American Vanguard Corp

Q2 2020 American Vanguard Corp Earnings Call

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CORPORATE PARTICIPANTS
- David T. Johnson, American Vanguard Corporation - VP, CFO & Treasurer
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- William A. Kuser, American Vanguard Corporation - Director of IR & Corporate Communications

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- James Michael Sheehan, Truist Securities, Inc., Research Division - Research Analyst
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PRESENTATION

Operator

Greetings, and welcome to the American Vanguard Second Quarter 2020 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host today, Bill Kuser, Director of Investor Relations. Thank you. You may begin.

William A. Kuser, American Vanguard Corporation - Director of IR & Corporate Communications

Well, thank you very much, Latania, and welcome, everyone, to American Vanguard's Second Quarter and Midyear Earnings Review. Speakers today will be Mr. Eric Wintemute, the Chairman and CEO of American Vanguard; and also Mr. David Johnson, the company's Chief Financial Officer. Also assisting in answering any of your questions, Mr. Bob Trogele, the company's Chief Operating Officer.

American Vanguard will file our Form 10-Q with the SEC tomorrow. This document provides additional detail to the results that we will be discussing in this call.

Before beginning, we should take a moment for a 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.

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

Eric G. Wintemute, American Vanguard Corporation - Chairman & CEO

Thank you, Bill. Good afternoon, everyone. We appreciate your continued support of American Vanguard. In our last call, we gave you our first impression of the coronavirus pandemic, which had begun to spread into the United States partway through the first quarter. As part of the critical infrastructure, we were permitted, indeed, expected to continue operating in the midst of a global pandemic, the likes of which we had not seen in over a century. In order to operate without disruption during the first quarter, we had to adapt. Where we could do so, we shifted from in-person to remote work. Where we had to maintain physical operations as in our factories, we implemented COVID protocols to keep the workplace safe and healthy. At the same time, we learned to do business remotely while constantly checking on supply chain stability, logistics and customer demand.

Fast forward to the second quarter, the pandemic has become the norm. We, and our suppliers, peers and customers, have become more accustomed to doing business through Zoom meetings, webinars and e-mail. We continue our efforts to ensure that internal communication was frequent and continuous. In fact, I continue to hold weekly 2-hour state-of-the-company calls with over 40 of my key managers during which I solicit input on operational challenges, sales opportunities and regional developments to ensure that we are all moving in the same direction. In addition, on a daily basis, our pandemic working group advises the workplace regarding COVID-related news, government orders, research and company protocols.

During the second quarter, the pandemic shifted from Asia and Europe into the Americas, where we do most of our business. In spite of that shift, I am pleased to report that **we have had a low -- very low incidents of coronavirus infection within our workforce**. That nearly all of the cases were community transmissions outside of our facilities and that our operations have not been adversely affected by the pandemic to date. In that vein, I would like to thank all of our employees for taking to heart our commitment to keeping the workplace safe and healthy.

At this point, I want to pause to note that given the circumstances where so many businesses are struggling for survival, cutting workforces, taking federal loans or filing reorganization, we are generating stronger returns than what we did while operating in the normal course of last year at this time. Specifically, even while quarterly net sales declined by 8%, **net income increased by 25% over the period**. As we will explain over the course of this call, we focused our efforts on the sale of higher-margin products in domestic markets, factory performance, strict management of operating expenses and working capital utilization. At the same time, and I hate to steal David's thunder here, as of June 30, **we have strengthened our balance sheet by reducing inventory** even with expanded product offerings, reducing debt and improving cash from operations by $38 million so far this year.

Before turning the call over to David, let me take a moment to focus on the future. **We are still constrained from making specific forecast** because we do not yet know how long the pandemic will last nor how it may affect our business or markets. Nevertheless, we have adapted to the coronavirus with increasing success. As we look forward to the balance of the year, we continue to believe that **we are poised to perform in line with our peers**. This is so for a number of reasons, including **favorable conditions for our mosquito control products, larger supply** of Krovar and Hyvar herbicides for use on citrus, pineapple and agave and expansion of our Vapam fumigant business in Mexico, Central America and Australia.

With that, let me turn the call over to David, who will give you further detail on our P&L and balance sheet. I will then return to give you an update on some exciting initiatives to grow our business through new products and technology innovation. David?

