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American Vanguard Corp

Q2 2021 Earnings Call

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- Eric Glenn Wintemute - American Vanguard Corp., Chairman & Chief Executive Officer
- David T. Johnson - American Vanguard Corp., Chief Financial Offer

OTHER PARTICIPANTS
- Gerry Sweeney - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to American Vanguard Corporation's Second Quarter 2021 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Bill Kuser, Director of Investor Relations. Please go ahead.

William A. Kuser

Thank you very much Brock, and welcome, everyone, to American Vanguard's second quarter and midyear 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 to assist you in answering your questions, Mr. Bob Trogele, the company's Chief Operating Officer. Before beginning, let's take a moment to review our cautionary reminders. 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.

That said, we turn the call over to Eric.

Eric Glenn Wintemute

Thank you, Bill, and thank you everyone on the phone and webcast for joining us today. I'd like to talk a little bit about the 2021 forecast that we've given and kind of update where we are at the half. So I think in the March forecast outlook we gave the top six items as an outlook and then in 2020, I mean in May we added that **net income would grow at a faster rate than revenue**. So what I'd like to do is kind of show where we said we would be and where we wound up for the first half. So with regards to revenue, we said that we would be a low double-digit increase and the half now we're looking at a 25% increase in our revenue. We said gross profit margins we are forecasting to be similar to recent years and at the half we're right at the same 39%. Operating expenses, some increases driven by our growth initiatives, and as a percent of sales though up, for net, as a percent of sales, were down 1%.

Interest expense we felt it would be similar to 2020, but in fact our interest is down by 30%. Our tax rate we expect for the year to end up at the mid-20%s range. We're actually up 31% versus 23%, but we are still thinking we will wind up as we have some tax benefits that we'll see coming for us in the fourth quarter. Debt to EBITDA ratio, we were saying we're targeting 2 to 2.5 times as we are preparing building inventories for this season. We are at that 2.5 times level, but in the second half, we expect to move that down and short of acquisition, we'd probably expect to maybe even be below that 2 times number. And then on net income, growing at a faster rate, actually we're at 86% versus the 25%. For those of you that focus on EBITDA, we're now saying that our EBITDA for the year will wind up growing at a faster rate than revenue as well, and for the half, we've got a 29% increase.

So at this point, the things are rolling along well. We still have our tailwinds, we're looking pretty strong in cotton right now, as we hit both our insecticide, Bidrin is doing very well, we've got plant bugs that are out there and active. So we expect a very good year with Bidrin. In addition, particularly with West Texas hitting, we expect our Folex will do also very well. (05:28) insecticides look well going into 2022. So that will have some sales in this quarter, and additionally in fourth quarter and first quarter next year. But we are seeing customers looking to secure product, I think had as many as – when customers tell us 300 different products that are on allocation in United States right now, we're in pretty good position with our six plants here in North America. So I think we're feeling pretty good.

We do have some headwinds in inbound freight from the Pacific coming across from Asia. Unfortunately, we're not very dependent on that, just maybe 10% to 12% we have come over. But the cost per container has moved from about $3,500 a container up to $20,000 a container. So it's a huge, huge increase. And I counted that, generally, a freighter coming across has about $73 million of revenue. That now has moved up to $420 million of revenue, so quite a big increase. And, so far we've done reasonably well at putting through price increases, and we're working on this every month to put out to the team what cost changes we have with the understanding that we can try and recover as best as we can.

Okay. So with that, David, I'll turn this over to you.

David T. Johnson

Thank you, Eric. With regard to our public filing, we intend to file our Form 10-Q today. And 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 during the first half of 2021, our customers and suppliers and their employees and operations have all continued, more or less, without disruption during the pandemic. With regard to our sales performance for the second quarter of 2021, the company's net sales increased by 29% to $135 million as compared to net sales of $105 million this time last year. Within that overall improvement, our US sales increased by 44% to $84 million, and our international sales increased by 10% to $51 million. International sales accounted for 38% of total net sales as compared to 44% of net sales this time last year.

With regard to gross profit performance, our US crop business recorded improved absolute gross profit on increased sales, which were up about approximately 40%. Offsetting the strong sales growth performance, our factory performance was impacted by short-term challenges including the delayed startup of a production sale in our LA facility and some mechanical integrity testing at our access plant. These issues were substantially behind this. Overall, gross margin percentage to net sales remained strong at 43%. Our non-crop absolute gross margin increased by 39%, and sales has increased by 55% as compared to the same quarter of the prior year. Within this change, we have improved sales of both our US DIBROM products and our pest strips.

