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American Vanguard Corp. (AVD)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the American Vanguard Corporation First Quarter 2022 Conference Call and Webcast. All lines have been placed on a listen-only mode, and the floor will be open for questions and comments following the presentation. [Operator Instructions]

At this time, it is 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, Katz. And welcome, everyone, to American Vanguard's first quarter 2022 earnings review. Our speakers today will be Mr. Eric Wintemute, Chairman and CEO of American Vanguard; Mr. David Johnson, the company's Chief Financial Officer; and also to assist in answering your questions, Mr. Bob Trogele, the company's Chief Operating Officer.

Before beginning, let's take a moment for our usual cautionary reminder on slide 2. 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 as detailed in the company's SEC reports and filings. All forward-looking information represents the company's best judgment as to the date of this call. Such information will not necessarily be updated by the company.

Now, we'll go to slide 3. There's a further comment to be made today regarding the pending proxy solicitation. Part of the information set forth in this presentation today refers to our Annual Meeting of Shareholders, which is scheduled to occur on June 1, 2022, using a virtual meeting format. As indicated in detail on slide 3, you will see that stockholders may obtain information regarding the proxy by referring to the company's Annual Report Form 10-K, which was filed with the SEC for the last fiscal year and which – that was filed, excuse me, on March 14 of this year, or you can refer to the definitive proxy statement, which was filed with the SEC last Friday, April 29. Any information updates that occur during the proxy solicitation period will be filed with the SEC and shareholders can find such information by referring to the SEC's website.

So, with all that said, I'll turn the call over to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Bill. Advancing on slide 4, just I will begin with some opening remarks. We'll turn it over to David, who will give a further update on the quarter and the financial review. I'll come back and talk about our growth initiatives and then some concluding remarks after that.

So moving on to slide 5. These are the performance targets that we gave you on our last conference call, and what I'd like to do is just do our Q1 scorecard versus these performance targets.

So, first, on revenue growth, we said 8% to 11% in our [ph] Q4 earnings. (00:04:14) We've actually increased by 29%, so well outpacing our target. Our gross profit margins, we said, would be somewhere in the 38% to 40% for the year and we're actually running ahead of that at 41%. I'll comment a little bit more on that later, as well David.

Operating expenses as a percent of sales, we try to move that down as we get more leverage and increase. We put a target of the 31% to 33%. We actually did come in at 31% of sales. Our interest expense, we said we expect to be similar to 2021. Actually, we're running at 58% below for the first quarter.

Our tax rate, we expect to be wind up in the mid-20% range. We're actually at 31% for the first quarter, which is similar to what we did in first quarter last year. We are expecting overall to be somewhere in that 27% tax rate for the year.

Our debt-to-EBITDA target was less than 0.1 (sic) [1.0] (00:05:28) times at year-end 2022 without acquisitions, point – less than point – 2.5 times with acquisitions. Of course, that'll vary depending on the size of the acquisitions during the course of the year. But right now, we're at 1.25 times our EBITDA and we would expect increase as we ramp up to service this calendar year.

Net income, we had some lofty goals for the year of 60% to 70% increase. We're actually in the first quarter up 224%, so, again, very well on our way. And what we didn't talk about last time was EBITDA, last year, we just forecasted growth faster than revenue. And for the first quarter, we're actually at 65% increase over 2021.

So with that, let me switch over to slide 6. I've hit this topic hard at our Q3 and our Q4 year-end statement. I do think it's critical. I see the performance of a number of companies. And again, those companies that can perform well in these inflationary supply retrained times are going to perform well. Those that don't are going to have difficulty. And I think we're seeing that.

So five bullet points that we said we're focusing on. One, adding new sources for critical raw materials. We've identified those raw materials that are the most challenging. We have picked up additional supply sources. And at this point, we appear to be covered for the balance of the year.

We have seen low details of adjuvants, bottles, caps, labels, all kinds of [ph] cases, (00:07:31) but one of the things that we talked about is placing orders well in advance. Just in time ordering doesn't work anymore. We're placing orders through the balance of this year for what our factories are going to need and what we need for sales. We make adjustments as needed, but that's kind of a critical point to give our suppliers as much lead time as possible.

