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American Vanguard Corp. *(AVD)*

Q4 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the American Vanguard Corporation Fourth Quarter 2012 Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] And as a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Bill Kuser, Director of Investor Relations. Thank you, Mr. Kuser. You may now begin.

William A. Kuser
Director-Investor Relations, Chemtura Corp.

Well, thank you very much, Rob, and welcome everyone to American Vanguard's fourth quarter and full year earnings review. Our speakers today will be Mr. Eric Wintemute, the Chairman and CEO of American Vanguard; and Mr. David Johnson, the company's Chief Financial Officer.

Before beginning, let's take a moment for the usual cautionary reminder. In today's call, the company may discuss forward-looking information. Such information and statements are based on estimates and assumptions by the company's management and are subject to various risks and uncertainties that may cause actual results to differ from management's current expectations.

Such factors can include weather conditions, changes in regulatory policy, competitive pressures, and various other risks that are detailed in the company's SEC reports and filings. All forward-looking statements represent the company's best judgment as of the date of this call and such information will not necessarily be updated by the company.

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With that said, we turn the call over to Eric.

Eric G. Wintemute

Chairman, President & Chief Executive Officer, American Vanguard Corp.

Thank you, Bill. Good morning, everyone, and welcome. Thank you for joining us as we report on a very successful performance during the fourth quarter and full year of 2012. David and I welcome this opportunity to tell you more about current trends in our business and the prospects that we see on our horizon. I'm going to let David give you the operating and financial details. I will preface this section with a brief summary of highlights, then finish our talk with some comments about how we see 2013 developing and some strategic initiatives in international expansion and natural pesticide development that are very exciting.

As you saw in our press release, American Vanguard's quarterly and full year performance has been excellent. Revenues are up 28% in the fourth quarter and 22% for the year. Strong demand for our most profitable products has allowed our full year gross profit margin to expand from 41% of sales in 2011 to 44% in 2012. This gross margin improvement contributes significantly to our 77% increase in net income for the fourth quarter and our 67% increase for the full year.

We are successfully capitalizing on the growing demand for our granular soil insecticides in the U.S. corn market and are operating on a 24/7 production schedule to meet the industry's requirements. We also have enjoyed strong demand during our 2012 for many other products including our soil fumigants and potatoes, our BIDRIN foliar insecticide and Folex harvest defoliant in cotton and our non-crop products for mosquito control, turf fungicides and commercial pest management.

We also experienced 10% growth in our international business and later in this call I will comment on the future plans in that important segment of our business.

We have continued to manage our expanding business with financial discipline and ended the calendar year with a strong balance sheet, a healthy cash position and no outstanding bank revolver debt. During the year, shareholder equity rose 20% to $225 million and in December, we are pleased to pay a special dividend to our shareholders.

With that overview, I will turn the call over to David, who will cover the financial and operating details. I'll then return for those additional comments about the factors that we see shaping a bright future in 2013 and beyond. David?

David T. Johnson

Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

Thank you, Eric. As Eric has already mentioned and as you will have read in our earnings announcement, our 2012 sales increased by 22% to $366 million as compared to $301 million in 2011. Within this number, our crop sales were up 21% at $330 million, and our non-crop sales were also up 26% to $36 million. In our 10-K filings scheduled for tomorrow, you will see a detailed description of sales by product groups. Let me give you a brief summary.

Insecticides recorded sales rose $57 million or 41% to over $194 million. This group includes both our granular soil insecticides and our foliar insecticides. As Eric mentioned, the strong demand for our soil insecticides in corn was the driving force in this product category. Our herbicides, fungicides and fumigants group posted $90 million in sales flat as compared to 2011 primarily due to limitations on the availability on our IMPACT Herbicide from a European supplier.

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Our other product sales were up 4% to $46 million with record Folex sales offset somewhat by a modest decline in pharmaceutical sales. Our non-crop sales increased to $36 million mainly as a result of strong demand for our mosquito product, increased sales for both our turf fungicides and our commercial pest control products.

