits under the Company's domestic defined contribution plans. The Company-sponsored domestic hourly union plan has not been curtailed; however, several locations of the Company-sponsored domestic hourly union plan have been curtailed as a result of collective bargaining renewals for those sites.

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU amends Topic 715, Compensation - Retirement Benefits, which requires that an employer report the service cost component of net benefit costs to be disaggregated from all other components and reported in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost. The Company adopted this ASU effective December 31, 2017. The Company used the practical expedient to retrospectively present the prior year amounts. The components of net period pension cost other than the service cost component are included in the line item "Other expense, net" in the Company's Consolidated Statements of Operations.

Net pension cost for the three and nine months ended September 29, 2018 and September 30, 2017 includes the following components (in thousands):

|                                    | Pension Benefits<br>Three Months Ended<br>September 29,<br>2018 |          | Pension Benefits<br>Nine Months Ended<br>September 30,<br>2018 |          |
|------------------------------------|-----------------------------------------------------------------|----------|----------------------------------------------------------------|----------|
|                                    | 2018                                                            | 2017     | 2018                                                           | 2017     |
| Service cost                       | \$762                                                           | \$ 759   | \$2,340                                                        | \$ 2,244 |
| Interest cost                      | 1,603                                                           | 1,672    | 4,844                                                          | 5,020    |
| Expected return on plan assets     | (2,053)                                                         | (1,799)  | (6,176)                                                        | (5,377)  |
| Amortization of prior service cost | 9                                                               | 9        | 26                                                             | 27       |
| Amortization of net loss           | 888                                                             | 1,204    | 2,664                                                          | 3,610    |
| Net pension cost                   | \$1,209                                                         | \$ 1,845 | \$3,698                                                        | \$ 5,524 |

The Company's funding policy for employee benefit pension plans is to contribute annually not less than the minimum amount required nor more than the maximum amount that can be deducted for federal and foreign income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Based on actuarial estimates at September 29, 2018, the Company expects to

contribute approximately \$4.8 million to its pension plans to meet funding requirements during the next twelve months. Additionally, the Company has made tax deductible discretionary and required contributions to its pension plans for the nine months ended September 29, 2018 and September 30, 2017 of approximately \$2.8 million and \$2.6 million, respectively.

The Company participates in various multiemployer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. The Company's contributions to each multiemployer plan represent less than 5% of the total contributions to each such plan. Based on the most currently available information, the Company has determined that, if a withdrawal were to occur, withdrawal liabilities on two of the plans in which the Company currently participates could be material to the Company, with one of these material plans certified as critical or red zone. With respect to the other multiemployer pension plans

in which the Company participates and which are not individually significant, six plans have certified as critical or red zone, one plan has certified as endangered or yellow zone as defined by the Pension Protection Act of 2006.

The Company has received notices of withdrawal liability from two U.S. multiemployer plans in which it participated. As of September 29, 2018, the Company has an aggregate accrued liability of approximately \$1.7 million representing the present value of scheduled withdrawal liability payments under these multiemployer plans. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the Pension Protection Act of 2006, the amounts could be material.

#### (14) Derivatives

The Company's operations are exposed to market risks relating to commodity prices that affect the Company's cost of raw materials, finished product prices and energy costs and the risk of changes in interest rates and foreign currency exchange rates.

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Soybean meal options are entered into with the intent of managing the impact of changing prices for poultry meal sales. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of bakery by-products ("BBP") by reducing the impact of changing prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. At September 29, 2018, the Company had corn option contracts, soybean meal option contracts and foreign exchange forward contracts outstanding that qualified and were designated for hedge accounting as well as corn option and forward contracts and foreign currency forward contracts that did not qualify and were not designated for hedge accounting.

Entities are required to report all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair value, cash flows or foreign currencies. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside of earnings) and is subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness, as well as the ineffective portion of the gain or loss, are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

#### Cash Flow Hedges

In the first nine months of fiscal 2018, the Company entered into foreign exchange forward contracts that are considered cash flow hedges. Under the terms of the foreign exchange contracts, the Company hedged a portion of its forecasted peptan sales in currencies other than the functional currency through the fourth quarter of fiscal 2019. As of September 29, 2018, the contract positions and activity are not significant to the Company. At September 29, 2018 and December 30, 2017, the aggregate fair value of these foreign exchange contracts was approximately \$0.5 million and zero, respectively. The September 29, 2018 amounts are included in other current assets and other assets on the

balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion.

In the first nine months of fiscal 2018, the Company entered into soybean meal option contracts that are considered cash flow hedges. Under the terms of the soybean meal option contracts, the Company hedged a portion of its forecasted poultry meal sales into the fourth quarter of fiscal 2018. As of September 29, 2018, some of the contracts have been settled while the remaining contract positions and activity are not significant to the Company. At September 29, 2018 and December 30, 2017, the aggregate fair value of these soybean meal option contracts was approximately \$0.4 million and zero, respectively. The September 29, 2018 amounts are included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion.

In fiscal 2017 and the first nine months of fiscal 2018, the Company entered into corn option contracts on the Chicago Board of Trade that are designated as cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP into the fourth quarter of fiscal 2018. As of September 29, 2018, some of the contracts have been settled while the remaining contract positions and activity are not significant to the Company. At September 29, 2018 and December 30, 2017, the aggregate fair value of these corn option contracts was approximately \$0.7 million and \$3.4 million, respectively. These amounts are included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion. From time to time, the Company may enter into corn option contracts in the future.

As of September 29, 2018, the Company had the following outstanding forward contract amounts that were entered into to hedge the future payments of intercompany note transactions, foreign currency transactions in currencies other than the functional currency and forecasted transactions in currencies other than the functional currency (in thousands):

| Functional Currency | Contract Currency |                   |         |
|---------------------|-------------------|-------------------|---------|
| Type                | Amount            | Type              | Amount  |
| Brazilian real      | 59,258            | Euro              | 12,536  |
| Brazilian real      | 242,809           | U.S. dollar       | 58,903  |
| Euro                | 109,577           | U.S. dollar       | 129,276 |
| Euro                | 19,425            | Polish zloty      | 83,780  |
| Euro                | 5,592             | Japanese yen      | 734,893 |
| Euro                | 34,973            | Chinese renminbi  | 284,178 |
| Euro                | 12,284            | Australian dollar | 19,850  |
| Euro                | 3,191             | British pound     | 2,833   |
| Polish zloty        | 21,742            | Euro              | 5,046   |
| British pound       | 161               | Euro              | 179     |
| British pound       | 106               | U.S. dollar       | 81      |
| Japanese yen        | 184,030           | U.S. dollar       | 1,674   |
| U.S. dollar         | 692               | Japanese yen      | 78,000  |

The Company estimates the amount that will be reclassified from accumulated other comprehensive loss at September 29, 2018 into earnings over the next 12 months will be approximately \$1.1 million. As of September 29, 2018, no amounts have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The table below summarizes the effect of derivatives not designated as hedges on the Company's consolidated statements of operations for the three and nine months ended September 29, 2018 and September 30, 2017 (in thousands):

| Derivatives not designated as hedging instruments | Location                     | Loss or (Gain) Recognized in Income on Derivatives Not Designated as Hedges |                    |                    |                    |
|---------------------------------------------------|------------------------------|-----------------------------------------------------------------------------|--------------------|--------------------|--------------------|
|                                                   |                              | Three Months Ended                                                          |                    | Nine Months Ended  |                    |
|                                                   |                              | September 29, 2018                                                          | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Foreign exchange                                  | Foreign currency loss/(gain) | \$(1,389)                                                                   | \$ 3,142           | \$(3,216)          | \$ 12,418          |
| Foreign exchange                                  | Net sales                    | 3,652                                                                       | —                  | 3,652              | —                  |
| Foreign exchange                                  |                              | (880)                                                                       | —                  | (880)              | —                  |

|                               |                                             |         |         |           |           |
|-------------------------------|---------------------------------------------|---------|---------|-----------|-----------|
|                               | Cost of sales and operating expenses        |         |         |           |           |
| Foreign exchange              | Selling, general and administrative expense | 359     | (2,118  | ) 3,354   | (3,107 )  |
| Corn options and futures      | Net sales                                   | 294     | 165     | 748       | 125       |
| Corn options and futures      | Cost of sales and operating expenses        | (403    | )(1,566 | )(709     | )(1,250 ) |
| Heating oil swaps and options | Net sales                                   | —       | 492     | —         | 492       |
| Soybean meal                  | Net sales                                   | —       | (131    | )—        | (412 )    |
| Soybean oil                   | Net sales                                   | —       | —       | —         | 45        |
| Total                         |                                             | \$1,633 | \$ (16  | ) \$2,949 | \$ 8,311  |

At September 29, 2018, the Company had forward purchase agreements in place for purchases of approximately \$20.9 million of natural gas and diesel fuel. These forward purchase agreements have no net settlement provisions and the Company intends to take physical delivery of the underlying product. Accordingly, the forward purchase agreements are not subject to the requirements of fair value accounting because they qualify and the Company has elected to account for these as normal purchases as defined in the FASB authoritative guidance.

#### (15) Fair Value Measurements

FASB authoritative guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The following table presents the Company's financial instruments that are measured at fair value on a recurring and nonrecurring basis as of September 29, 2018 and are categorized using the fair value hierarchy under FASB authoritative guidance. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value.

|                           |             | Fair Value Measurements<br>at September 29, 2018 |           |           |
|---------------------------|-------------|--------------------------------------------------|-----------|-----------|
|                           |             | Using                                            |           |           |
|                           |             | Quoted                                           |           |           |
|                           |             | Prices                                           |           |           |
|                           |             | in Significant                                   |           |           |
|                           |             | Other                                            |           |           |
|                           |             | Markets                                          |           |           |
|                           |             | for                                              |           |           |
|                           |             | Identical                                        |           |           |
|                           |             | Assets                                           |           |           |
|                           |             | (Level 1)                                        | (Level 2) | (Level 3) |
| (In thousands of dollars) | Total       |                                                  |           |           |
| Assets:                   |             |                                                  |           |           |
| Derivative instruments    | \$3,952     | \$3,952                                          | \$        | —         |
| Total Assets              | \$3,952     | \$3,952                                          | \$        | —         |
| Liabilities:              |             |                                                  |           |           |
| Derivative instruments    | \$3,041     | \$3,041                                          | \$        | —         |
| 5.375% Senior notes       | 505,600     | —                                                | 505,600   | —         |
| 3.625% Senior notes       | 608,727     | —                                                | 608,727   | —         |
| Term loan A               | 79,330      | —                                                | 79,330    | —         |
| Term loan B               | 499,950     | —                                                | 499,950   | —         |
| Revolver debt             | 22,655      | —                                                | 22,655    | —         |
| Total Liabilities         | \$1,719,303 | \$1,719,303                                      | \$        | —         |

Fair Value Measurements  
at December 30, 2017  
Using  
Quoted Significant  
Other Unobservable  
in Observable Inputs  
Inputs  
Markets  
for



| (In thousands of dollars) Total |             | Identical<br>Assets<br>(Level 1) | (Level 2) | (Level 3) |
|---------------------------------|-------------|----------------------------------|-----------|-----------|
| Assets:                         |             |                                  |           |           |
| Derivative instruments          | \$4,346     | \$4,346                          | \$        | —         |
| Total Assets                    | \$4,346     | \$4,346                          | \$        | —         |
| Liabilities:                    |             |                                  |           |           |
| Derivative instruments          | \$2,326     | \$2,326                          | \$        | —         |
| 5.375% Senior notes             | 513,100     | —513,100                         | —         | —         |
| 4.75% Senior notes              | 646,681     | —646,681                         | —         | —         |
| Term loan A                     | 95,883      | —95,883                          | —         | —         |
| Term loan B                     | 511,616     | —511,616                         | —         | —         |
| Total Liabilities               | \$1,769,606 | \$1,769,606                      | \$        | —         |

Derivative assets and liabilities consist of the Company's soybean meal contracts, natural gas contracts, corn option and future contracts and foreign currency contracts, which represents the difference between observable market rates of commonly quoted intervals for similar assets and liabilities in active markets and the fixed swap rate considering the instruments term, notional amount and credit risk. See Note 14 (Derivatives) for discussion on the Company's derivatives.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short maturity of these instruments and as such have been excluded from the table

above. The carrying amount of the Company's other debt is not deemed to be significantly different from the fair value and all other instruments have been recorded at fair value.

The fair value of the senior notes, term loan A, term loan B and revolver debt is based on market quotation from third-party banks.

(16) Asset Impairment, Exit and Restructuring Costs

In the second quarter of fiscal 2018, management decided to permanently shut down the Company's Hurlingham, Argentina gelatin plant. As of September 29, 2018, the Company has incurred restructuring and asset impairment charges of approximately \$15.0 million, which includes employee termination charges of approximately \$8.4 million, asset impairment charges of approximately \$2.9 million and other factory and operational restructuring charges of approximately \$3.7 million.

(17) Contingencies

The Company is a party to various lawsuits, claims and loss contingencies arising in the ordinary course of its business, including insured worker's compensation, auto, and general liability claims, assertions by certain regulatory and governmental agencies related to permitting requirements and/or air, wastewater and storm water discharges from the Company's processing facilities, litigation involving tort, contract, statutory, labor, employment, and other claims, and tax matters.

The Company's workers compensation, auto and general liability policies contain significant deductibles or self-insured retentions. The Company estimates and accrues its expected ultimate claim costs related to accidents occurring during each fiscal year under these insurance policies and carries this accrual as a reserve until these claims are paid by the Company.

As a result of the matters discussed above, the Company has established loss reserves for insurance, environmental, litigation and tax contingencies. At September 29, 2018 and December 30, 2017, the reserves for insurance, environmental, litigation and tax contingencies reflected on the balance sheet in accrued expenses and other non-current liabilities were approximately \$61.5 million and \$61.4 million, respectively. The Company has insurance recovery receivables of approximately \$25.0 million as of September 29, 2018 and December 30, 2017, related to the insurance contingencies. The Company's management believes these reserves for contingencies are reasonable and sufficient based upon present governmental regulations and information currently available to management; however, there can be no assurance that final costs related to these contingencies will not exceed current estimates. The Company believes that the likelihood is remote that any additional liability from the lawsuits and claims that may not be covered by insurance would have a material effect on the Company's financial position, results of operations or cash flows.

Lower Passaic River Area. In December 2009, the Company, along with numerous other entities, received notice from the United States Environmental Protection Agency ("EPA") that the Company (as alleged successor-in-interest to The Standard Tallow Corporation) is considered a potentially responsible party (a "PRP") with respect to alleged contamination in the lower 17-mile area of the Passaic River which is part of the Diamond Alkali Superfund Site located in Newark, New Jersey. The Company's designation as a PRP is based upon the operation of former plant sites located in Newark and Kearny, New Jersey by The Standard Tallow Corporation, an entity that the Company acquired in 1996. In the letter, EPA requested that the Company join a group of other parties in funding a remedial investigation and feasibility study at the site. As of the date of this report, the Company has not agreed to participate in the funding group. In March 2016, the Company received another letter from EPA notifying the Company that it had issued a Record of Decision (the "ROD") selecting a remedy for the lower 8.3 miles of the lower Passaic River area at

an estimated cost of \$1.38 billion. The EPA letter makes no demand on the Company and lays out a framework for remedial design/remedial action implementation in which the EPA will first seek funding from major PRPs. The letter indicates that the EPA has sent the letter to over 100 parties, which include large chemical and refining companies, manufacturing companies, foundries, plastic companies, pharmaceutical companies and food and consumer product companies. The EPA has already offered early cash out settlements to 20 of the other PRPs and has stated that other parties who did not discharge any of the eight contaminants of concern identified in the ROD (the "COCs") may also be eligible for cash out settlements and has begun a settlement analysis using a third-party allocator. The Company is participating in this allocation process as it asserts that it is not responsible for any liabilities of its former subsidiary The Standard Tallow Corporation, which was legally dissolved in 2000, and that, in any event, The Standard Tallow Corporation did not discharge any of the COCs. On September 30, 2016, Occidental Chemical Corporation ("OCC") entered into an agreement with the EPA to perform the remedial design for the cleanup plan for the lower 8.3 miles of the Passaic River. On June 30, 2018, OCC filed a complaint

in the United States District Court for the District of New Jersey against over 100 companies, including the Company, seeking cost recovery or contribution for costs under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") relating to various investigations and cleanups OCC has conducted or is conducting in connection with the Passaic River. According to the complaint, OCC has incurred or is incurring costs which include the estimated cost to complete the remedial design for the cleanup plan for the lower 8.3 miles of the Passaic River. OCC is also seeking a declaratory judgment to hold the defendants liable for their proper shares of future response costs, including the remedial action for the lower 8.3 miles of the Passaic River. The Company, along with 40 of the other defendants, had previously received a release from OCC of its CERCLA contribution claim of \$165 million associated with the costs to design the remedy for the lower 8.3 miles of the Passaic River. The Company's ultimate liability, if any, for investigatory costs, remedial costs and/or natural resource damages in connection with the lower Passaic River area cannot be determined at this time; however, as of the date of this report, the Company has found no definitive evidence that the former Standard Tallow Corporation plant sites contributed any of the COCs to the Passaic River and, therefore, there is nothing that leads the Company to believe that this matter will have a material effect on the Company's financial position, results of operations or cash flows.

Fresno Facility Permit Issue. The Company has been named as a defendant and a real party in interest in a lawsuit filed on April 9, 2012 in the Superior Court of the State of California, Fresno County, styled Concerned Citizens of West Fresno vs. Darling International Inc. The complaint, as subsequently amended, alleges that the Company's Fresno facility is operating without a proper use permit and seeks, among other things, injunctive relief. The complaint had at one time also alleged that the Company's Fresno facility constitutes a continuing private and public nuisance, but the plaintiff has since amended the complaint to drop these allegations. The City of Fresno was also named as a defendant in the original complaint but has since had a judgment entered in its favor and is no longer a defendant in the lawsuit; however, in December 2013 the City of Fresno filed a motion to intervene as a plaintiff in this matter. The Superior Court heard the motion on February 4, 2014, and entered an order on February 18, 2014 denying the motion. Rendering operations have been conducted on the site since 1955, and the Company believes that it possesses all of the required federal, state and local permits to continue to operate the facility in the manner currently conducted and that its operations do not constitute a private or public nuisance. Accordingly, the Company intends to defend itself vigorously in this matter. Discovery has begun and this matter was scheduled for trial in July 2014; however, the parties have agreed to stay the litigation while they participate in a mediation process, which remains ongoing. In January 2017, the Company entered into a non-binding letter of intent with the City of Fresno pursuant to which the City and the Company will work toward the execution of a definitive agreement to relocate the facility to a different location in Fresno. Whether an agreement to relocate the facility ultimately gets executed is subject to the Company's receipt of certain incentives and an agreement by the Concerned Citizens of West Fresno to settle and dismiss the aforementioned litigation. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company's financial condition, results of operations or cash flows.

#### (18) Business Segments

The Company sells its products domestically and internationally, operating within three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients. The measure of segment income (loss) includes all revenues, operating expenses (excluding certain amortization of intangibles), and selling, general and administrative expenses incurred at all operating locations and excludes corporate activities.

Included in corporate activities are general corporate expenses and the amortization of certain intangibles. Assets of corporate activities include cash, unallocated prepaid expenses, deferred tax assets, prepaid pension, and miscellaneous other assets.

#### Feed Ingredients

Feed Ingredients consists principally of (i) the Company's U.S. ingredients business, including the Company's fats and proteins, used cooking oil, trap grease and food residuals collection businesses, the Rothsay ingredients business, the ingredients and specialty products businesses conducted by Darling Ingredients International under the Sonac name (proteins, fats, and plasma products) and (ii) the Company's bakery residuals business. Feed Ingredients operations process animal by-products and used cooking oil into fats, proteins and hides.

#### Food Ingredients

Food Ingredients consists principally of (i) the gelatin and collagen hydrolysates business conducted by Darling Ingredients International under the Rousselot name, (ii) the natural casings and meat-by-products business conducted by Darling Ingredients International under the CTH name and (iii) certain specialty products businesses conducted by Darling Ingredients International under the Sonac name.

## Fuel Ingredients

The Company's Fuel Ingredients segment consists of (i) the Company's investment in the DGD Joint Venture (ii) the Company's biofuel business conducted under the Dar Pro® and Rothsay names and (iii) the bioenergy business conducted by Darling Ingredients International under the Ecoson and Rendac names.