Forecasting our cost of goods on a rolling 12-month period, yeah, this is working well. This is a transition for us. We had not done this kind of work on a monthly or sometimes even weekly basis to update our cost of goods by SKU. But with that, we have been able to communicate well to our global marketing team. And as such, they were able to kind of reflect price increases. We also had a freight surcharge in the US of 2%. And overall, this is a key factor on how we were able not only to preserve margins but to improve margins in our first quarter.

And lastly, meeting with our factories on a weekly or more basis. We have six factories in North America. Some are very strained in supply. It's taking a lot of coordination. We are increasing factory output, which is great. Our team is working very, very hard and we have a significant number of orders that are backordered, but we so far are able to stay ahead of the actual use periods, and it's taking coordination, but we're very, very pleased that we've been able to meet this extraordinary demand so far.

Okay. So, David, moving on to slide 7, [ph] I know you want to give us some (00:09:28) update on the finance.

David T. Johnson

Chief Financial Offer, American Vanguard Corp.

Thank you, Eric. With regard to our public filing, we have filed our Form 10-Q just after the close of market today.

Move on to slide 8. The company has started 2022 with a very strong sales performance as we forecasted at the last call. Note here on slide 8 that sales ended at $149 million, which is up 29% as compared to the first quarter of 2021, powered by a 61% increase in our US crop business. Those sales were driven by grower demand for our yield-enhancing row crop products that are used, for example, on corn in the Midwest. We were also successful during the quarter in collecting freight surcharges to defray the additional expenses that we are incurring on both in and outbound freight as the global logistics challenges continue.

Our non-crop sales were down, as forecasted, as compared to the first three months of 2021, when we benefited from a $3 million upfront license fee from our Envance business. Our international business recorded solid increases in sales, driven by a strong sales growth at our operations in Mexico and Central America.

Move on to slide 9. As you will note in slide 9, gross margins for the first quarter of 2022 improved from 39% in 2021 to 41% this quarter. Included in that performance, gross margin for our US crop business increased from 39% to 46%, driven by both a strong mix of sales focused on our premium corn and soybean products and timely price increases.

The reduction in gross margins for our non-crop sales from 54% to 45% in 2022 is attributed to the absence in the current year of the upfront license fee I just mentioned. The slight decline internationally from 33% to 31% reflects a mix of stable sales of the company's off-patent branded products and strong growth from third-party products that we sell through our market access regional distribution businesses.

Move on to slide 10. We are pleased with our operating expense performance during the first quarter of 2022. As you can see from slide 10, these costs were up 12% quarter-over-quarter, but that was on sales that increased by

29%. This result represents a significant improvement in operating leverage, as operating expenses represented 31% of sales in Q1 2022 as compared to 36% of sales this time last year.

In absolute terms, the quarter-over-quarter increase amounted to $5 million. The main driver related to outbound freight, which was up $2.1 million, accounting for 42% of the total increase. When considering the trend of improvement in operating efficiency, if you look back at our previous filings, you will find that in 2020, we reported operating costs of 34% of sales. And in 2021, we reported costs amounting to 33% of sales. This strong start to 2022 puts us on a good track to again achieve our strategic target of improving operating leverage of 1% plus of sales each year.

Move on to slide 11. In summary, when looking at slide 11 for the first quarter of 2022, our net sales improved by about $33 million, or 29%, as compared to the same period of 2021. Our gross margin performance improved from 39% to 41% of sales, despite significant general inflationary pressure, particularly related to inbound logistics.

Our operating costs, which, for the company, include outbound freight and logistics, have increased, but at less than half the rate of our sales increase, generating a significant improvement in operating leverage. We have maintained a strong balance sheet for the quarter with significantly lower average debt and lower interest expense, down 58% as compared to the same three-month period of 2021.

Finally, our effective tax rate is basically flat with the same period of the prior year. Our net income at $9.9 million is up 224%, and EPS is at $0.33 per diluted share as compared to $0.10 this time last year.