Finally, as Eric mentioned, our international sales increased by 10% to nearly $70 million for the year driven by gains in South and Central America and Europe. In the 10-K statement, we have given a lot of information about price increases that we have secured in the marketplace during 2012 overall amounting to about an average 5%. Offsetting this, we have incurred raw material price increases on an average of approximately 2% across all product lines.

As a result of these dynamics, and as Eric mentioned, our gross margin for the full year was 44% of net sales as compared to 41% for 2011. Within this performance, the margin on our crop products improved by 2% and margins on our non-crop products improved by 8%.

Operating expenses increased by 21% as compared to last year. This increase supported our overall sales gain of 22%. In summary, the main drivers for the increases were – our selling related expenses increased by 11%, reflecting increased levels of advertising and the costs of building our domestic and international sales and marketing team to support our growing global business.

Our general and administrative expenses increased to nearly 39%, as a result of incentive compensation driven by our strong overall financial performance, legal and consulting costs associated with the creation of our international subsidiary and our majority-owned natural pesticide business and additional staffing infrastructure to support growth.

Product development and regulatory costs rose 15% as staffing and operating costs and product development, which we see as building our company's future, and product registration and defense, which is all about sustaining our current molecules and crop usages, both components critical to an enduring business model in this market. Freight and logistics-related costs increased 21%, in parallel with our sales growth. These costs remained at approximately 7% of sales, which is similar to the prior year.

As a result of these factors, operating expenses as a percentage of sales in 2012 remained under our targeted 28% and in line with 2011. This strong growth in gross profit performance and controlled, though higher, operating costs combined to generate a 51% increase in operating income to $59 million.

Interest expense was reduced by 29% in comparison to last year. This is driven by continued control of working capital drivers that has enabled us to operate for more than 18 months without accessing our revolving credit lines and because we continue to pay down both term debt and also deferred liabilities related to product line acquisition.

As a result of the 29% lower interest expense on top of the strong operating income performance, our income before tax improved by 62% from $35 million last year to $57 million in 2012. Our effective tax rate is 35% as compared to last year's 37%. This resulted in improved net income performance, which ended up 67%, at $37 million or $1.28 per diluted share as compared to $22 million or $0.79 per diluted share this time last year.

Our fourth quarter performance was extremely exciting. We recorded sales of $104.3 million, the first quarter in company history with sales above $100 million. This also represents a 28% increase over sales in the same quarter of the prior year. The main driver in the quarter's sales was corn products, which will go on the ground in late Q1 or early Q2 of 2013; our fumigant products, which will most likely have already been applied; and our mosquito

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products, which experienced strong demand in the mid-fall period following severe weather in the south and east of the country.

There are some other exciting firsts to report for Q4 sales. This was the first quarter during which we reported sales from our newly established foreign subsidiary in the Netherlands. It was also the first quarter in which we reported sales for our new majority-owned subsidiary selling home and garden natural pesticide products.

Overall, our gross margin was strong, ending at 44% as compared to 41% in the same quarter last year. Operating expenses were well controlled and ended at 27% of sales as compared to 28% this time last year. Our interest expense continued to track below last year. Our income before taxes for the quarter was up 64%, ending at $17 million. The effective tax rate for the quarter was 33%. This low rate was caused by a very strong final quarter, which has the impact of increasing the benefit of the domestic production deduction. And furthermore, we completed certain activities related to capital investment credits that were not available in Q3 and effectively created a catchup for the year, all booked in Q4.

Net income ended at $11.3 million, which is a 76% improvement over the last year. In EPS terms, we recorded $0.39 this year as compared to 23% (sic) [$0.23] (11:43) last year.

Our balance sheet remains in very strong condition. Our cash position of $39 million is $3.4 million higher than this time last year. At the same time, our total debt has reduced by $14 million from $66 million last year to $52 million at December 31, 2012.

Our receivables ended $7.5 million higher than last year after final quarter sales that were $22.5 million above last year demonstrating strong control of terms and close long-term trading relationship with a group of really great customers. Our year-end inventories are up $17 million over the prior-year end mainly driven by inventory building against strong Q1 2013 demand forecast.