## Business Segments (in thousands):

|                                                     | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total      |
|-----------------------------------------------------|---------------------|---------------------|---------------------|-----------|------------|
| Three Months Ended September 29, 2018               |                     |                     |                     |           |            |
| Net Sales                                           | \$ 482,744          | \$ 265,208          | \$ 64,624           | \$ —      | \$ 812,576 |
| Cost of sales and operating expenses                | 383,846             | 210,697             | 53,558              | —         | 648,101    |
| Gross Margin                                        | 98,898              | 54,511              | 11,066              | —         | 164,475    |
| Selling, general and administrative expense         | 39,702              | 21,843              | (2,822)             | ) 8,724   | 67,447     |
| Depreciation and amortization                       | 47,321              | 19,697              | 9,370               | 2,454     | 78,842     |
| Segment operating income/(loss)                     | 11,875              | 12,971              | 4,518               | (11,178)  | 18,186     |
| Equity in net loss of unconsolidated subsidiaries   | (162)               | )—                  | (2,630)             | )—        | (2,792 )   |
| Segment income/(loss)                               | 11,713              | 12,971              | 1,888               | (11,178)  | 15,394     |
| Total other expense                                 |                     |                     |                     |           | (21,934 )  |
| Loss before income taxes                            |                     |                     |                     |           | \$(6,540 ) |
| Three Months Ended September 30, 2017               |                     |                     |                     |           |            |
| Net Sales                                           | \$ 575,543          | \$ 298,863          | \$ 61,856           | \$ —      | \$ 936,262 |
| Cost of sales and operating expenses                | 449,574             | 238,694             | 54,243              | —         | 742,511    |
| Gross Margin                                        | 125,969             | 60,169              | 7,613               | —         | 193,751    |
| Selling, general and administrative expense         | 44,841              | 25,556              | (488)               | ) 12,244  | 82,153     |
| Depreciation and amortization                       | 46,860              | 19,506              | 7,912               | 2,924     | 77,202     |
| Segment operating income/(loss)                     | 34,268              | 15,107              | 189                 | (15,168)  | 34,396     |
| Equity in net income of unconsolidated subsidiaries | 523                 | —                   | 7,180               | —         | 7,703      |
| Segment income/(loss)                               | 34,791              | 15,107              | 7,369               | (15,168)  | 42,099     |
| Total other expense                                 |                     |                     |                     |           | (27,119 )  |
| Income before income taxes                          |                     |                     |                     |           | \$ 14,980  |

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|                                                            | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total       |
|------------------------------------------------------------|---------------------|---------------------|---------------------|-----------|-------------|
| Nine Months Ended September 29, 2018                       |                     |                     |                     |           |             |
| Net Sales                                                  | \$1,467,365         | \$847,457           | \$219,774           | \$—       | \$2,534,596 |
| Cost of sales and operating expenses                       | 1,123,722           | 684,718             | 170,761             | —         | 1,979,201   |
| Gross Margin                                               | 343,643             | 162,739             | 49,013              | —         | 555,395     |
| Selling, general and administrative expense                | 131,914             | 67,894              | (4,056)             | )37,155   | 232,907     |
| Restructuring and impairment charges                       | —                   | 14,965              | —                   | —         | 14,965      |
| Depreciation and amortization                              | 140,933             | 60,725              | 26,378              | 7,879     | 235,915     |
| Segment operating income/(loss)                            | 70,796              | 19,155              | 26,691              | (45,034)  | )71,608     |
| Equity in net income/(loss) of unconsolidated subsidiaries | (57                 | )—                  | 109,655             | —         | 109,598     |
| Segment income/(loss)                                      | 70,739              | 19,155              | 136,346             | (45,034)  | )181,206    |
| Total other expense                                        |                     |                     |                     |           | (113,414 )  |
| Income before income taxes                                 |                     |                     |                     |           | \$67,792    |
| Segment assets at September 29, 2018                       | \$2,517,315         | \$1,378,880         | \$762,652           | \$146,364 | \$4,805,211 |
|                                                            | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total       |
| Nine Months Ended September 30, 2017                       |                     |                     |                     |           |             |
| Net Sales                                                  | \$1,677,286         | \$843,498           | \$188,918           | \$—       | \$2,709,702 |
| Cost of sales and operating expenses                       | 1,304,352           | 670,448             | 154,921             | —         | 2,129,721   |
| Gross Margin                                               | 372,934             | 173,050             | 33,997              | —         | 579,981     |
| Selling, general and administrative expense                | 132,553             | 77,236              | 5,648               | 38,171    | 253,608     |
| Depreciation and amortization                              | 134,933             | 55,291              | 22,472              | 8,610     | 221,306     |
| Segment operating income/(loss)                            | 105,448             | 40,523              | 5,877               | (46,781)  | )105,067    |
| Equity in net income of unconsolidated subsidiaries        | 763                 | —                   | 15,906              | —         | 16,669      |
| Segment income/(loss)                                      | 106,211             | 40,523              | 21,783              | (46,781)  | )121,736    |
| Total other expense                                        |                     |                     |                     |           | (79,470 )   |
| Income before income taxes                                 |                     |                     |                     |           | \$42,266    |
| Segment assets at December 30, 2017                        | \$2,614,545         | \$1,499,027         | \$688,890           | \$155,763 | \$4,958,225 |

## (19)Revenue

On December 31, 2017, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (“Topic 606”), using the modified retrospective basis. Results for reporting periods beginning December 31, 2017 are presented under Topic 606, while prior periods are not adjusted and continue to be reported in accordance with the Company's historic accounting under Revenue Recognition (Topic 605). The adoption did not change the timing of revenue recognition as the Company's revenues have been determined to be recognized at a point in time and not over time. The Company elected not to capitalize contract fulfillment costs as the recovery of such costs are for a period of less than one year's time and are not material to the Company. At September 29, 2018, there were no contract assets recorded on the Consolidated Balance sheets. Also, the Company elected to treat shipping and handling as fulfillment costs under Topic 606, which will result in billed freight recorded in cost of sales and netted against freight costs. Sales, value-add, and other taxes collected concurrently with revenue-producing activities are excluded from revenue and booked on a net basis.

The Company extends payment terms to its customers based on commercially acceptable practices. The term between invoicing and payment due date is not significant. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring finished products or performing services, which is generally based on executed agreement or purchase order.

Most of the Company's products are shipped based on the customer specifications. Customer returns are infrequent and not material to the Company. Adjustments to net sales for sales deductions are generally recognized in the same period as the sale or when known. Customers in certain industries or countries may be required to prepay prior to shipment in order to maintain payment protection. These represent short-term prepayment from customers and are not material to the Company.

The following table summarizes the impact of adopting Topic 606 on the Company's consolidated financial statements for the three and nine months ended September 29, 2018 (in thousands):

|                                       | Impact of changes in accounting policies |             | Balances without adoption of Topic 606 |
|---------------------------------------|------------------------------------------|-------------|----------------------------------------|
|                                       | As reported                              | Adjustments |                                        |
| Three Months Ended September 29, 2018 |                                          |             |                                        |
| Net sales                             | \$812,576                                | 39,763      | \$852,339                              |
| Cost of sales and operating expenses  | \$648,101                                | 39,763      | \$687,864                              |
| Nine Months Ended September 29, 2018  |                                          |             |                                        |
| Net sales                             | \$2,534,596                              | 131,399     | \$2,665,995                            |
| Cost of sales and operating expenses  | \$1,979,201                              | 131,399     | \$2,110,600                            |

The following tables presents the Company revenues disaggregated by geographic area and major product types by reportable segment for the three and nine months ended September 29, 2018 and September 30, 2017 (in thousands):



## Three Months Ended September 29, 2018

| Geographic Area | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Total     |
|-----------------|---------------------|---------------------|---------------------|-----------|
| North America   | \$388,088           | \$45,538            | \$8,616             | \$442,242 |
| Europe          | 81,381              | 146,872             | 56,008              | 284,261   |
| China           | 11,199              | 43,185              | —                   | 54,384    |
| South America   | —                   | 11,579              | —                   | 11,579    |
| Other           | 2,076               | 18,034              | —                   | 20,110    |
| Net sales       | \$482,744           | \$265,208           | \$64,624            | \$812,576 |

## Major product types

|                  |           |           |          |           |
|------------------|-----------|-----------|----------|-----------|
| Fats             | \$142,453 | \$39,172  | \$—      | \$181,625 |
| Used cooking oil | 38,863    | —         | —        | 38,863    |
| Proteins         | 216,316   | —         | —        | 216,316   |
| Bakery           | 44,638    | —         | —        | 44,638    |
| Other rendering  | 27,519    | —         | —        | 27,519    |
| Food ingredients | —         | 206,504   | —        | 206,504   |
| Bioenergy        | —         | —         | 56,008   | 56,008    |
| Biofuels         | —         | —         | 8,616    | 8,616     |
| Other            | 12,955    | 19,532    | —        | 32,487    |
| Net sales        | \$482,744 | \$265,208 | \$64,624 | \$812,576 |

## Nine Months Ended September 29, 2018

| Geographic Area | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Total       |
|-----------------|---------------------|---------------------|---------------------|-------------|
| North America   | \$1,186,866         | \$135,803           | \$40,668            | \$1,363,337 |
| Europe          | 251,495             | 490,133             | 179,106             | 920,734     |
| China           | 23,279              | 132,578             | —                   | 155,857     |
| South America   | —                   | 35,839              | —                   | 35,839      |
| Other           | 5,725               | 53,104              | —                   | 58,829      |
| Net sales       | \$1,467,365         | \$847,457           | \$219,774           | \$2,534,596 |

## Major product types

|                  |             |           |           |             |
|------------------|-------------|-----------|-----------|-------------|
| Fats             | \$423,148   | \$122,806 | \$—       | \$545,954   |
| Used cooking oil | 123,555     | —         | —         | 123,555     |
| Proteins         | 641,178     | —         | —         | 641,178     |
| Bakery           | 135,871     | —         | —         | 135,871     |
| Other rendering  | 87,860      | —         | —         | 87,860      |
| Food ingredients | —           | 657,793   | —         | 657,793     |
| Bioenergy        | —           | —         | 179,106   | 179,106     |
| Biofuels         | —           | —         | 40,668    | 40,668      |
| Other            | 55,753      | 66,858    | —         | 122,611     |
| Net sales        | \$1,467,365 | \$847,457 | \$219,774 | \$2,534,596 |

## Three Months Ended September 30, 2017

(a)

|                          | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Total     |
|--------------------------|---------------------|---------------------|---------------------|-----------|
| Geographic Area Revenues |                     |                     |                     |           |
| North America            | \$431,844           | \$ 50,446           | \$ 13,621           | \$495,911 |
| Europe                   | 129,737             | 172,160             | 48,235              | 350,132   |
| China                    | 11,552              | 41,967              | —                   | 53,519    |
| South America            | —                   | 14,072              | —                   | 14,072    |
| Other                    | 2,410               | 20,218              | —                   | 22,628    |
| Net sales                | \$575,543           | \$ 298,863          | \$ 61,856           | \$936,262 |

## Major product types

|                  |           |            |           |           |
|------------------|-----------|------------|-----------|-----------|
| Fats             | \$166,197 | \$ 47,889  | \$ —      | \$214,086 |
| Used cooking oil | 46,578    | —          | —         | 46,578    |
| Proteins         | 219,091   | —          | —         | 219,091   |
| Bakery           | 51,840    | —          | —         | 51,840    |
| Other rendering  | 68,243    | —          | —         | 68,243    |
| Food ingredients | —         | 223,717    | —         | 223,717   |
| Bioenergy        | —         | —          | 48,235    | 48,235    |
| Biofuels         | —         | —          | 13,621    | 13,621    |
| Other            | 23,594    | 27,257     | —         | 50,851    |
| Net sales        | \$575,543 | \$ 298,863 | \$ 61,856 | \$936,262 |

## Nine Months Ended September 30, 2017 (b)

|                          | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Total       |
|--------------------------|---------------------|---------------------|---------------------|-------------|
| Geographic Area Revenues |                     |                     |                     |             |
| North America            | \$1,270,244         | \$ 145,009          | \$ 32,570           | \$1,447,823 |
| Europe                   | 377,589             | 479,070             | 156,348             | 1,013,007   |
| China                    | 23,496              | 124,850             | —                   | 148,346     |
| South America            | —                   | 39,153              | —                   | 39,153      |
| Other                    | 5,957               | 55,416              | —                   | 61,373      |
| Net sales                | \$1,677,286         | \$ 843,498          | \$ 188,918          | \$2,709,702 |

## Major product types

|                  |             |            |            |             |
|------------------|-------------|------------|------------|-------------|
| Fats             | \$484,437   | \$ 132,349 | \$ —       | \$616,786   |
| Used cooking oil | 136,081     | —          | —          | 136,081     |
| Proteins         | 612,992     | —          | —          | 612,992     |
| Bakery           | 159,528     | —          | —          | 159,528     |
| Other rendering  | 215,398     | —          | —          | 215,398     |
| Food ingredients | —           | 642,124    | —          | 642,124     |
| Bioenergy        | —           | —          | 156,348    | 156,348     |
| Biofuels         | —           | —          | 32,570     | 32,570      |
| Other            | 68,850      | 69,025     | —          | 137,875     |
| Net sales        | \$1,677,286 | \$ 843,498 | \$ 188,918 | \$2,709,702 |

(a) As noted above prior year amounts have not been adjusted under the modified retrospective method for billed freight of approximately \$40.9 million that is included in net sales in the three months ended September 30, 2017.

(b) As noted above prior year amounts have not been adjusted under the modified retrospective method for billed freight of approximately \$117.0 million that is included in net sales in the nine months ended September 30, 2017.

## Revenue from Contracts with Customers

The Company has two primary revenue streams. Finished product revenues are recognized when control of the promised finished product is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the finished product. Service revenues are recognized when the service occurs.

**Fats and Proteins.** Fats and Proteins include the Company's global activities related to the collection and processing of beef, poultry and pork animal by-products into finished products of non-food grade oils, food grade fats and protein meal. Fats and proteins net sales are recognized when the Company ships the finished product to the customer and control has been transferred.

**Used Cooking Oil.** Used cooking oil includes collection and processing of used cooking oil into finished products of non-food grade fats. Used cooking oil net sales are recognized when the Company ships the finished product to the customer and control has been transferred.

**Bakery.** Bakery includes collection and processing of bakery residuals into finished product including Cookie Meal®, an animal feed ingredient primarily used in poultry and swine rations. Bakery net sales are recognized when the Company ships the finished product to the customer and control has been transferred.

**Other Rendering.** Other rendering include hides, pet food products, and service charges. Hides and pet food net sales are recognized when the Company ships the finished product to the customer and control has been transferred. Service revenues are recognized when the service has occurred.

**Food Ingredients.** Food ingredients includes collection and processing of pigskin, hide, bone and fish into finished product. Also includes harvesting, sorting and selling of hog and sheep casings as well as harvesting, purchasing and processing of hog, sheep and beef meat for pet food industry. Gelatin and CTH meat and casings net sales are recognized when the Company ships the finished product to the customer and control has been transferred.

**Bioenergy.** Bioenergy includes Ecoson, which converts organic sludge and food waste into biogas and Rendac, which collects fallen stock and animal waste for a fee and processes these materials into fats and meals that can only be used as low grade energy or fuel for boilers and cement kilns. Net sales are recognized when the finished product is shipped to the customer and control has been transferred. Service revenues are recognized in net sales when the service has occurred.

**Biofuels.** Biofuels includes the North American processing of rendered animal fats, recycled cooking oils and third party additives to produce diesel fuel. Biofuel net sales are recognized when the finished product is shipped to the customer and control has been transferred.

**Other.** Other includes grease trap collection and environmental services to food processors in the Feed Ingredients segment and Sonac Bone and Sonac Heparin in the Food Ingredients segment. Net sales are recognized when the Company ships the finished product to the customer. Service revenues are recognized when the service has occurred.

## (20) Related Party Transactions

### Raw Material Agreement

The Company entered into a Raw Material Agreement with the DGD Joint Venture in May 2011 pursuant to which the Company will offer to supply certain animal fats and used cooking oil at market prices, up to the DGD Joint

Venture's full operational requirement of feedstock, but the DGD Joint Venture is not obligated to purchase the raw material offered by the Company. Additionally, the Company may offer other feedstocks to the DGD Joint Venture, such as inedible corn oil, purchased on a resale basis. For the three months ended September 29, 2018 and September 30, 2017, the Company has recorded sales to the DGD Joint Venture of approximately \$23.9 million and \$44.5 million, respectively. For the nine months ended September 29, 2018 and September 30, 2017, the Company has recorded sales to the DGD Joint Venture of approximately \$90.8 million and \$122.6 million, respectively. At September 29, 2018 and December 30, 2017, the Company has \$5.3 million and \$5.6 million in outstanding receivables due from the DGD Joint Venture, respectively. In addition, the Company has eliminated approximately \$5.7 million of additional sales for the three months ended September 29, 2018 to defer the Company's portion of profit of approximately \$0.8 million on those sales relating to inventory assets remaining on the DGD Joint Venture's balance sheet at September 29, 2018.

## Revolving Loan Agreement

On February 23, 2015, Darling through its wholly owned subsidiary Darling Green Energy LLC, (“Darling Green”) and a third party Diamond Alternative Energy, LLC (“Diamond Alternative” and together with Darling Green, the “DGD Lenders”) entered into a revolving loan agreement (the “DGD Loan Agreement”) with the DGD Joint Venture Opco. The DGD Lenders have committed to making loans available to Opco in the total amount of \$10.0 million with each lender committed to \$5.0 million of the total commitment. Any borrowings by Opco under the DGD Loan Agreement are at the applicable annum rate equal to the sum of (a) the LIBO Rate (meaning Reuters BBA Libor Rates Page 3750) on such day plus (b) 2.50%. The DGD Loan Agreement matures on December 31, 2018, unless extended by agreement of the parties. As of September 29, 2018, no amounts are owed to Darling Green under the DGD Loan Agreement.

## (21) New Accounting Pronouncements

In August 2018, the SEC issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements for public companies. The principal change to the Company's financial reporting will be the inclusion of the annual disclosure requirements of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. The Company will adopt the new rule beginning with the Company's financial reporting for the quarter ended March 30, 2019. Upon adoption, the Company will include the Company's consolidated statements of stockholders' equity in each quarterly filing on Form 10-Q.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This ASU amends Subtopic 350-40, Intangibles - Goodwill and Other Internal - Use Software, which will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of this standard.

In August 2018, the FASB issued ASU No. 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU amends Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The standard is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In August 2018, the FASB issued ASU No. 2018-13, Changes to the Disclosure Requirements for Fair Value Measurements. This ASU amends Topic 820, Fair Value Measurement, which changes the disclosure requirements for fair value measurements by removing, adding and modifying certain disclosures. The standard is effective for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvement to Accounting for Hedging Activities. This ASU amends Topic 815, Derivatives and Hedging, which is intended to more closely align hedge accounting with companies' risk management strategies and simplify the application of hedge accounting. The guidance includes certain targeted improvements to ease the operational burden of applying hedge accounting. The ASU is effective for fiscal years beginning after December 15, 2018 and for interim periods therein with early adoption permitted. The Company will be required to apply the guidance on a cumulative-effect basis with adjustment to retained earnings as of the beginning of the fiscal year of adoption with disclosure on a prospective basis. The initial adoption of this ASU

is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 Simplifying the Test for Goodwill Impairment. This ASU amends Topic 350, Intangibles-Goodwill and Other, which will simplify the goodwill impairment calculation by eliminating Step 2 from the current goodwill impairment test. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of the assets and liabilities as if that reporting unit had been acquired in a business combination. This ASU is effective for fiscal years beginning after December

15, 2019 and interim periods within those fiscal years. The initial adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. However, in July 2018, the FASB issued ASU No. 2018-11, allowing entities to elect a simplified transition approach whereby they would apply the provisions of the new guidance at the adoption date. The Company expects to adopt the new standard on December 30, 2018 and use the effective date as the Company's date of initial application and consequently, financial information will not be updated and the disclosures required under the this ASU will not be provided for dates and periods before December 30, 2018. The Company has begun the implementation of a new software to manage its leases and is in the process of identification and entry of leases into the new software. The Company is assessing the impact of this new standard, specifically on its consolidated balance sheets and disclosures, and does not expect adoption to significantly change the recognition, measurement or presentation of lease expense within the consolidated statements of operations or cash flows. At this time, the Company expects to elect the package of expedients, which permits the Company not to reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight. The Company is unable to reasonably estimate the increase in total assets or total liabilities, which will be material.