On the other hand, while we had substantially higher ENVANCE technology license income in the first half of 2021, we recorded lower license income during the second quarter. Furthermore, we experienced lower factory recovery in the second quarter of 2021 for the reasons already discussed. Overall, gross margin percentage remained strong at 46%. With regard to our Q2 2021 international sales, we saw increased sales of 10% and a strong increase in gross margin, which were up 35%. More than half of the improvement was driven by the newly acquired businesses, AgNova in Australia and the Agrinos biologicals business, which both generate margins above our international average. Overall, gross margin improved to 31% as compared to 25% for the same period of the prior year.

I thought I would comment for a moment on overall cost of goods, which remained flat at 61% of net sales. We have seen some upward pressure on cost affecting certain products in our portfolio because of where the associated raw materials are sourced. We are also seeing significant increases in inbound ocean freight, particularly from Asia, but our exposure there is not significant. We have made selective price increases to offset this cost inflation. This graph shows the impact of the factory performance on our overall gross margin. You can see that in the second quarter of 2021 the factory cost is 3.3% of sales. Whereas in Q2 of 2020, the performance was such that we only had a 0.6% net cost. Despite the factory performance, our margin percentage remained flat for both quarters.

Operating expenses for the quarter increased by $9.5 million or 28% as compared to the same period of the prior year. Despite the increase, expenses, when compared to net sales, remained level at 32% of sales. The **increased cost included the addition of activities of two newly acquired businesses**, which together accounted for approximately a third of the increase. This included taking a charge of $1 million in additional deferred consideration on the Australian business that we acquired in the fourth quarter of 2020. That business has exceeded expectations in its first year, and consequently, the company's liability associated with earn out agreements has increased.

Our outbound freight costs are almost purely volume driven and **we're up 34%**. As I noted earlier during the same period, **net sales were up 29%**. In addition to volume, **we had some mix of customer destination and products and some freight inflation**. The freight increase accounted for a quarter of the increase. **Other increases included legal expenses and higher incentive compensation accruals** linked to business performance. As you can see from this slide, **our operating income was 33% higher than the level** reported for the same period of 2020. We recorded lower interest expense in the second quarter of 2021 as compared to last year. There are two factors; first, **the rate on our loan is down** as a result of the US policy to stimulate the economy; and second, we have lower borrowings due to debt repayment from 12 months of cash generation from our businesses offset by some acquisition activity.

From a tax perspective, **our effective rate increased to 32% for the second quarter of 2021** as compared to 29% this time last year. The main reason for the increase in the effective rate is the earn-out expense on the Australian acquisition which is not deductible for tax purposes. All these factors came together in the bottom line. **We're reporting $5.1 million in net income as compared to $3.9 million last year, a quarter-over-quarter increase of 32%**. For the first six months of 2021, **our sales were up 25% and gross margins in absolute terms were up 24%**. **All of our main activities of US crop, US non-crop and international have all contributed to this exciting performance**. **Operating expenses have increased primarily** as a result of the new businesses acquired in the final quarter of 2020, increased performance link incentive compensation expenses, and costs associated with volume changes such as freight and warehouse costs.

Overall, **operating costs were up 21%** as compared to net sales that increased 29%. And **operating costs compared to sales improved to 34% in 2020** as compared to 35% last year. **Interest expense has reduced by 30%** as a result of cash generated over the last 12 months. **Tax expense has increased driven by financial performance**. Overall, **net income increased by 86%**. Now, I want to turn my attention to the balance sheet. As you can see on this slide, during the second quarter of 2021, **we increased cash generation from operations by 41%** as compared to the same quarter of the prior year. Further, you can see that working capital really didn't move very much as we got into the middle of the annual cycle. And this performance includes the expanded scope related to the businesses acquired in the fourth quarter of 2020.

During the quarter, we continue to follow our strategy of buying attractive assets that fill whitespace in our portfolio. Accordingly, we paid a deposit of $10 million for a private acquisition and took control of that asset at the start of the third quarter. At the end of June 2020, our inventories were up $175 million as compared to $181 million this time last year. If for a moment we exclude the impact of products and entities acquired since December of 2019, our base inventory has reduced by 11% from $177 million at that time to $158 million this year. So we feel that we have controlled inventory well during this phase of the company's annual cycle.