Our prepaid expenses and other assets have increased primarily as the result of the decision to support our growing corn business with more of our proprietary delivery systems to meet expected demand. And in offset to this increased assets are accounts payable programs and deferred revenues are all up reflecting the higher level of activity for the year and particularly in Q4. Overall, our working capital increased slightly ending up 4% as compared to year end 2011.

I am also pleased to be able to report that given all the factors I have detailed I can continue to confirm that our liquidity is looking is very strong. Under the most restricted bank covenants, we could currently borrow up to the limit of our revolving line, in other words, $75 million.

Finally, I am pleased to round out the financial review of the year by reflecting that having paid out $0.22 in dividends during the year, including the special year end $0.10 dividend, our stockholder equity has increased by 20% continuing the company's very strong long-term performance in this area.

Now back to Eric.

Eric G. Wintemute

Chairman, President & Chief Executive Officer, American Vanguard Corp.

Thank you, David. I must tell you I've never been more enthusiastic about American Vanguard's future than I am today. The opportunities that we have to grow our business over the next few years are extraordinary and we are

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making the critical operational and organizational investments necessary to take full advantage of those opportunities.

For many years, we've advocated the use of broad spectrum soil insecticides to enhance the yield achieved by corn growers whether they're using traditional hybrid seed on refuge acres or genetically modified trait seed. For a number of reasons, this advice is now particularly relevant.

The economic profitability of growing corn relative to soybeans and other row crops has prompted growers in the Midwest to plant corn year-after-year on the same acres in lieu of the traditional rotation of crops. This corn-on-corn practice has provided soil insects with an unchanging environment in which to proliferate. The resulting expansion of insect populations has created an intensification of pest pressure that can overwhelm single defensive measures, whether genetic or chemical.

Additionally, recent genetic defenses have been focused on defeating the primary Midwest soil insect, the corn rootworm. However, there are other secondary soil insects such as cutworms, wireworms and nematodes that are relatively less affected by seed trait technology and on some acres these pests can do as much serious root damage as the rootworm. So to provide a truly comprehensive root defense, two sets of tools are necessary.

Finally, as we all know, when growers use a single defensive technique, whether genetic or chemical, for an extended period of time, mother nature tends to work around that obstacle by adapting tolerance to the defense in question. We have seen this time and time again with the continued use of certain chemicals and now are beginning to see this in certain areas with various non-chemical defenses.

So, whether it is the intensification of pest pressure or the presence of various secondary insects or the tenacity of Mother Nature's adaptive capabilities, we believe it is far better to use multiple defensive technologies, the best of both worlds, to achieve sustainable control with integrated pest management measures.

In corn, we have multiple soil insecticide products for customers to choose from, Aztec, SmartChoice, Counter and Force, allowing customers to rotate their chemical defenses. We also offer the safest, most efficient and most advanced closed delivery equipment systems for the deployment of our granular soil insecticides with data recording capabilities to permit productivity analysis as part of newly-evolving precision farming methods. We believe that together these products and the state-of-the-art equipment systems will become the planting standards for soil insect control each corn planting season.

Due to the ground swell of demand for these products we are increasing our production capacity. Our Axis, Alabama plant we begun running 24x7 since mid-year to accommodate this demand. And our investments in laboratory, quality control and process technology capabilities are designed to ensure that we remain ahead of the curve in supplying this growing market. This is AMVAC's sweet spot, our wheelhouse and we intend to take full advantage of this game-changing opportunity.

As you recall, our agreement with the Monsanto company to co-market our post-emergence corn herbicide IMPACT is part of the Roundup Ready Plus weed management platform is beginning its second year. Under this multiyear agreement, IMPACT is listed as an endorsed product in the Monsanto incentive program to help control the continuing proliferation of glyphosate-resistant weeds.