## (22) Guarantor Financial Information

The Company's 5.375% Notes and 3.625% Notes (see Note 9) are guaranteed on a senior unsecured basis by the following Notes Guarantors, each of which is a 100% directly or indirectly owned subsidiary of Darling and which constitute all of Darling's existing restricted subsidiaries that are Credit Agreement Guarantors (other than Darling's foreign subsidiaries, Darling Global Finance B.V., which issued the 3.625% Notes and is discussed further below, or any receivables entity): Darling National, Griffin and its subsidiary Craig Protein, Darling AWS LLC, Darling Global Holdings Inc., Darling Northstar LLC, EV Acquisition, LLC, Rousselot Inc., Rousselot Dubuque Inc., Sonac USA LLC and Rousselot Peabody Inc. In addition, the 3.625% Notes, which were issued by Darling Global Finance B.V., a wholly-owned indirect subsidiary of Darling, are guaranteed on a senior unsecured basis by Darling. The Notes Guarantors, and Darling in the case of the 3.625% Notes, fully and unconditionally guaranteed the 5.375% Notes and 3.625% Notes on a joint and several basis. The following financial statements present condensed consolidated financial data for (i) Darling, (ii) the combined Notes Guarantors, (iii) the combined other subsidiaries of the Company that did not guarantee the 5.375% Notes or the 3.625% Notes (the "Non-guarantors"), and (iv) eliminations necessary to arrive at the Company's consolidated financial statements, which include condensed consolidated balance sheets as of September 29, 2018 and December 30, 2017, and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive income/(loss) and the condensed consolidated statements of cash flows for the three and nine months ended September 29, 2018 and September 30, 2017. Separate financial information is not presented for Darling Global Finance B.V. since it was formed as a special purpose finance subsidiary for the purpose of issuing euro-denominated notes such as the 3.625% Notes and therefore does not have



any substantial operations or assets.

Condensed Consolidated Balance Sheet  
As of September 29, 2018  
(in thousands)

|                                             | Parent      | Guarantors  | Non-guarantors | Eliminations  | Consolidated |
|---------------------------------------------|-------------|-------------|----------------|---------------|--------------|
| <b>ASSETS</b>                               |             |             |                |               |              |
| Cash and cash equivalents                   | \$1,029     | \$36        | \$ 80,405      | \$—           | \$ 81,470    |
| Restricted cash                             | 103         | —           | —              | —             | 103          |
| Accounts receivable                         | 38,944      | 547,174     | 443,329        | (666,135)     | 363,312      |
| Inventories                                 | 22,062      | 86,917      | 252,700        | —             | 361,679      |
| Income taxes refundable                     | 2,998       | —           | 5,358          | —             | 8,356        |
| Prepaid expenses                            | 14,930      | 3,297       | 25,078         | —             | 43,305       |
| Other current assets                        | 4,011       | (2,063)     | 18,305         | —             | 20,253       |
| Total current assets                        | 84,077      | 635,361     | 825,175        | (666,135)     | 878,478      |
| Investment in subsidiaries                  | 4,820,655   | 1,366,126   | 844,044        | (7,030,825)   | —            |
| Property, plant and equipment, net          | 334,101     | 498,771     | 798,164        | —             | 1,631,036    |
| Intangible assets, net                      | 29,897      | 208,535     | 354,802        | —             | 593,234      |
| Goodwill                                    | 41,489      | 490,748     | 701,308        | —             | 1,233,545    |
| Investment in unconsolidated subsidiaries   | 12,535      | —           | 386,259        | —             | 398,794      |
| Other assets                                | 38,612      | 49,149      | 172,242        | (205,429)     | 54,574       |
| Deferred taxes                              | —           | —           | 15,550         | —             | 15,550       |
|                                             | \$5,361,366 | \$3,248,690 | \$ 4,097,544   | \$(7,902,389) | \$ 4,805,211 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |             |             |                |               |              |
| Current portion of long-term debt           | \$5,025     | \$—         | \$ 6,075       | \$—           | \$ 11,100    |
| Accounts payable                            | 689,123     | 20,604      | 130,892        | (662,850)     | 177,769      |
| Income taxes payable                        | (128)       | —           | 6,034          | —             | 5,906        |
| Accrued expenses                            | 89,167      | 28,520      | 176,655        | (3,286)       | 291,056      |
| Total current liabilities                   | 783,187     | 49,124      | 319,656        | (666,136)     | 485,831      |
| Long-term debt, net of current portion      | 1,041,407   | —           | 832,151        | (205,429)     | 1,668,129    |
| Other noncurrent liabilities                | 67,314      | —           | 34,564         | —             | 101,878      |
| Deferred income taxes                       | 88,908      | —           | 145,162        | —             | 234,070      |
| Total liabilities                           | 1,980,816   | 49,124      | 1,331,533      | (871,565)     | 2,489,908    |
| Total stockholders' equity                  | 3,380,550   | 3,199,566   | 2,766,011      | (7,030,824)   | 2,315,303    |
|                                             | \$5,361,366 | \$3,248,690 | \$ 4,097,544   | \$(7,902,389) | \$ 4,805,211 |

Condensed Consolidated Balance Sheet  
As of December 30, 2017  
(in thousands)

|                                             | Parent      | Guarantors  | Non-guarantors | Eliminations  | Consolidated |
|---------------------------------------------|-------------|-------------|----------------|---------------|--------------|
| <b>ASSETS</b>                               |             |             |                |               |              |
| Cash and cash equivalents                   | \$ 1,724    | \$ 2,993    | \$ 102,057     | \$—           | \$ 106,774   |
| Restricted cash                             | 103         | —           | 39             | —             | 142          |
| Accounts receivable                         | 37,453      | 465,653     | 436,874        | (548,133)     | 391,847      |
| Inventories                                 | 18,049      | 84,805      | 255,329        | —             | 358,183      |
| Income taxes refundable                     | 1,591       | —           | 2,918          | —             | 4,509        |
| Prepaid expenses                            | 10,787      | 3,141       | 24,398         | —             | 38,326       |
| Other current assets                        | 7,117       | 923         | 48,624         | —             | 56,664       |
| Total current assets                        | 76,824      | 557,515     | 870,239        | (548,133)     | 956,445      |
| Investment in subsidiaries                  | 4,734,618   | 1,167,246   | 844,044        | (6,745,908)   | —            |
| Property, plant and equipment, net          | 278,121     | 501,842     | 865,859        | —             | 1,645,822    |
| Intangible assets, net                      | 17,034      | 258,970     | 400,496        | —             | 676,500      |
| Goodwill                                    | 21,860      | 551,837     | 727,396        | —             | 1,301,093    |
| Investment in unconsolidated subsidiary     | 4,341       | —           | 297,697        | —             | 302,038      |
| Other assets                                | 42,078      | 314,166     | 193,923        | (487,883)     | 62,284       |
| Deferred income taxes                       | —           | —           | 14,043         | —             | 14,043       |
|                                             | \$5,174,876 | \$3,351,576 | \$ 4,213,697   | \$(7,781,924) | \$ 4,958,225 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |             |             |                |               |              |
| Current portion of long-term debt           | \$ 115      | \$—         | \$ 16,028      | \$—           | \$ 16,143    |
| Accounts payable                            | 555,894     | 37,466      | 169,033        | (544,976)     | 217,417      |
| Income taxes payable                        | 32          | 373         | 11,895         | —             | 12,300       |
| Accrued expenses                            | 105,625     | 30,542      | 180,613        | (3,157)       | 313,623      |
| Total current liabilities                   | 661,666     | 68,381      | 377,569        | (548,133)     | 559,483      |
| Long-term debt, net of current portion      | 1,030,736   | —           | 1,155,197      | (487,883)     | 1,698,050    |
| Other noncurrent liabilities                | 69,711      | —           | 36,576         | —             | 106,287      |
| Deferred income taxes                       | 106,543     | —           | 160,165        | —             | 266,708      |
| Total liabilities                           | 1,868,656   | 68,381      | 1,729,507      | (1,036,016)   | 2,630,528    |
| Total stockholders' equity                  | 3,306,220   | 3,283,195   | 2,484,190      | (6,745,908)   | 2,327,697    |
|                                             | \$5,174,876 | \$3,351,576 | \$ 4,213,697   | \$(7,781,924) | \$ 4,958,225 |

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Condensed Consolidated Statements of Operations  
For the three months ended September 29, 2018  
(in thousands)

|                                                     | Parent      | Guarantors | Non-guarantors | Eliminations | Consolidated |
|-----------------------------------------------------|-------------|------------|----------------|--------------|--------------|
| Net sales                                           | \$ 136,460  | \$ 328,148 | \$ 410,936     | \$ (62,968 ) | \$ 812,576   |
| Cost and expenses:                                  |             |            |                |              |              |
| Cost of sales and operating expenses                | 107,979     | 274,147    | 328,943        | (62,968 )    | 648,101      |
| Selling, general and administrative expenses        | 34,967      | 7,457      | 25,023         | —            | 67,447       |
| Depreciation and amortization                       | 12,036      | 25,322     | 41,484         | —            | 78,842       |
| Total costs and expenses                            | 154,982     | 306,926    | 395,450        | (62,968 )    | 794,390      |
| Operating income/(loss)                             | (18,522 )   | 21,222     | 15,486         | —            | 18,186       |
| Interest expense                                    | (13,823 )   | 190        | (6,447 )       | —            | (20,080 )    |
| Foreign currency losses                             | (4 )        | (2 )       | (2,100 )       | —            | (2,106 )     |
| Gain on disposal of subsidiary                      | —           | —          | 3,038          | —            | 3,038        |
| Other expense, net                                  | (1,791 )    | (656 )     | (339 )         | —            | (2,786 )     |
| Equity in net loss of unconsolidated subsidiaries   | (732 )      | —          | (2,060 )       | —            | (2,792 )     |
| Earnings in investments in subsidiaries             | 28,438      | —          | —              | (28,438 )    | —            |
| Income/(loss) before taxes                          | (6,434 )    | 20,754     | 7,578          | (28,438 )    | (6,540 )     |
| Income tax expense/(benefit)                        | (397 )      | 179        | (1,185 )       | —            | (1,403 )     |
| Net income attributable to noncontrolling interests | —           | —          | (900 )         | —            | (900 )       |
| Net income/(loss) attributable to Darling           | \$ (6,037 ) | \$ 20,575  | \$ 7,863       | \$ (28,438 ) | \$ (6,037 )  |

Condensed Consolidated Statements of Operations  
For the nine months ended September 29, 2018  
(in thousands)

|                                                            | Parent     | Guarantors   | Non-guarantors | Eliminations  | Consolidated |
|------------------------------------------------------------|------------|--------------|----------------|---------------|--------------|
| Net sales                                                  | \$ 391,281 | \$ 1,021,248 | \$ 1,302,210   | \$ (180,143 ) | \$ 2,534,596 |
| Cost and expenses:                                         |            |              |                |               |              |
| Cost of sales and operating expenses                       | 306,068    | 820,993      | 1,032,283      | (180,143 )    | 1,979,201    |
| Selling, general and administrative expenses               | 115,138    | 32,719       | 85,050         | —             | 232,907      |
| Restructuring and impairment charges                       | —          | —            | 14,965         | —             | 14,965       |
| Depreciation and amortization                              | 34,672     | 77,555       | 123,688        | —             | 235,915      |
| Total costs and expenses                                   | 455,878    | 931,267      | 1,255,986      | (180,143 )    | 2,462,988    |
| Operating income/(loss)                                    | (64,597 )  | 89,981       | 46,224         | —             | 71,608       |
| Interest expense                                           | (42,380 )  | 7,193        | (31,033 )      | —             | (66,220 )    |
| Debt extinguishment costs                                  | (15,635 )  | —            | (7,874 )       | —             | (23,509 )    |
| Foreign currency losses                                    | (441 )     | (96 )        | (6,545 )       | —             | (7,082 )     |
| Gain/(loss) on disposal of subsidiary                      | (15,538 )  | —            | 3,038          | —             | (12,500 )    |
| Other income/(expense), net                                | (15,405 )  | (172 )       | 11,474         | —             | (4,103 )     |
| Equity in net income/(loss) of unconsolidated subsidiaries | (1,807 )   | —            | 111,405        | —             | 109,598      |
| Earnings in investments in subsidiaries                    | 207,477    | —            | —              | (207,477 )    | —            |
| Income/(loss) before taxes                                 | 51,674     | 96,906       | 126,689        | (207,477 )    | 67,792       |
| Income tax expense/(benefit)                               | (9,174 )   | 5,706        | 7,460          | —             | 3,992        |

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|                                                     |          |          |            |               |          |   |
|-----------------------------------------------------|----------|----------|------------|---------------|----------|---|
| Net income attributable to noncontrolling interests | —        | —        | (2,952     | )—            | (2,952   | ) |
| Net income/(loss) attributable to Darling           | \$60,848 | \$91,200 | \$ 116,277 | \$ (207,477 ) | \$60,848 |   |

Condensed Consolidated Statements of Operations  
For the three months ended September 30, 2017  
(in thousands)

|                                                            | Parent     | Guarantors | Non-guarantors | Eliminations | Consolidated |
|------------------------------------------------------------|------------|------------|----------------|--------------|--------------|
| Net sales                                                  | \$ 135,001 | \$ 378,088 | \$ 487,584     | \$ (64,411 ) | \$ 936,262   |
| Cost and expenses:                                         |            |            |                |              |              |
| Cost of sales and operating expenses                       | 103,591    | 315,847    | 387,484        | (64,411 )    | 742,511      |
| Selling, general and administrative expenses               | 36,307     | 14,031     | 31,815         | —            | 82,153       |
| Depreciation and amortization                              | 10,485     | 26,949     | 39,768         | —            | 77,202       |
| Total costs and expenses                                   | 150,383    | 356,827    | 459,067        | (64,411 )    | 901,866      |
| Operating income/(loss)                                    | (15,382 )  | 21,261     | 28,517         | —            | 34,396       |
| Interest expense                                           | (14,076 )  | 4,009      | (12,464 )      | —            | (22,531 )    |
| Foreign currency gains/(losses)                            | (32 )      | 320        | (2,343 )       | —            | (2,055 )     |
| Other income/(expense), net                                | (5,152 )   | 1,555      | 1,064          | —            | (2,533 )     |
| Equity in net income/(loss) of unconsolidated subsidiaries | (487 )     | —          | 8,190          | —            | 7,703        |
| Earnings in investments in subsidiaries                    | 27,810     | —          | —              | (27,810 )    | —            |
| Income/(loss) before taxes                                 | (7,319 )   | 27,145     | 22,964         | (27,810 )    | 14,980       |
| Income tax expense/(benefit)                               | (15,080 )  | 11,782     | 9,594          | —            | 6,296        |
| Net income attributable to noncontrolling interests        | —          | —          | (923 )         | —            | (923 )       |
| Net income/(loss) attributable to Darling                  | \$ 7,761   | \$ 15,363  | \$ 12,447      | \$ (27,810 ) | \$ 7,761     |

Condensed Consolidated Statements of Operations  
For the nine months ended September 30, 2017  
(in thousands)

|                                                            | Parent     | Guarantors   | Non-guarantors | Eliminations  | Consolidated |
|------------------------------------------------------------|------------|--------------|----------------|---------------|--------------|
| Net sales                                                  | \$ 407,054 | \$ 1,098,112 | \$ 1,385,575   | \$ (181,039 ) | \$ 2,709,702 |
| Cost and expenses:                                         |            |              |                |               |              |
| Cost of sales and operating expenses                       | 321,231    | 899,129      | 1,090,400      | (181,039 )    | 2,129,721    |
| Selling, general and administrative expenses               | 110,381    | 41,559       | 101,668        | —             | 253,608      |
| Depreciation and amortization                              | 30,750     | 78,261       | 112,295        | —             | 221,306      |
| Total costs and expenses                                   | 462,362    | 1,018,949    | 1,304,363      | (181,039 )    | 2,604,635    |
| Operating income/(loss)                                    | (55,308 )  | 79,163       | 81,212         | —             | 105,067      |
| Interest expense                                           | (41,909 )  | 12,000       | (36,748 )      | —             | (66,657 )    |
| Foreign currency gains/(losses)                            | (216 )     | 500          | (4,714 )       | —             | (4,430 )     |
| Other income/(expense), net                                | (13,183 )  | (3 )         | 4,803          | —             | (8,383 )     |
| Equity in net income/(loss) of unconsolidated subsidiaries | (1,253 )   | —            | 17,922         | —             | 16,669       |
| Earnings in investments in subsidiaries                    | 92,641     | —            | —              | (92,641 )     | —            |
| Income/(loss) before taxes                                 | (19,228 )  | 91,660       | 62,475         | (92,641 )     | 42,266       |
| Income tax expense/(benefit)                               | (41,967 )  | 34,386       | 23,437         | —             | 15,856       |
| Net income attributable to noncontrolling interests        | —          | —            | (3,671 )       | —             | (3,671 )     |
| Net income/(loss) attributable to Darling                  | \$ 22,739  | \$ 57,274    | \$ 35,367      | \$ (92,641 )  | \$ 22,739    |



Condensed Consolidated Statements of Comprehensive Income/(Loss)  
For the three months ended September 29, 2018  
(in thousands)

|                                                                  | Parent     | Guarantors | Non-guarantors | Eliminations | Consolidated |
|------------------------------------------------------------------|------------|------------|----------------|--------------|--------------|
| Net income/(loss)                                                | \$ (5,137) | \$ 20,575  | \$ 7,863       | \$ (28,438 ) | \$ (5,137 )  |
| Other comprehensive income/(loss), net of tax:                   |            |            |                |              |              |
| Foreign currency translation                                     | 165        | —          | (5,749 )       | —            | (5,584 )     |
| Pension adjustments                                              | 565        | —          | 103            | —            | 668          |
| Natural gas swap derivative adjustments                          | —          | —          | —              | —            | —            |
| Soybean meal derivative adjustments                              | 3          | —          | —              | —            | 3            |
| Corn option derivative adjustments                               | (40 )      | —          | —              | —            | (40 )        |
| Foreign exchange derivative adjustments                          | —          | —          | 309            | —            | 309          |
| Total other comprehensive income/(loss), net of tax              | 693        | —          | (5,337 )       | —            | (4,644 )     |
| Total comprehensive income/(loss)                                | (4,444 )   | 20,575     | 2,526          | (28,438 )    | (9,781 )     |
| Total comprehensive loss attributable to noncontrolling interest | —          | —          | (538 )         | —            | (538 )       |
| Total comprehensive income/(loss) attributable to Darling        | (4,444 )   | \$ 20,575  | \$ 3,064       | \$ (28,438 ) | \$ (9,243 )  |

Condensed Consolidated Statements of Comprehensive Income/(Loss)  
For the nine months ended September 29, 2018  
(in thousands)

|                                                                    | Parent    | Guarantors | Non-guarantors | Eliminations  | Consolidated |
|--------------------------------------------------------------------|-----------|------------|----------------|---------------|--------------|
| Net income/(loss)                                                  | \$ 63,800 | \$ 91,200  | \$ 116,277     | \$ (207,477 ) | \$ 63,800    |
| Other comprehensive income/ (loss), net of tax:                    |           |            |                |               |              |
| Foreign currency translation                                       | 1,281     | (53,387 )  | (13,020 )      | —             | (65,126 )    |
| Pension adjustments                                                | 1,696     | —          | 305            | —             | 2,001        |
| Natural gas swap derivative adjustments                            | 22        | —          | —              | —             | 22           |
| Soybean meal derivative adjustments                                | 3         | —          | —              | —             | 3            |
| Corn option derivative adjustments                                 | (1,198 )  | —          | —              | —             | (1,198 )     |
| Foreign exchange derivative adjustments                            | —         | —          | 309            | —             | 309          |
| Total other comprehensive income/(loss), net of tax                | 1,804     | (53,387 )  | (12,406 )      | —             | (63,989 )    |
| Total comprehensive income/(loss)                                  | 65,604    | 37,813     | 103,871        | (207,477 )    | (189 )       |
| Total comprehensive income attributable to noncontrolling interest | —         | —          | 1,981          | —             | 1,981        |
| Total comprehensive income/(loss) attributable to Darling          | \$ 65,604 | \$ 37,813  | \$ 101,890     | \$ (207,477 ) | \$ (2,170 )  |



## Condensed Consolidated Statements of Comprehensive Income/(Loss)

For the three months ended September 30, 2017

(in thousands)

|                                                                    | Parent    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|--------------------------------------------------------------------|-----------|------------|----------------|--------------|--------------|
| Net income/(loss)                                                  | \$8,684   | \$ 15,363  | \$ 12,447      | \$ (27,810 ) | \$ 8,684     |
| Other comprehensive income/(loss), net of tax:                     |           |            |                |              |              |
| Foreign currency translation                                       | —         | —          | 46,211         | —            | 46,211       |
| Pension adjustments                                                | 641       | —          | 118            | —            | 759          |
| Natural gas swap derivative adjustments                            | 22        | —          | —              | —            | 22           |
| Corn option derivative adjustments                                 | 850       | —          | —              | —            | 850          |
| Total other comprehensive income/(loss), net of tax                | 1,513     | —          | 46,329         | —            | 47,842       |
| Total comprehensive income/(loss)                                  | 10,197    | 15,363     | 58,776         | (27,810 )    | 56,526       |
| Total comprehensive income attributable to noncontrolling interest | —         | —          | 109            | —            | 109          |
| Total comprehensive income/(loss) attributable to Darling          | \$ 10,197 | \$ 15,363  | \$ 58,667      | \$ (27,810 ) | \$ 56,417    |

