08-Aug-2023

American Vanguard Corp. (AVD)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

William A. Kuser
Director of Investor Relations, American Vanguard Corp.

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

David T. Johnson
Vice President, Chief Financial Officer & Treasurer, American Vanguard Corp.

James Thompson
Director of Business Development, Portfolio Management Biologicals and Non-Crop, AMVAC

OTHER PARTICIPANTS

Chris Kapsch
Analyst, Loop Capital Markets LLC

Brandon Rogers
Analyst, ROTH Capital Partners LLC

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the American Vanguard Corporation Second Quarter and Year to Date 2023 Earnings Call.

I will now turn the call over to Bill Kuser, Director of Investor Relations. You may begin.

William A. Kuser

Director of Investor Relations, American Vanguard Corp.

Well, thank you very much, Misty. And welcome everyone to American Vanguard's second quarter and mid-year earnings review. Our speakers today will be Mr. Eric Wintemute, the Chairman and CEO of American Vanguard; Mr. David Johnson, the company's Chief Financial Officer. And also to assist in answering your questions today, we have Mr. Shayne Wetherall, the CEO of AMGUARD Environmental Technologies, which we refer to in our filings as the non-crop business, and also Mr. Jim Thompson, Director of Portfolio Strategy and Business Development, who is the leader of our Green Solutions initiative.

Before beginning, let's take a moment for our usual cautionary reminder. In today's call, the company may discuss forward-looking information. Such information and statements are based on estimates and assumptions by the company's management and are subject to various risks and uncertainties that may cause actual results to differ from management's current expectations. Such factors can include weather conditions, changes in regulatory policy, competitive pressures and various other risks as 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 Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Bill, and welcome, everyone. As you will have read from our earnings release and we have highlighted on slide 4, our Q2 sales declined in the face of an industry-wide drop in procurement activity as the distribution channel destock their inventory. Currently, we are seeing stable commodity prices, a strong farm economy and low channel inventory of our domestic crop products. And as such, we expect a strong recovery in the second half of the year.

The second half rebound will not likely be enough to bring us up to our original full year forecast. Sales mix for the quarter and year-to-date is important to note as we continue to see strong growth in our Green Solutions product lines. Further, given current conditions, we are closely managing expenses across the board in order to improve operating leverage.

With that in mind, our downward adjusted performance targets for 2023 as compared to 2022 are as follows: slightly elevated net sales between $615 million and $625 million; similar adjusted EBITDA between $70 million and $75 million; lower net income between $20 million and $24 million, much of the downward pressure in this metric relates to interest and tax expense.

Let's start with Q2 and then move onward to the full year and beyond. In our last earnings call, we mentioned that customers were beginning more judicious – becoming more judicious about inventory control in light of increased interest rates and the associated carrying costs. Those early signs of hesitancy and procurement hit us and impacted the global ag chem industry during the second quarter, as distributors abruptly slowed purchasing activity in order to destock their inventory.

Like many of you, we have been reading with interest in the earnings report of our public peers and observed that industry as a whole experienced a drop in the quarterly sales on average of approximately 20%. Some, particularly those who carry more generic products, experienced even more severe setbacks.

By contrast, you can see on slide 5, our overall net sales were down by only 10%. We break that down further as follows. Net sales of our US crop business were down 11%. And – but for the unavailability of one of our high-margin herbicides, we would have done much better. We have since sourced that herbicide and believe we will be able to serve our customers going forward.

Within the non-crop sector, we have seen a similar trend, that is retailers, whether big box stores, nurseries or garden centers, broke with the long-standing practice of having a full barn that contained 120 to 180 days of inventory and redefined it to mean 20 to 40 days of inventory. This, in turn, led to a drop in demand as they exhausted existing stocks, followed by smaller orders, as they adopted the new approach. In effect, retail has pushed inventory carrying costs back onto the manufacturers. Consequently, net sales within our non-crop business decreased by about 20% in the quarter.

Within our international business, while net sales in Mexico and Australia were strong, they were not enough to overcome the fact that China-based suppliers were loading the markets, within Central America and Brazil, with low-priced generic products. This altered the market dynamics, resulting in reduced demand for higher-margin products. Despite this spike and supply of generic goods, we were able to maintain our brand value in these regions. And on a consolidated basis, our international sales dropped by only by 9% – I'm sorry, by 6% and experienced a 1% margin decline.

Before moving to David's presentation, I want to cover some of the positive achievements of the year-to-date, as you see on slide 6. First, after a major interruption in the supply of raw materials that we use to make Aztec, we now have two sources of both raws that are being delivered in advance of our manufacturing campaign set to start next month and run through November.