David T. Johnson, American Vanguard Corporation - VP, CFO & Treasurer

Thank you, Eric. Good afternoon, everybody. As Bill mentioned, we will be filing our Form 10-Q for the 3 and 6 months ended June 30, 2020, tomorrow. Everything I'm covering here is included in more detail in that document. As Eric indicated, **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, our customers and suppliers have all operated more or less without disruption during the pandemic. Having said that, the pandemic has impacted us in a few ways, including our ability to present new sales and marketing ideas, such as new products, face-to-face with customers in the field. On the other hand, you will see in our financial statements the same restrictions have caused us to spend less on operating expenses. Furthermore, the company has been able to operate normally throughout the first half of 2020 without the need to apply for any COVID-related federal stimulus package loans. Looking forward to the balance of 2020, we do not expect to need to seek such loans or assistance.

With regard to our financial performance for the 3 months ended June 30, 2020, **the company's net sales decreased by 8% to $105 million** as compared to sales of $113 million this time last year. Within that overall decline, **our U.S. sales were down about $**6 million and **our international sales were down about $**2 million. International sales accounted for 44% of net sales as compared to 43% of net sales this time last year. Eric has already discussed the main factors that have affected our second quarter sales performance. In addition, the sales and expenses of our businesses in Mexico and Brazil were **affected by the devaluation of the related currency exchange rates with the dollar** as compared to this time last year. We believe **these exchange rate devaluations were caused** at least in part by the COVID pandemic. Without the adverse currency translation effect on our Brazilian and Mexican sales, our second quarter consolidated sales would have been $3 million **higher**.

For the quarter, **our manufacturing performance was strong**, with factory operating costs well controlled and activity improved as compared to 2019. As a result of these various dynamics, **we improved our gross margin** performance, when expressed as a percentage of sales, to 39% of sales in the second quarter of 2020 as compared to 37% in the same period of 2019.

For the 3 months ended June 30, 2020, our operating expenses decreased by $1.9 million or 5% as compared to the expenses incurred in the same period of the prior year. In the prior year, however, we had a benefit of approximately $1.8 million, primarily associated with adjustments to deferred liabilities on a past acquisition. That did not repeat in the current year. Making adjustment for that item, our underlying reduction in recurring operating expenses is greater and amounted to approximately $3.7 million or about 10%.

During the second quarter, we recorded reduced interest expense. Our average debt was a little higher because of all the acquisition activity during the last year, but we got a benefit from reduced borrowing rates in the United States.

Finally, our effective tax rate remained approximately flat compared to the same period of 2019.

In summary, for the second quarter, though our sales were down, selling prices and overall mix of sales remained good, factory performance was improved compared to 2019 and gross margins as a percentage of sales increased from 37% to 39%. Our operating expenses and interest expenses were lower. And as a result, net income increased by 25% in comparison to 2019.

Now let us turn to the 6-month period ended June 30, 2020. Sales were down about $12 million or 6% as compared to the prior year. Within that performance, net sales of both our domestic and international businesses were down about $6 million each. The devaluation in key currencies resulted in about $4 million lower sales when sales originally recorded in the Brazilian real and the Mexican peso were translated to dollars for inclusion in our consolidated financial statements.

Our factory performance for the 6-month period was excellent, with costs up only 0.006% and factory output up about 13%. This resulted in a much improved rate of recovery factory costs.

Overall, gross margin, when expressed as a percentage of net sales, was flat period-over-period at 39% of sales. Our operating expenses remained almost flat in the first 6 months of 2020 as compared to the prior year. In the prior year, however, we had a benefit of approximately $3.3 million, primarily associated with adjustments to deferred liabilities on a past acquisition. That did not repeat in the current year. Making adjustments for that item, our underlying reduction in recurring operating expenses amount to about $3.3 million or about 5%.

Our net income for the first 6 months of 2020 ended at $4.4 million or $0.15. This compared with $7 million or $0.24 in the same period of 2019.

From my perspective, the operating and financial focus for the company remains as follows. We continue to follow a disciplined approach to planning our factory activity, balancing overhead recovery with demand forecasts and inventory levels. At the end of June 2020, our inventories were at $180 million. This includes about $5 million of inventory related to acquisitions completed since June 30, 2019. An adjusted or underlying inventory of $175 million represents an $18 million reduction as compared to $193 million this time last year.