## Condensed Consolidated Statements of Comprehensive Income/(Loss)

For the nine months ended September 30, 2017

(in thousands)

|                                                                  | Parent    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|------------------------------------------------------------------|-----------|------------|----------------|--------------|--------------|
| Net income/(loss)                                                | \$26,410  | \$ 57,274  | \$ 35,367      | \$ (92,641 ) | \$ 26,410    |
| Other comprehensive income/(loss), net of tax:                   |           |            |                |              |              |
| Foreign currency translation                                     | —         | —          | 111,002        | —            | 111,002      |
| Pension adjustments                                              | 1,923     | —          | 355            | —            | 2,278        |
| Natural gas swap derivative adjustments                          | 22        | —          | —              | —            | 22           |
| Corn option derivative adjustments                               | (1,121 )  | —          | —              | —            | (1,121 )     |
| Total other comprehensive income, net of tax                     | 824       | —          | 111,357        | —            | 112,181      |
| Total comprehensive income/(loss)                                | 27,234    | 57,274     | 146,724        | (92,641 )    | 138,591      |
| Total comprehensive loss attributable to noncontrolling interest | —         | —          | (62 )          | —            | (62 )        |
| Total comprehensive income/(loss) attributable to Darling        | \$ 27,234 | \$ 57,274  | \$ 146,786     | \$ (92,641 ) | \$ 138,653   |

Condensed Consolidated Statements of Cash Flows  
For the nine months ended September 29, 2018  
(in thousands)

|                                                                            | Parent    | Guarantors | Non-guarantor | Eliminations | Consolidated |
|----------------------------------------------------------------------------|-----------|------------|---------------|--------------|--------------|
| Cash flows from operating activities:                                      |           |            |               |              |              |
| Net income/(loss)                                                          | \$63,800  | \$91,200   | \$116,277     | \$(207,477)  | \$63,800     |
| Earnings in investments in subsidiaries                                    | (207,477) | —          | —             | 207,477      | —            |
| Other operating cash flows                                                 | 187,663   | (49,424)   | (2,341)       | —            | 135,898      |
| Net cash provided by operating activities                                  | 43,986    | 41,776     | 113,936       | —            | 199,698      |
| Cash flows from investing activities:                                      |           |            |               |              |              |
| Capital expenditures                                                       | (75,282)  | (65,079)   | (73,365)      | —            | (213,726)    |
| Acquisitions                                                               | (51,301)  | —          | —             | —            | (51,301)     |
| Investment in subsidiaries and affiliates                                  | (10,000)  | (198,880)  | —             | 198,880      | (10,000)     |
| Proceeds from sale of investment in subsidiary                             | 80,000    | —          | 2,805         | —            | 82,805       |
| Note receivable from affiliates                                            | —         | 217,880    | (217,880)     | —            | —            |
| Gross proceeds from sale of property, plant and equipment and other assets | 1,282     | 843        | 1,236         | —            | 3,361        |
| Proceeds from insurance settlements                                        | 750       | 503        | —             | —            | 1,253        |
| Payments related to routes and other intangibles                           | (246)     | —          | (1,007)       | —            | (1,253)      |
| Net cash used in investing activities                                      | (54,797)  | (44,733)   | (288,211)     | 198,880      | (188,861)    |
| Cash flows from financing activities:                                      |           |            |               |              |              |
| Proceeds for long-term debt                                                | —         | —          | 623,698       | —            | 623,698      |
| Payments on long-term debt                                                 | (10,090)  | —          | (651,178)     | —            | (661,268)    |
| Borrowings from revolving facilities                                       | 238,000   | —          | 148,436       | —            | 386,436      |
| Payments on revolving facilities                                           | (215,000) | —          | (147,463)     | —            | (362,463)    |
| Net cash overdraft financing                                               | —         | —          | 3,361         | —            | 3,361        |
| Deferred loan costs                                                        | (824)     | —          | (8,844)       | —            | (9,668)      |
| Issuances of common stock                                                  | 182       | —          | —             | —            | 182          |
| Contributions from parent                                                  | —         | —          | 198,880       | (198,880)    | —            |
| Minimum withholding taxes paid on stock awards                             | (2,152)   | —          | (63)          | —            | (2,215)      |
| Distributions to noncontrolling interests                                  | —         | —          | (8,005)       | —            | (8,005)      |
| Net cash used in financing activities                                      | 10,116    | —          | 158,822       | (198,880)    | (29,942)     |
| Effect of exchange rate changes on cash                                    | —         | —          | (6,238)       | —            | (6,238)      |
| Net decrease in cash, cash equivalents and restricted cash                 | (695)     | (2,957)    | (21,691)      | —            | (25,343)     |
| Cash, cash equivalents and restricted cash at beginning of period          | 1,827     | 2,993      | 102,096       | —            | 106,916      |
| Cash, cash equivalents and restricted cash at end of period                | \$1,132   | \$36       | \$80,405      | \$—          | \$81,573     |

Condensed Consolidated Statements of Cash Flows  
For the nine months ended September 30, 2017  
(in thousands)

|                                                                            | Parent    | Guarantors | Non-guarantors | Eliminations | Consolidated |
|----------------------------------------------------------------------------|-----------|------------|----------------|--------------|--------------|
| Cash flows from operating activities:                                      |           |            |                |              |              |
| Net income/(loss)                                                          | \$26,410  | \$ 57,274  | \$ 35,367      | \$ (92,641 ) | \$ 26,410    |
| Earnings in investments in subsidiaries                                    | (92,641 ) | —          | —              | 92,641       | —            |
| Other operating cash flows                                                 | 188,304   | (59,113 )  | 113,170        | —            | 242,361      |
| Net cash provided by operating activities                                  | 122,073   | (1,839 )   | 148,537        | —            | 268,771      |
| Cash flows from investing activities:                                      |           |            |                |              |              |
| Capital expenditures                                                       | (63,746 ) | (57,388 )  | (75,312 )      | —            | (196,446 )   |
| Acquisitions                                                               | —         | (12,144 )  | —              | —            | (12,144 )    |
| Investment in subsidiaries and affiliates                                  | (4,750 )  | —          | —              | —            | (4,750 )     |
| Note receivable from affiliates                                            | —         | 67,000     | (67,000 )      | —            | —            |
| Gross proceeds from sale of property, plant and equipment and other assets | 2,309     | 1,311      | 1,333          | —            | 4,953        |
| Proceeds from insurance settlements                                        | —         | —          | 3,301          | —            | 3,301        |
| Payments related to routes and other intangibles                           | (5,635 )  | —          | —              | —            | (5,635 )     |
| Net cash used in investing activities                                      | (71,822 ) | (1,221 )   | (137,678 )     | —            | (210,721 )   |
| Cash flows from financing activities:                                      |           |            |                |              |              |
| Proceeds for long-term debt                                                | —         | —          | 24,069         | —            | 24,069       |
| Payments on long-term debt                                                 | (47,182 ) | —          | (47,068 )      | —            | (94,250 )    |
| Borrowings from revolving credit facility                                  | 142,000   | —          | —              | —            | 142,000      |
| Payments on revolving credit facility                                      | (142,000) | —          | (5,327 )       | —            | (147,327 )   |
| Net cash overdraft financing                                               | —         | —          | 2,590          | —            | 2,590        |
| Deferred loan costs                                                        | (1,177 )  | —          | —              | —            | (1,177 )     |
| Issuances of common stock                                                  | 22        | —          | —              | —            | 22           |
| Minimum withholding taxes paid on stock awards                             | (2,126 )  | —          | (14 )          | —            | (2,140 )     |
| Acquisition of noncontrolling interests                                    | —         | —          | (429 )         | —            | (429 )       |
| Distributions to noncontrolling interests                                  | —         | —          | (2,513 )       | —            | (2,513 )     |
| Net cash used in financing activities                                      | (50,463 ) | —          | (28,692 )      | —            | (79,155 )    |
| Effect of exchange rate changes on cash                                    | —         | —          | 16,676         | —            | 16,676       |
| Net decrease in cash, cash equivalents and restricted cash                 | (212 )    | (3,060 )   | (1,157 )       | —            | (4,429 )     |
| Cash, cash equivalents and restricted cash at beginning of period          | 1,573     | 5,754      | 107,530        | —            | 114,857      |
| Cash, cash equivalents and restricted cash at end of period                | \$ 1,361  | \$ 2,694   | \$ 106,373     | \$ —         | \$ 110,428   |

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth below under the heading "Forward Looking Statements" and elsewhere in this report, and under the heading "Risk Factors" in Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017, filed with the SEC on February 27, 2018 and in the Company's other public filings with the SEC.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and related notes thereto contained in this report.

### Overview

The Company is a global developer and producer of sustainable natural ingredients from edible and inedible bio-nutrients, creating a wide range of ingredients and customized specialty solutions for customers in the pharmaceutical, food, pet food, feed, industrial, fuel, bioenergy and fertilizer industries. With operations on five continents, the Company collects and transforms all aspects of animal by-product streams into useable and specialty ingredients, such as gelatin, edible fats, feed-grade fats, animal proteins and meals, plasma, pet food ingredients, organic fertilizers, yellow grease, fuel feedstocks, green energy, natural casings and hides. The Company also recovers and converts recycled oils (used cooking oil and animal fats) into valuable feed and fuel ingredients, and collects and processes residual bakery products into feed ingredients. In addition, the Company provides environmental services, such as grease trap collection and disposal services to food service establishments. The Company sells its products domestically and internationally and operates within three industry segments: Feed Ingredients, Food Ingredients and Fuel Ingredients.

The Feed Ingredients operating segment includes the Company's global activities related to (i) the collection and processing of beef, poultry and pork animal by-products in North America and Europe into non-food grade oils and protein meals, (ii) the collection and processing of bakery residuals in North America into Cookie Meal®, which is predominantly used in poultry and swine rations, (iii) the collection and processing of used cooking oil in North America into non-food grade fats, (iv) the collection and processing of porcine and bovine blood in China, Europe, North America and Australia into blood plasma powder and hemoglobin, (v) the processing of selected portions of slaughtered animals into a variety of meat products for use in pet food, (vi) the processing of cattle hides and hog skins in North America, (vii) the production of organic fertilizers using protein produced from the Company's animal by-products processing activities in North America and Europe; and (viii) the provision of grease trap services to food service establishments. Non-food grade oils and fats produced and marketed by the Company are principally sold to third parties to be used as ingredients in animal feed and pet food, as an ingredient for the production of biodiesel and renewable diesel, or to the oleo-chemical industry to be used as an ingredient in a wide variety of industrial applications. Protein meals, blood plasma powder and hemoglobin produced and marketed by the Company are sold to third parties to be used as ingredients in animal feed, pet food and aquaculture.

The Food Ingredients operating segment includes the Company's global activities related to (i) the purchase and processing of beef and pork bone chips, beef hides, pig skins, and fish skins into gelatin and hydrolyzed collagen in Europe, China, South America and North America, (ii) the collection and processing of porcine and bovine intestines into natural casings in Europe, China and North America, (iii) the extraction and processing of porcine mucosa into crude heparin in Europe, (iv) the collection and refining of animal fat into food grade fat in Europe, and (v) the processing of bones to bone chips for the gelatin industry and bone ash. Gelatins and collagens produced and marketed by the Company are sold to third parties to be used as ingredients in the pharmaceutical, nutraceutical, food,

pet food and technical (e.g., photographic) industries. Natural casings produced and marketed by the Company are sold to third parties to be used as an ingredient in the production of sausages and other similar food products.

The Fuel Ingredients operating segment includes the Company's global activities related to (i) the Company's share of the results of its equity investment in Diamond Green Diesel Holdings LLC, a joint venture with Valero Energy Corporation ( "Valero") to convert animal fats, recycled greases, used cooking oil, inedible corn oil, soybean oil, or other feedstocks that become economically and commercially viable into renewable diesel (the "DGD Joint Venture") as described in Note 3 to the Company's Consolidated Financial Statement for the period ended September 29, 2018 included herein, (ii) the conversion of animal fats and recycled greases into biodiesel in North America, (iii) the conversion of organic sludge and food waste into biogas in Europe, (iv) the collection and conversion of fallen stock and certain animal by-products pursuant to applicable E.U. regulations into low-grade energy sources to be used in industrial applications, and (v) the processing of manure into natural bio-phosphate in Europe.

Corporate Activities principally include unallocated corporate overhead expenses, acquisition-related expenses, interest expense net of interest income, and other non-operating income and expenses.

### Business and Regulatory Developments

African Swine Fever (“ASF”) is a viral and highly contagious disease of pigs and wild boar, for which no cures or approved vaccines are available as of the date of this report. In early August 2018, ASF was reported in domestic pig herds located in Northeast China and has since spread to 10 Chinese Provinces. Measures to control the disease include, amongst others, depopulating of infected herds, biosecurity regimes, restricting the movement of pigs within an infected zone or region and export bans of live pigs. The restrictions in transportation have created serious dislocations in pork supplies and resulted in strong reduction of slaughter numbers and thereby volumes of raw material supplied to our blood processing locations in China. Additionally, the perception, real or implied, that blood meal and dried plasma powder may contribute to the spread of ASF, has resulted in a temporary ban on the use of porcine plasma in pork feed which has negatively affected demand for our products as ingredients in porcine animal feed in China. ASF has also been reported in Eastern Europe since 2007, predominantly in wild boar and to a limited extent in domestic pigs. It has recently spread over long distance to Western Europe, where since September 13, 2018 several cases have been detected in wild boar in Belgium. As of the date of this report, this spread has been restricted to wild animals only. For a more detailed discussion of animal diseases and other factors that can impact the Company’s business and results of operations, see the Risk Factor discussion in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

### Operating Performance Indicators

The Company is exposed to certain risks associated with a business that is influenced by agricultural-based commodities. These risks are further described in Item 1A of Part I, “Risk Factors” included in the Company’s Form 10-K for the fiscal year ended December 30, 2017.

The Company’s Feed Ingredients segment animal by-products, bakery residuals, used cooking oil recovery, and blood operations are each influenced by prices for agricultural-based alternative ingredients such as corn, soybean oil, soybean meal, and palm oil. In these operations, the costs of the Company’s raw materials change with, or in certain cases are indexed to, the selling price or the anticipated selling price of the finished goods produced from the acquired raw materials and/or in some cases, the price spread between various types of finished products. The Company believes that this methodology of procuring raw materials generally establishes a relatively stable gross margin upon the acquisition of the raw material. Although the costs of raw materials for the Feed Ingredients segment are generally based upon actual or anticipated finished goods selling prices, rapid and material changes in finished goods prices, including competing agricultural-based alternative ingredients, generally have an immediate, and often times, material impact on the Company’s gross margin and profitability resulting from the brief lapse of time between the procurement of the raw materials and the sale of the finished goods. In addition, the amount of raw material volume acquired, which has a direct impact on the amount of finished goods produced, can also have a material effect on the gross margin reported, as the Company has a substantial amount of fixed operating costs.

The Company’s Food Ingredients segment gelatin and natural casings products are influenced by other competing ingredients including plant-based and synthetic hydrocolloids and artificial casings. In the gelatin operation in particular, the cost of the Company’s animal-based raw material moves in relationship to the selling price of the finished goods. The processing time for the Food Ingredients segment gelatin and casings is generally 30 to 60 days, which is substantially longer than the Company’s Feed Ingredients segment animal by-products operations. Consequently, the Company’s gross margin and profitability in this segment can be influenced by the movement of finished goods prices from the time the raw materials were procured until the finished goods are sold.

The Company's Fuel Ingredients segment converts fats into renewable diesel, organic sludge and food waste into biogas, and fallen stock into low-grade energy sources. The Company's gross margin and profitability in this segment are impacted by world energy prices for oil, electricity and natural gas.

The reporting currency for the Company's financial statements is the U.S. dollar. The Company operates in over 15 countries and therefore, certain of the Company's assets, liabilities, revenues and expenses are denominated in functional currencies other than the U.S. dollar, primarily in the euro, Brazilian real, Chinese renminbi, Canadian dollar, Argentine peso, Japanese yen and Polish zloty. To prepare the Company's consolidated financial statements, assets, liabilities, revenues, and expenses must be translated into U.S. dollars at the applicable exchange rate. As a result, increases or decreases in the value of the U.S. dollar against these other currencies will affect the amount of these items recorded in the Company's consolidated

financial statements, even if their value has not changed in the functional currency. This could have a significant impact on the Company's results, if such increase or decrease in the value of the U.S. dollar relative to these other currencies is substantial.

The Company monitors the performance of its business segments using key financial metrics such as results of operations, non-GAAP measurements (Adjusted EBITDA), segment operating income, raw material processed, gross margin percentage, foreign currency translation, and corporate activities. The Company's operating results can vary significantly due to changes in factors such as the fluctuation in energy prices, weather conditions, crop harvests, government policies and programs, changes in global demand, changes in standards of living, protein consumption, and global production of competing ingredients. Due to these unpredictable factors that are beyond the control of the Company, forward-looking financial or operational estimates are not provided.

## Results of Operations

Three Months Ended September 29, 2018 Compared to Three Months Ended September 30, 2017

### Operating Performance Metrics

Operating performance metrics which management routinely monitors as an indicator of operating performance include:

- Finished product commodity prices
- Segment results
- Foreign currency
- Corporate activities
- Non-U.S. GAAP measures

These indicators and their importance are discussed below.

### Finished Product Commodity Prices

Prices for finished product commodities that the Company produces in the Feed Ingredients segment are reported each business day on the Jacobsen Index (the "Jacobsen"), an established North American trading exchange price publisher. The Jacobsen reports industry sales from the prior day's activity by product. Included on the Jacobsen are reported prices for finished products such as protein (primarily meat and bone meal ("MBM"), poultry meal ("PM") and feather meal ("FM")), hides, fats (primarily bleachable fancy tallow ("BFT") and yellow grease ("YG")) and corn, which is a substitute commodity for the Company's bakery by-product ("BBP") as well as a range of other branded and value-added products, which are products of the Company's Feed Ingredients segment. In the U.S., the Company regularly monitors the Jacobsen for MBM, PM, FM, BFT, YG and corn because it provides a daily indication of the Company's U.S. revenue performance against business plan benchmarks. In Europe, the Company regularly monitors Thomson Reuters ("Reuters") to track the competing commodities palm oil and soy meal.

Although the Jacobsen and Reuters provide useful metrics of performance, the Company's finished products are commodities that compete with other commodities such as corn, soybean oil, palm oil complex, soybean meal and heating oil on nutritional and functional values. Therefore, actual pricing for the Company's finished products, as well as competing products, can be quite volatile. In addition, neither the Jacobsen nor Reuters provides forward or future period pricing for the Company's commodities. The Jacobsen and Reuters prices quoted below are for delivery of the finished product at a specified location. Although the Company's prices generally move in concert with reported Jacobsen and Reuters prices, the Company's actual sales prices for its finished products may vary significantly from



the Jacobsen and Reuters because of production and delivery timing differences and because the Company's finished products are delivered to multiple locations in different geographic regions which utilize alternative price indexes. In addition, certain of the Company's premium branded finished products may sell at prices that may be higher than the closest product on the related Jacobsen or Reuters index. During the third quarter of fiscal 2018, the Company's actual sales prices by product trended with the disclosed Jacobsen and Reuters prices.