Move on to slide 12. Historically speaking, the first quarter of each year is a period when the company expands working capital to manage customer demands for the rest of the growing season. As you can see on slide 12, in the first quarter of 2022, before working capital, we generated $19 million from our operating activities as compared to $10.5 million in the same period of the prior year, an increase of 81%.

You can also see from the slide that we're very consistent in expanding working capital at the start of the new year. And despite the very strong increase in sales, we believe working capital expansion has been contained well.

Furthermore, our use of cash in investing activities has been modest. Last time we talked, we indicated that we plan to start repurchasing our stock in the market. During the quarter, we purchased approximately 332,000 shares as part of a program to purchase up to 1 million shares of our stock over the course of the next several months.

Slide 13. The graph on slide 13 shows our performance of consistently driving inventory down compared to sales, even as our business grows. The blue highlighted columns are at the same point in the company's annual cycle. Inventory is a critical focus area for the company. We hold a monthly meeting devoted to the subject attended by key stakeholders from across the global business.

This graph shows that as our business grows, we are achieving significant and sustained improvements in manufacturing and operational efficiency. For example, in March 2022, our inventory in hand stands at 112% of quarterly sales. At this time, last year, inventory amounted to 154% of quarterly sales.

Moving on to slide 14. Debt at the end of the first quarter of 2022 has reduced by about 31% since this time last year. We have a business with a strong annual cycle, which tends to increase debt in the first two quarters and brings debt down at the end of the year.

If you look at the blue columns of the graph on slide 14, you see the position – the Q1 positions for 2020, 2021 and 2022. It shows that we are achieving consistent debt reduction over the period. In fact, debt is down by $70 million since March 31, 2020.

At the same time, with regard to liquidity, we have a stronger first quarter of 2022 as compared to the first quarter of 2021. This is resulting in an improvement in the rolling four quarter adjusted EBITA for the purchase of covenant compliance. The last four quarter adjusted EBITDA for our covenant calculation amounted to $76 million as compared to $56 million this time last year, an improvement of 36%.

As a result of reporting debt down 31% and a 36% improvement in our rolling four quarter adjusted EBITDA, availability under the company's credit facility has significantly improved from $51 million this time last year to $166 million at March 31, 2022.

Move on to slide 15. We have captured the essence of our first quarter performance on slide 15, which in summary is as follows: sales and gross margin are up; operating expenses, which include outbound freight, have increased at a lower rate than sales and as a result, improved to 31% of sales as compared to 36% this time last year; average debt has reduced and as a result, interest expense has dropped by 58%; net income is up 224% compared to this time last year; and EPS is at $0.33 per diluted share as compared to $0.10 per share last year.

As far as the balance sheet is concerned, inventories are lower than this time last year. Our customers continue to pay on a timely basis, causing no change in our overall credit risk profile. Our accounts receivables have increased as a result of the strong first quarter sales. Debt is down significantly compared to this time last year, and availability under the credit line has improved more than 3 times.

With that, I will hand back to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Excellent, David. Thank you. Move on to slide 16. I just want to touch on our growth initiatives.

First, our Green Solutions update for Q1. Our product revenue sales are up 42% quarter-over-quarter. Strong performance virtually everywhere: LATAM, China, Mexico, Brazil, India, Australia. Ukraine being the one that we're not expecting to hit our targets there. They do have – it's not significant, but it's $1.5 million we had going to about $2.5 million.

They are projecting, both from a crop standpoint and from our sales standpoint, that they'll be about two-thirds of target. The team is obviously under a lot of stress. But at this point, we just wish them our best and we hope that they all stay safe.

For US, we're having a strong year. Again, US growers seem to be much more open to kind of Green Solutions product portfolio that we have. So we're up 143% in the first quarter versus last year. Our full-year budget is $52 million, which is a 30% increase over 2021. And as I said, right now, we're at 42%, so we're exceeding that so far. Gross margins are at 42%, which includes third-party distribution products, which are not at margins as our proprietary products.

SIMPAS, slide number 17. Moving on now to slide 18. On our last call, we talked about our 2022 commercial success – our commercial SIMPAS system sales. We were targeting to get to 70 systems, up from 50 that we had mentioned before. Pleased to report that we're now at 80 systems. We've had some delays, which have – in planting, which has allowed us to get more systems set up into – particularly into the Midwest area.

