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American Vanguard Corp. (AVD)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

William A. Kuser

Director-Investor Relations & Corporate Communications, American Vanguard Corp.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

David T. Johnson

Chief Financial Officer, American Vanguard Corp.

Ulrich Trogele

Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.

OTHER PARTICIPANTS

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Chris Kapsch

Analyst, Loop Capital Markets LLC

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the American Vanguard 1Q 2021 Conference Call and Webcast.

At this time, all participants have been placed on a listen-only mode and the floor will be open for questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Bill Kuser, Director of Investor Relations. Sir, the floor is yours.

William A. Kuser

Director-Investor Relations & Corporate Communications, American Vanguard Corp.

Well, thank you very much, Julie. Much appreciated. Welcome, everyone, to American Vanguard's first quarter 2021 earnings review.

Our speakers today will be Mr. Eric Wintemute, the Chairman and CEO of American Vanguard; Mr. David Johnson, the company's Chief Financial Officer; and assisting and answering your questions, Mr. Bob Trogele, company's Chief Operating Officer.

Before beginning, let's take a moment for our 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 judgments as of the date of this call and such information will not necessarily be updated by the company.

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

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Bill. Good afternoon, everyone. Thank you for your continued support of American Vanguard.

First, I would like to comment on our quarterly performance then turn it over to David for more detail, and follow with an update on growth initiatives and our 2021 outlook.

With net sales for Q1 up by over 20% and net income up by a factor of 6, I'm pleased with our overall result. This is a good start to the year and stands in stark contrast to Q1 of 2020 when the global pandemic started. The bright spot for us was herbicides for corn, soybeans, fruits, and vegetables which recorded an increase of 86% in net sales and 60% increase in gross profit. We enjoyed sales increases among our corn soil insecticides. However, they were offset by decreased sales in Bidrin, our cotton insecticide as our customers worked through inventories carried over from last year when there was low pest pressure.

Further, our soil fumigant sales declined by about 10% due largely to water allocation issues in California. Our non-crop business came on strong led by DIBROM, our mosquito adulticide, pest strips, and increased license fees and royalties from our proprietary ENVANCE solutions. We continued to pursue expansion of the ENVANCE portfolio into additional markets.

In our international business, we continue to see strong performance in Mexico, improvement in Brazil, and higher gross margins in Central America. Also, our newly acquired Australian business AgNova performed very well and is providing both market access and a level of critical mass to Australia and the Pacific region. Further, our newly acquired greenhouse business, which features a line of biological solutions for soil health, nutrient uptake, and stress tolerance fits well within our markets in the Americas and Australia and has given us expanded market access into India, China, and Europe.

As David will elaborate, we continued to exercise financial discipline over the quarter. While operating expenses rose on an absolute basis, they dropped as a percentage of sales to 36% from 38% during the comparable quarter. Thus, we're seeing some economies of scale in our overall operations.

In addition, improved sales enabled us to reduce inventory levels when compared to the first quarter of 2020, despite the addition of the two new businesses. Our factory overhead absorption was up slightly due largely to the addition of the two greenhouse plants. We expect the factory efficiency will improve over the course of the current year. Finally, we finished the first quarter of 2021 with borrowing capacity of \$51 million as compared to \$36 million in the comparable period in 2020.

Next, I would like to turn to David for his comments on our financial performance with a focus on matters of particular interest to our investors. David?

David T. Johnson

Chief Financial Officer, American Vanguard Corp.

Thank you, Eric. With regard to our public filing, we plan to file our Form 10-Q within the next few days. As we have noted in previous calls, the company is fortunate to participate in industries that are considered part of critical infrastructure in all countries in which we operate. As a result, throughout 2020 and now into 2021, our

customers and suppliers and our employees and operations have all continued more or less without disruptions during the pandemic.