Average Jacobsen and Reuters prices (at the specified delivery point) for the third quarter of fiscal 2018, compared to average Jacobsen and Reuters prices for the third quarter of fiscal 2017 are as follows:

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|                           | Avg. Price<br>3rd Quarter<br>2018 | Avg. Price<br>3rd Quarter<br>2017 |                  | %<br>Increase/(Decrease) | %<br>Increase/(Decrease) |
|---------------------------|-----------------------------------|-----------------------------------|------------------|--------------------------|--------------------------|
| Jacobsen:                 |                                   |                                   |                  |                          |                          |
| MBM (Illinois)            | \$ 264.78/ton                     | \$ 292.83/ton                     | \$ (28.05)/ton   | (9.6                     | )%                       |
| Feed Grade PM (Mid-South) | \$ 268.13/ton                     | \$ 285.14/ton                     | \$ (17.01)/ton   | (6.0                     | )%                       |
| Pet Food PM (Mid-South)   | \$ 556.48/ton                     | \$ 577.02/ton                     | \$ (20.54)/ton   | (3.6                     | )%                       |
| Feather meal (Mid-South)  | \$ 453.58/ton                     | \$ 408.82/ton                     | \$ 44.76/ton     | 10.9                     | %                        |
| BFT (Chicago)             | \$ 27.70/cwt                      | \$ 35.36/cwt                      | \$ (7.66)/cwt    | (21.7                    | )%                       |
| YG (Illinois)             | \$ 22.19/cwt                      | \$ 27.20/cwt                      | \$ (5.01)/cwt    | (18.4                    | )%                       |
| Corn (Illinois)           | \$ 3.53/bushel                    | \$ 3.56/bushel                    | \$ (0.03)/bushel | (0.8                     | )%                       |
| Reuters:                  |                                   |                                   |                  |                          |                          |
| Palm Oil (CIF Rotterdam)  | \$ 566.00/MT                      | \$ 687.00/MT                      | \$ (121.00)/MT   | (17.6                    | )%                       |
| Soy meal (CIF Rotterdam)  | \$ 391.00/MT                      | \$ 337.00/MT                      | \$ 54.00/MT      | 16.0                     | %                        |

The following table shows the average Jacobsen and Reuters prices for the third quarter of fiscal 2018, compared to the average Jacobsen and Reuters prices for the second quarter of fiscal 2018.

|                           | Avg. Price<br>3rd Quarter<br>2018 | Avg. Price<br>2nd Quarter<br>2018 |                  | %<br>Increase/(Decrease) | %<br>Increase/(Decrease) |
|---------------------------|-----------------------------------|-----------------------------------|------------------|--------------------------|--------------------------|
| Jacobsen:                 |                                   |                                   |                  |                          |                          |
| MBM (Illinois)            | \$ 264.78/ton                     | \$ 301.43/ton                     | \$ (36.65)/ton   | (12.2                    | )%                       |
| Feed Grade PM (Mid-South) | \$ 268.13/ton                     | \$ 285.56/ton                     | \$ (17.43)/ton   | (6.1                     | )%                       |
| Pet Food PM (Mid-South)   | \$ 556.48/ton                     | \$ 734.53/ton                     | \$ (178.05)/ton  | (24.2                    | )%                       |
| Feather meal (Mid-South)  | \$ 453.58/ton                     | \$ 540.50/ton                     | \$ (86.92)/ton   | (16.1                    | )%                       |
| BFT (Chicago)             | \$ 27.70/cwt                      | \$ 25.72/cwt                      | \$ 1.98/cwt      | 7.7                      | %                        |
| YG (Illinois)             | \$ 22.19/cwt                      | \$ 20.69/cwt                      | \$ 1.50/cwt      | 7.2                      | %                        |
| Corn (Illinois)           | \$ 3.53/bushel                    | \$ 3.80/bushel                    | \$ (0.27)/bushel | (7.1                     | )%                       |
| Reuters:                  |                                   |                                   |                  |                          |                          |
| Palm Oil (CIF Rotterdam)  | \$ 566.00/MT                      | \$ 651.00/MT                      | \$ (85.00)/MT    | (13.1                    | )%                       |
| Soy meal (CIF Rotterdam)  | \$ 391.00/MT                      | \$ 448.00/MT                      | \$ (57.00)/MT    | (12.7                    | )%                       |

## Segment Results

Segment operating income for the three months ended September 29, 2018 was \$18.2 million, which reflects a decrease of \$16.2 million or (47.1)% as compared to the three months ended September 30, 2017.

| (in thousands, except percentages)          | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total     |
|---------------------------------------------|---------------------|---------------------|---------------------|-----------|-----------|
| Three Months Ended September 29, 2018       |                     |                     |                     |           |           |
| Net Sales                                   | \$482,744           | \$265,208           | \$64,624            | \$ —      | \$812,576 |
| Cost of sales and operating expenses        | 383,846             | 210,697             | 53,558              | —         | 648,101   |
| Gross Margin                                | 98,898              | 54,511              | 11,066              | —         | 164,475   |
| Gross Margin %                              | 20.5                | % 20.6              | % 17.1              | % —       | % 20.2    |
| Selling, general and administrative expense | 39,702              | 21,843              | (2,822)             | ) 8,724   | 67,447    |

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|                                                   |        |        |          |          |          |
|---------------------------------------------------|--------|--------|----------|----------|----------|
| Depreciation and amortization                     | 47,321 | 19,697 | 9,370    | 2,454    | 78,842   |
| Segment operating income/(loss)                   | 11,875 | 12,971 | 4,518    | (11,178) | 18,186   |
| Equity in net loss of unconsolidated subsidiaries | (162 ) | —      | (2,630 ) | —        | (2,792 ) |
| Segment income/(loss)                             | 11,713 | 12,971 | 1,888    | (11,178) | 15,394   |

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| (in thousands, except percentages)                  | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate Total |         |           |   |
|-----------------------------------------------------|---------------------|---------------------|---------------------|-----------------|---------|-----------|---|
| Three Months Ended September 30, 2017               |                     |                     |                     |                 |         |           |   |
| Net Sales                                           | \$575,543           | \$298,863           | \$ 61,856           | \$              | —       | \$936,262 |   |
| Cost of sales and operating expenses                | 449,574             | 238,694             | 54,243              |                 | —       | 742,511   |   |
| Gross Margin                                        | 125,969             | 60,169              | 7,613               |                 | —       | 193,751   |   |
| Gross Margin %                                      | 21.9                | % 20.1              | % 12.3              | %               | — %     | 20.7      | % |
| Selling, general and administrative expense         | 44,841              | 25,556              | (488                | )               | 12,244  | 82,153    |   |
| Depreciation and amortization                       | 46,860              | 19,506              | 7,912               |                 | 2,924   | 77,202    |   |
| Segment operating income/(loss)                     | 34,268              | 15,107              | 189                 |                 | (15,168 | 34,396    |   |
| Equity in net income of unconsolidated subsidiaries | 523                 | —                   | 7,180               |                 | —       | 7,703     |   |
| Segment income/(loss)                               | 34,791              | 15,107              | 7,369               |                 | (15,168 | 42,099    |   |

Feed Ingredients Segment

Raw material volume. Overall, in the three months ended September 29, 2018, the raw material processed by the Company's Feed Ingredients segment totaled 2.17 million metric tons. Compared to the three months ended September 30, 2017, overall raw material volume processed in the Feed Ingredients segment increased approximately 6.1%.

Sales. During the three months ended September 29, 2018, net sales for the Feed Ingredients segment were \$482.7 million as compared to \$575.5 million during the three months ended September 30, 2017, a decrease of approximately \$92.8 million or (16.1)%. Net sales for fats were approximately \$142.4 million and \$166.0 million for the three months ended September 29, 2018 and September 30, 2017, respectively. Protein net sales were approximately \$216.3 million and \$218.8 million for the three months ended September 29, 2018 and September 30, 2017, respectively. Other rendering net sales, which include hides, pet food and service charges, were approximately \$27.5 million and \$68.7 million for the three months ended September 29, 2018 and September 30, 2017, respectively. Total rendering net sales were approximately \$386.2 million and \$453.5 million for the three months ended September 29, 2018 and September 30, 2017, respectively. Used cooking oil net sales were approximately \$38.9 million and \$46.6 million for the three months ended September 29, 2018 and September 30, 2017, respectively. Bakery net sales were approximately \$44.7 million and \$51.9 million for the three months ended September 29, 2018 and September 30, 2017, respectively, and other sales, which includes trap services and, for 2017, industrial residual services net sales were approximately \$12.9 million and \$23.5 million for the three months ended September 29, 2018 and September 30, 2017, respectively.

The decrease in net sales for the Feed Ingredients segment was primarily due to the following (in millions of dollars):

|                                                    | Fats    | Proteins | Other<br>Rendering | Total<br>Rendering | Used<br>Cooking Oil | Bakery | Other  | Total   |
|----------------------------------------------------|---------|----------|--------------------|--------------------|---------------------|--------|--------|---------|
| Net sales three months ended September 30, 2017    | \$166.0 | \$218.8  | \$68.7             | \$453.5            | \$46.6              | \$51.9 | \$23.5 | \$575.5 |
| Increase/(decrease) in sales volumes               | 14.3    | 20.6     | —                  | 34.9               | 2.1                 | (2.4)  | —      | 34.6    |
| Increase/(decrease) in finished product prices     | (28.2)  | (6.3)    | —                  | (34.5)             | (6.9)               | 0.3    | —      | (41.1)  |
| Increase/(decrease) due to currency exchange rates | (0.8)   | (1.5)    | (0.1)              | (2.4)              | (0.1)               | —      | —      | (2.5)   |

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|                                                 |         |         |        |         |        |        |        |         |   |
|-------------------------------------------------|---------|---------|--------|---------|--------|--------|--------|---------|---|
| Freight revenue (1)                             | (8.9    | )(15.3  | )(1.3  | )(25.5  | )(2.8  | )(5.1  | )—     | (33.4   | ) |
| Other change (2)                                | —       | —       | (39.8  | )(39.8  | )—     | —      | (10.6  | )(50.4  | ) |
| Total change                                    | (23.6   | )(2.5   | )(41.2 | )(67.3  | )(7.7  | )(7.2  | )(10.6 | )(92.8  | ) |
| Net sales three months ended September 29, 2018 | \$142.4 | \$216.3 | \$27.5 | \$386.2 | \$38.9 | \$44.7 | \$12.9 | \$482.7 |   |

The decrease in freight revenue represents the impact from adoption of the new revenue standard on current year (1)Feed Segment revenue as compared to the same period in fiscal 2017. See note 19 for impact on consolidated financial statements.

(2) The decrease in other rendering net sales is primarily a result of the Company's sale of a portion of its interest in a majority owned consolidated subsidiary operating in cattle hides as part of its European operations. This resulted in the foreign subsidiary being deconsolidated and accounted for using the equity method of accounting, effective January 2018. In addition, the decrease in other net sales is due to the sale of the Company's industrial residuals business in May 2018.

**Margins.** In the Feed Ingredients segment for the three months ended September 29, 2018, the gross margin percentage decreased to 20.5% as compared to 21.9% for the same period of fiscal 2017. The decrease in fiscal 2018 is primarily due to falling finished product prices, which more than offset the increase from the new revenue standard whereby the Company no longer includes billed freight in revenue and the increase in sales volumes.

**Segment operating income.** Feed Ingredients operating income for the three months ended September 29, 2018 was \$11.9 million, a decrease of \$22.4 million or (65.3)% as compared to the three months ended September 30, 2017. This was due to lower finished product prices which compressed margins and an increase in cost of sales from inventory write downs in China relating to lower market values due to ASF of approximately \$7.2 million that more than offset a decrease in selling, general and administrative expense primarily due to a gain of approximately \$4.3 million from an accrued settlement of a lost profits claim pertaining from a previous business interruption event.

#### Food Ingredients Segment

**Raw material volume.** Overall, for the three months ended September 29, 2018, the raw material processed by the Company's Food Ingredients segment totaled 286,000 metric tons. As compared to the three months ended September 30, 2017, overall raw material volume processed in the Food Ingredients segment increased by approximately 0.3%.

**Sales.** Overall sales decreased in the Food Ingredients segment primarily due to weaker European export gelatin markets and lower edible fat sales prices. In addition, sales were down due to the permanent shut down of the Hurlingham, Argentina gelatin plant in the second quarter of fiscal 2018; however, the Company expects to service the majority of the customers impacted by the closure of the Argentina gelatin plant from its other hide gelatin locations.

**Margins.** In the Food Ingredients segment for the three months ended September 29, 2018, the gross margin percentage increased to 20.6% as compared to 20.1% during the comparable period of fiscal 2017. The increase is primarily due to improved margins in South American and China markets that more than offset decreased margins in the European gelatin market from lower sales volumes and lower casing margins.

**Segment operating income.** Food Ingredients operating income was \$13.0 million for the three months ended September 29, 2018, a decrease of \$2.1 million or (13.9)% as compared to the three months ended September 30, 2017. The decrease is primarily due to lower earnings in the European gelatin markets, which is more than offset by improved results in China and South and North American gelatin markets. The Company's edible fat prices were lower as a result of lower competing fat markets as compared to the same period in fiscal 2017. The casing business delivered lower earnings due to an increase of raw material prices as compared to the same period in fiscal 2017.

#### Fuel Ingredients Segment

**Raw material volume.** Overall, in the three months ended September 29, 2018, the raw material processed by the Company's Fuel Ingredients segment totaled 290,000 metric tons. As compared to the three months ended September 30, 2017, overall raw material volume processed in the Fuel Ingredients segment increased by

approximately 1.9%.

**Sales.** Overall sales increased in the Fuel Ingredients segment primarily due to higher volumes at Ecoson the Company's bioenergy business, which had experienced curtailed operations in 2017 due to regulatory requirements and start-up of activities in Belgium, that more than offset lower sales in North America.

**Margins.** In the Fuel Ingredients segment (exclusive of the equity contribution from the DGD Joint Venture) for the three months ended September 29, 2018, the gross margin percentage increased to 17.1% as compared to 12.3% for the comparable period of fiscal 2017. The increase is primarily due to higher margins at Ecoson from higher sales volumes.

**Segment operating income.** Exclusive of the DGD Joint Venture, the Company's Fuel Ingredients segment operating income for the three months ended September 29, 2018 was \$4.5 million, an increase of \$4.3 million or 2150.0% as compared

to the same period in fiscal 2017. The increase in earnings is primarily due to a business interruption insurance gain recorded at Rendac of approximately \$4.1 million and overall higher sales volumes at Ecoson.

Including the DGD Joint Venture, the Fuel Ingredients segment income for the three months ended September 29, 2018 was \$1.9 million, as compared to segment income of \$7.4 million in the same period of 2017. The decrease of \$5.5 million was primarily related to the shut down of the DGD Joint Venture during the quarter in preparation for the planned capacity expansion.

#### Foreign Currency

During the third quarter of fiscal 2018, the euro and Canadian dollar weakened against the U.S. dollar as compared to the same period in fiscal 2017. Using actual results for the three months ended September 29, 2018 and using the prior year's average currency rate for the three months ended September 30, 2017, foreign currency translation would result in an increase in operating income of approximately \$1.1 million. The average rates assumptions used in this calculation were the actual fiscal average rate for the three months ended September 30, 2017 of €1.00:USD\$1.18 and CAD\$1.00:USD\$0.80 as compared to the average rate for the three months ended September 29, 2018 of €1.00:USD\$1.16 and CAD\$1.00:USD\$0.76, respectively.

#### Corporate Activities

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$8.7 million during the three months ended September 29, 2018, compared to \$12.2 million during the three months ended September 30, 2017, a decrease of \$3.5 million. The decrease was primarily due to lower performance based compensation expense and a general decrease in overall expenses as compared to the three months ended September 30, 2017.

**Depreciation and Amortization.** Depreciation and amortization charges decreased slightly by \$0.4 million to \$2.5 million during the three months ended September 29, 2018, as compared to \$2.9 million during the three months ended September 30, 2017. The decrease is due to certain of the Company's corporate assets becoming fully depreciated in fiscal 2017.

**Interest Expense.** Interest expense was \$20.1 million during the three months ended September 29, 2018, compared to \$22.5 million during the three months ended September 30, 2017, a decrease of \$2.4 million. The decrease is primarily due to a decrease in interest rate to refinance the Company's €515 Senior Notes to 3.625% and a decrease in amortization of deferred loan costs as compared to the prior year.

**Foreign Currency Losses.** Foreign currency losses were \$2.1 million for both the three months ended September 29, 2018 and the three months ended September 30, 2017.

**Gain on disposal of subsidiaries.** Gain on disposal of subsidiary represents the gain recorded on the liquidation of a majority owned foreign joint venture.

**Other Expense, net.** Other expense was \$2.8 million in the three months ended September 29, 2018, compared to other expense of \$2.5 million in the three months ended September 30, 2017. This increase in other expense was primarily due to an increase in hedge ineffectiveness expense on the Company's cash flow hedges that more than offset a decrease in non-service cost component of pension expense, gains recorded from insurance proceeds on casualty losses and prior year legal settlement expense.

**Equity in Net Income/(Loss) in Investment of Unconsolidated Subsidiaries.** This primarily represents the Company's pro rata share of the income of the DGD Joint Venture for the three months ended September 29, 2018. The net loss



for the three months ended September 29, 2018 was \$2.8 million compared to net income of \$7.7 million for the three months ended September 30, 2017. The \$10.5 million decrease is primarily due to the down time at the DGD Joint Venture related to the processing capacity expansion project.

Income Taxes. The Company recorded income tax benefit of \$1.4 million for the three months ended September 29, 2018, compared to \$6.3 million of income tax expense recorded in the three months ended September 30, 2017, a decrease of \$7.7 million. The effective tax rate for the three months ended September 29, 2018 was 21.5%. The effective tax rate for the three months ended September 29, 2018 differed slightly from the statutory rate of 21% due to the relative mix of earnings among jurisdictions with different tax rates (including foreign withholding taxes and state income taxes), losses that provided no tax benefit, and discrete items. The effective tax rate for the three months ended September 30, 2017 was 42.0%. The

effective tax rate for the three months ended September 30, 2017 differed from the statutory rate of 35% due to the relative mix of earnings among jurisdictions with different tax rates (including foreign withholding taxes and state income taxes), Subpart F income, losses that provided no tax benefit, and discrete items. The Company's effective tax rate excluding the impact of certain losses that provided no tax benefit and discrete items is 28.8% for the three months ended September 29, 2018, compared to 37.4% for the three months ended September 30, 2017, a decrease of 8.6% primarily due to the reduction in the U.S. federal tax rate from 35% to 21%, the relative mix of earnings among jurisdictions with different tax rates (including foreign withholding taxes and state income taxes) and Subpart F income.

#### Non-U.S. GAAP Measures

Adjusted EBITDA is not a recognized accounting measurement under GAAP; it should not be considered as an alternative to net income, as a measure of operating results, or as an alternative to cash flow as a measure of liquidity. It is presented here not as an alternative to net income, but rather as a measure of the Company's operating performance. Since EBITDA (generally, net income plus interest expenses, taxes, depreciation and amortization) is not calculated identically by all companies, the presentation in this report may not be comparable to EBITDA or adjusted EBITDA presentations disclosed by other companies. Adjusted EBITDA is calculated below and represents for any relevant period, net income/(loss) plus depreciation and amortization, goodwill and long-lived asset impairment, interest expense, (income)/loss from discontinued operations, net of tax, income tax provision, other income/(expense) and equity in net (income)/loss of unconsolidated subsidiary. Management believes that Adjusted EBITDA is useful in evaluating the Company's operating performance compared to that of other companies in its industry because the calculation of Adjusted EBITDA generally eliminates the effects of financing, income taxes and certain non-cash and other items that may vary for different companies for reasons unrelated to overall operating performance.

As a result, the Company's management uses Adjusted EBITDA as a measure to evaluate performance and for other discretionary purposes. In addition to the foregoing, management also uses or will use Adjusted EBITDA to measure compliance with certain financial covenants under the Company's Senior Secured Credit Facilities, 5.375% Notes and 3.625% Notes that were outstanding at September 29, 2018. However, the amounts shown below for Adjusted EBITDA differ from the amounts calculated under similarly titled definitions in the Company's Senior Secured Credit Facilities, 5.375% Notes and 3.625% Notes, as those definitions permit further adjustments to reflect certain other non-recurring costs, non-cash charges and cash dividends from the DGD Joint Venture. Additionally, the Company evaluates the impact of foreign exchange on operating cash flow, which is defined as segment operating income (loss) plus depreciation and amortization.

#### Reconciliation of Net Income to (Non-GAAP) Adjusted EBITDA and (Non-GAAP) Pro Forma Adjusted EBITDA Third Quarter 2018 As Compared to Third Quarter 2017

| (dollars in thousands)                    | Three Months<br>Ended |                       |
|-------------------------------------------|-----------------------|-----------------------|
|                                           | September<br>29, 2018 | September<br>30, 2017 |
| Net income/(loss) attributable to Darling | \$(6,037)             | \$7,761               |
| Depreciation and amortization             | 78,842                | 77,202                |
| Interest expense                          | 20,080                | 22,531                |
| Income tax expense/(benefit)              | (1,403)               | 6,296                 |
| Foreign currency loss/(gain)              | 2,106                 | 2,055                 |
| Other expense/(income), net               | 2,786                 | 2,533                 |
| Gain on disposal of subsidiaries          | (3,038)               | —                     |

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|                                                            |          |           |
|------------------------------------------------------------|----------|-----------|
| Equity in net (income)/loss of unconsolidated subsidiaries | 2,792    | (7,703 )  |
| Net income attributable to non-controlling interests       | 900      | 923       |
| Adjusted EBITDA                                            | \$97,028 | \$111,598 |
| Foreign currency exchange impact (1)                       | 1,055    | —         |
| Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP)   | \$98,083 | \$111,598 |
| DGD Joint Venture Adjusted EBITDA (Darling's Share)        | \$509    | \$10,570  |

(1) The average rates assumption used in this calculation was the actual fiscal average rate for the three months ended September 29, 2018 of €1.00:USD\$1.16 and CAD\$1.00:USD\$0.76 as compared to the average rate for the three months ended September 30, 2017 of €1.00:USD\$1.18 and CAD\$1.00:USD\$0.80, respectively.