Sales have outpaced our supply for 2022. We do have back orders. We added more resources to meet increased demand, not only for this year but going forward. We've added people in technical support, in installation, in agronomist training. So as we ramp up for the 2023 season, we're putting the resources involved to make this happen.

So our 2023 target of 125 systems seems on track, where we've got, again, a backlog of both strong interest and orders of about 80 systems. So we will give further guidance on that 125 systems as we get into our Q2 conference call in August.

With adding to the toolbox for products to go through SIMPAS, we announced the three new products that would be going into the system 2022. We've also just recently added BASF inoculant for soybean called Rhizo-Flo, which we're very pleased and have great expectations for.

Just a little bit on US Ag, this is slide number 19. Farm income was expected to be about $110 billion, which is certainly very healthy. Now projected to hit $120 billion, which I think only is surpassed by 2012 at $124 billion. The rain delays are good for Midwest inputs. Year-to-date corn is at 14% planted versus 42% this time last year. So this bodes well for herbicides, for insecticides, for disease control, for nematicides.

We are seeing more cotton as some of the acres there are shifting from corn to cotton and soybeans in the south. Overall, we think corn will be about 89 million to 90 million acres. Soybeans, 91 million to 92 million acres and harvested cotton, we think, will be about 9.5 million to 10 million acres. And that's an important crop for us as well.

But the bottom line here is that farmers are investing in at-plant inputs and the whole driver for them is to maximize yield. And that's what we think is the mantra going into this season in 2022. I also say that outlook for 2023 so far is also looking very good because it does not seem that demand is going to deteriorate.

Shifting to slide 20, talking about, again, our strategic growth targets here. We're, obviously, off to a great start in 2022. As we get into our second quarter, we'll have a better vision of any material that might be in the channel and can update this number for 2022, any targets that we have.

And looking at the green initiatives, we have that $52 million, which is about 30% increase. We're forecasting about a 35% increase for next year and then 40% in 2024 and in 2025 to meet the target that we've got. And at this point, we're not – we don't have any reason to believe that we won't hit those targets.

And I mentioned with SIMPAS, things are looking very strong there. We'll provide additional color at our next conference call. But the one thing I want to add to this slide, we were asked by a couple of our key shareholders about, okay, if you hit your performance targets of that $950 million by 2025, what kind of EBITDA might we expect? And so, kind of our performance target for 2025 would be in the range of $155 million in EBITDA.

Okay, moving on to slide 21. I've got some remarks to make. As many of you probably have heard, we are the target of a contested proxy solicitation by hedge fund known as Cruiser Capital. They're seeking to replace three of our directors at this year's Annual Meeting of Shareholders, which is scheduled for June 1.

We're not going to talk a lot about the proxy contest on this call, but I do want to acknowledge the circumstances and point out a few things. First, we are not soliciting proxies on this call. Second, we filed a definitive proxy statement with the SEC last Friday, April 29. You should review that statement and other SEC filings for more information related to this contest. But as they contain important information, those filings are available on the SEC's EDGAR website as well as on our Investor Relations section on our website at www.americanvanguard.com.

Moving on to slide 22, this illustrates that American Vanguard has delivered attractive returns and strong performance relative to the Russell 2000 over the last seven years.

On slide 23, it shows that our CAGR growth since the ag industry peak in 2012 is at 4.8% versus industry that's at 1.3%.

Moving on to slide 24, this shows a consistent valuation premium over one, five and seven years versus our peers of greater than 1 times EBITDA.

On slide 25, this depicts our dividend history, which targets 10% of earnings in payments. You can see that this year, we have increased our first dividend of $0.025 per share, which reflects our 2022 earnings target.

On slide 26, I would like to point out that your board and management team are committed to driving long-term value creation for all American Vanguard shareholders. As part of this effort, we participate in ongoing dialogue with our stockholders, and we appreciate constructive input that advances that goal.