Our current inventory target at the end of the financial year is $150 million. That compares with $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 does not take acquisitions into account. With regard to liquidity, under the terms of the credit facility agreement, the company uses consolidated EBITDA as defined in the agreement to determine leverage. Our consolidated EBITDA for the trailing four quarters to June 30, 2021 was $59 million as compared to $52 million for the four quarters to June 30, 2020. As a result, availability under the credit facility amounted to $57 million at June 30, 2021 and $49 million at the same time last year.

As you can see from the chart, we've been controlling debt well even as we work through the annual cycle and as we continue to invest in the business. As I mentioned at the last call, our credit facility was scheduled to expire in June of 2022, and at the time of the call we were already in discussions with our lead banker regarding a reset on the facility. We needed to execute the new agreement at this time to ensure debt remained long term. We are pleased to report that **we have executed that new credit agreement, with a slightly larger capacity and greater generally improved** covenants. As a consequence, **we are feeling positive about liquidity** looking forward for the balance of the year of this year and beyond.

In summary then, in the second quarter of 2021, we have increased sales by 29% and despite higher levels of net factory costs have kept overall margins remained in the normal range for the company. We have managed operating expenses, which increased in absolute terms, but declined when expressed as a percentage of sales, and **our net income increased by 32%**. For the first half of 2021, **we increased sales by 25%**, gross margins by 24%, and operating expenses have reduced when compared to net sales. Our interest expense is down and net income has improved by 86%. From a balance sheet perspective, **accounts receivable increased driven by strong sales**. Inventories have been well controlled. Working capital has been held flat during the quarter, and **debt is lower than** this time last year despite three acquisitions that were completed in the intervening 12 months. And finally, we have a new credit facility and availability is improved.

With that, I will hand back to Eric.

Eric Glenn Wintemute

Thank you, David. What I'd like to do now is go back to November of 2020 at our third quarter conference call. We gave some three-year to five-year forecasts as far as where we expected to wind up in 2023 and 2025. And you may remember there were kind of three major tranches. Within our core business we also have three and the target with our existing products was going from kind of a $468 million to $507 million at 2023 to a $527 million in 2025. So **this kind of reflects just a kind of standard 2.5% increase on an annual basis with our existing products**. The second area was with regard to our new product pipeline. By new product, this is not the acquisitions. These are products that we come together with our team and talked about the ability for us to differentiate our products by adding maybe two molecules or even three molecules together to create kind of some unique properties. And with that, **we looked at growing that** and adding about $37 million in three years and $109 million over the five years.

And then, finally, acquisitions. We kind of basically looked at – we've been averaging a little over $40 million a year. But I think what we're looking at was starting at a smaller level than that. But overall, climbing that to about $100 million over a five-year period. So again, at this point, no reason to differentiate with our initial forecast for our existing product line. But we are seeing a kind of a reset with our new products. So what we've done is, they meet quarterly and take a look at the projects. There are projects that get canceled. There are new projects that come on. And so with this, we're running about a year behind on our schedule. So looking at maybe somewhere in that $26 million level, between $26 million and $27 million will be hitting a target of $109 million. And then with regards to our acquisitions, again we feel comfortable at this point that we can continue to make the target that we've laid out in November of last year.

When we go to our green solutions, **we've got a fairly aggressive growth**. And I think you'll remember that this is about a 10% CAGR expected globally. We think **we're in a much stronger position than most**. And so we have an initial $22 million that **we've got growing by $48 million in a three-year period going to actually $118 million growth by 2025**. And so for the first half of 2021, we're right at $17 million and expecting target to be somewhere in that $30 million to $35 million. So **that's about a 50% increase** from where we currently are. I'm looking at a 40% increase per annum to get to that $70 million and that $140 million. This we could have acquisitions that fall in that space, but sure we've got acquisitions covered in the other into the core operations. But our team is, it feels good that this is the best forecast at this time.