With regard to our sales performance for the first quarter of 2021, the company's net sales increased by 21% to \$116 million as compared to net sales of \$96 million this time last year. Within that overall improvement, our US sales increased by 18% to \$72 million and our international sales increased by 27% to \$44 million. International sales accounted for 38% of total net sales as compared to 36% of net sales this time last year.

With regard to gross profit performance, our US crop business recorded lower absolute gross profit on increased sales. There are a few reasons. First, we recorded lower manufacturing output compared to this time last year and lower factory recovery as a result. We believe we will catch up during the balance of the year. Second, we had lower sales of higher margin products, for example those products associated with our cotton market and higher sales of some lower margin products.

Our non-crop gross margin approximately doubled as compared to the same quarter of the prior year. There are two reasons. First, as Eric has already mentioned, we had improved sales of our US DIBROM products and our pest strips. And second, we secured an extension to one of our ENVANCE essential oil technology agreements and recorded increased royalties and license fees as a result.

With regard to our first quarter 2021 international sales, we saw increased sales and as a result increased gross profit. Half of the improvement was driven by the newly acquired businesses, AgNova in Australia, and Agrinos biologicals business, which both generated margins above our international average. In addition, our other international businesses benefited from an overall favorable mix of sales in the quarter.

Operating expenses for the quarter increased by 13% as compared to the same period of the prior year. This included the addition of the activities of the two newly acquired businesses, which together accounted for approximately half of the increase. Other increases included legal expenses, higher incentive compensation accruals linked to business performance and freight costs associated with volume and mix. Offsetting these increases were recorded lower marketing expenses and an improved performance on foreign exchange rates than in the comparable quarter of 2020.

Eric covered the sales performance and I followed up with comments on gross margin and operating expenses. Together, these factors generated operating income that was twice the level reported for the same period of 2020. From this statement, you can also see that during the first quarter, we recorded a gain on our equity investment in a business called Clean Seed which has some exciting technology that fits well with our SIMPAS business. We also recognized in other income the forgiveness of a Payroll Protection Plan loan that we assumed upon the acquisition of the Agrinos biological business out of bankruptcy.

Finally, we recorded \$560,000 lower interest expense in the first quarter of 2021 as compared to the same period of 2020. There were two factors. First, the rate on our loan is down as a result of US policy to stimulate the economy and second, we have lower borrowings caused by 12 months of cash generation from our businesses, offset by some acquisition activity.

Our income before tax is up 14 times in comparison for last year. From a tax perspective, we had a very similar base rate for the quarter of 31%. However, in 2020, we recorded very low taxable income and in addition, we have some benefits primarily related to the Tax Cuts and Jobs Act that were not available for 2021. All of these factors came together in the bottom line. We are reporting \$3.1 million, which is a six-fold increase compared to the first quarter of 2020.

Now, I want to turn my attention to the balance sheet. As you can see on this slide, we started 2021 with an improvement of 44% in cash generated by our activities. Further, you can see that working capital increased which is normal at this point in the company's annual cycle, plus we have two more businesses in 2021 as compared to the same quarter of 2020. The main driver for the increase in the first quarter relates to accounts receivable. You can see that in the statement of operations. Our sales were up more than \$20 million quarter-over-quarter.

As I noted at the start of my remarks, our customers have continued to operate without significant disruption throughout the pandemic. They are placing orders for our products and making payments when expected. We continue to monitor accounts receivable performance across our various businesses both in the US and abroad, and can confirm that at this time we continue to experience a pretty stable credit risk position.

At the end of March 2021, our inventories were at \$172 million, including about \$8 million of inventory, related to acquisitions completed since the end of the first quarter of the prior year. This compares with inventories of \$176 million this time last year. So we feel that we have controlled inventory fairly well during this early phase in the company's annual cycle. Our current inventory target for the end of the financial year is \$150 million. That compares with a \$164 million at the end of 2020. That target is obviously dependent on a few things including a continued low impact from the pandemic, normal weather patterns and no acquisitions.