We are highly focused on our balance sheet as we navigate through this pandemic period, and having lower inventories at this point in the year is pleasing to report.

Looking forward, we expect inventories to reduce during the balance of the year. Our present forecasts indicate that we will be below prior year numbers for both the remaining reporting periods of 2020. The estimate of $145 million that we previously indicated remains a good estimate, excluding any acquisitions.

With regard to accounts receivable, as I noted earlier, our customers have continued to operate without significant disruption. They are placing orders for our products and making payments when expected. As a result, we have not seen any material change in the assessment of our credit risk exposure at the end of the second quarter of 2020 in comparison to prior quarters. The variation between accounts receivable this year and prior comparative periods relate entirely to mix of products, specific markets, individual customers and contractual terms.

Our business has a distinct annual cycle, and we routinely experience expansion in working capital in the first half of the year and a reversal in the second half of the year. Year-to-date, in 2020, working capital has increased by only $8 million as compared to $45 million in the same period of 2019. This careful management of working capital is driving the improved cash generation from our operating performance. In the first 6 months of 2020, we have generated $6 million from operations as compared to using $32 million in the first half of 2019. Comparatively, that amounts to a positive change of $38 million period-over-period.

With regard to liquidity, at the end of the second quarter, availability under our credit line was $49 million, which compares to $31 million at the same point in 2019. As we progress through 2020, we intend to continue to focus on both working capital and debt levels. Indebtedness ended at $159 million at June 30, 2020, as compared to $165 million this time last year. During the last year, in addition to paying **down** $6 million in debt, we have funded more than $35 million in investments, including fixed assets, product acquisitions and technology investments from the cash generated from operations. These investments are focused on developing our businesses for the future.

During the first 6 months of 2020, **we have continued our normal business cycle of expanding working capital in support of our globally situated businesses**. However, we're focusing very carefully on every dollar of working capital, and **our usual annual cycle expansion has been much more muted** than in previous comparable periods.

In summary, though **our sales are down in comparison to prior year**, our product mix has remained strong, our factories have performed well and gross margins have remained solid. We have performed well at controlling underlying operating expenses **which are down**. Finally, **our interest expense is down**. From a balance sheet and cash perspective, we are doing very well managing working capital, and **our debt is lower than this time** last year, notwithstanding our investments in long-term growth of our businesses.

Finally, **availability under the credit line has improved**.

With that, I will hand back to Eric.

Eric G. Wintemute, American Vanguard Corporation - Chairman & CEO

Thank you, David. I would now like to focus on the key strategic initiatives that will define and enrich our enterprise. First, **we continue to expand our product portfolio through core growth**. That is taking existing products and developing new formulations and mixtures tailored for use on new crops or providing greater views of application. As we've reported in the past, at any given time, **we are launching some of these solutions** while several are in the pipeline. We expect that these core growth products will generate over $100 million in **high-margin revenues per annum within the next 5 years**.

Beyond core growth, Envance Technologies continues to broaden market opportunities with their insect receptor-targeting technology. As we've reported **Envance technology and products are being commercialized by Procter** & Gamble for their emerging, safe and effective Zevo brand consumer pest control products. **We are pleased** that the Chief Executive Officer of P&G, David Taylor, mentioned Zevo in his recent earnings conference call last Thursday. **We see this as another positive sign for Envance's innovation partnership with P&G.** In addition to Envance's superior technology for households, we believe that this patented nontoxic alternative to traditional pesticides will be successfully leveraged into numerous consumer, commercial and agricultural markets to meet the increasing demand for low-impact solutions.

The Envance R&D team has also developed a new technology for -- a new application for their technology to kill weed pests. The company's new herbicide platform delivers broad spectrum efficacy that is safe for people and pets. We intend to pursue all potential market applications to fully exploit the superior safety, functional performance and environmental sustainability of these herbicide solutions.

Of course, the capstone of our technology innovation is SIMPAS, and **I am pleased to announce that the launch of this game-changing prescription application technology** has arrived. As we've previously discussed, SIMPAS enables growers to precisely target multiple crop inputs solely to the locations where they are needed in order to realize higher yields, significant cost savings and sustainable environmental benefits. Having **successfully completed multiple field trials** this past spring, we'll be ready to commercialize the SIMPAS system in the fourth quarter of this year. **This launch represents a milestone for American Vanguard**, and this is how we see it playing out.