Through our own efforts, IMPACT has been used on roughly three million acres of U.S. corn while Monsanto's Roundup glyphosate brands are applied to over 40 million corn acres in the United States. We believe that combined promotional efforts by the sales and marketing forces of both organizations to encourage and incetivize growers to use both products should results in an increased usage of IMPACT over the next few years. This

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collaboration has been very well received in the marketplace with distributors and retailers increasing their stocking orders for the upcoming season. As we indicated in our earnings release, we expect to be able to meet this demand with adequate supplies of IMPACT to achieve expanded sales in 2013 and future years.

In other crops, we find our business expanding as well. Our insecticide Thimet, which grew 30% in 2012, continues to maintain a strong market position. Our nematicide Counter continues to be extensively used in sugar beets and bananas as well as in corn, which I mentioned earlier. Our Mocap and Nemacur nematicides continue their growth on potatoes, bananas and coffee and a number of other crops.

Other products such as our foliar insecticide BIDRIN for cotton, Folex, our harvest defoliant for cotton and Dibrom for mosquito control have excellent market positions and additional growth potential. While it is projected that cotton acres in the United States may decline in 2013 to less than 10 million acres, we believe that our BIDRIN and Folex products will continue to do substantial business on the prime cotton acreage in the southeastern region of United States.

We are very excited about the recent registration and upcoming commercialization of our potato sprout inhibitor SmartBlock. This is a superior technology for maintaining premium quality potatoes during lengthy storage for both fresh, grocery purchases and for the commercial processors of consumer products like French fries and potato chips. The excitement over this compound continues to build. We anticipate additional registration approvals in Canada and Europe and we believe that in time this product will make a significant penetration of a $45 million global market and become a significant contributor to AMVAC's growth in future years.

As we reported earlier, in 2012, American Vanguard has established an international subsidiary in the Netherlands to focus resources on the important long range goal of significant global expansion. We have hired a seasoned group of crop protection professionals to manage that undertaking. We will continue to assemble the necessary marketing, sales, regulatory, procurement and operational personnel to extend our reach into Eastern Europe, North Africa, South America and specific markets in Asia. We believe that we can register some of our existing products in new countries, acquire existing registered products in these markets and collaborate with industry peers who are already positioned in various markets through licensing and distribution arrangements. We will keep you posted periodically on the progress of this initiative.

Another area of considerable interest in recent years within the crop protection and pest management industry is the development of treatment agents that derive from naturally occurring sources versus the synthetic chemistry building blocks that are the basis of traditional pesticides. Such natural pesticides are considered desirable for their environmental-friendly profile.

In the fourth quarter of 2012, American Vanguard entered this domain by establishing a majority-owned subsidiary partnering with TyraTech, a North Carolina-based developer of active ingredients derived from natural oil. Such natural chemistries can demonstrate efficacy and utility in many applications, including personal care, animal health and pest control. The subsidiary that we formed is called Envance Technologies and will focus on the development of products for pest control applications.

In fact, Envance already has its first commercial products being marketed under the Terminix brand name. These products are [audio gap] (22:28-22:40) penetrating the large volume U.S. retailer distribution channel and already occupies shelf space adjacent to other well-known bug spray products at one of the largest consumer home improvement chains. We are also contemplating the use of TyraTech's unique screening technology to explore the potential for combining such natural-based agents with our traditional synthetic chemical active ingredients to create a new class of hybrid pest control agents.

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American Vanguard continues to focus on improving agricultural productivity and safeguarding public health. We provide many Yield Enhancement Solutions branded under our YES acronym for agricultural customers and we are dedicated to developing safe, effective products for commercial and consumer pest control markets.

As you can see, there is a lot to look forward to in 2013 and beyond. In the near-term, our success will be driven by strong demand for granular soil insecticides in corn and other crops, our co-marketing collaboration with Monsanto and IMPACT and our expanding footprint in international business and non-crop pest control. Longer term we believe that the investments that we are making today, the organizational skills that we are developing, and the broad range of opportunities that are in front of us spell a bright future for this company.

And now we'll be happy to entertain any questions you may have. Rob?

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from the line of Richard Paget of Imperial Capital. Please proceed with your question.

Richard Shannon Paget
Analyst, Imperial Capital LLC
Q

Hello, everyone.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

Hello, Richard.