With respect to our board nominees, we are confident that the nine highly qualified directors nominated by the company possess the right combination of relevant industry experience and expertise. In fact, this quarter's exceptional performance is only possible because your board and management team executed a well thought-out strategy owned from years of experience and understanding of the complexities and opportunities in our industry.

With respect to Cruiser's nominees, it's worth noting that we have had multiple discussions with Cruiser over the past year and our entire board willingly and enthusiastically interviewed Cruiser's proposed candidates. Following extensive interviews and discussions, our board found that Cruiser nominees do not possess the experience, expertise, or in some cases, the desire to serve in a way that would be additive to the board nor did they present any concrete recommendations or specific proposals to help the company execute its strategic growth plans.

With that, let me wrap up on slide 27 with a few bullet points. American Vanguard has delivered strong performance over the long-term. Second, attractive returns over sustained period – total shareholder return of 77% versus the Russell Index at 68% since May of 2015.

We've got clear and persistent value premium greater than 1 times EBITDA from other agriculture producers. We've had meaningful top line growth and consistent dividend payments over the last decade despite prolonged agricultural down cycle. We've got a prudent balance sheet management and capital allocation with ample headroom to pursue value-accretive M&A.

We've improved cost structure with further scope for refinement. And we're targeting, as David mentioned, 1% reduction in operating expenses each year until we get to 25%. AVD is optimally positioned for future with a compelling investor's thesis.

So with that, Katz, I will advance to slide 28 and we can entertain any questions that are...

QUESTION AND ANSWER SECTION

Operator: Thank you. Thank you. The floor is now open for questions. [Operator Instructions] And our first question comes from Gerry Sweeney from ROTH Capital. Go ahead.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Good afternoon, Eric and team. Thanks for taking my call.

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

A

Yeah. Thank you.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Obviously, well, congratulations on nice solid results. Wanted to just discuss maybe – a really strong start to the year, any chance that this could pull forward future demand that spending's up, farmers have a little bit more cash in the pocket and are buying up a little extra fertilizer or materials and stocking them, whether it'd just be because of the supply chain or what, or how do we look at this?

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

A

Yeah. I think we're optimistic that what we're putting out there is going on the ground. We've seen our investment in a number of herbicides, both in building out impact with three additional combo products with the soybean, sugarcane herbicides that we've acquired, rice herbicides. Herbicides have been tight. And so we're not only pleased that we've been able to fulfill these orders, but we think that we can have a more permanent market shift to some of our niche herbicides.

So at present, we're pretty bullish that this is going on the ground. Looking at corn soil insecticides, again, I mentioned that growers are looking to maximize yields. The kind of more delayed timing here, I think, bodes well for getting products out there at time of plant.

We will be watching cautiously. We've already forecasted in our numbers a potential upswing in inventory that could – and have – had brought down our 2022 fourth quarter. But as we get into our next conference call, we can make an assessment whether inventories are not above normal channels, in which case then we'll make that call at Q2.

So I think right now, we're cautiously optimistic that what we're selling is going to get on the ground.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Got you. Thanks for that. All right. SIMPAS, obviously, that is rolling out, it sounds like, pretty well if you get it. I believe you set a target of 55, then 70 and now you're targeting 80 and then 125 for next year. That – I mean, the trajectory of where SIMPAS was going this year kind of implies that maybe even next year could be light. One, is that an accurate assessment? And then two, could you comment maybe even on the rollout? This is – I think has just been targeting in the US. What's the opportunity maybe internationally and when does that come into play? Thank you.

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

A

So, yeah, we're pleased with where we are and looking at that 125 target. We'll have more systems available in August. We'll start shipping out in September. It will give us more time. I mean, basically, we started shipping systems out in January this year and we limped along to get [ph] – hit the – (00:35:59) into where we are now. We did have some restraints on semiconductor microchips and that did impede how many systems we could get out there, but we're expecting to have that supply position back in August, as I mentioned. But – so as we get into that next conference call, yeah, we'll provide an update on that 125.