So why you might ask. When we pulled together our portfolio, we saw that we had 80 different biological solutions globally, which is a big number broken down into biofertilizers, microbials, biochemicals and biostimulants. But since that time, we're now over 100 different solutions that we have in that space. And by this, we are not talking different geographical labels or different pack sizes. We're talking about unique differentiated products. That's a big number. And within the biological space, has **a very, very robust portfolio of products**. But just a little color on this, within the US, just on the Agrinos products that we acquired, we're planning to do – we are doing this year 14 different crop trials. And you'll see there's less than 14 crops there, but we've got kind of multiples on corn and a couple of the other products.

In addition, for our AMGUARD non-crop business, we've got nine turf trials. So when we talk about trials, that's not individual plots, those are the scope of a direction of a particular project. But when you talk about actual plots, we're talking about 1,500 total test plots. And that's within our green solutions, this is just Agrinos in the US. Moving onto SIMPAS, we had looked at achieving about $35 million of incremental sales by 2023 and $130 million by 2025. Our team, saying, okay, within the US – and this doesn't include international – and limited to four crops, we're looking a little bit behind where we were. So we're kind of running a year behind this. And so let me kind of move on to a kind of explanation for why that is. So there are kind of three main areas that we look to as far as this hitting its stride. And of course with the equipment itself needs to perform. And we feel like all aspects of it, whether it's the tracking of the cartridges, the refilling, the actual applications, the ability to put prescriptions in, almost all of that looks well beta tested and we think we've accomplished that.

The second area is building that toolbox of products that our SaaS customers might have – those are (26:35) solutions. They've got ability to use multiple products. And if you look at this last year, we really had our kind of core products available, which are generally linked to either kind of nematode or insect control. And in addition then, we have a micronutrient in zinc. And so for this year, we did have several people that applied multiple and did multiple three different products and did very well. But a lot of growers looked at it and said, okay, let's wait on that investment until we get to the 2022 season when you add more. So we hadn't given you good visibility of what the future looked like for our toolbox. But what we're excited about in 2022 is that, for the first time, we'll be able to include both soybeans and cotton, two solutions being applied by our growers.

And so up until now, it's corn growers just supplied corn, but corn growers generally grow soybeans as well. And in the southern market, the corn growers in addition to soybeans also many of them are cotton. So **this is a great utilization and** really kind of for the design of what SIMPAS is about. And then as you see in 2023, **our portfolio grows.** So when we get into that 2023 season we're talking about 42 different products in that platform. And **this will continue to grow over time,** and as we talk with growers and distribution and retailers, we'll see kind of what they really want. In addition, though, we have, up there on the board, we have third-party products from a number of different companies that really would like us to get their products registered and approved into the SIMPAS system.

So highlights that we've seen here from our last years' experience here. What we've seen generally is that our SIMPAS users are twice the size of our SmartBox users. Generally, our SmartBox users kind of average treating about half of their field. It goes at full rate, but if they're doing – if they got a 1,000 acres and they do 500 acres of corn, they're going to apply 500 with insecticide or nematicide. But the soybeans, the other 500 acres aren't getting touched. But what we are seeing, though, is that, if the farmers farms are twice the size and as such just with the three products we have they're purchasing 4 times the amount as far as revenue. So that's what we really envision that **this would be a big upswing** from what we've seen in the SmartBox with utilization of multiple solutions.

And then, finally, and we have done the math on it, the current corn prices all we're looking at in order to pay for a SIMPAS system over a five-year period is just a half a bushel per acre increase. So it's not a major investment when you look at that win. And I think we expect **a SIMPAS solutions to be more than double-digit increases in their yield**. And then – so for this 2020 year what we've done and again even with the Delta strain that we're seeing going, there have been a number of operations that we've been able to place and still expect to do. What we can do field demos and actually bring in people from all over to and even bring in people from Brazil as well, bringing people in to see the system work and its performance, and in addition they are being able to demonstrate the return on investment.

And lastly, what we've got is for our team sales wise we've outfitted them with what I call soup to nuts A-to-Z on SIMPAS, basically giving them the ability to see and be able to explain that to everybody in the chain, whether it's a third-party, whether it's a distributor, how they make money, whether or not it's a retailer trying to figure out how he writes his prescription, how he get to the agronomist information in there, how he shows return on investment with the growers. So what we've done is we've created this iPad that basically covers five major areas. So there's the SIMPAS solution, the cartridges, what really the SIMPAS, the experience is all about, and logistics. And so from each one of those topics it breaks out into additional tabs. So basically, as I call this, A-to-Z, essentially 32 different tabs for which our sales team can do and download this for our retailers.