With regard to liquidity, as you can see from this chart, we have been consistently moving debt down. You can see that our position at the end of the first quarter is significantly better than at the end of the first quarter of the prior year. Availability under the credit line has improved to \$51 million at March 31, 2021, as compared to \$36 million last year. Our credit facility is scheduled to terminate in June of 2022. And we are already in discussions with our lead bankers regarding a reset on the facility to ensure that it does not go current at the end of the second quarter of this year.

In summary then, in the first quarter of 2021, we have increased sales by 21%, seen manufacturing output lower than the prior year, and taken a higher level of under recovery factory cost as a consequence. Overall, margins have remained in the normal range for the company. We have managed operating expenses which increased in absolute terms, but reduced when expressed as a percentage of sales. Our pre-tax income increased 14 times and net income 6 times.

From a balance sheet perspective, accounts receivable increased driven by strong sales growth. Inventories increased, but to a lesser degree than last year, including the impact of the addition of the two new businesses. Debt increased, but continues to track below prior-year comparative periods. And finally, availability under the company's credit facility has improved.

We believe that this performance represents a good start to 2021.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, David. With that, I want to turn to our growth initiatives, beginning with our biological business. As we've mentioned in the past, we have assembled multiple product lines globally, offering soil health and biological solutions for farmers. Presently, these products generate over \$30 million in sales annually for us. We have intentionally taken this direction in light of the fact that biological markets is forecasted to grow at a compound annual growth rate of nearly 10%, which is far higher than that of traditional crop protection and is second only to precision ag and projected growth in the ag sector.

Over the past few decades, industry has spent billions of dollars in R&D to develop these solutions which, at first, were not widely accepted by growers. However, the tide is turning and growers have increasingly embraced this technology. Sustainability has become a vital consideration for farmers as farmland is considered their most precious asset. Growers want to improve yield while ensuring that their soil is healthy both now and for future generations. We're poised to address growers' demand with a portfolio globally of over 80 biosolutions that enhance soil health and sustainable agriculture.

Let me now turn to technology and specifically to the subject of how our SIMPAS Ultimus technology offers an unrivaled solution for the carbon credit market. First, let me set the stage. As you know, climate change has become a subject of enormous interest globally. Along with infrastructure, it is one of the most important pillars of the current US administration. In the interest of addressing climate change within the ag industry, we have seen a proliferation of carbon credit markets globally, some private, some public and each with its own set of rules and standards. Within the past month, the Growing Climate Solutions Act of 2020 was introduced into the US Senate. Under the act, USDA would become the national authority for certifying both carbon credit programs and verifiers for compliance with these programs.

Similarly, three days ago, the European Commission published their own guidance on carbon farming in which they stressed the importance of monitoring, reporting, and verification or MRV, stating MRV is integral to results based carbon farming schemes as it is the step that quantifies the impact of climate actions. That is the result. In short, governments are moving at a rapid pace to organize and standardize the carbon credit markets and a common theme is that of MRV. With that background, let me turn to our patented SIMPAS Ultimus technology and explain why it is ideal solution for the carbon credit market.

The SIMPAS part of the technology is a precision application system that we have described before. It is a variable rate, multiple product dispensing system that enables grower to use only what is needed precisely where it is needed on the field as per an agronomist prescription. Further, SIMPAS is not limited to any particular type of input. It can dispense crop protection products such as insecticides, nematicides and fungicides as well as biologicals and nutritional.

This season, planters using our SIMPAS technology will be treating 60,000 to 70,000 acres in the United States using our products alone, while strategic partners are testing their own products. In fact, I will now share a brief video that was shot two weeks ago by Asmus Farm Supply, a leading-edge retailer located in Iowa simultaneously applying insecticide, a fungicide and a micronutrient through their 24 row SIMPAS system.

[Video Presentation] (00:19:03-00:19:30)

Now, let's turn to Ultimus which through the use of RFID tags and our ISO configured software platform, measures, records and verifies the use of crop inputs. When coupled with the permanent ledger system such as blockchain, the Ultimus record of these activities and transactions becomes immutable.