Richard Shannon Paget
Analyst, Imperial Capital LLC
Q

I know you said you were able to get about 5% pricing, but with corn still up considerably year-over-year and acres going up, do you think there is more room for getting price increases going into this growing season?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

We have taken price increases going into the season.

Richard Shannon Paget
Analyst, Imperial Capital LLC
Q

Of similar magnitude or is it...?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

Yes, this is similar to what we put in place in Q4 last year.

Richard Shannon Paget
Analyst, Imperial Capital LLC
Q

Okay. And then how is demand for SmartBox volumes trending?

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Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

We'll probably end up about 75% that's my guess at this point from where we were last year.

Richard Shannon Paget
Analyst, Imperial Capital LLC

Q

Okay. And you guys have the capacity to handle that?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

We do.

Richard Shannon Paget
Analyst, Imperial Capital LLC

Q

Okay. Now I know you guys don't give specific guidance, but are there any non-operating items you can help us with whether it's tax rate or CapEx that you can help us get a handle on for 2013?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

So, David, CapEx, we're expecting, what, flat or down?

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Flat – I think flat.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

And as far as the other – tax rate.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Tax rate, I mean we work consistently on that. I have targets and we're working to try and improve on that one.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Okay, I think, yes, we're excited, our international business, should roll in...

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Little improvement in 2013.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Right.

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David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

It could be fully in 2013.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Right. But I don't think we saw any impact of that...

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Very marginally in the last month of the year.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Right. So that's something that again it's been my dream, at least for the last 10 years, and so I am excited to...

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Well, we've been making steady improvement year-on-year for the last few years.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

That's correct.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

And we'll continue with that.

Richard Shannon Paget
Analyst, Imperial Capital LLC

Q

Okay thanks and maybe one more for David, when is the 10-K coming out and it looks like you've adjusted some of the prior periods...?

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Yes we had, we had one small item, relatively small item, which we missed in Q3 and identified as a transaction where we had a sell and a buy and we should have had them netted in cost of sales. So, we've adjusted them for 2012 and looked back to 2011 and did the same adjustment, it's about $3 million, it doesn't affect gross margin and simply there – there is a note in the 10-K, which will be out tomorrow.

Richard Shannon Paget
Analyst, Imperial Capital LLC

Q

Okay, great.

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Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

This just reflects that this is a toller, where we supplied material to them and then they supplied material back.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

And then they supplied everything back. Initially, we didn't realize they were supplying everything back to us. So under revenue recognition test, I determined that we should have netted them on cost of sales.

Richard Shannon Paget
Analyst, Imperial Capital LLC

Q

Okay, thanks I'll look for that in the Q. That's all I got.

Operator: Thank you. Our next question is from the line of Brett Wong of Piper Jaffray. Please proceed with your question.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Hi, thanks, guys. With CapEx being flat to this year, can you maybe provide some color around expansion in insecticides?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

I'm not sure I quite understand. Around expansion in insecticides?

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Your plans for insecticide expansion this year.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

You're talking about capacity?

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Capacity, yes.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

All right, okay. So, at the Axis facility, which is again, primarily – and we've got capacity without any real investment ability for Counter and Thimet at Hannibal – but at Axis where we're synthesizing materials for our Aztec and our SmartChoice, we had completed a plant in June of last year for tribufos, that's our Folex. And in order to handle the increased capacity, or increased demand for Aztec, we had adapted that facility so that it can also make the intermediate for Aztec. So we'll have the ability to make that in two different units. And with that, we believe we can handle kind of significant increases with Aztec.

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Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Well, what capacity increase does that provide you?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Well, with that, we can more than double our current volume.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Okay.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

And in addition for this upcoming year, we are going to be shifting manufacturing of Mocap. We're under supply agreement with Bayer and we'll be shifting that to another supplier in Mexico, and we'll have some investment there, probably in the vicinity of $7 million over the course of this year, and that will afford us to have a closer supply on and I think you remember that our supply of Mocap has been less than desirable. So we're pretty excited about having those opportunities for growth in 2014 and beyond.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Okay, yes, that's great. Just on a volume perspective for insecticide, what are you targeting volume wise for 2013?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

We don't give those kind of forecasts out in advance, to the frustration of Jay Harris who'll probably ask a question here in a moment and others like that, but we don't give forecasts going forward by product line or by group.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.