Similarly, the supplier of our high-margin herbicide, Dacthal, which have been unavailable for the past three quarters, will commence production again in September in time for the fall 2023 and full 2024 season. Channel inventories of that herbicide are fully depleted, so we expect strong demand in Q4. At this stage, then we know of no supply chain issues that should prevent us from serving our customers for the balance of the year and into the next planting season.

Second, our Green Solutions portfolio, which includes over 130 biorational and soil health products, continues to grow at a strong clip. Compared to Q2 of 2022, sales of Green Solution products, which we sell into global markets, rose by 21%. These products are largely immune from the cycles of the chemical supply market.

Further, we continue to see higher adoption of these solutions by growers. In addition, with respect to BioWake, a seed lubricant from soy protein, we are expanding uses beyond soybeans and corn to include peanuts and cotton in 2024.

Third, over the quarter, we continued to repurchase our common stock on the open market through our $15 million 10b5-1 purchase plan. That plan concludes within the next two weeks and our board has authorized the company to enter into another repurchase plan for up to $7.5 million worth of common stock. We continue to see value in our equity and find this to be a prudent allocation of capital.

Fourth, we are happy to report that our proprietary precision application system, SIMPAS, is now operating on the ground in Brazil. This represents a huge step forward in the global commercialization of this at-plant technology. With a Brazilian label for Counter, our nematocide product, that includes corn, soybeans, cotton, sugarcane, coffee and bananas, we are now providing the first end-to-end solution, both product and equipment, for precision application in that country.

You can see on slide 7, our first SIMPAS unit in Brazil and is operated by Bom Futuro, a large-scale grower who manages 500,000 hectares of soy, corn and cotton. They've been a loyal user of Counter, and in the past, have found that our product gave them an average of 15% yield boost in corn.

In this photo, you will see Bom Futuro's 49 Row John Deere planter fitted with the SIMPAS – with our SIMPAS system. They have already tested seven different application rates at 7 to 8 kilometers per hour over 30-plus minute intervals. We are pleased to report that the accuracy has been exceptional, much to the like of the Bom Futuro team and American Vanguard.

Turning to slide 8. The market potential for Counter in Brazil is quite large with about 200 million acres planted across these six crops. Average interference with yield is about 15%. If we obtain only 5% of the acres, that would translate into a $400 million revenue opportunity in that country for Counter alone. The fact is we intend to register additional SIMPAS applied solutions in Brazil that would increase the revenue opportunity all the more.

At this point, let me ask David, our CFO, to make a few comments and then we'll return to talk further about the balance of the year. David?

David T. Johnson

Vice President, Chief Financial Officer & Treasurer, American Vanguard Corp.

Thank you, Eric. With regard to our public filing, we plan to file our Form 10-Q later today.

Moving to slide 10, as Eric mentioned, the second quarter of 2023 has seen continually challenging operating performance for the company, with overall revenues down about $15 million or 10% as compared to the same period of 2022.

For the second quarter of 2023, under our new accounting approach for freight and logistics on slide 11, you see that our gross margin percentage ended at 32% of sales as compared to 33% of sales in 2022. The lower overall gross margin performance was driven by the increased share of international sales and generic price competition in both Central America and Brazil. From a manufacturing perspective, our factory performance was broadly in line with last year.

On slide 12, you can see that for the three months ended June 30, 2023, operating expenses increased by less than 1.5% despite significant inflation pressures. There are several factors driving this result, including increased travel expenses and continued investment in various R&D activities in support of our growing business, substantially offset by lower incentive compensation accruals, reflecting business performance.

As you can see from slide 13, we did make a small operating profit in the quarter. In addition, during the quarter, we incurred a one-time tax expense in Brazil that did not relate to Q2 financial performance. The expense was associated with withholding taxes on intercompany loans granted to our Brazilian holding company to facilitate the purchase of our operating entity in Brazil. We were required to convert the loans to equity in order to meet thin capitalization rules in Brazil.

Such a conversion requires approval from the Brazilian Central Bank. We submitted the necessary documentation to the Central Bank in 2022. In May 2023 without notice, the Brazilian Central Bank issued the approval and the company was required to execute the conversion of the loans immediately. The one-time expense is a current expected net cost.

With regard to the overall loss, it's worth noting that it was driven by the tax expense and that this is only the second time the company has recorded a loss in the last 55 quarters and comes more than 13 years since the last reported loss.