To demonstrate how SIMPAS Ultimus can address the carbon credit market, allow me to use a concrete example. Agrinos makes a product called iNvigorate which is a consortium of 22 microbials that improves soil health, while embracing the root's ability to absorb nutrients such as nitrogen and phosphorus. Let's say as a part of a carbon credit program, a farmer wants to reduce the use of nitrogen-laden synthetic fertilizer. With SIMPAS Ultimus, by using iNvigorate and a less than full rate of synthetic fertilizer, the farmer could measure, record, and verify the application and present the permanent record to the carbon program authority.

Interestingly, working with the University of Illinois in 2018, Agrinos conducted this very exercise and demonstrated using half rates of nitrogen and phosphorus fertilizer on corn with iNvigorate generated the same yield as a full rate fertilizer alone.

One other point worth mentioning here is that in certain European nations, farmers are already being required to do a pre-plant soil analysis. If they find a high level of nitrogen in the soil, they're restricted as to how much nitrogen they can add into the field. With SIMPAS Ultimus and the soil health product like iNvigorate, those farmers could not only ensure compliance with the mandate, but also improve bioavailability of nitrogen, potassium, and phosphorus to the crop. Before leaving this topic, I'd like to share a quick video showing our team utilizing the SmartFill apparatus to fill smart cartridges with our zinc micronutrient.

[Video Presentation] (00:21:52-00:22:52)

By the way, we have successfully engineered that SmartFill system so that it can be deployed anywhere globally at a very reasonable cost. As you can see then, we are unique in offering a comprehensive solution towards advancing sustainable agriculture and addressing climate change. SIMPAS offers the farmer prescriptive delivery of multiple products for use only where needed and as an ideal platform for delivering soil and plant health products. And as I mentioned, we offer over 80 biologicals from our own portfolio. Ultimus completes the picture as a leading MRV technology for the fast developing carbon credit market.

Turning now to full-year 2021, we are encouraged that what we are seeing in the row crop markets. After eight years of relative stagnation, which is the longest running down cycle in the century, commodity prices for corn have taken off. After floundering around \$3 to \$4 per bushel, corn has now jumped to \$7.50. Similarly, soybeans have risen from the \$8 to \$9 range to over \$15 a bushel. These prices should have a positive effect on the farm economy. Thus, we expect that weather permitting, row crop farmers will be inclined to invest in their crops with greater confidence and less restraint than we have seen in the past several years.

Current sales activity for our crop products has been strong during the second quarter. In order to ensure a reliable supply of products and to respond swiftly to changing market conditions, we continue to invest in our core manufacturing assets. In this vein after being offline for several years, we have resumed synthesis of our unique PCNB fungicide product line at our Los Angeles facility. As you may recall, PCNB under the Turfcide brand is used for snow mold control and turf applications such as golf courses and under the BLOCKER brand to control a common scab in potatoes. Its revival will help not only sales performance but also factory absorption.

On a consolidated basis then, we expect full-year 2021 net sales to increase by low-double digits as compared to those in 2020. In fact, we reiterate that other measures from this slide which we presented in our last earnings call with respect to gross margin, operating expenses, and the like. However, we add that we expect that our net income growth to be even stronger than that of sales.

In summary, based on Q1, we're off to a strong start and looking forward to a better year. We will now entertain any questions you may have. Julie?

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Your first question is coming from Gerry Sweeney at ROTH Capital. Gerry, your line is live.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

Good afternoon. Thank you for taking my question.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Sure.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

So, I was digging into a little bit more on American Vanguard obviously just transfer coverage recently, but I wanted to talk a little bit about biologics. I know it's an important growth area and you have both internal development and made some acquisitions, i.e. Agrinos late last year I believe. Could you maybe just provide a little data on what your biologics revenue would have been for the entire 2020 with Agrinos included? And maybe just give us a little view as to how you see that business developing next year and into 2024-2025, where I think you also provided some targeted levels?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yes. I think, you mean, if we included the greenhouse for the full year, it would obviously be north of \$30 million. As we look – going forward, I think we've provided a slide obviously showing the biologics growing I think by 2025 to over \$100 million, correct?