So if you take a look at one of these, we're talking about a SIMPAS solutions. When you pull that up then you can hop on into any one of the products that we're currently offering. In addition then, you can hit the coming soon and you can see the table that I provided just before this. And then, similarly, if you go to the business builder, the retailer can kind of get a lot of questions answered around the scope of what's the prescription like, what's the business model, and can provide him with much better comfort that what he's promoting in SIMPAS is a win-win for everybody. So if you put all three of these together, essentially we're looking at tracking to about just under $700 million by 2023 and a little over $900 by 2025. So that's where we are with our update and we'll continue to provide this as we go through and keep pushing the team to continue to sharpen their pencil and provide continual updates as to where we're going to be.

So before we switch to questions, I have a couple – we had a couple of questions that were brought up in this last quarter that I wanted to address here in front of everybody. So one question was about our acquisitions and what kind of return are we getting on those. We've talked about, we make acquisitions in the 5 to 6 times EBITDA, which for the industry is generally 10 to 12 times EBITDA, and we play in that space where we look for what we think are going to be nice wins for us and we pass on those where we think it's a little too expensive. But you've seen by our over 50 products and five manufacturing sites and three close delivery systems and eight businesses that **we are successful in operating that space**. So what we did is, we said, okay, we just took a look at this 14 to 20 **which was kind of a down cycle** that occurred from 13 to today, and we looked at what the actual cash that we paid for these. We've got a mix there of businesses and product lines.

And when we looked at the kind of incremental benefit, we took the 21 current projection **which looks pretty solid to us,** and we calculated out that incremental EBITDA. And it comes out in that 5 to 6 times range. And kind of, return on capital employed at 10%. And if we were to take these incremental businesses and assign a current overheads that are with our existing business, if we put that proportionately onto these businesses, it kind of moves that number in between 7% and 8%. So a second question has to do within our working capital. How do we make the determinations, how do we measure it, what metrics do we use, and it kind of goes into three different areas. So with the external acquisitions, we've got a very robust model that we use that takes a product with sales, cost of goods, OpEx assigned to it, any interest that's assigned to it as far as the working capital, and we actually do build to an EPS over each of the 10 years.

Once we do that and then we measure, kind of, an internal rate of return, a payback period on the acquisition, I already mentioned the 10-year P&L, and that's the basis for how we measure making our acquisitions. With return to internal investments, such as what I mentioned in the new product pipeline or SIMPAS or the green solutions, we do look at a similar concept as to what we do with acquisitions. We build out what it looks like at maturity, generally that's in the five-year to seven-year period. Looking out kind of – we've build out again over a period until we hit maturity, and measure what the short-term, mid-term and long-term returns are going to be. And that's how we prioritize our basic internal growth initiatives.

And then, lastly, we have decisions to make about how to regionally deploy our working capital. And with regards to our existing business and, I would say, the more mature businesses have a better return on capital. When we look at our domestic business or even our Mexico business, which we've had for 20-some years, those tend to have higher return rates. But when we go into newer territories and try to establish a beachhead and grow particularly as you get into Central and South America, the credit terms tend to be longer. Although we're trying to offset that with longer payment terms to our suppliers, generally, we have to make strategic decisions there. And let's take Brazil, for instance, we had not participated much in Brazil in years past. In 2019, we acquired a business and we're building that business today. And that does not meet to same standards or the same levels of return. But overall, we look at what's in the best interest of the firm on all of these for what's the short-term return, mid-term and long-term return.

So with that, I think, Brock, we'll open up to any questions the audience might have.

QUESTION AND ANSWER SECTION

Operator

Yes, sir. Our first question today is from Gerry Sweeney of ROTH Capital Partners. Please proceed with your question.

Analyst: Gerry Sweeney

Question – Gerry Sweeney: Hey. Good afternoon. Thanks for taking my call. Just I had a couple of questions and want to start on maybe the Agrinos business, the bio side. I believe you mentioned you're at 80 products going to 100 products. And then you mentioned series of field tests going on. As you're looking at that expansion of products, is there anything sticking out that gets you further excited about the business, any maybe breakthrough products or anything like that? Just curious on that front.