On slide 14, you can see that for the six months ended June 30, 2023, operating costs decreased by $742,000. This was achieved despite strong inflationary pressure and as a result of careful focus on expense control. The main drivers were similar to those described for the second quarter.

As you can see from slide 15, it was a challenging first half of 2023 with sales down 13%. Interest rates have increased more than threefold to 6.9% versus 2.2% last year, and our use of working capital has increased about 17%, as customers are transitioning from buying early to buying as late as possible, driving interest expense up $3.7 million. As a positive and as I've just discussed, operating expenses were down for the first half of 2023 as compared to the same period of 2022.

On the graph on slide 16, you can see that at the end of the second quarter of 2023, our inventory increased compared to previous quarters. We are at $237 million at June 30, 2023 as compared to $182 million at the same point of 2022.

The company came into 2023 with a strong demand forecast and set our manufacturing plan in response. We had some challenges with supply chain in the first quarter and the second quarter that are now behind us. However, we do have some elevated inventories of certain products that we expect to sell in the final quarter of 2023 or the first quarter of the following year.

In addition, our inventories have been impacted by the abrupt US market change from buying early to buying late, driven by customer decisions in the face of elevated interest rates, and by aggressive actions by Chinese manufacturers in Central and South America.

The graph on slide 17 shows that debt ended at $161 million at the end of the second quarter of 2023 as compared to $101 million at the same point of 2022. We anticipate our debt to seasonally decline by year-end.

With that, I will hand back to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, David. My last substantive topic is the full year 2023 outlook. In doing so, we focus first on things that are clearly within our view.

As we have listed on slide 18, channel inventory of our corn soil insecticides is down to 12% of the amount that was actually implied last year. In fact, Aztec, our leading corn soil insecticide is down to only 7.5%. Both of these numbers are historic lows. We believe this creates significant headroom for demand over multiple product lines with respect to the 2024 season.

Second, the farm economy is relatively strong, given stable commodity prices and expected levels of planted acres of row crops. In spite of incrementally higher US interest rates, growers should be poised for investing in 2024, particularly those who have minimized inventory of crop inputs.

Third, we are in close contact with our key accounts. These are national distributors that market and sell the majority of crop inputs within the US. As part of our usual planning process, we meet with each of these customers and map out a plan for selling them to the next season.

These are the same customers who typically participate in early-pay programs, by which they commit cash to us before the season in exchange for discounts on our products. These payments are indicative of customer commitment and help us to meet working capital needs. At present, we anticipate normal prepay activity.

We expect that these factors taken together will support better demand in the second half of the year. Specifically, we anticipate that domestic sales will be approximately flat within last year, while our international business will grow 3% to 5%.

Before turning to the full year targets, let me spend a moment on timing. While our view into macroeconomic trends is limited, we can safely assume that growers will need crop inputs in time to plant their crop next season. Thus, even if distribution continues to exercise fiscal austerity, they will eventually need to replenish their stocks even if the orders come closer to the season. Consequently, at least with respect to the domestic crop markets, we expect the fourth quarter will likely be significantly stronger than the third.

Turning to slide 19. Based on our best assessment of our markets, channel inventory and other factors, we are targeting 2023 performance as follows. Net sales between $615 million and $625 million, which would represent a modest growth of 1% to 3% over full year 2022. Gross profit margin of 32%, operating expenses as a percent of sales between 25% and 27%; interest expense of $9 million to $10 million; tax rate of 27% to 29%, debt-to-EBITDA targets are unchanged from last year; net income between $20 million and $24 million; and adjusted EBITDA of between $70 million and $75.

In short, following lower-than-expected performance in the first half of 2023, we see a rebound for the balance of the year. Despite uncertainty within the sector, we are poised to meet customer demand and to take advantage of depleted inventory levels in a reasonably strong farm economy. At the same time, we will continue to advance our other growth strategies, Green Solutions and SIMPAS, both here and in Brazil. In keeping with prudent capital allocation, we will be back into the market investing in our own stock.

Before closing, I want to leave you with a final thought as per slide 20. We have always placed a premium on financial discipline and operating efficiency. Within current market conditions, it is especially important that we continue that imperative.

To that end, we have challenged multiple teams across all functions to focus on ways to increase operating leverage, both over the balance of 2023 and throughout 2024. These projects include such things as cost of raw materials, inventory days on hand, accounts receivable and accounts payable timing, factory efficiencies, discretionary spending and selling expenses to name but a few. We'll report on the progress of these efforts in future calls.