David T. Johnson

Chief Financial Officer, American Vanguard Corp.

A

Yeah.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yeah.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

Okay, got it. And then maybe just switching gears. A similar question just with SIMPAS, 75, 85 I think units out in the field. Just curious, if you've gotten any feedback on the systems yet or at what point you expect to get some of that feedback or definitive data they may be looking for? And...

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

I mean, the first feedback we got was the guy going through the fields with [indiscernible] (28:24), the one video that we've received so far. And we've got our people out in the fields now kind of recording and monitoring. And when we things when things are planted then we will see any issues or questions that might have occurred. We've got people that are monitoring every unit that's being applied and getting any problems that might occur.

When we go actually to take what is the true return on the investment that takes us more to kind of November timeline after they've harvested and processed the data. But we plan on rolling out a more aggressive plan or launch in July of this year. Farmers, tend to make equipment decisions in the third quarter. And so we're getting everybody together to lay out exactly what the program would look like for the 2022 season.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

Got it. And on that more aggressive rollout, I believe you're partner with Trimble, would it be – just, have you any vision or sort of what that would entail? I'm not sure if it's direct farmer visits or demonstrations, things like that. How do you sort of get a little bit more of the, I guess, the word out there per se?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yeah. I'm not sure of the trade shows, if we're doing the Farm Progress Show this year, because obviously, this last year, we weren't able to do that.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

Yeah.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

We did – have completed a whole group of videos, from assembly to application, how to write prescriptions, and of course, we've got staff that are available just to service on a moment's notice. And Bob, I don't know [indiscernible] (30:27).

Ulrich Trogele

Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.

A

Yeah. So, two events coming up this summer, where we're going to be likely present. One for sure is in July, the Hefty Seed retail farm show. So, Brian Hefty has told us that he's going to have a live event and that draws a lot of farmers from the North Dakota-South Dakota-Iowa area. So, we'll be present there doing a live demonstration. And then, the Farm Progress Show which is the biggest show which we've been present, that we were present in 2019, we were top three technologies in the business that year as far as being presented, which is the biggest farm show, I believe, in the United States is going to be live in August.

And I think, well, if it is live, we'll probably be there and have a live demonstration. So those are two events that just come become top of mind. [indiscernible] (31:32) you got to remember this will be a very profitable year for farmers. And one way that they will be managing their taxes and their cash will be to invest in equipment.

Gerry Sweeney

Analyst, ROTH Capital Partners LLC

Q

Got it. That's helpful. And I apologize. I probably should have asked this by jumping over to SIMPAS. But I know the Zevo product, I think it's the Procter & Gamble they've licensed the formulation from you. And I believe in one of the recent calls you talked about that product maybe rolling out through additional store locations and sort of just the overall growth of that. Do you have any – would you be able to provide an update on that by chance?

Eric Glenn Wintemute*Chairman & Chief Executive Officer, American Vanguard Corp.*

A

Yeah. Our understanding is it's widely distributed through Walmart. That was the big change. They were with Home Depot and Target and all of their stores last year. And this year, they're adding – they've indicated they're adding Walmart and they are in the Walmart stores.

Gerry Sweeney*Analyst, ROTH Capital Partners LLC*

Q

They are in Walmart stores. Got it.

Eric Glenn Wintemute*Chairman & Chief Executive Officer, American Vanguard Corp.*

A

Yeah.

Gerry Sweeney*Analyst, ROTH Capital Partners LLC*

Q

Okay. Got it. Okay. That's helpful. I appreciate it. Thank you.