Our market campaign will proceed on several fronts. First, a group of the industry's largest distributors and retailers, including Nutrien, Helena, Simplot, Harvest Land Co-op and Asmus Farm supply, all of whom participated in our 2020 spring trial, will use **their positive experiences** to promote the benefits of SIMPAS to some of their most valued customers. Second, the AMVAC sales and marketing team, in conjunction with Beck Ag marketing consultants will identify progressive growers in each region who have analyzed their soil health and crop protection needs and can significantly benefit from the multiple capabilities of SIMPAS.

Third, SIMPAS will enable us to provide economically beneficial product solutions to a much broader segment of the corn market than we've reached with our SmartBox corn rootworm products. Here's how. For over 20 years, **our current SmartBox users have recognized the benefit of using our granular insecticide products**, primarily to address corn rootworm pressures which tends to be greatest in the I-70, I-80 corridor, where most farmers also grow soybeans. As **we expand our SIMPAS product portfolio** to include soybean inputs, we'll be able to offer these same growers both corn and soybean solutions through SIMPAS.

In addition, unlike corn rootworm, nematodes are present and economically damaging numbers throughout the entire Corn Belt. By offering Counter through SIMPAS for nematode control, farmers throughout the entire region can significantly improve the return on investment as compared to the current practice of having to apply Counter at a uniform rate across the entire farm. Adding southern soybeans and cotton acres in SIMPAS becomes a vehicle to help **us increase product sales in all 3 of these major row crops throughout the United States**.

As a bridge for SmartBox users who aren't yet ready to make the jump to simultaneous prescriptive application of multiple products, **we'll be offering a lower-cost system**, called SmartBox-Plus, by SIMPAS in Q4 of this year, featuring SIMPAS components such as meters, harnesses and an ISO-based prescriptive controller, the SmartBox-Plus by SIMPAS will enable farmers to gain the benefits of prescriptively applying a single product, like Counter, for a smaller capital investment. Like SIMPAS, SmartBox-Plus by SIMPAS supplies only what's prescribed precisely where it's needed. **That's good for the environment and for the farmers' bottom line**.

Fourth, this year, we plan to introduce SIMPAS into the largest crop protection market in the world, Brazil, where we'll be conducting field development trials in the fourth quarter. Having just completed a comprehensive study with our consulting firm, Context, of the Brazilian market, **we believe there is robust opportunity for our technology in that region**, particularly given the **extremely large** row crop farming operations in such states as Mato Grosso and Mapitoba. Our market approach in Brazil will vary from that of the U.S. as we will generate sales both through distribution and from direct sales to large growers. We also expect that regional crop input manufacturers will market their own products through smart cartridges, thereby increasing demand for the SIMPAS platform. Further, having Trimble as our global partner, will give us ready access for both sales and support in that country.

As an additional entrée into Brazil, in 2021, we plan to introduce SmartBox-Plus by SIMPAS as a way to prescriptively apply Counter to control nematodes in soybeans, the largest row crop in Brazil. This market access was one of the key reasons for our acquisition of Defensive and Agrovant earlier this year -- or early last year.

In preparing for **our domestic Q4 SIMPAS launch**, we are manufacturing smart cartridge containers to meet demand for all the SIMPAS applied solutions that will be sold in 2021. The initial filling of these product cartridges will occur in our Axis, Alabama manufacturing plant, and they will be refilled in Q3 and Q4 of 2021 using SmartFill refilling equipment that **we've positioned with select SIMPAS applied solution retailers**. **We are also adding staff** to provide sales, installation and support training to Trimble dealers who will begin SIMPAS sales activities in October of this year.

In addition, we are working under (inaudible) with multiple peer crop protection chemical manufacturers as they conduct application trials of their own products using SIMPAS equipment. **It is gratifying** that industry leaders are recognizing SIMPAS as a technologically advanced application system. From the outset, we have aspired to have other manufacturers package and sell their own proprietary products for use as SIMPAS-applied solutions. Access to products from multiple companies greatly increases the utility of SIMPAS equipment for farmers. We'll be announcing some of these collaborations in the coming months.