For the three months ended September 29, 2018, the Company generated Adjusted EBITDA of \$97.0 million, as compared to \$111.6 million in the same period in fiscal 2017. The decrease is primarily attributable to lower finished product prices in fiscal 2018 as compared to the same period in fiscal 2017.

On a Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP) basis, the Company generated \$98.1 million in the three months ended September 29, 2018, as compared to a Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP) of \$111.6 million in the same period in fiscal 2017.

DGD Joint Venture Adjusted EBITDA (Darling's share) is not reflected in the Adjusted EBITDA or the Pro forma Adjusted EBITDA to Foreign Currency. See Note 3 to the Company's Consolidated Financial Statements included herein for financial information regarding the DGD Joint Venture.

Nine Months Ended September 29, 2018 Compared to Nine Months Ended September 30, 2017

### Operating Performance Metrics

Operating performance metrics which management routinely monitors as an indicator of operating performance include:

Finished product commodity prices

Segment results

Foreign currency

Corporate activities

Non-U.S. GAAP measures

These indicators and their importance are discussed below.

### Finished Product Commodity Prices

During the first nine months of fiscal 2018, the Company's actual sales prices by product trended with the disclosed Jacobsen and Reuters prices.

Average Jacobsen and Reuters prices (at the specified delivery point) for the first nine months of fiscal 2018, compared to average Jacobsen and Reuters prices for the first nine months of fiscal 2017 are as follows:

|                           | Avg. Price<br>First Nine Months<br>2018 | Avg. Price<br>First Nine Months<br>2017 |                  | %<br>Increase/(Decrease) | %<br>Increase/(Decrease) |
|---------------------------|-----------------------------------------|-----------------------------------------|------------------|--------------------------|--------------------------|
| Jacobsen:                 |                                         |                                         |                  |                          |                          |
| MBM (Illinois)            | \$ 272.27/ton                           | \$ 271.81/ton                           | \$ 0.46/ton      | 0.2                      | %                        |
| Feed Grade PM (Mid-South) | \$ 267.95/ton                           | \$ 285.82/ton                           | \$ (17.87)/ton   | (6.3                     | )%                       |
| Pet Food PM (Mid-South)   | \$ 690.76/ton                           | \$ 633.94/ton                           | \$ 56.82/ton     | 9.0                      | %                        |
| Feather meal (Mid-South)  | \$ 467.78/ton                           | \$ 407.30/ton                           | \$ 60.48/ton     | 14.8                     | %                        |
| BFT (Chicago)             | \$ 26.52/cwt                            | \$ 33.44/cwt                            | \$ (6.92)/cwt    | (20.7                    | )%                       |
| YG (Illinois)             | \$ 20.83/cwt                            | \$ 25.54/cwt                            | \$ (4.71)/cwt    | (18.4                    | )%                       |
| Corn (Illinois)           | \$ 3.65/bushel                          | \$ 3.66/bushel                          | \$ (0.01)/bushel | (0.3                     | )%                       |
| Reuters:                  |                                         |                                         |                  |                          |                          |
| Palm Oil (CIF Rotterdam)  | \$ 631.00/MT                            | \$ 714.00/MT                            | \$ (83.00)/MT    | (11.6                    | )%                       |
| Soy meal (CIF Rotterdam)  | \$ 417.00/MT                            | \$ 349.00/MT                            | \$ 68.00/MT      | 19.5                     | %                        |

## Segment Results

Segment operating income for the nine months ended September 29, 2018 was \$71.6 million, which reflects a decrease of \$33.5 million or (31.9)% as compared to the nine months ended September 30, 2017.

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| (in thousands, except percentages)                         | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total       |
|------------------------------------------------------------|---------------------|---------------------|---------------------|-----------|-------------|
| Nine Months Ended September 29, 2018                       |                     |                     |                     |           |             |
| Net Sales                                                  | \$1,467,365         | \$847,457           | \$219,774           | \$ —      | \$2,534,596 |
| Cost of sales and operating expenses                       | 1,123,722           | 684,718             | 170,761             | —         | 1,979,201   |
| Gross Margin                                               | 343,643             | 162,739             | 49,013              | —         | 555,395     |
| Gross Margin %                                             | 23.4                | % 19.2              | % 22.3              | % —       | % 21.9      |
| Selling, general and administrative expense                | 131,914             | 67,894              | (4,056)             | 37,155    | 232,907     |
| Restructuring and impairment charges                       | —                   | 14,965              | —                   | —         | 14,965      |
| Depreciation and amortization                              | 140,933             | 60,725              | 26,378              | 7,879     | 235,915     |
| Segment operating income/(loss)                            | 70,796              | 19,155              | 26,691              | (45,034)  | 71,608      |
| Equity in net income/(loss) of unconsolidated subsidiaries | (57)                | ) —                 | 109,655             | —         | 109,598     |
| Segment income/(loss)                                      | 70,739              | 19,155              | 136,346             | (45,034)  | 181,206     |
| (in thousands, except percentages)                         | Feed<br>Ingredients | Food<br>Ingredients | Fuel<br>Ingredients | Corporate | Total       |
| Nine Months Ended September 30, 2017                       |                     |                     |                     |           |             |
| Net Sales                                                  | \$1,677,286         | \$843,498           | \$188,918           | \$ —      | \$2,709,702 |
| Cost of sales and operating expenses                       | 1,304,352           | 670,448             | 154,921             | —         | 2,129,721   |
| Gross Margin                                               | 372,934             | 173,050             | 33,997              | —         | 579,981     |
| Gross Margin %                                             | 22.2                | % 20.5              | % 18.0              | % —       | % 21.4      |
| Selling, general and administrative expense                | 132,553             | 77,236              | 5,648               | 38,171    | 253,608     |
| Depreciation and amortization                              | 134,933             | 55,291              | 22,472              | 8,610     | 221,306     |
| Segment operating income/(loss)                            | 105,448             | 40,523              | 5,877               | (46,781)  | 105,067     |
| Equity in net income of unconsolidated subsidiaries        | 763                 | —                   | 15,906              | —         | 16,669      |
| Segment income/(loss)                                      | 106,211             | 40,523              | 21,783              | (46,781)  | 121,736     |

### Feed Ingredients Segment

Raw material volume. Overall, in the nine months ended September 29, 2018, the raw material processed by the Company's Feed Ingredients segment totaled 6.42 million metric tons. Compared to the nine months ended September 30, 2017, overall raw material volume processed in the Feed Ingredients segment increased approximately 14.9%.

Sales. During the nine months ended September 29, 2018, net sales for the Feed Ingredients segment were \$1,467.4 million as compared to \$1,677.3 million during the nine months ended September 30, 2017, a decrease of approximately \$209.9 million or (12.5)%. Net sales for fats were approximately \$423.1 million and \$484.4 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. Protein net sales were approximately \$641.2 million and \$612.7 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. Other rendering net sales, which include hides, pet food and service charges, were approximately \$87.8 million and \$215.8 million for the nine months ended September 29, 2018 and September 30, 2017,

respectively. Total rendering net sales were approximately \$1,152.1 million and \$1,312.9 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. Used cooking oil net sales were approximately \$123.6 million and \$136.1 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. Bakery net sales were approximately \$135.9 million and \$159.5 million for the nine months ended September 29, 2018 and September 30, 2017, respectively, and other sales, which includes trap services and industrial residual services net sales were approximately \$55.8 million and \$68.8 million for the nine months ended September 29, 2018 and September 30, 2017, respectively.

The decrease in net sales for the Feed Ingredients segment was primarily due to the following (in millions of dollars):

|                                                    | Fats    | Proteins | Other Rendering | Total Rendering | Used Cooking Oil | Bakery   | Other   | Total     |
|----------------------------------------------------|---------|----------|-----------------|-----------------|------------------|----------|---------|-----------|
| Net sales nine months ended September 30, 2017     | \$484.4 | \$612.7  | \$ 215.8        | \$ 1,312.9      | \$ 136.1         | \$ 159.5 | \$ 68.8 | \$1,677.3 |
| Increase/(decrease) in sales volumes               | 31.8    | 41.9     | —               | 73.7            | 4.7              | (11.1)   | —       | 67.3      |
| Increase/(decrease) in finished product prices     | (71.8)  | 13.7     | —               | (58.1)          | (9.1)            | 3.1      | —       | (64.1)    |
| Increase/(decrease) due to currency exchange rates | 5.9     | 15.1     | 0.6             | 21.6            | 0.1              | —        | 0.1     | 21.8      |
| Freight revenue (1)                                | (27.2)  | (42.2)   | (3.7)           | (73.1)          | (8.2)            | (15.6)   | —       | (96.9)    |
| Other change (2)                                   | —       | —        | (124.9)         | (124.9)         | —                | —        | (13.1)  | (138.0)   |
| Total change                                       | (61.3)  | 28.5     | (128.0)         | (160.8)         | (12.5)           | (23.6)   | (13.0)  | (209.9)   |
| Net sales nine months ended September 29, 2018     | \$423.1 | \$641.2  | \$ 87.8         | \$ 1,152.1      | \$ 123.6         | \$ 135.9 | \$ 55.8 | \$1,467.4 |

The decrease in freight revenue represents the impact from adoption of the new revenue standard on current year (1) Feed Segment revenue as compared to the same period in fiscal 2017. See note 19 for impact on consolidated financial statements.

(2) The decrease in other rendering net sales is primarily a result of the Company's sale of a portion of its interest in a majority owned consolidated subsidiary operating in cattle hides as part of its European operations, which resulted in the foreign subsidiary being deconsolidated and accounted for using the equity method of accounting, effective January 2018. In addition, the decrease in other net sales is due to the sale of the Company's industrial residuals business in May 2018.

**Margins.** In the Feed Ingredients segment for the nine months ended September 29, 2018, the gross margin percentage increased to 23.4% as compared to 22.2% for the same period of fiscal 2017. The increase in fiscal 2018 is primarily due to the new revenue standard whereby the Company no longer includes billed freight in revenue, as it did in fiscal 2017.

**Segment operating income.** Feed Ingredients operating income for the nine months ended September 29, 2018 was \$70.8 million, a decrease of \$34.6 million or (32.8)% as compared to the nine months ended September 30, 2017. Segment operating income was down in the nine months ended September 29, 2018 as compared to the same period in fiscal 2017 due to lower finished fat product prices and higher depreciation charges from increased capital expenditures that more than offset increased raw material volumes.

#### Food Ingredients Segment

**Raw material volume.** Overall, for the nine months ended September 29, 2018, the raw material processed by the Company's Food Ingredients segment totaled 854,000 metric tons. As compared to the nine months ended September 30, 2017, overall raw material volume processed in the Food Ingredients segment increased by approximately 6.6%.

**Sales.** Overall sales increased in the Food Ingredients segment as a result of currency exchange rates that more than offset lower sales due to the permanent shut down of the Company's Hurlingham, Argentina gelatin plant and a more competitive European gelatin market and lower edible fat sales prices.



Margins. In the Food Ingredients segment for the nine months ended September 29, 2018, the gross margin percentage decreased to 19.2% as compared to 20.5% during the comparable period of fiscal 2017. The decrease is primarily resulting from lower margins from European gelatin due to lower sales volumes and pressure on margins from export sales, combined with an increase of raw material prices for casings and a decrease of edible fat sales prices.

Segment operating income. Food Ingredients operating income was \$19.2 million for the nine months ended September 29, 2018, a decrease of \$21.3 million or (52.6)% as compared to the nine months ended September 30, 2017. This decrease was primarily due to the restructuring and impairment charges incurred as a result of the Hurlingham, Argentina gelatin plant shut down and lower earnings in the European gelatin market. The Company's edible fat prices were lower as a result of competing fat markets as compared to the same period in fiscal 2017. The casings business delivered slightly lower earnings due to an increase of raw material prices as compared to the same period in fiscal 2017.

## Fuel Ingredients Segment

**Raw material volume.** Overall, in the nine months ended September 29, 2018, the raw material processed by the Company's Fuel Ingredients segment totaled 856,000 metric tons. As compared to the nine months ended September 30, 2017, overall raw material volume processed in the Fuel Ingredients segment decreased by approximately (5.1)%.

**Sales.** Overall sales increased in the Fuel Ingredients segment primarily in North America due to the reinstated fiscal 2017 blenders tax credits recorded in the first quarter of fiscal 2018 of approximately \$12.6 million as compared to no blenders tax credits in the same period in fiscal 2017 and higher sales volumes at Ecoson.

**Margins.** In the Fuel Ingredients segment (exclusive of the equity contribution from the DGD Joint Venture) for the nine months ended September 29, 2018, the gross margin percentage increased to 22.3% as compared to 18.0% for the comparable period of fiscal 2017. The increase is primarily due to the reinstated fiscal 2017 blenders tax credits in North America recorded in the first quarter of fiscal 2018.

**Segment operating income.** Exclusive of the DGD Joint Venture, the Company's Fuel Ingredients segment income for the nine months ended September 29, 2018 was \$26.7 million, an increase of \$20.8 million or 352.5% as compared to the same period in fiscal 2017. The increase in earnings is primarily due to the reinstated fiscal 2017 blenders tax credits in North America of approximately \$12.6 million recorded in the first quarter of fiscal 2018 as compared to the lack of blenders tax credits in the same period of fiscal 2017 and higher overall sales prices and strong demand from biodiesel industries.

Including the DGD Joint Venture, the Fuel Ingredients segment income for the nine months ended September 29, 2018 was \$136.3 million, as compared to segment income of \$21.8 million in the same period of 2017. The increase of \$114.5 million was primarily related to reinstated fiscal 2017 blenders tax credits recorded in the first quarter of fiscal 2018 as compared to the lack of blenders tax credits in the same period of fiscal 2017.

## Foreign Currency

During the first nine months of fiscal 2018, the euro and Canadian dollar strengthened against the U.S. dollar as compared to the same period in fiscal 2017. Using actual results for nine months ended September 29, 2018 and using the prior year's average currency rate for the nine months ended September 30, 2017, foreign currency translation would result in a decrease in operating income of approximately \$10.8 million. The average rates assumptions used in this calculation were the actual fiscal average rate for the nine months ended September 30, 2017 of €1.00:USD\$1.11 and CAD\$1.00:USD\$0.77 as compared to the average rate for the nine months ended September 29, 2018 of €1.00:USD\$1.20 and CAD\$1.00:USD\$0.78, respectively.

## Corporate Activities

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$37.2 million during the nine months ended September 29, 2018, compared to \$38.2 million during the nine months ended September 30, 2017, a decrease of \$1.0 million. The decrease was primarily due to a decrease in overall expenses that more than offset higher performance based compensation expense as compared to the nine months ended September 30, 2017.

**Depreciation and Amortization.** Depreciation and amortization charges decreased slightly by \$0.8 million to \$7.9 million during the nine months ended September 29, 2018, as compared to \$8.6 million during the nine months ended September 30, 2017. The decrease is due to certain of the Company's corporate assets becoming fully depreciated in

fiscal 2017.

**Interest Expense.** Interest expense was \$66.2 million during the nine months ended September 29, 2018, compared to \$66.7 million during the nine months ended September 30, 2017, a decrease of \$0.5 million. The decrease is primarily due to lower amortization of deferred loan costs as compared to the prior year.

**Debt Extinguishment costs.** Debt extinguishment costs were \$23.5 million during the nine months ended September 29, 2018, compared to none in the nine months ended September 30, 2017. The costs in 2018 were due to tender and redemption premiums and the write-off of deferred loan costs related to the retirement of the 4.75% Senior Notes.

**Foreign Currency Losses.** Foreign currency losses were \$7.1 million during the nine months ended September 29, 2018, as compared to \$4.4 million for the nine months ended September 30, 2017. The increase in currency losses was primarily due to losses on non-designated foreign exchange hedge contracts as compared to the same period in fiscal 2017.

**Loss on Disposal of Subsidiaries.** Loss on disposal of subsidiaries primarily represents a loss recorded from the sale of TRS during the nine months ended September 29, 2018 that more than offset a gain recorded on the liquidation of a majority owned foreign joint venture.

**Other Expense, net.** Other expense was \$4.1 million in the nine months ended September 29, 2018, compared to \$8.4 million in the nine months ended September 30, 2017. This decrease was due to a decrease in non-service cost component of pension expense, decrease in casualty losses and a decrease from legal settlement charge in the prior year that more than offset an increase in hedge ineffectiveness expense.

**Equity in Net Income in Investment of Unconsolidated Subsidiaries.** This primarily represents the Company's pro rata share of the income of the DGD Joint Venture for the nine months ended September 29, 2018. The net income for the nine months ended September 29, 2018 was \$109.6 million compared to \$16.7 million for the nine months ended September 30, 2017. The \$92.9 million increase is primarily due to the reinstated fiscal 2017 blenders tax credits being recorded in the first quarter of fiscal 2018 by the DGD Joint Venture as compared to no blenders tax credits recorded at the DGD Joint Venture in the first nine months of fiscal 2017.

**Income Taxes.** The Company recorded income tax expense of \$4.0 million for the nine months ended September 29, 2018, compared to \$15.9 million of income tax expense recorded in the nine months ended September 30, 2017, a decrease of \$11.9 million. The effective tax rate for the nine months ended September 29, 2018 was 5.9%. The effective tax rate for the nine months ended September 29, 2018 differs from the statutory rate of 21% due primarily to the retroactive reenactment of the biofuel tax incentive for 2017 during the first quarter of 2018 offset by the impact of certain losses, including the TRS sale and shut-down of the Company's Hurlingham, Argentina gelatin plant, that provided no tax benefit. The effective tax rate for the nine months ended September 30, 2017 was 37.5%. The effective tax rate for the nine months ended September 30, 2017 differed from the statutory rate of 35% due primarily to the relative mix of earnings among jurisdictions with different tax rates (including foreign withholding taxes and state income taxes), Subpart F income, losses that provided no tax benefit and discrete items including the favorable settlement of an audit. The Company's effective tax rate excluding the biofuel tax incentive, the impact of certain losses, including the TRS sale and the shut-down of the Company's Hurlingham, Argentina plant, that provided no tax benefit and other discrete items is 27.8% for the nine months ended September 29, 2018, compared to 36.3% for the nine months ended September 30, 2017, a decrease of 8.5% primarily due to the reduction in the U.S. federal tax rate from 35% to 21%, the relative mix of earnings among jurisdictions with the different tax rates (including foreign withholding taxes and state income taxes ) and Subpart F income.

#### Non-U.S. GAAP Measures

For a discussion of the reasons the Company's management believes the following Non-GAAP financial measures provide useful information to investors and the purposes for which the Company's management uses such measures, see "Results of Operations - Three Months Ended September 29, 2018 Compared to Three Months Ended September 30, 2017 - Non-U.S. GAAP Measures."

Reconciliation of Net Income to (Non-GAAP) Adjusted EBITDA and (Non-GAAP) Pro Forma Adjusted EBITDA  
First Nine Months of Fiscal 2018 As Compared to First Nine Months of Fiscal 2017

| (dollars in thousands)                                     | Nine Months Ended  |                    |
|------------------------------------------------------------|--------------------|--------------------|
|                                                            | September 29, 2018 | September 30, 2017 |
| Net income/(loss) attributable to Darling                  | \$60,848           | \$22,739           |
| Depreciation and amortization                              | 235,915            | 221,306            |
| Interest expense                                           | 66,220             | 66,657             |
| Income tax expense/(benefit)                               | 3,992              | 15,856             |
| Restructuring and impairment charges                       | 14,965             | —                  |
| Foreign currency loss/(gain)                               | 7,082              | 4,430              |
| Other expense/(income), net                                | 4,103              | 8,383              |
| Debt extinguishment costs                                  | 23,509             | —                  |
| Loss/(gain) on disposal of subsidiaries                    | 12,500             | —                  |
| Equity in net (income)/loss of unconsolidated subsidiaries | (109,598)          | (16,669)           |
| Net income attributable to non-controlling interests       | 2,952              | 3,671              |
| Adjusted EBITDA                                            | \$322,488          | \$326,373          |
| Foreign currency exchange impact (1)                       | (10,844)           | —                  |
| Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP)   | \$311,644          | \$326,373          |
| DGD Joint Venture Adjusted EBITDA (Darling's Share)        | \$118,745          | \$28,013           |

(1) The average rates assumption used in this calculation was the actual fiscal average rate for the nine months ended September 29, 2018 of €1.00:USD\$1.20 and CAD\$1.00:USD\$0.78 as compared to the average rate for the nine months ended September 30, 2017 of €1.00:USD\$1.11 and CAD\$1.00:USD\$0.77, respectively.