Eric Glenn Wintemute*Chairman & Chief Executive Officer, American Vanguard Corp.*

A

Okay. Thanks, Gerry.

Operator: Your next question is coming from Chris Kapsch from Loop Capital Markets. Chris, your line is live.

Chris Kapsch*Analyst, Loop Capital Markets LLC*

Q

Yeah. Good afternoon. I may have missed some of the formal commentary around couple of my questions. But just on the cotton end market, I think you said there's Bidrin destock for excess challenge or anyway. Just wondering if you expect that to persist through this season or will that be worked through? And is there any way to quantify what the drag is on your overall outlook for the year from that one product?

Eric Glenn Wintemute*Chairman & Chief Executive Officer, American Vanguard Corp.*

A

I think most of our impact is in Q1. I mean, first month sales here were pretty good in this quarter. But it's a function of the early market is strips pressure. And I think we're – I think it's looking okay for that. But plant bug and stinkbug are really the – where it really takes off. And that's people starting in July and August [indiscernible] (33:58).

Chris Kapsch*Analyst, Loop Capital Markets LLC*

Q

Okay. So any drag you're saying may have been limited or isolated in the first quarter?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

That's what it looks like right now, yeah.

A

Chris Kapsch

Analyst, Loop Capital Markets LLC

I think Bob just made the comment that farmer profitability is going to be pretty good this year. I would hope so at \$7 corn right and where soybean prices are. So the question I guess is to the extent that they want to take advantage of that now and try to press for yields, where can you see that show up in your demand profile? I mean, I guess, we're not through the planting season. So are you seeing incremental demand for CSI currently? And then either your Impact Herbicide or some of the repackage blends that are based on Impact, are seeing the channel pull forward some of that? I would imagine that there's going to be a press group for yield there if you take advantage of that pricing.

Q

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Yeah, I agree. We are seeing continual sales of our corn soil insecticides in this quarter so far. As you pointed out, planting is not complete. Once planting is complete, I think there'll be more effort put in keeping the field clean and knocking down the weeds and herbicides, post-emergence herbicides will probably be stronger in this quarter than maybe they have been with the depressed corn price. And also keep in mind, we've got our full line of soybean herbicides now that – so we have its kind of double uptick there.

A

Chris Kapsch

Analyst, Loop Capital Markets LLC

Okay. And then, I know you just mentioned the broader distribution for Zevo, but in your prepared remarks, you mentioned an adjustment to the ENVANCE royalty agreement. I was hoping you could elaborate, is that an extension of the technology and when – so it's been that agreement – that the royalty shows up in certain quarters but not others. It's been kind of I want to say random but it's been kind of hasn't been consistent. Is that changing this year? Will there be a flow through of royalties every quarter? Any elaboration there would be helpful from a modeling standpoint.

Q

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Yes. It is set now for quarterly. It has been quarterly all along. But accounting-wise, there was a change in recognition of – from what periods in advance you would recognize the royalty. And then, as you mentioned, we had some licensing increases in this quarter that aren't there every year, I mean every quarter.

A

Chris Kapsch

Analyst, Loop Capital Markets LLC

I'm sorry. Can you – is there any way to elaborate is that related to – I know you have here this ENVANCE technology you think is – you talked about it being applicable in broader categories or what time – is this adjustment speaking to that or is there any timeline on when that may be commercialization opportunity for AVD?

Q

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

So, it is in addition to the other technologies. We're looking for license partners continuously as we see broader market opportunity. But as to specifics of who the license agreement is with, we're not able to talk about that.

Chris Kapsch

Analyst, Loop Capital Markets LLC

Q

Okay. And then, sorry, just on your cash flow statement, it looked, your – the receivables was a pretty big drag on working capital. I'm just wondering if you can elaborate on why such a big number there on operating cash flow.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yeah. I mean, sales were up 21%. So that's really what we're looking at.

Chris Kapsch

Analyst, Loop Capital Markets LLC

Q

So, okay. So, is it timing? I don't know what kind of terms you're on, but I – so is there stronger demand trends towards the latter part of your order there?