Answer – Eric Glenn Wintemute: Sure. So again, the Agrinos products just with the 150 patents around them, is very exciting. We're getting – we got one customer **who has generally ordered about half a truckload and already this year he's ordered several truckloads** and thinks it's great. So we're getting some very nice feedback on the Agrinos products. There were some projects that has been started with some of the major companies **that kind of lost focus during the bankruptcy**. But as soon as we brought this on, then the bills came on, and they said, okay, we need to kind of move forward.

So companies are looking and you'll see, I mean, Syngenta made a big acquisition, but all of the majors are looking at that growth and saying, hey, we've got to step into this and grow with that. And so **we're starting off with a very, very nice portfolio**. I will say also what we've – where we're at with Envance, and we've got products that were into the consumer market with Procter & Gamble, but we're very enthused by a non-selective herbicide that we've created also potentially for the lawn and garden and commercial use, that is very fast acting. So it's a matter of hours, you'll see the effect, and by the next day the weeds are gone or the vegetation, whatever it is. And particularly in light of Bayer's decision to exit that market with the...

Question – Gerry Sweeney: The roundup?

Answer – Eric Glenn Wintemute: Yes. So this is a product that we can move straight into the market with, it does not require EPA registration. There are state registrations that generally are very, very quick. But just like with our zero product line that Procter & Gamble has launched, this is a quick fix replacement. So we think in this upcoming year, we'll do a lot of market work and be in a position for a launch in 2023.

Question – Gerry Sweeney: Got you. And then shifting gears, obviously, SIMPAS ultimately another big growth opportunity for you. It did sound like maybe the timing – **I don't want to use the word pushback** a little bit, but maybe a little bit elongated as some of your partners move into multiple different crops I think in the next season or two. But do you have everything in place around the Intellectual Property side? Do you need to build out any pieces of that product a little bit further either internally or externally to help the growth side?

Answer – Eric Glenn Wintemute: Yeah. I mean the Intellectual Property **we feel very, very good** about. We've added some other pieces which are seed synchronization and actually being able to paint the seed that time of plant. So those are kind of additional pieces that will – not part of our projection that you've seen there, but those are pieces that **we think will add quite a bit to the success of the product** and the equipment itself. But yeah, the equipment, the software, all the IP around that, we've secured that well. And so we're fine there. So I think what we're doing now is I focused on building that product offering, the SaaS products so that **we can get a greater utilization across multiple crops**.

And I should say too, I mean, again this does not include international. And of course, we have systems, Mexico, Ukraine, Australia and Brazil that we're working with this year to try to build that market. And so our international team is kind of looking at kind of – I mean, they've got a number, but they really want to hold off until they see kind of how things unfold here in the US because they'll be trailing by one to two years what we do here in the US. And so shortly probably by the end of the year we'll probably give, at year-end, we'll probably give an update on that as well.

Question – Gerry Sweeney: Got you. And then maybe just a quick question with David. Operating expenses **up** a little bit. Some of it obviously comes with growth. But I was curious if any of it would be transitionary, some of the freight or logistics or anything like that, just curious if some of this may roll off and we see a little bit incremental improvement.

Answer – David T. Johnson: I think our freight costs are pretty much straight in line with sales. Apart from the present temporary – hopefully, temporary increase in freight from Asia. And I don't actually know how long that's going to last.

Answer – Eric Glenn Wintemute: Yeah. I mean it's – I don't know that we're going to go back to the rates we were. I think they're talking about a kind of a year, maybe before – I mean, things might move – start moving down, but we're really looking maybe at a year before it hits a new, maybe a new norm. But if you look at fuel costs and inflation, I mean, you'd be better at forecasting those sort of things like we are, but where does cost of oil go over the next couple of years.

Question – Gerry Sweeney: Got you. If I had known that, I wouldn't be on the call. Yeah. I got you. I understand. But that's helpful. I appreciate it. Thank you.

Operator

There are no additional questions at this time. I'd like to turn the call back to Eric Wintemute for closing remarks.

Okay. Thank you, Brock. And thank you, each of you, for listening in, I hope you found it informative. And again, we'll keep you updated with our growth initiatives and everything else within the company as we move forward. So off to a great start here in the first half, **things at this point look very solid for not only the second half**, but things are lining up well for 2022 certainly as well. So thank you and I appreciate you attending. And have a good evening.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.