

DARLING INGREDIENTS INC.
Form 10-Q
November 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2016

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	(I.R.S. Employer
of incorporation or organization)	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 No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 No

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a
smaller reporting
company)

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

There were 164,604,558 shares of common stock, \$0.01 par value, outstanding at November 3, 2016.

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DARLING INGREDIENTS INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED OCTOBER 1, 2016

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DARLING INGREDIENTS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

October 1, 2016 and January 2, 2016

(in thousands, except share data)

	October 1, 2016	January 2, 2016
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148,585	\$ 156,884
Restricted cash	294	331
Accounts receivable, net	382,857	371,392
Inventories	359,095	344,583
Prepaid expenses	40,341	36,175
Income taxes refundable	13,222	11,963
Other current assets	18,609	10,460
Total current assets	963,003	931,788
Property, plant and equipment, less accumulated depreciation of \$802,172 at October 1, 2016 and \$652,875 at January 2, 2016	1,535,185	1,508,167
Intangible assets, less accumulated amortization of \$286,316 at October 1, 2016 and \$252,719 at January 2, 2016	747,522	782,349
Goodwill	1,256,376	1,233,102
Investment in unconsolidated subsidiaries	261,690	247,238
Other assets	35,912	41,623
Deferred income taxes	17,196	16,352
	\$4,816,884	\$4,760,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$27,169	\$45,166
Accounts payable, principally trade	168,556	149,998
Income taxes payable	9,374	6,679
Accrued expenses	254,561	239,825
Total current liabilities	459,660	441,668
Long-term debt, net of current portion	1,818,361	1,885,851
Other non-current liabilities	89,517	97,809
Deferred income taxes	363,949	360,681
Total liabilities	2,731,487	2,786,009
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 250,000,000 shares authorized; 167,619,651 and 167,070,983 shares issued at October 1, 2016 and at January 2, 2016, respectively	1,676	1,671
Additional paid-in capital	1,496,963	1,488,783
Treasury stock, at cost; 3,028,857 and 2,335,607 shares at October 1, 2016 and at January 2, 2016, respectively	(40,909)	(34,316)

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Accumulated other comprehensive loss	(286,314)	(335,918)
Retained earnings	812,261	750,489
Total Darling's stockholders' equity	1,983,677	1,870,709
Noncontrolling interests	101,720	103,901
Total stockholders' equity	\$2,085,397	\$1,974,610
	\$4,816,884	\$4,760,619

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 October 1, 2016 and October 3, 2015

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net sales	\$853,856	\$853,762	\$2,510,838	\$2,587,771
Costs and expenses:				
Cost of sales and operating expenses	671,167	671,321	1,947,175	2,024,118
Selling, general and administrative expenses	76,508	75,026	234,135	245,951
Acquisition and integration costs	—	1,280	401	7,807
Depreciation and amortization	70,653	67,327	212,440	199,970
Total costs and expenses	818,328	814,954	2,394,151	2,477,846
Operating income	35,528	38,808	116,687	109,925
Other expense:				
Interest expense	(23,867)	(24,828)	(71,748)	(82,222)
Foreign currency gain/(loss)	354	(2,461)	(2,241)	(3,299)
Other income/(expense), net	(2,007)	1,004	(5,685)	(704)
Total other expense	(25,520)	(26,285)	(79,674)	(86,225)
Equity in net income of unconsolidated subsidiaries	18,138	(12,021)	37,633	(9,657)
Income before income taxes	28,146	502	74,646	14,043
Income tax expense/(benefit)	(744)	7,859	9,102	14,639
Net income/(loss)	28,890	(7,357)	65,544	(596)
Net income attributable to noncontrolling interests	(196)	(1,730)	(3,772)	(5,302)
Net income/(loss) attributable to Darling	\$28,694	\$(9,087)	\$61,772	\$(5,898)
Basic income per share	\$0.17	\$(0.06)	\$0.38	\$(0.04)
Diluted income per share	\$0.17	\$(0.06)	\$0.37	\$(0.04)

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 October 1, 2016 and October 3, 2015

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net income/(loss)	\$28,890	\$(7,357)	\$65,544	\$(596)
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	(5,839)	(43,295)	43,684	(129,167)
Pension adjustments	727	780	2,104	2,327
Corn option derivative adjustments	734	1,861	1,255	574
Total other comprehensive income/(loss), net of tax	(4,378)	(40,654)	47,043	(126,266)
Total comprehensive income/(loss)	\$24,512	\$(48,011)	\$112,587	\$(126,862)
Comprehensive income/(loss) attributable to noncontrolling interests	(94)	39	1,211	7,929
Comprehensive income/(loss) attributable to Darling	\$24,606	\$(48,050)	\$111,376	\$(134,791)

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 October 1, 2016 and October 3, 2015

(in thousands)

(unaudited)

	October 1, 2016	October 3, 2015
Cash flows from operating activities:		
Net Income/(loss)	\$ 65,544	\$ (596)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	212,440	199,970
Loss on disposal of property, plant, equipment and other assets	873	627
Gain on insurance proceeds from insurance settlements	(356)	(561)
Deferred taxes	(5,223)	8,640
Increase/(decrease) in long-term pension liability	(1,105)	678
Stock-based compensation expense	7,953	6,468
Write-off deferred loan costs	292	10,633
Deferred loan cost amortization	8,393	7,380
Equity in net loss/(income) of unconsolidated subsidiaries	(37,633)	9,657
Distributions of earnings from unconsolidated subsidiaries	26,317	26,155
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(3,058)	7,658
Income taxes refundable/payable	1,432	3,955
Inventories and prepaid expenses	(11,368)	7,667
Accounts payable and accrued expenses	27,438	(10,318)
Other	(11,377)	18,641
Net cash provided by operating activities	280,562	296,654
Cash flows from investing activities:		
Capital expenditures	(168,224)	