David T. Johnson

Chief Financial Officer, American Vanguard Corp.

A

It was fairly even over the quarter. And given the fact this global business with different terms all over the world, it's a bit difficult for me to respond to whether it's longer terms. But yeah, it's mainly driven by the sales in the quarter.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

I mean, our row crop business [indiscernible] (39:04) corn soil insecticides. Those are generally June 15 terms. So...

Chris Kapsch

Analyst, Loop Capital Markets LLC

Q

Okay, there you go. All right. Thank you very much.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Okay. Thank you, Chris.

Operator: Your next question is coming from Brad Evans at Heartland. Brad, your line is live.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Good afternoon, everybody.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Hey. How are you doing, Brad?

A

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Thank you for taking my questions. Appreciate it in advance. Just to amplify on a previous question, just to put more meat on the bone. If – I mean, looking across the commodity landscape, it seems like there's fairly strong pricing dynamics across most commodities these days. How do you feel about your ability to – and I understand you've given us revenue guidance for the year, but how do you feel about your – the organization's ability to respond to perhaps stronger demand than you're currently forecasting?

Q

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Well, there's two parts to that. One, I don't know if you were alluding to price increases, but we have put price increases through in the US on the portion of our volume at this point. So that's one piece. From those products as well and I think higher demand, most of what we're – what our strong margin products are for the US, we control the manufacturing. And so, we're constantly taking – looking at any updates in an activity where we might have stronger demand and shifting production where we can.

A

In our inventory this quarter, generally, we do start building in Q1, but it was – our finished products were equal to our – to where we were at the end of the year. But we've probably added about \$8.5 million or \$9 million worth of raw materials, because again with 50-plus-percent margins, we want to make sure if there's upsides we're in a position to capitalize.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

That's very good. Thanks for that – the answer there. I guess I was more angling in on – you answered part of the question I was angling in on and that is on the volume side. So, just to elaborate more fully. So from a supply chain perspective, downstream if you were to see stronger demand, you feel like your downstream suppliers would be able to provide you precursors and other chemicals that you require to formulate?

Q

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Yeah. Correct. I mean we certainly have some raw materials that come from Asia. A good portion of what we're doing is domestic sourcing, but it doesn't mean there wouldn't be bottlenecks somewhere. We've experienced delays at the ports particularly in the West Coast where the freighters have stacked up. That seems to relieve some. We're seeing freight essentially double of what it was a year ago as people are fighting to get on the vessels and get their goods moved.

A

But we've tried to take a position of getting ahead of that so that we wouldn't get held up. And again, we're meeting informally every month walking through any SKU where we see some particularly upsides and making decisions as how much more safety stock we might want to build versus what's realistic and what's not. Of course, it's a balancing act. We don't want to build inventory and have it sitting around. But on products that are 60-plus-percent margin, those were more inclined to make sure that we don't run out of particularly those products where we're the sole suppliers of those particular active ingredients.

Bradford Allen Evans*Analyst, Heartland Advisors, Inc.*

Q

And you alluded to this so it sounds like you feel like you got pricing power at this point to be able to, if you were to see any type of pricing dynamics in the supply chain that you can pass that through in light of the current demand environment?

Eric Glenn Wintemute*Chairman & Chief Executive Officer, American Vanguard Corp.*

A

For the most part, yes. There are certain products that are sold by a variety of people where we're not in a position to get those products we're not going to build inventory for, but where we have that power, yes, we will try to protect any upsides.

Bradford Allen Evans*Analyst, Heartland Advisors, Inc.*

Q

If I may just continue another question just looking at the building drought in the Corn Belt and in the overall Midwest as well as out West. I'm just curious what are you hearing from farmers in terms of their concerns around pest pressures as we move through this growing season?