With regard to international, yeah, we did send our team down to Brazil and we see some good opportunities, particularly for what we call our SIMPAS solo, which is a single product, but it's this SIMPAS system and can be applied prescriptively, particularly with counter, which is our – really, is the standard for nematodes we have on a number of crops and we're expecting to be on soybeans later this year. So that's got really considerable upside, so our people seem pretty charged about that.

I'm not sure whether we'll have a projection going forward by our next conference call, but I have talked to them about trying to pull that together. If not, we'll probably give better guidance on our Q3 conference call.

But, yeah, this is – keep in mind, the numbers that we've shown are four crops, corn, peanuts, cotton and soybean in the United States alone. So, yeah, we've got upside to look at there as we look global.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Got it. And obviously, the role is going very, very well on SIMPAS. Can you describe what the process – how you've been out there marketing it and driving interest and demand?

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

A

Yeah. So it's a partnership with Trimble and with our progressive ag retailers. Those ag retailers were kind of identified. We did a number of – I think there are seven basic demonstrations and trade shows that we've brought in the most progressive growers and retailers to kind of see the system, created demand there, linked growers and retailers, and Trimble dealerships together. We had a very nice iPad system that has all of the detailed information on it that we were able to get programmed and into all of our salesman's hand so that they could walk through step by step, what's involved and answer all the questions.

It's – and when you're in it, and as long as we've been in it, it looks fairly straightforward. But I can tell you, when people look at this the first time, they've got a lot of questions to get answered. So it is more detail to sale than our conventional products that we bring on, particularly if there are products that have already been in the marketplace.

So our team has been up to it. We did a lot of training with them, training with Trimble, training with the retailers, and as I said, we're staffing up people to expand that penetration. So I don't know if that answered all your questions.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC
Q

No, that's helpful. Yeah. No, so I appreciate it. Thanks for your time and I'll jump back in the line. Thank you.

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

Okay, great. Thanks, Gerry.

Operator: Thank you. And our next question comes from Chris Kapsch from Loop Capital. Go ahead, Chris.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Yeah. Good afternoon. So I'll ask a couple on the core business, the growth platform. And I guess I'll maybe take a stab at a couple on the activist situation. Sure. But first on just the strengthen your domestic business, the US crop business that you said was up 61% in the first quarter. I mean – so FMC, obviously, a big competitor, a bit of a bellwether. They acknowledge that and it was even implied in their second quarter guidance that they – there was definitely pull forward of demand, reflecting concerns on behalf of growers, and I guess, the channel about getting their hands on enough of the inputs necessary to drive their yields this year.

So can you just let us know if you – are you seeing that? The other question about that growth number was, I was just wondering, can you distinguish between volumes and pricing, obviously, where the whole industry is getting pricing to cover costs and to take advantage of the strong environment? So just curious if you could distinguish between volume and pricing in your US business.

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

So I think pricing overall was up about 8% to 10% in the US. I think demand is the stronger piece. And I will tell you that we ended Q1 with considerable back orders and we're still trying to manage our way through that, production-wise. So Q2 looks very strong. And so we're not seeing that. The only piece that we'll see is if at the end of this season, as we get into kind of in July, August, we'll see if it's a normal track of return products. We went into the year low with inventory. And we – if we're low with inventory, going into 2023, given that what we see in the market and what we anticipate 2023 to look like, then we'll have an adjustment we need to make. But right now, we're kind of sticking to what we've given as guidance.

So, yeah, not seeing any pull from Q2, but it remains to be seen if there's channel inventory at the end of the season.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Okay. And then just a follow up on that, Eric, because after the sort of mini boom bust that happened after the drought, I think it was 2012, 2013, when corn hit $8. You didn't have the visibility as much and then you subsequently implemented the EDI systems to sort of monitor real time. So just curious if you're leaning into that at all to kind of get some insights into how the product's flowing through the channel right now?

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

Yeah.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Or is that informing your commentary at all at this point? Or is it just too – really too early to see how this business cadence plays out?

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

A

Yeah. Again, you're correct, EDI is helping us out. We've also – we've got basically what we think is sitting at every major retailer. So we've got good visibility to that. And we'll have a – again, those returns will start happening in July. We won't have a complete picture by the first week of August, but we're going to have a pretty good understanding when we hit that time if there's any carryover into the 2023 season.