Q

Okay, and then just on the SmartBlock approval, can you maybe walk us through the path to commercialization in the U.S. and then provide a little more color around when those registrations for Europe and maybe Canada will be coming up?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Sure, in U.S. we've received approval, I think, earlier this month. And as you know, this is – the season kind of starts in September, October after harvest. We've targeted a number of applications for this year. We have selected three regional distributors, which will handle the potato market U. S. and the two different markets, then, in Canada, once that comes through. We expect Canada momentarily because this was applied for dually in conjunction, and so PMRAs should be coming through shortly.

So this is kind of the initial year for positioning the product. We'll have the results of the first commercial uses coming up for the next year, so our – I'll say our main product launch would be for next year and should include Canada at that point.

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Europe, our best guess is we're probably, I think we saw that our package was complete, got that information back from Europe, but we're probably looking at about 18 months. We do have a new regulatory manager [ph] Henri Dykstra (33:13) in Europe, in our Holland office and he is very familiar and that will be a priority for him getting us there.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.
Q

Okay thanks and just – I don't know if you can help with this, but may be provide a little insight into how your expectations will ramp for SmartBlock at least in the U. S. this year?.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

Well, one of the things where we would like to see and have had discussions are this is kind of exempt from tolerance and as such the application of this product would definitely decrease the footprint of potatoes and so we are targeting some of the major consumers. If they adopt the concept that they could demand and shift over that would be a rapid increased use of the product. So that part of the strategy is to get the major players in that market on board with us. So that's a little bit of a variable that would ramp it up much faster so that's the approach.

Brett W. S. Wong
Analyst, Piper Jaffray, Inc.
Q

Okay, great, thanks. I'll hop back in line.

Operator: Our next question is coming from the line of Daniel Rizzo, Sidoti & Company. Please state your question.

Daniel D. Rizzo
Analyst, Sidoti & Co. LLC
Q

Hi guys, one more follow-up question. You indicated that operating expenses were up just to support your sales efforts. Is this what we can kind of expect going forward in terms of a percent of sales just over next year or so?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

We, our goal is certainly is to drop operating expenses as a percent and I think we've got a target of moving down to 25%. These rapid expansions we want to make sure that we do not miss the opportunities to grow our market when they're in front of us. So I wouldn't say necessarily it's 100% as efficient as possible. But I think that kind of to use that is kind of worst case scenario I think maybe that might be the way to look at it.

Daniel D. Rizzo
Analyst, Sidoti & Co. LLC
Q

Okay. All right, thanks. That's it.

Operator: Thank you. Our next question is from Chris Kapsch of Topeka Capital Markets. Please proceed with your question.

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Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

Yes, hi guys, thanks for taking the call and my questions. I had a – want to try to further dimensionalize your opportunity in corn herbicides and the IMPACT product, more specifically. I think you mentioned that Roundup is on 40 million corn acres and so I'm just wondering you mentioned 3 million acres that your product touches, is that to suggest that the resistance issue is sort of currently less an issue and less than 10% of the overall corn acres where glyphosate is relevant?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

No, I think what we were saying is that without the agreement we were touching 3 million acres and with the agreement, we see a much greater opportunity for our specific product to reach into greater volumes.

Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

Do you know what percentage of those 40 million acres that – where resistance is an issue right ballpark?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Yes, I mean, I think Monsanto's position and others that are applying glyphosate have maybe shied away from the concept of just treating acres that have resistance shown to – this needs to be a method in order to prolong and preserve the value of the trade and the value of glyphosate on a long-term basis. So, I think it's a practice that Monsanto is promoting that should be used not where you see resistance.

Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

I got you. So, effectively the entire 40 million acres could be in play in terms of pursuing like best sort of yield management practices, right, [indiscernible] (37:36) like the resistance issue from becoming more acute, right?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

That's correct.

Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

Yes. And the 3 million acres that your product touched that was – I assume was based on constraints in Europe, the availability of active ingredients. So, I'm just, order of magnitude, the expansion of that capacity from your supplier, is it today double, triple the availability?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

So, the constraint in 2012, that's correct, that was the first year that we had our agreement in place. So, yes, in that magnitude of three times.

Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

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Three times, okay. And so three times would be your capacity in terms of the market that you could address in 2013, three times that you...

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

That's correct.

Chris J. Kapsch
Analyst, Topeka Capital Markets
Q

Okay. And then, follow-up on – more on the corn insecticide and as it relates to this growing season, I'm just wondering like in your perception what the driver of adoption is. Is it more that there is in fact this proliferation of the corn resistance or is it just more grower awareness in adopting sort of preventative practices sort of like you suggest about on the Roundup herbicide discussion? And then just – and then also anecdotally sort of hearing like because of the drought conditions carrying over from last year that there is some suggestion that corn pressure could be a little bit more acute this year and is there any indication that that in fact is the case in your sort of order patterns or...?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

So, we have laid out a supply plan with our customers based upon our ability to produce and we have four different product lines in – some in bag and some in SmartBox and some in Lock'n Load. And we tried to accommodate the demand that our customers see there and I think initially we certainly felt that we were meeting everybody's expectations and I would say this goes back into third quarter of last year of what they expected for the upcoming year. But of course as time's gone along they've seen that demand continue to swell and we are in a position where for most of the product lines we think that all the material produced will be consumed and we'll be producing product through April and depending on late plantings that may occur up in Minnesota, the upper northern areas, we may see some ability to continue along with that.

The reasons that people are utilizing this I think are the combinations of the three things that we have mentioned and we have long stated that every year since 2007 we're doing dozens of studies at all the major universities in the corn area to show that the use of spray technology with our insecticides does give a return on investment that's worthwhile, and this return on investment is their corn's at $4 an acre or $8 an acre. So that's a message that we delivered continuously year after year. And in 2010, we saw an increase in use and in 2011, we saw a very significant increase in use. It wasn't until later that summer that the discussion of potential resistance with traits materialized.

So our feeling is that the wisdom of using, as we call the best of both worlds already was seen at that time. Now, definitely, the continued ramp that we see there has got to be some influence certainly from some of the university discussions about the traits, but our feeling is that traits will continue to improve, they will make inroads through dual action, but our position that is in long-term with corn soil insecticides, we can deliver that which seed treatment is restrained because of the sheer volume that they can put on that seed. So our thinking, whether it's a refuge acre, refuge in a bag, the concept there we just think it makes smart decision for a corn farmer to look at this practice of dual usage as part of their long range plans.

Chris J. Kapsch
Analyst, Topeka Capital Markets
Q

Okay, that's helpful, thanks. And then just a follow-up, is there any anecdotal suggestion that this year the pest pressure could be particularly acute in wake of last year's drought or...?

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Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Yes, we certainly heard that and I think it will be certain areas, where we've seen the greatest SmartBox activity this year is Iowa; that is by far taken the majority of our smart new systems. And so that may be an area where that gets hit by drought and maybe they do have more concern there going forward.

Chris J. Kapsch
Analyst, Topeka Capital Markets

Q

Okay, thank you.

Operator: Thank you. [Operator Instructions] The next question is from the line of Jay Harris with Goldsmith & Harris. Please go ahead with your question.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

Hello, good morning, Eric.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Good morning, Jay.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

Could you share with us the importance of corn products to your growth last year? Of those, what was it $65 million in revenue gains, how much of that was products sold into the corn crop?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Okay. David, you want to pull it up quickly? And do you have another question while we pull that out?

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

Well, I also would like to know what the percentage increase in that number was fourth quarter of 2011 to fourth quarter of 2012.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Q4 2011 versus Q4 2012.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

2012.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

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I was going to ask you to pull it together.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Yes, sorry, no I just wanted to make sure that you're pulling out the right one.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Okay. So, you're looking for year-over-year totals and you're talking about the corn soil insecticides as opposed to [ph] corn oil (44:50)?