On a related note, **we have seen strong enthusiasm for our SIMPAS at plant seed treatment process**. Since seed treatments are generally liquid products, **we are focused on expanding our liquid product portfolio offering**.

Finally, **we recently received a U.S. patent for our Ultimus supply chain tracking software**. As crop inputs are applied via SIMPAS, Ultimus enables complete traceability of individual product containers through every step of the supply chain, from the factory to the farmer and to the geo-tagged field location where the product is applied. Ultimus makes it possible to know precisely when, where and how much product was applied to any given location in the field and to identify the product containers associated with the application. With consumers and food marketers demanding greater transparency as to how food is produced, Ultimus answers those demands through automated and verifiable traceability of applied crop inputs.

So on closing, I am encouraged by what we have accomplished over the course of the second quarter and the year. There is in part to managing a business in the best of times, but **the true test is delivering results in the hardest of times**. In response to the turmoil brought on by the pandemic, our team has shown discipline from top line to bottom line, selling higher-margin products, launching newer acquired product lines, improving factory use, driving down inventory and debt and generating cash, all the while, we have continued investing in our future through self-funded technology innovation. And from SmartBox insecticide applications to SIMPAS multiproduct prescriptive applications to automated and verifiable product application traceability through Ultimus, **we are on the leading edge of precision ag**. Thank you.

And with that, we'll field any questions you may have.

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions) Our first question comes from Joseph Reagor with ROTH Capital Partners.

Analyst: Joseph George Reagor, ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Question – Joseph George Reagor: I guess, first thing on SIMPAS, obviously, a big deal for the company. But could you walk us through how you foresee your future revenue stream from this? Let's say, it's 1 unit. Is it guaranteed that your items go through there or a royalty out of anybody else's? Or is it that you're going to get paid for the unit or a combination thereof?

Answer – Eric G. Wintemute: Yes. It's the combination thereof. So the unit itself, we intend to make money on the sale of those systems. It would not be, obviously, the major part of what we're looking for. We're looking at revenue from the sale of product that goes through the system and that margin obviously depends on the product. If -- also if it's a product that we have a proprietary position on, that would be different than one that maybe we're taking a license to sell under our brand. And then there would be a royalty stream from a party that would be selling their brand under our smart cartridge system through SIMPAS. We're also looking at a revenue stream as a royalty per acre of product use from the farmer standpoint. And so that's kind of the various components which will make up -- some of which would be from a royalty and some will be from margin.

Question – Joseph George Reagor: And do you guys have like a solid number, even if you're not willing to provide it yet, on what you're going to get per unit on that end of the revenue stream?

Answer – Eric G. Wintemute: Yes. So that's complex. If you look at the SmartBox system, we can pretty well figure each system goes out, we get an average of how many acres each system will do or gets utilized. For instance, on the SmartBox system, we say it's an average of 18 rows. Then we look at the products that go through there, and we're going to essentially kind of calculate the range of per acre of how much gets used so we can calculate or estimate our total revenue per system.

When you get into SIMPAS, it's very complex. Each system is dependent on whether if they're utilizing, let's say, 3 granular products that would be kind of 1 area. And then depending on what they're treating, if they're using -- going for insecticides, they're probably treating most of the field. If they're doing nematocide, they're probably doing anywhere from 25% to 50% of the field. If they're doing micronutrients or biologicals, those will vary field to field. And then, of course, when we look at how many units go in there. We're thinking, with liquids, we may go much more concentrated than we're able to do with granules. And so with that, we're looking at potential of just treating the seed as opposed to -- prescriptively as opposed to putting in furrow -- in the soil. So all those things add up to a very complicated answer to your question, which is -- no, we can't tell you. What will happen is, over time, we're going to be able to develop what trends and averages, and we'll have to -- we will say: okay, on average, we get this much from each component that goes through a system, and then we can basically project going forward kind of -- well, on a retro look is we know how many systems are out being utilized, what's the revenue generated and come up with a number. But as long as we've got this evolving move, it's difficult to say. I will say that, obviously, we see it will be significantly higher than what we're generating today from a SmartBox system.