Ulrich Trogele*Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.*

A

Yeah. Brad, so it's a bit early, right, because they're just starting the planting, right? So, looking at the planting, it looks to be ahead of last year. But if you get into the, I guess, Northern Western Plains, they have a water issue, right, so that's kind of two-sided coin. On the one side, it's bad for those farmers located in that area. But overall it squeezes the output. And that's one of the reasons you're seeing right now the corn price and the soybean price going up, especially into the Dakotas.

You also have problems with drought in Brazil, right, in the [indiscernible] (45:05) area. Yeah. Drought issues in Argentina, the Paraná River which is basically the shipping route for Argentinian grain is at a very low level and they can't ship the grain. So, this is the dynamics. It's almost like a perfect storm for commodity prices. And the farmers who do have any old inventory or just holding onto it because they think the prices are going to go up, there's not a lot of that. And they're already starting to look at what do we get for next year's crop.

So I think we're seeing a really uptick in the cycle. The only question mark you have is how much is China going to buy, right? And it looks to us – it looks like we're ahead on the export market. So, I don't know if that answers your questions, Brad.

Bradford Allen Evans*Analyst, Heartland Advisors, Inc.*

Q

Yeah. Bob, thank you. That's very helpful. I just recall that there was some discussion at the end in last season that there was some concern that rootworm infestations had returned to the Midwest. And as a result corn-on-corn planting and some – and now we've got the drought building. So I'm just curious whether you heard anything as to whether that was becoming more problematic.

Ulrich Trogele*Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.*

A

Yeah. Fortunately for us, those are not the pockets where we're strong with our CSIs right or didn't have strong CSIs. A little bit concerned in Iowa. Iowa is starting to dry up a little bit.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

But as far as – once they're planted, they've got the corns – they've either used our product or they haven't.

Ulrich Trogele

Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.

A

Yes, that's correct.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

So the only question then comes okay maybe herbicides might slow down. But if there's limited water you want to make sure that it's there for your crop and not for weeds. So – and again with these prices, you can afford to do those kind of inputs.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Okay. So my last question then is just we're – several quarters ago, Eric, as a team you all had given some fairly – some nice targets for your financial performance out to 2023 and 2025. I'd just be curious kind of how does the – as we now enter into a – you duly noted that we've gone through this very long downturn in the ag cycle. I'm just kind of curious how you think – if we are now in the cusp of perhaps a bull market in the ag space, I'm just curious how you – do you have more – or are you more confident around those 2023 and 2025 targets you laid out?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

I would say, yes, because having tailwinds is a lot easier than having headwinds. And again, after eight years of headwinds, it's not like we can just jump up and down and say, this is going to rise the next three years. But having been through a lot of cycles over the years, things are lined up pretty well, particularly coming out of this pandemic, it looks good to me.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Is it – I mean, anything is possible obviously. So not be sarcastic, but I guess, do you think that if this bull market in the ag space kind of persists longer than one year, do you think you can – is there a chance you could achieve the 2023 targets a little sooner than you thought?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

In 2022? Well, I mean, it obviously would move things up so...

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Yes.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yeah. Exactly.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Yeah. I guess, my question is whether you'd be able to achieve the 2023 targets in 2022?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Yeah. I mean, obviously, given the three to five-year target says okay, there is some variance. And obviously if we've got tailwinds, we'll move faster. And if headwind or something else comes and flips around, that's the reason in the three to five. So – but right now, yeah, it looks good.

Bradford Allen Evans

Analyst, Heartland Advisors, Inc.

Q

Okay. Congrats on a great quarter. Good luck to you, guys. Thank you.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

A

Thank you.

Operator: [Operator Instructions] Sir, there appears to be no further questions in the queue.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Okay, Julie. Thank you very much and thank all of you on the phone, and we look forward to our next session which will be our shareholder meeting, I guess, which will be first week of June. Okay. Thank you very much. Have a good evening.

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference call and webcast. You may disconnect your lines at this time and have a wonderful day. Thank you for your participation.

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