For the nine months ended September 29, 2018, the Company generated Adjusted EBITDA of \$322.5 million, as compared to \$326.4 million in the same period in fiscal 2017. The decrease is primarily attributable to lower finished product prices in fiscal 2018 as compared to the same period in fiscal 2017.

On a Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP) basis, the Company generated \$311.6 million in the nine months ended September 29, 2018, as compared to a Pro forma Adjusted EBITDA to Foreign Currency (Non-GAAP) of \$326.4 million in the same period in fiscal 2017.

DGD Joint Venture Adjusted EBITDA (Darling's share) is not reflected in the Adjusted EBITDA or the Pro forma Adjusted EBITDA to Foreign Currency. See Note 3 to the Company's Consolidated Financial Statements included herein for financial information regarding the DGD Joint Venture.

## FINANCING, LIQUIDITY AND CAPITAL RESOURCES

### Credit Facilities

#### Indebtedness

Certain Debt Outstanding at September 29, 2018. On September 29, 2018, debt outstanding under the Company's Amended Credit Agreement, the Company's 5.375% Notes and the Company's 3.625% Notes consists of the following (in thousands):



## Senior Notes:

|                                         |           |
|-----------------------------------------|-----------|
| 5.375 % Notes due 2022                  | \$500,000 |
| Less unamortized deferred loan costs    | (5,240 )  |
| Carrying value of 5.375% Notes due 2022 | \$494,760 |

|                                               |           |
|-----------------------------------------------|-----------|
| 3.625 % Notes due 2026 - Denominated in euros | \$596,499 |
| Less unamortized deferred loan costs          | (8,486 )  |
| Carrying value of 3.625% Notes due 2026       | \$588,013 |

## Amended Credit Agreement:

|                                      |          |
|--------------------------------------|----------|
| Term Loan A                          | \$79,033 |
| Less unamortized deferred loan costs | (447 )   |
| Carrying value of Term Loan A        | 78,586   |

|                                      |           |
|--------------------------------------|-----------|
| Term Loan B                          | \$495,000 |
| Less unamortized deferred loan costs | (9,364 )  |
| Carrying value of Term Loan B        | \$485,636 |

## Revolving Credit Facility:

|                          |             |
|--------------------------|-------------|
| Maximum availability     | \$1,000,000 |
| Borrowings outstanding   | 23,000      |
| Letters of credit issued | 23,070      |
| Availability             | \$953,930   |

|            |         |
|------------|---------|
| Other Debt | \$9,234 |
|------------|---------|

During the first nine months of fiscal 2018, the U.S. dollar strengthened as compared to the euro and the Canadian dollar. Using the euro and Canadian dollar based debt outstanding at September 29, 2018 and comparing the closing balance sheet rates at September 29, 2018 to those at December 30, 2017, the U.S. dollar debt balances of euro based debt decreased by approximately \$20.6 million and Canadian based debt decreased by approximately \$1.6 million, respectively, at September 29, 2018. The closing balance sheet rate assumptions used in this calculation were the actual fiscal closing balance sheet rate at September 29, 2018 of €1.00:USD\$1.15825 and CAD\$1.00:USD\$0.768504 as compared to the closing balance sheet rate at December 30, 2017 of €1.00:USD\$1.19875 and CAD\$1.00:USD\$0.797970, respectively.

Senior Secured Credit Facilities. On January 6, 2014, Darling, Darling International Canada Inc. (“Darling Canada”) and Darling International NL Holdings B.V. (“Darling NL”) entered into a Second Amended and Restated Credit Agreement (as subsequently amended, the “Amended Credit Agreement”), restating its then existing Amended and Restated Credit Agreement dated September 27, 2013, with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents from time to time party thereto. Effective December 18, 2017, the Company, and certain of its subsidiaries entered into an amendment (the “Fifth Amendment”) with its lenders to the Amended Credit Agreement. Among other things, the Fifth Amendment (i) refinanced the term B loans under the Amended Credit Agreement with new term B loans in an aggregate principal amount of \$525.0 million with a maturity date of December 18, 2024; (ii) adjusted the applicable margin pricing on borrowings under the term B loan; (iii) modified certain of the negative covenants to increase the allowances for certain actions, including debt and investments; and (iv) made other updates and changes. Effective December 16, 2016, the Company, and certain of its subsidiaries entered into an amendment (the “Fourth Amendment”) with its lenders to the Amended Credit Agreement. Among other things, the Fourth Amendment extended the maturity date of the term A loans and revolving credit

facility loans under the Amended Credit Agreement from September 27, 2018 to December 16, 2021. For more information regarding the Amended Credit Agreement see Note 9 to the Company's Consolidated Financial Statements included herein.

As of September 29, 2018, the Company had unused capacity of \$953.9 million under the revolving loan facility, taking into account that the Company had \$23.0 million in outstanding borrowings and letters of credit issued of \$23.1 million.

As of September 29, 2018, the Company has borrowed all \$350.0 million under the term loan A facility and repaid approximately CAD\$103.4 million and \$156.8 million, which when repaid, cannot be reborrowed. The term loan A facility is repayable in quarterly installments which commenced on March 31, 2017 as follows: for the first eight quarters following December 16, 2016, 1.25% of the original principal amount of the term loan A facility outstanding on the Fourth Amendment date, for the ninth through sixteenth quarters following December 16, 2016, 1.875% of the original principal amount of the term loan A facility outstanding on the Fourth Amendment date, and for each



quarterly installment after such sixteenth installment until December 16, 2021, 3.75% of the original principal amount of the term loan A facility outstanding on the Fourth Amendment date. The term loan A facility will mature on December 16, 2021.

As of September 29, 2018, the Company has borrowed all \$525.0 million under the terms of the term loan B facility and repaid approximately \$30.0 million, which when repaid, cannot be reborrowed. The term loan B facility is repayable in quarterly installments of 0.25% of the aggregate principal amount of the relevant term loan B facility on the last day of each March, June, September and December of each year commencing on the last day of each month falling on or after the last day of the first full quarter following December 18, 2017, and continuing until the last day of each quarter period ending immediately prior to December 18, 2024; and one final installment in the amount of the relevant term loan B facility then outstanding, due on December 18, 2024. The term loan B facility will mature on December 18, 2024.

The interest rate applicable to any borrowings under the term loan A facility and the revolving loan facility will equal either LIBOR/euro interbank offered rate/CDOR plus 2.00% per annum or base rate/Canadian prime rate plus 1.00% per annum, subject to certain step-downs or step-ups based on the Company's total leverage ratio. The interest rate applicable to any borrowings under the term loan B facility will equal the base rate plus 1.00% or LIBOR plus 2.00%.

5.375% Senior Notes due 2022. On January 2, 2014, Darling Escrow Sub, a Delaware corporation and wholly-owned subsidiary of Darling, issued and sold \$500.0 million aggregate principal amount of its 5.375% Notes. The 5.375% Notes, which were offered in a private offering in connection with its acquisition of its Darling Ingredients International business, were issued pursuant to the Original 5.375% Indenture, (as supplemented, the "5.375% Indenture"), among Darling Escrow Sub, the Subsidiary Guarantors (as defined in the Original 5.375% Indenture) party thereto from time to time and U.S. Bank National Association, as trustee.

3.625% Senior Notes due 2026. On May 2, 2018, Darling Global Finance B.V. issued and sold €515.0 million aggregate principal amount of 3.625% Senior Notes due 2026 (the "3.625% Notes"). The 3.625% Notes, which were offered in a private offering, were issued pursuant to a Senior Notes Indenture, dated as of May 2, 2018, among Darling Global Finance B.V., Darling, the subsidiary guarantors party thereto from time to time, Citibank, N.A., London Branch, as trustee and principal paying agent, and Citigroup Global Markets Deutschland AG, as principal registrar. The gross proceeds of the offering, together with borrowings under the Company's revolving credit facility, were used to refinance all of the 4.75% Notes by cash tender offer and redemption of those notes and to pay any applicable premiums for the refinancing, to pay the commission of the initial purchasers of the 3.625% Notes and to pay the other fees and expenses related to the offering. The refinancing of the 4.75% Notes was completed in the second quarter of 2018.

Other debt consists of Canadian and European capital lease obligations, note arrangements in Brazil and European and U.S. notes that are not part of the Company's Amended Credit Agreement, 5.375% Notes or 3.625% Notes.

The classification of long-term debt in the Company's September 29, 2018 consolidated balance sheet is based on the contractual repayment terms of the 5.375% Notes, the 3.625% Notes and debt issued under the Amended Credit Agreement.

As a result of the Company's borrowings under its Amended Credit Agreement, the 5.375% Indenture and the 3.625% Indenture, the Company is highly leveraged. Investors should note that, in order to make scheduled payments on the indebtedness outstanding under the Amended Credit Agreement, the 5.375% Notes and the 3.625% Notes, and otherwise, the Company will rely in part on a combination of dividends, distributions and intercompany loan repayments from the Company's direct and indirect U.S. and foreign subsidiaries. The Company is prohibited under the Amended Credit Agreement, the 5.375% Indenture and the 3.625% Indenture from entering (or allowing such

subsidiaries to enter) into contractual limitations on the Company's subsidiaries' ability to declare dividends or make other payments or distributions to the Company. The Company has also attempted to structure the Company's consolidated indebtedness in such a way as to maximize the Company's ability to move cash from the Company's subsidiaries to Darling or another subsidiary that will have fewer limitations on the ability to make upstream payments, whether to Darling or directly to the Company's lenders as a Guarantor. Nevertheless, applicable laws under which the Company's direct and indirect subsidiaries are formed may provide limitations on such dividends, distributions and other payments. In addition, regulatory authorities in various countries where the Company operates or where the Company imports or exports products may from time to time impose import/export limitations, foreign exchange controls or currency devaluations that may limit the Company's access to profits from the Company's subsidiaries or otherwise negatively impact the Company's financial condition and therefore reduce the Company's ability to make required payments under the Amended Credit Agreement, the 5.375% Notes and the 3.625% Notes, or otherwise. In addition, fluctuations in foreign exchange values may have a negative impact on the Company's ability to repay indebtedness denominated in U.S. or Canadian dollars or euros. See "Risk Factors - Our business may be adversely impacted by fluctuations

in exchange rates, which could affect our ability to comply with our financial covenants” and “ - Our ability to repay our indebtedness depends in part on the performance of our subsidiaries, including our non-guarantor subsidiaries, and their ability to make payments” in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017 as filed with the SEC on February 27, 2018.

As of September 29, 2018, the Company believes it is in compliance with all of the financial covenants under the Amended Credit Agreement, as well as all of the other covenants contained in the Amended Credit Agreement, the 5.375% Indenture and the 3.625% Indenture.

#### Working Capital and Capital Expenditures

On September 29, 2018, the Company had working capital of \$392.6 million and its working capital ratio was 1.81 to 1 compared to working capital of \$397.0 million and a working capital ratio of 1.71 to 1 on December 30, 2017. As of September 29, 2018, the Company had unrestricted cash of \$81.5 million and funds available under the revolving credit facility of \$953.9 million, compared to unrestricted cash of \$106.8 million and funds available under the revolving credit facility of \$976.0 million at December 30, 2017. The Company diversifies its cash investments by limiting the amounts deposited with any one financial institution and invests primarily in government-backed securities.

Net cash provided by operating activities was \$199.7 million for the first nine months ended September 29, 2018, as compared to net cash provided by operating activities of \$268.8 million for the first nine months ended September 30, 2017, a decrease of \$69.1 million due primarily to changes in operating assets and liabilities that includes a decrease in accounts payable and accrued expenses of approximately \$62.9 million and a decrease in income taxes refundable/payable of approximately \$28.1 million, that more than offset an increase in accounts receivable of approximately \$15.0 million and an increase in inventories and prepaid expenses of approximately \$5.1 million. Cash used by investing activities was \$188.9 million for the first nine months ended September 29, 2018, compared to \$210.7 million for the first nine months ended September 30, 2017, a decrease in cash used by investing activities of \$21.8 million, primarily due to cash proceeds from sale of investments in subsidiaries that more than offset an increase in cash paid for acquisitions and capital asset spending. Net cash used by financing activities was \$29.9 million for the first nine months ended September 29, 2018, compared to net cash used by financing activities of \$79.2 million for the first nine months ended September 30, 2017, a decrease in net cash used by financing activities of \$49.3 million, primarily due to less net overall payments made for long-term debt in the first nine months ended September 29, 2018 as compared to the first nine months ended September 30, 2017.

Capital expenditures of \$213.7 million were made during the first nine months of fiscal 2018, compared to \$196.4 million in the first nine months of fiscal 2017, for a net increase of \$17.3 million or 8.8%. The Company expects to incur additional capital expenditures of approximately \$119.0 million for the remainder of fiscal 2018 including new construction. The Company intends to finance these costs using cash flows from operations. Capital expenditures related to compliance with environmental regulations were \$22.5 million and \$16.0 million during the first nine months ended September 29, 2018 and September 30, 2017, respectively.

#### Accrued Insurance and Pension Plan Obligations

Based upon the annual actuarial estimate, current accruals and claims paid during the first nine months of fiscal 2018, the Company has accrued approximately \$11.4 million it expects will become due during the next twelve months in order to meet obligations related to the Company's self insurance reserves and accrued insurance obligations, which are included in current accrued expenses at September 29, 2018. The self insurance reserve is composed of estimated liability for claims arising for workers' compensation, and for auto liability and general liability claims. The self insurance reserve liability is determined annually, based upon a third party actuarial estimate. The actuarial estimate

may vary from year to year due to changes in cost of health care, the pending number of claims or other factors beyond the control of management of the Company.

Based upon current actuarial estimates, the Company expects to contribute approximately \$1.2 million to its domestic pension plans in order to meet minimum pension funding requirements during the next twelve months. In addition, the Company expects to make payments of approximately \$3.6 million under its foreign pension plans in the next twelve months. The minimum pension funding requirements are determined annually, based upon a third party actuarial estimate. The actuarial estimate may vary from year to year due to fluctuations in return on investments or other factors beyond the control of management of the Company or the administrator of the Company's pension funds. No assurance can be given that the minimum pension funding requirements will not increase in the future. The Company has made tax deductible discretionary and required contributions to its domestic pension plans for the first nine months ended September 29, 2018 of approximately \$1.0 million. Additionally, the Company has made required and tax deductible discretionary contributions to its foreign pension plans for the first nine months ended September 29, 2018 of approximately \$1.8 million.

The U.S. Pension Protection Act of 2006 ("PPA") went into effect in January 2008. The stated goal of the PPA is to improve the funding of U.S. pension plans. U.S. plans in an under-funded status are required to increase employer contributions to improve the funding level within PPA timelines. Volatility in the world equity and other financial markets could have a material negative impact on U.S. pension plan assets and the status of required funding under the PPA. The Company participates in various U.S. multiemployer pension plans which provide defined benefits to certain employees covered by labor contracts. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts to meet their pension benefit obligations to their participants. The Company's contributions to each individual U.S. multiemployer plan represent less than 5% of the total contributions to each such plan. Based on the most currently available information, the Company has determined that, if a withdrawal were to occur, withdrawal liabilities for two of the U.S. plans in which the Company currently participates could be material to the Company, with one of these material plans certified as critical or red zone under PPA guidelines. With respect to the other U.S. multiemployer pension plans in which the Company participates and which are not individually significant, six plans have certified as critical or red zone and one has certified as endangered or yellow zone as defined by the PPA. The Company has received notices of withdrawal liability from two U.S. multiemployer pension plans in which it participated. As a result, the Company has an accrued aggregate liability of approximately \$1.7 million representing the present value of scheduled withdrawal liability payments under these multiemployer plans. While the Company has no ability to calculate a possible current liability for under-funded multiemployer plans that could terminate or could require additional funding under the PPA, the amounts could be material.

#### DGD Joint Venture

The Company announced on January 21, 2011 that a wholly-owned subsidiary of Darling entered into a limited liability company agreement with Valero to form the DGD Joint Venture. The DGD Joint Venture is owned 50% / 50% with Valero and was formed to design, engineer, construct and operate the DGD Facility, which as a result of the recent expanded capacity is now capable of processing approximately 20,000 barrels per day of input feedstock to produce renewable diesel fuel and certain other co-products, and is located adjacent to Valero's refinery in Norco, Louisiana. The DGD Facility reached mechanical completion and began the production of renewable diesel in late June 2013.

On February 23, 2015, Darling through its wholly owned subsidiary Darling Green Energy LLC, ("Darling Green") and a third party Diamond Alternative Energy, LLC ("Diamond Alternative" and together with Darling Green, the "DGD Lenders") entered into a revolving loan agreement (the "DGD Loan Agreement") with the DGD Joint Venture Opco. The DGD Lenders have committed to make loans available to Opco in the total amount of \$10.0 million with each lender committed to \$5.0 million of the total commitment. Any borrowings by Opco under the DGD Loan Agreement are at the applicable annum rate equal to the sum of (a) the LIBO Rate (meaning Reuters BBA Libor Rates Page 3750) on such day plus (b) 2.50%. The DGD Loan Agreement matures on December 31, 2018, unless extended by agreement of the parties. As of September 29, 2018, no amounts are owed to Darling Green under the DGD Loan Agreement. The DGD Joint Venture, together with its joint venture partners, evaluates its capital structure from time to time, including opportunities to refinance the joint venture.

Future dividend distributions from the DGD Joint Venture to the joint venture partners are expected to be made based on the DGD Joint Venture's available cash and capital needs. During the nine months ended September 29, 2018, the DGD Joint Venture made dividend distributions to each partner in the amount of \$25.0 million.

Based on the sponsor support agreements executed in connection with the Facility Agreement and the Loan Agreement relating to the DGD Joint Venture with Valero, the Company has contributed a total of approximately \$111.7 million for completion of the DGD Facility including the Company's portion of cost overruns and working

capital funding. As of the date of this report, it is anticipated that substantially all contributions have been made, except for possible additional working capital funding, which is not expected to be material to the Company if it occurs. As of September 29, 2018, under the equity method of accounting, the Company has an investment in the DGD Joint Venture of approximately \$358.6 million included on the consolidated balance sheet.

In April 2016, the Company announced the planned expansion of the DGD Facility's annual production capacity from 160 million gallons of renewable diesel to 275 million gallons. Final engineering and cost analysis for the project were completed during the third quarter of fiscal 2016. The final cost for the project was approximately \$211 million, which has been fully funded by DGD Joint Venture cash flow. The project was completed and start-up occurred in August 2018; however, during startup a problem occurred which damaged the catalyst in one of the units. As a result, the unit operated less efficiently during August and September with the plant being taken off line to replace the catalyst in the first 10 days of October. After that outage to replace the catalyst, the plant resumed production and the DGD Joint Venture expects to operate at full capacity

throughout the remainder of the year. The expansion also included expanded outbound logistics for servicing the many developing low carbon fuel markets around North America and worldwide.

The joint venture partners recently approved the DGD Joint Venture moving forward with another expansion project, which will grow the facility's annual production capacity by an additional 400 million gallons from the current capacity of 275 million gallons of renewable diesel to 675 million gallons of renewable diesel and provide the capability to separate naphtha for sale into low carbon fuel markets. This expansion project is expected to be funded by DGD cash flow. DGD estimates completion and startup in the fourth quarter of 2021. The expansion will be in the form of a parallel facility located next to the current facility. Accordingly, DGD expects that the completion and startup of the new facility will not impact the operations of the current facility. The planned expansion will also include expanded inbound and outbound logistics for servicing the many developing low carbon fuel markets around North America and the globe. The total cost of the expansion project, including the naphtha production and improved logistics capability, is estimated to be approximately \$1.1 billion.

#### Financial Impact of Significant Debt Outstanding

The Company has a substantial amount of indebtedness, which could make it more difficult for the Company to satisfy its obligations to its financial lenders and its contractual and commercial commitments, limit the Company's ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements on commercially reasonable terms or at all, require the Company to use a substantial portion of its cash flows from operations to pay principal and interest on its indebtedness instead of other purposes, thereby reducing the amount of the Company's cash flows from operations available for working capital, capital expenditures, acquisitions and other general corporate purposes, increase the Company's vulnerability to adverse economic, industry and business conditions, expose the Company to the risk of increased interest rates as certain of the Company's borrowings are at variable rates of interest, limit the Company's flexibility in planning for, or reacting to, changes in the Company's business and the industry in which the Company operates, place the Company at a competitive disadvantage compared to other, less leveraged competitors, and/or increase the Company's cost of borrowing.