So, yeah, I think we learned our lesson from that time and so have our distribution channel because they were caught flat footed as well. So I think the industry is much better poised to understand if there is channel inventory that's left over at a grower or retail level.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Okay. The follow-up I had on – was on the SIMPAS, because over the years I've heard this talked about for a lot of meetings, and I know it's an exciting opportunity. But in terms of the commercialization that you referenced now that up to 80 systems, my impression was that we're still in sort of proof of concept and that what you're seeding the farmers with today, we're still trying to validate that it's going to deliver the yield benefit. And that once that's proven with a bigger data set, then a broader commercialization strategy then ensues. So can – where are we in terms of – with that as a context, is that accurate? And then, how do you see that playing out?

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

A

Yeah. Again, we're – one is to make sure that each grower has a very positive experience with SIMPAS. And so the systems that we've got out there, we're pleased that we've been able to go out and make sure they're all functioning well prior to planting.

Yeah, we will have a much broader data set from the 2022 season as far as what products delivered what kind of yields. And we've seen, in the early stages last year and even the year before, some nematode counter yields that were pushing 30 bushels and that were prescriptively applied. And so we just need a broader base of that, I think.

But, overall, as growers look at this – I mean the progressive growers have got to understand that this is the future, prescriptively applying crop inputs versus treating the whole field or not treating for a problem at all. This is really the future. And so I think don't necessarily have to have all the answers. You go into a field, just as today, you make your best guess as to where your – what your problems are and does it warrant treating for a nutrient deficiency or a disease pressure or a nematode problem, insect pressure. Those decisions get made, but it's an easier decision now when you can do it prescriptively.

So as we build our toolbox and offer more and more products and you give the growers and the agronomists much more freedom to operate and to fix the problems that are – and addressing most fields that are out there, yeah, the returns are – to me and our team, are pretty obvious.

But having – as you said, I mean, having the real-life data to say, hey, okay, here's these kind of results that people are seeing, but it just kind of builds on each other. So the people that have used the system so far are very thrilled with it and are continuing to go forward. And so we expect to build momentum as we get more and more systems out there.

Chris Kapsch
Analyst, Loop Capital Markets LLC

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And just one last follow-up on SIMPAS. I mean – so precision planting, precision ag, big data has been talked about, gosh, for, I mean, probably more than a decade, but I'm sort of thinking as a watershed moment is when Monsanto paid $1 billion for Climate Corp. But the – I'm just curious about like the competitive landscape that you have for what the role in the solution that you see SIMPAS addressing. And just maybe if you could refresh us on the patent suite that you have that you think enables your solution to garner a share of what presumably will be a growing market as more and more precision ag is adopted by the farmers.

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

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Yeah. And again, we're in a space of that precision ag that doesn't have much in the way of competition. We're the prescriptive application of crop inputs and we're not doing – we can envision doing herbicides, but the squirt kill concept is not what we're doing.

So we've got a space of applying at 3 ounces or less per 1,000 linear feet that we've patented on. And we've got some 20 patents plus another 30 that are pending that not only cover the SIMPAS system, and we think it does a very broad way of applying prescriptively multiple crop inputs. But in addition, of course, then we have our system around Ultimus, which really leads into kind of the ability to bring down your crop nutrients and nitrogen and phosphorus and other carbon issues by improving the ability for plants to uptake nitrogen and other nutrients in a more efficient way.

So you see that Union Pacific is kind of forcing farmers to cut back on their fertilizer. That's just kind of one piece of the transportation issues, but overall, nutrition is expensive. And if they can utilize some of our biological products and others that we offer with SIMPAS to help improve the performance of the nutrition that they put in the soil, so much the better, and if they get paid carbon credits at the same time through the Ultimus system that will measure, validate and record, again, so much the better.

Chris Kapsch
Analyst, Loop Capital Markets LLC

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Fair enough. And then – so I'll ask just one, well, maybe one multifaceted question about the activist situation. I'm going to be just try to pose it as impartially as possible. And I guess the crux of the contention of your investor who's involved in the proxy contest now is that the company basically has grown its top line, but the profitability of the – and therefore the value derivation of the company hasn't really kept pace with the growth of the top line. Again, that's one way to kind of frame maybe just the crux of the contention.