Question – Joseph George Reagor: Okay. Just one more, if I could. So far, year-to-date revenue is tracking a little **below** last year. I know you guys kind of were reluctant to give guidance given the pandemic and everything else going on in the world. But any color you can give us, even if it's just comparison to what we saw the second half of last year, things to think about, so we can have a reasonable forecast for the remainder of this year?

Answer – Eric G. Wintemute: So **fourth quarter looks very strong for us**. And again, we're not giving guidance, but I think, overall, I think we're on track with where estimates are. And I think we've -- there'll be -- again, we -- **the channel has drawn down** -- continues to try to draw down inventory, and we saw in the season, a lot of very small orders right towards the end which typically people would order half truckload or a truckload of volume. And so it was obvious to us, and we've got that message loud and clear from our customers that not just in the U.S. but globally, that they are watching their inventory extremely tight. And as we see **our EDI sales exceeding our actual sales**, it shows that it has been drawn **down**. That can only happen for so long. Sooner or later, you have to -- so we think **fourth quarter looks like a good set**, particularly for us and another big piece to us. As you may recall, Bromacil was a product that **we lost our supplier in China**, too. And we have -- **we're basically tripled a good part of the last 12 months**. That going forward, **we've been getting good volume of product** just in the last couple of months. And **it looks good going** forward. So that will help us to some degree as well.

Answer – Operator: (Operator Instructions) Our next question comes from Jim Sheehan with Truist Securities.

Analyst: James Michael Sheehan, Truist Securities, Inc., Research Division - Research Analyst

Question – James Michael Sheehan: Just on Zevo, what kind of penetration are you seeing with that product? And also, could you just describe what contribution you expect that to make for 2020?

Answer – Eric G. Wintemute: So as far as the concentrate or the penetration, that's something that we're not allowed to discuss. Any conversations we have with P&G are confidential. So the only thing we can do is refer you to their website on Zevo. They have various discussions, but **they're fairly tight on what percent of the market** they're penetrating, what their specific market plans are and we have to respect that. We believe the product is doing very well. I certainly go -- when I go and look at Home Depot or Target, I see it's often out of stock or very little left in inventory, looking a little like the initial in supply shelves. So I take that as a positive sign. But again, so for us to give you color on that. So we have -- as far as 2020, we have basically (inaudible) that we haven't published what we get from them, and we get a certain percent of the sales. So at some point, that minimum goes into a different room. So I know that's not all the specifics that you'd like to hear, but that's the best we can give you at this point.

Question – James Michael Sheehan: Okay. And then regarding your tax rate, if there were some changes after the next election, resulting in a 28% U.S. corporate tax rate, which is the new proposal on the table, what would that do to your effective tax rate?

Answer – David T. Johnson: I haven't really had time to study that, but I imagine it would go down a couple of points.

Answer – Eric G. Wintemute: If what happens?

Answer – David T. Johnson: Jim says if the new tax rate was 28% from 21%. Yes. Yes. It will be a direct increase.

Answer – Eric G. Wintemute: I mean we have -- I mean, the international piece, which is, what, 40% of our revenue.

Answer – David T. Johnson: Yes, but some of the tax rates there are kind of high, right?

Answer – Eric G. Wintemute: Well, the trends on what we're to be in, right? So -- but. yes...

Answer – David T. Johnson: I wasn't prepared for that question. So I'm going to have to go study that.

Answer – Eric G. Wintemute: But I can -- I mean, so -- and right now, there is the international product or international earnings that gets taxed at 8%, right?

Answer – David T. Johnson: Yes. State rate is about 9%. So that's where we get to around about 30%.

Answer – Eric G. Wintemute: For domestic.

Answer – David T. Johnson: Yes. So we'll probably increase close to 6% to 7%.

Answer – Eric G. Wintemute: Right. Well, not overall. I mean if it's total of 7% increase for domestic. So maybe 4.5%.

Answer – David T. Johnson: That's a bit there.

Answer – Eric G. Wintemute: Yes.

Answer – Operator: (Operator Instructions) At this time, there are no questions in queue. I'd like to turn the call back over to management for closing comments.

Answer – Eric G. Wintemute: Okay. Well, thank you, everybody. Look forward to our next call, and we can report on our first sales of SIMPAS systems. All right. Thank you very much for joining us today. Bye-bye.

Answer – Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and have a great day.