#### Cash Flows and Liquidity Risks

Management believes that the Company's cash flows from operating activities consistent with the level generated in the first nine months of fiscal 2018, unrestricted cash and funds available under the Amended Credit Agreement, will be sufficient to meet the Company's working capital needs and maintenance and compliance-related capital expenditures, scheduled debt and interest payments, income tax obligations, and other contemplated needs through the next twelve months. Numerous factors could have adverse consequences to the Company that cannot be estimated at this time, such as those factors discussed below under the heading "Forward Looking Statements". These factors, coupled with volatile prices for natural gas and diesel fuel, currency exchange fluctuations, general performance of the U.S. and global economies, disturbances in world financial, credit, commodities and stock markets, and any decline in consumer confidence, including the inability of consumers and companies to obtain credit due to lack of liquidity in the financial markets, among others, could negatively impact the Company's results of operations in fiscal 2018 and thereafter. The Company reviews the appropriate use of unrestricted cash periodically. As of the date of this report, no decision has been made as to non-ordinary course material cash usages at this time; however, potential usages could include: opportunistic capital expenditures and/or acquisitions and joint ventures; investments relating to the Company's renewable energy strategy, including, without limitation, potential investments in additional renewable diesel and/or biodiesel projects; investments in response to governmental regulations relating to human and animal food safety or other regulations; unexpected funding required by the legislation, regulation or mass termination of multiemployer plans; and paying dividends or repurchasing stock, subject to limitations under the Amended Credit Agreement, the 5.375% Notes and the 3.625% Notes, as well as suitable cash conservation to withstand adverse commodity cycles. In August 2015, the Company's Board of Directors approved a share repurchase program of up to

an aggregate of \$100.0 million of the Company's Common Stock depending on market conditions. The repurchases may be made from time to time on the open market at prevailing market prices or in negotiated transactions off the market. The program initially approved by the Board of Directors was for a 24 month period; however, the Board has subsequently extended the program for an additional 36 month period and increased the amount of the program to \$200.0 million. Accordingly, repurchases may occur through August 13, 2020, unless further extended or shortened by the Board of Directors. Since the inception of the share repurchase program, the Company has repurchased approximately \$10.9 million of its common stock in open market purchases and, as of the date of the filing of this report, has \$200.0 million remaining in its share repurchase program.

Each of the factors described above has the potential to adversely impact the Company's liquidity in a variety of ways, including through reduced raw materials availability, reduced finished product prices, reduced sales, potential inventory buildup, increased bad debt reserves, potential impairment charges and/or higher operating costs.



Sales prices for the principal products that the Company sells are typically influenced by sales prices for agricultural-based alternative ingredients, the prices of which are based on established commodity markets and are subject to volatile changes. Any decline in these prices has the potential to adversely impact the Company's liquidity. Any of a decline in raw material availability, a decline in agricultural-based alternative ingredients prices, increases in energy prices or the impact of U.S. and foreign regulation (including, without limitation, China), changes in foreign exchange rates, imposition of currency controls and currency devaluations has the potential to adversely impact the Company's liquidity. A decline in commodities prices, a rise in energy prices, a slowdown in the U.S. or international economy or other factors could cause the Company to fail to meet management's expectations or could cause liquidity concerns.

## OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Based upon the underlying purchase agreements, the Company has commitments to purchase \$59.9 million of commodity products consisting of approximately \$34.4 million of finished products, approximately \$20.9 million of natural gas and diesel fuel and approximately \$4.6 million of other commitments during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 29, 2018. These purchase agreements are entered into in the normal course of the Company's business and are not subject to derivative accounting. The commitments will be recorded on the balance sheet of the Company when delivery of these commodities occurs and ownership passes to the Company during the remainder of fiscal 2018, in accordance with accounting principles generally accepted in the U.S.

Based upon the underlying lease agreements, the Company expects to pay approximately \$42.3 million in operating lease obligations during the next twelve months, which are not included in liabilities on the Company's balance sheet at September 29, 2018. These lease obligations are included in cost of sales or selling, general and administrative expense as the underlying lease obligation comes due, in accordance with GAAP.

The following table summarizes the Company's other commercial commitments, including both on- and off-balance sheet arrangements that are part of the Company's Amended Credit Agreement and other foreign bank guarantees that are not a part of the Company's Amended Credit Agreement at September 29, 2018 (in thousands):

### Other commercial commitments:

|                                     |          |
|-------------------------------------|----------|
| Standby letters of credit           | \$23,070 |
| Foreign bank guarantees             | 17,988   |
| Total other commercial commitments: | \$41,058 |

## CRITICAL ACCOUNTING POLICIES

The Company follows certain significant accounting policies when preparing its consolidated financial statements. A complete summary of these policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017, filed with the SEC on February 27, 2018.

Based on the Company's annual impairment testing at October 28, 2017, the fair values of the Company's reporting units containing goodwill exceeded the related carrying value. However, based on the Company's annual impairment testing at October 28, 2017, the fair value of six of the Company's nine reporting units was less than 30% in excess of its carrying value. There were no reporting units with a carrying value less than 10% of the estimated fair value. The Company determined the fair value of reporting units with the assistance of a valuation expert who assisted the Company primarily using the Income Approach to determine the fair value of the Company's reporting units. Key

assumptions that impacted the discounted cash flow model were raw material volumes, gross margins, terminal growth rates and discount rates. It is possible, depending upon a number of factors that are not determinable at this time or within the control of the Company, that the fair value of these six reporting units could decrease in the future and result in an impairment to goodwill. The amount of goodwill allocated to these six reporting units was approximately \$706.2 million. The Company's management believes the biggest risk to these reporting units is decreasing finished product prices impacting gross margins and an economic slowdown that would impact raw material suppliers. As of September 29, 2018, there were no triggering events noted that would indicate that the goodwill allocated to any of the Company's reporting units is impaired.

#### NEW ACCOUNTING PRONOUNCEMENTS

In August 2018, the SEC issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements for public companies. The principal change to the Company's financial reporting will be the inclusion of the annual disclosure requirements of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. The

Company will adopt the new rule beginning with the Company's financial reporting for the quarter ended March 30, 2019. Upon adoption, the Company will include the Company's consolidated statements of stockholders' equity in each quarterly filing on Form 10-Q.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This ASU amends Subtopic 350-40, Intangibles - Goodwill and Other Internal - Use Software, which will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact of this standard.

In August 2018, the FASB issued ASU No. 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU amends Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The standard is effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In August 2018, the FASB issued ASU No. 2018-13, Changes to the Disclosure Requirements for Fair Value Measurements. This ASU amends Topic 820, Fair Value Measurement, which changes the disclosure requirements for fair value measurements by removing, adding and modifying certain disclosures. The standard is effective for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvement to Accounting for Hedging Activities. This ASU amends Topic 815, Derivatives and Hedging, which is intended to more closely align hedge accounting with companies' risk management strategies and simplify the application of hedge accounting. The guidance includes certain targeted improvements to ease the operational burden of applying hedge accounting. The ASU is effective for fiscal years beginning after December 15, 2018 and for interim periods therein, with early adoption permitted. The Company will be required to apply the guidance on a cumulative-effect basis with adjustment to retained earnings as of the beginning of the fiscal year of adoption with disclosure on a prospective basis. The initial adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 Simplifying the Test for Goodwill Impairment. This ASU amends Topic 350, Intangibles-Goodwill and Other, which will simplify the goodwill impairment calculation by eliminating Step 2 from the current goodwill impairment test. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of the assets and liabilities as if that reporting unit had been acquired in a business combination. This ASU is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The initial adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a

discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. However, in July 2018, the FASB issued ASU No. 2018-11, allowing entities to elect a simplified transition approach whereby they would apply the provisions of the new guidance at the adoption date. The Company expects to adopt the new standard on December 30, 2018 and use the effective date as the Company's date of initial application and consequently, financial

information will not be updated and the disclosures required under the this ASU will not be provided for dates and periods before December 30, 2018. The Company has begun the implementation of a new software to manage its leases and is in the process of identification and entry of leases into the new software. The Company is assessing the impact of this new standard, specifically on its consolidated balance sheets and disclosures, and does not expect adoption to significantly change the recognition, measurement or presentation of lease expense within the consolidated statements of operations or cash flows. At this time, the Company expects to elect the package of expedients, which permits the Company not to reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight. The Company is unable to reasonably estimate the increase in total assets or total liabilities, which will be material.

## FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking” statements that involve risks and uncertainties. The words “believe,” “anticipate,” “expect,” “estimate,” “intend,” “could,” “may,” “will,” “should,” “planned,” “potential,” and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in this report are forward looking statements, including, without limitation, the statements under the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and located elsewhere herein regarding industry prospects, the Company’s financial position and the Company's use of cash. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including many that are beyond the control of the Company. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

In addition to those factors discussed elsewhere in this report and in the Company's other public filings with the SEC, important factors that could cause actual results to differ materially from the Company’s expectations include: existing and unknown future limitations on the ability of the Company's direct and indirect subsidiaries to make their cash flow available to the Company for payments on the Company's indebtedness or other purposes; global demands for bio-fuels and grain and oilseed commodities, which have exhibited volatility, and can impact the cost of feed for cattle, hogs and poultry, thus affecting available rendering feedstock and selling prices for the Company’s products; reductions in raw material volumes available to the Company due to weak margins in the meat production industry as a result of higher feed costs, reduced consumer demand or other factors, reduced volume from food service establishments, or otherwise; reduced demand for animal feed; reduced finished product prices, including a decline in fat and used cooking oil finished product prices; changes to worldwide government policies relating to renewable fuels and greenhouse gas (“GHG”) emissions that adversely affect programs like the U.S. government's renewable fuel standard, low carbon fuel standards (“LCFS”) and tax credits for biofuels both in the United States and abroad; possible product recall resulting from developments relating to the discovery of unauthorized adulterations to food or food additives; the occurrence of 2009 H1N1 flu (initially known as “Swine Flu”), highly pathogenic strains of avian influenza (collectively known as “Bird Flu”), bovine spongiform encephalopathy (or “BSE”), porcine epidemic diarrhea (“PED”) or other diseases associated with animal origin in the United States or elsewhere, such as the recent African Swine Fever (“ASF”) outbreak in China; unanticipated costs and/or reductions in raw material volumes related to the Company’s compliance with the existing or unforeseen new U.S. or foreign (including, without limitation, China) regulations (including new or modified animal feed, Bird Flu, PED, BSE or ASF or similar or unanticipated regulations) affecting the industries in which the Company operates or its value added products; risks associated with the DGD Joint Venture, including possible unanticipated operating disruptions and issues relating to the announced expansion project; risks and uncertainties relating to international sales and operations, including imposition of tariffs, quotas, trade barriers and other trade protections imposed by foreign countries; difficulties or a significant disruption in the Company's information systems or failure to implement new systems and software successfully, including the Company's ongoing enterprise resource planning project; risks relating to possible third party claims of intellectual property infringement; increased contributions to the Company’s pension and benefit plans, including multiemployer

and employer-sponsored defined benefit pension plans as required by legislation, regulation or other applicable U.S. or foreign law or resulting from a U.S. mass withdrawal event; bad debt write-offs; loss of or failure to obtain necessary permits and registrations; continued or escalated conflict in the Middle East, North Korea, Ukraine or elsewhere; uncertainty regarding the exit of the U.K. from the European Union; and/or unfavorable export or import markets. These factors, coupled with volatile prices for natural gas and diesel fuel, climate conditions, currency exchange fluctuations, general performance of the U.S. and global economies, disturbances in world financial, credit, commodities and stock markets, and any decline in consumer confidence and discretionary spending, including the inability of consumers and companies to obtain credit due to lack of liquidity in the financial markets, among others, could negatively impact the Company's results of operations. Among other things, future profitability may be affected by the Company's ability to grow its business, which faces competition from companies that may have substantially greater resources than the Company. The Company's announced share repurchase program may be suspended or discontinued at any time and purchases of shares under the program are subject to market conditions and other factors, which are likely to change from time to time. For more detailed discussion of these factors see the Risk Factors discussion in Item 1A of Part I of the Company's Annual Report on

Form 10-K for the fiscal year ended December 30, 2017. The Company cautions readers that all forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update any forward looking statements, whether as a result of changes in circumstances, new events or otherwise.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risks affecting the Company include exposures to changes in prices of the finished products the Company sells, interest rates on debt, availability of raw material supplies and the price of natural gas and diesel fuel used in the Company's plants. Raw materials available to the Company are impacted by seasonal factors, including holidays, when raw material volume declines; warm weather, which can adversely affect the quality of raw material processed and finished products produced; and cold weather, which can impact the collection of raw material. Predominantly all of the Company's finished products are commodities that are generally sold at prices prevailing at the time of sale. Additionally, with the acquisition of foreign entities we are exposed to foreign currency exchange risks, imposition of currency controls and the possibility of currency devaluation.

The Company makes limited use of derivative instruments to manage cash flow risks related to natural gas usage, diesel fuel usage, inventory, forecasted sales and foreign currency exchange rates. The Company does not use derivative instruments for trading purposes. Natural gas swaps and options are entered into with the intent of managing the overall cost of natural gas usage by reducing the potential impact of seasonal weather demands on natural gas that increases natural gas prices. Heating oil swaps and options are entered into with the intent of managing the overall cost of diesel fuel usage by reducing the potential impact of seasonal weather demands on diesel fuel that increases diesel fuel prices. Soybean meal options are entered into with the intent of managing the impact of changing prices for poultry meal sales. Corn options and future contracts are entered into with the intent of managing U.S. forecasted sales of BBP by reducing the impact of changing prices. Foreign currency forward contracts are entered into to mitigate the foreign exchange rate risk for transactions designated in a currency other than the local functional currency. The interest rate swaps and the natural gas swaps are subject to the requirements of FASB authoritative guidance. Some of the Company's natural gas and diesel fuel instruments are not subject to the requirements of FASB authoritative guidance because some of the natural gas and diesel fuel instruments qualify as normal purchases as defined in FASB authoritative guidance. At September 29, 2018, the Company had corn option contracts, soybean meal option contracts and foreign exchange forward contracts outstanding that qualified and were designated for hedge accounting as well as corn option and forward contracts and foreign currency forward contracts that did not qualify and were not designated for hedge accounting.

In the first nine months of fiscal 2018, the Company entered into foreign exchange forward contracts that are considered cash flow hedges. Under the terms of the foreign exchange contracts, the Company hedged a portion of its forecasted peptan sales in currencies other than the functional currency through the fourth quarter of fiscal 2019. As of September 29, 2018, the aggregate fair value of these foreign exchange contracts was approximately \$0.5 million and is included in other current assets and other assets on the balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion.

In the first nine months of fiscal 2018, the Company entered into soybean meal option contracts that are considered cash flow hedges. Under the terms of the soybean meal option contracts, the Company hedged a portion of its forecasted poultry meal sales into the fourth quarter of fiscal 2018. As of September 29, 2018, the aggregate fair value of these soybean meal option contracts was approximately \$0.4 million and is included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion.

In fiscal 2017 and the first nine months of fiscal 2018, the Company entered into corn option contracts that are considered cash flow hedges. Under the terms of the corn option contracts, the Company hedged a portion of its U.S. forecasted sales of BBP into the fourth quarter of fiscal 2018. As of September 29, 2018, the aggregate fair value of

these corn option contracts was less than approximately \$0.7 million and is included in other current assets on the balance sheet, with an offset recorded in accumulated other comprehensive loss for the effective portion. From time to time, the Company may enter into corn option contracts in the future. Gains and losses arising from open and closed portions of these contracts may have a significant impact on the Company's income if there is significant volatility in the price of corn.

As of September 29, 2018, the Company had the following outstanding forward contracts that were entered into to hedge the future payments of intercompany note transactions, foreign currency transactions in currencies other than the functional currency and forecasted transactions in currencies other than the functional currency (in thousands):



| Functional Currency Type | Contract Currency Amount | Contract Currency Type | Contract Currency Amount | Range of Hedge rates | U.S. Equivalent |
|--------------------------|--------------------------|------------------------|--------------------------|----------------------|-----------------|
| Brazilian real           | 59,258                   | Euro                   | 12,536                   | 4.30 - 5.04          | \$ 14,749       |
| Brazilian real           | 242,809                  | U.S. dollar            | 58,903                   | 3.45 - 4.28          | 58,903          |
| Euro                     | 109,577                  | U.S. dollar            | 129,276                  | 1.16 - 1.25          | 129,276         |
| Euro                     | 19,425                   | Polish zloty           | 83,780                   | 4.30 - 4.33          | 22,499          |
| Euro                     | 5,592                    | Japanese yen           | 734,893                  | 127.58 - 135.68      | 6,477           |
| Euro                     | 34,973                   | Chinese renminbi       | 284,178                  | 7.95 - 8.14          | 40,507          |
| Euro                     | 12,284                   | Australian dollar      | 19,850                   | 1.62                 | 14,229          |
| Euro                     | 3,191                    | British pound          | 2,833                    | 0.88 - 0.90          | 3,695           |
| Polish zloty             | 21,742                   | Euro                   | 5,046                    | 4.31                 | 5,896           |
| British pound            | 161                      | Euro                   | 179                      | 0.90                 | 210             |
| British pound            | 106                      | U.S. dollar            | 81                       | 0.76                 | 81              |
| Japanese yen             | 184,030                  | U.S. dollar            | 1,674                    | 103.66 - 111.61      | 1,674           |
| U.S. dollar              | 692                      | Japanese yen           | 78,000                   | 112.65               | 692             |
|                          |                          |                        |                          |                      | \$ 298,888      |

The above foreign currency contracts mature within one year and include hedges on approximately \$49.0 million of intercompany notes. The above foreign currency contracts that are not designated as hedges had an aggregate fair value of approximately \$0.9 million and are included in other current assets and accrued expenses at September 29, 2018.

Additionally, the Company had corn options contracts and forward contracts that are marked to market because they did not qualify for hedge accounting at September 29, 2018. These contracts have an aggregate fair value of approximately \$0.2 million and are included in other current assets and accrued expenses at September 29, 2018.

As of September 29, 2018, the Company had forward purchase agreements in place for purchases of approximately \$20.9 million of natural gas and diesel fuel and approximately \$4.6 million of other commitments in fiscal 2018. As of September 29, 2018, the Company had forward purchase agreements in place for purchases of approximately \$34.4 million of finished product in fiscal 2018.

#### Foreign Exchange

The Company now has significant international operations and is subject to certain opportunities and risks, including currency fluctuations. As a result, the Company is affected by changes in foreign currency exchange rates, particularly with respect to the euro, British pound, Canadian dollar, Australian dollar, Chinese renminbi, Brazilian real, Japanese yen.

#### Item 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** As required by Rule 13a-15(b) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), the Company’s management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it

files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on management's evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting. As required by Exchange Act Rule 13a-15(d), the Company's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's

internal control over financial reporting to determine whether any change occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no change in the Company's internal control over financial reporting during the last fiscal quarter of the period covered by this report other than SOX control changes related to the upgrade of accounting software in North America and at its international operations that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

DARLING INGREDIENTS INC. AND SUBSIDIARIES  
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 2018

PART II: Other Information

Item 1. LEGAL PROCEEDINGS

The information required by this Item 1 is contained within Note 17 on pages 24 through 25 of this Form 10-Q and is incorporated herein by reference.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 30, 2017, which could materially affect the Company's business, financial condition or future results. The risks described in this report and in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deem to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

Item 6. EXHIBITS

The following exhibits are filed herewith:

- Certification  
pursuant to Rule  
13a-14(a) or  
Rule 15d-14(a)  
of the Securities  
31.1 Exchange Act of  
1934, of Randall  
C. Stuewe, the  
Chief Executive  
Officer of the  
Company.  
Certification  
pursuant to Rule  
13a-14(a) or  
Rule 15d-14(a)  
of the Securities  
31.2 Exchange Act of  
1934, of Brad  
Phillips, the  
Chief Financial  
Officer of the  
Company.  
32 Certification  
pursuant to 18  
U.S.C. Section

1350, as  
adopted  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002, of  
Randall C.  
Stuewe, the  
Chief Executive  
Officer of the  
Company, and  
of Brad Phillips,  
the Chief  
Financial  
Officer of the  
Company.

101 Interactive Data  
Files Pursuant to  
Rule 405 of  
Regulation S-T:  
(i) Consolidated  
Balance Sheets  
as of September  
29, 2018 and  
December 30,  
2017; (ii)  
Consolidated  
Statements of  
Operations for  
the three and  
nine months  
ended  
September 29,  
2018 and  
September 30,  
2017; (iii)  
Consolidated  
Statements of  
Comprehensive  
Income for the  
three and nine  
months ended  
September 29,  
2018 and  
September 30,  
2017; (iv)  
Consolidated  
Statements of  
Cash Flows for  
the nine months

ended  
September 29,  
2018 and  
September 30,  
2017; (v) Notes  
to the  
Consolidated  
Financial  
Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DARLING INGREDIENTS INC.

Date: November 6, 2018 By: /s/ Brad Phillips  
Brad Phillips  
Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)