I guess the question is, is that – as you said, you've had conversations now for a while. Just wondering if – your thoughts on the merits of that view. And then if you could just comment on any sort of discussions that you can share about addressing – maybe finding common ground about addressing – driving the operating performance or enhancing value to the extent that you're willing to acknowledge some of that.

So that's my effort at maybe bringing – addressing publicly here, what – anything that you're willing to say, notwithstanding your comments about not really talking about this in great detail. Thanks.

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

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Sure. So what – I think, people that understand the agriculture business understand that there are cycles to it. And we just came through a down – an eight-year down cycle, which is the longest one I've been involved in, in the 40 years that I've been in the business.

And as we went through this, what we did is we expanded our portfolio. In 2013, US corn was 41% of our business. And having that kind of dependency makes you vulnerable. And so we have penetrated other markets, not just in the US, we've expanded into the soybeans and expanded our – I mean, our fruit and vegetable business has been core for us certainly for a long time. We've taken combination products that we put through our IRC program and the acquisition still remains strong.

But what Bob brought in with him from FMC is, we need better market access globally if we're going to balance. So we acquired six businesses and businesses aren't always just a strict bolt-on, particularly if you're buying distribution businesses that might be in 25% margin range, but if we're going to move our products into bigger geographical areas, it's kind of a core investment that we need to make.

So we made those investments during the down cycle. At the same time, we've – we built our Green Solutions platform. And of course, SIMPAS, we've driven now to where we are hitting – starting to hit the sweet spot. So we come out of this cycle, we had good performance in 2021, 2022 looks even much better and we don't see any breaks coming on in the near future.

So I think we positioned ourselves very well during that period of time. Our earnings are moving well. I think our EBITDA target that we've thrown out of $155 million, if we hit that, then I think shareholders will be very, very pleased with the investment they've made in our company. And even where we are today versus when where we were – when we first started talking to the activist has considerably improved from shareholder return.

So I don't know if that answers your question, but – yeah, I don't know if you have a follow-up from there, but [indiscernible] (00:55:06)

Chris Kapsch
Analyst, Loop Capital Markets LLC

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Yeah. Well, yeah, sure, I'll follow up. I appreciate some of the historic context. But, again, getting at the crux of the acquisitions that added to the sales level, I mean, look, you can pick a spot in time and you can kind of use the data to make your argument, I guess, on both sides of this. But one could say that you can look at the company's EBITDA one point in time and then subsequently after those five or six acquisitions that might have added like $25 million to $30 million in EBITDA, that the company's EBITDA finishing 2021 is comparable to where it was before those acquisitions. So therefore, it implies some compression of margin or some EBITDA that sort of went away. And it wasn't just the cycle because of when you can pick and choose the first data point. So I'm just wondering if you acknowledge that there's some merit to that and/or if you talked with the investor about sort of some potential solutions to remedy that, if you think that has merit. Thank you, Eric.

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

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So, again, I think with our performance targets that we've laid out there, as we come into the upside of the cycle, we've laid a great foundation with these tailwinds, and we're seeing that right now. We're executing the plan that our directors' leadership and along with management have envisioned and it's coming to fruition right now. And I think the targets are real. We're updating on a quarterly basis. And so we're not seeing that we don't have the talent inside or with our board to execute under that plan. And I think if we do that, we're going to be kind of in the top level in our industry.

Chris Kapsch
Analyst, Loop Capital Markets LLC

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Appreciate you letting me ask a few questions there. Thank you.

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

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Sure.

Operator: At this time, I'd like to turn it back to management for any closing remarks.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Okay. Well, again, we had a great start to our first quarter and into our 2022 year. We feel bullish about the year. And as we move forward with our 2023, 2024, 2025 game plan, we look forward to giving you further guidance in our next call, and appreciate your support. So thank you till then.

Operator: Thank you. This does conclude today's conference. We thank you for your participation. You may disconnect your lines at this time and have a wonderful day.