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

And IMPACT, the combination IMPACT.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Okay.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

Yes.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Combination of IMPACT and then...

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

[indiscernible] (44:56).

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Just on the corn.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

[indiscernible] (45:03) SmartChoice, Force...

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Counter [indiscernible] (45:09) Counter.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

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[indiscernible] (45:13)

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

So that's Q4- Q4 and year-end-year-end.

Jay Richard Harris
Analyst, Goldsmith & Harris
Q

Yes. Then I'd like to hear you talk a little about the non-corn growth prospects of the company looking out over the next three years. We used to talk about a organic growth rate of this company of 5% and acquisitions of new labels adding – getting the total growth into the low teens. You've been generating very high growth rates organically the last couple of years. What do you see as a sort of an outline of your prospects in non-corn categories over the next couple or three years?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.
A

So, one, on the SmartBlock we see a nice opportunity for growth there and brand new chemistry putting on corn. We're excited about the new product line that we've launched under Envance and that has – so those products are exempt from EPA registration. They do require registration in other countries and we do have registration in Germany, and I think it's France, and should have UK very shortly and looking to expand over there. The whole concept of taking – and I will tell you these products – yes, they work extremely, extremely rapid and is comparable to the synthetic chemistries that we've tested as well and you got products that again are natural occurring products.

In the South American market, again, we see the opportunities for Central and South America for Mocap, which as you know we've been supply constrained. We believe starting in the 2014 season that we'll have the ability to grow that by about 50% now that we know that the product is available we'll have to kind of get back into those markets that maybe we were not able to supply.

Our sterile fumigant business continues to build maybe at that 5% level which is nice. We have new technology in [ph] Dasmid (48:11) which is essentially a solid version of [indiscernible] (48:15) that we're kind of excited about. And again with Thimet, we continue to see growth with Thimet, I think we were up what about 30% this year as we look to improve or to take advantage of the absence of Aldicarb in that market.

Now, we are looking at 2013 with lower cotton acres and potentially lower peanut acres, where – and due to the high demand for corn, but we point out that even though we miss out on cotton, our IMPACT and any of our soil insecticides delivers more than twice the margin per, net margin per acre that we'll get in I think corn and that we get in cotton and peanuts. So that's kind of that [indiscernible] (49:17) we now have some numbers I think in the percentages. So full year we're looking at an increase of – looks like about 47% or $30 million in Q4. We're looking at 20% increase of $6 million.

Jay Richard Harris
Analyst, Goldsmith & Harris
Q

Just to understand that, the shipments of products for the 2013 corn crops in the fourth quarter were up 47% from the similar number...

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Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

No, I was actually – no – that was out year-over-year. For the fourth quarter just 20% at $6 million. So we have strong sales forecasted in Q1 and certainly some – depending on the season in Q2 depending on how long we can move the material from the factory and get it into the ground before planting.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

What are you senses of the growth of the company – at what point does – well how much can corn drive the growth of the company over the next three years and will you get a significant non-corn growth attribute as well?

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Well I think right now certainly the [indiscernible] (51:03) the easy forecast for 2013, 2014, 2015 you can see now corn is a continuing growing driver, but we're taking – we got a number of other great opportunities that we'll be pursuing that should add to that growth and continue in the years that follow.

Jay Richard Harris
Analyst, Goldsmith & Harris

Q

All right. Thanks very much.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

A

Sure.

David T. Johnson
Chief Financial Officer, Treasurer, VP & PAO, American Vanguard Corp.

A

Thank you.

Operator: Thank you, gentlemen. We have reached the end of our allotted time for question-and-answer today. I'll turn the floor back to management for closing comments.

Eric G. Wintemute
Chairman, President & Chief Executive Officer, American Vanguard Corp.

Rob, thank you very much for that and for all you on the phone, appreciate the great questions and opportunity to speak with you. We'll look forward to talking with you again in the near future and thank you so much for your support and have a great day. Thanks.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. We thank you for your participation.

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