With that, I'll turn the call over to the operator to take any questions you might have. Misty?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Okay. Our first question is going to come from Chris Kapsch with Loop Capital. Your line is open.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Hi. Good afternoon. So, a common theme for global chemical companies coming through the last, I don't know, six, nine months has been inventory destocking. In ag chem, specifically, it feels like more like the mother of all destocking cycles. And a lot of your peers have talked about it and maybe there's different magnitudes in different geographies and the different product categories. But you added something that I haven't heard was – I mean, it's somewhat intuitive, but just the copious amounts of glyphosate that are kind of entered certain regions. I'm curious about if – given the pricing of glyphosate is now back to below pre-pandemic or pre supply crunch levels, and that's kind of putting pressure on the overall crop protection chemicals market. Has that changed the competitive intensity anywhere to the extent that it's influencing or affecting your market share positions for any of your core chemical products?

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

A

Yeah. It's a great question, Chris. I remember years ago back in – I think it was the 1980s, we had our distributors telling us, hey, you guys want to get into glyphosate. And we said, no, it's not going to be a good fit for us. And I know a lot of people have made a lot of money over the years. But when you're getting in a situation like this, similar to 2009, it's a pretty painful position.

Our number one herbicide, IMPACT, is a great marriage partner with glyphosate and glufosinate. It targets weeds that escape both of those chemistries. And so although there is such a swing and so much pressure put on the chain to take the surplus volumes of glyphosate and glufosinate, we see the continued use of our products, I won't say completely immune because it is – I mean, it is dependent on weeds escaping. But we've seen a good hold of our market in those geographies.

So I guess I would – there are broadcast, wide spectrum herbicides in that arena, I think that's a pretty tough market today. But as far as kind of, I mean, again, I think glyphosate goes out of like 22 ounces per acre and we go out at about three-quarters of an ounce per acre. And as you may recall, we were for years, Monsanto's roundup partner for corn. So they're complementary.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Okay, okay. And then, I mean, I guess similar – getting at a similar question, just with the broad – the breadth of the inventory destocking across the industry and the impact it's had on demand in current period, maybe the last couple quarters has – or I guess it's really been pretty abrupt in crop protection chemicals maybe this quarter. Has that affected any aspect of the competitive landscape? Is there – has anybody sort of responded by just getting much more aggressive? I'm just – you mentioned obviously the generic producers out of China for glyphosate specifically, but that's maybe somewhat unique to that product line. Just wondering more generally, if there's any more – any noticeable changes in competitive intensity across the board.

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

A

Yeah. So I mean, certainly, as people are scrambling to get their products moved and – through the channel, there has been pricing pressure, which we've seen in all of our entities, whether it's Mexico, Australia, all the Central American countries, Brazil, and even in the US. I mean, certainly, there are products that we sell that have multiple registrants, where we saw a lot of pressure in our non-crop business.

But that's really not a focus for us. I mean, again, our focus has been to try to channel our energies on the products where we do have stronger margins. And those margins generally come with we've got some uniqueness, whether it's the active ingredient itself or we've got mixtures that are different. I think you can kind of see that effect in our Green Solutions area, where we don't know exactly where that market has played out, given that there are very few pure, I'll call it, Green Solutions companies or biological companies that are public.

But I think, Jim, you might comment on that. But I think we believe it's down some, but we still grew that market by 21%. So I don't know if that kind of answers your question, but I'll ask Jim, maybe just to show some color on Green Solution, if that's okay.

James Thompson
Director of Business Development, Portfolio Management Biologicals and Non-Crop, AMVAC

A

Sure. Sure. Hi. Yeah. Same theme, Eric. In the Green Solutions side, we did see some buyer behavior that I think is similar to what you saw on the chemistry side, but to a lesser effect. So we saw a little bit of pressure, but, overall, it's really offset by our two biggest geographies, US and Latin America, growing at a very, very fast clip. And the growth is also driven by new products that are still being registered and further penetration of our existing products. So that's been able to offset any negative effects we see. We didn't quite grow as fast as we thought we would this quarter. But nonetheless, it's a good acceleration of growth year-over-year. So we expect that to continue on.

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

A

So, Chris, I don't know that answer your...

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Okay. Yeah, that's helpful. And then just one other one. Just you had mentioned historic low inventory levels for a couple products. And just could you just remind us the method by which you gauge those inventory levels and the confidence level around the normalization of demand as we sort of exit this year headed into the growing season at least North America.

[indiscernible] (00:28:54)

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

A

So we've got a check and balance system that's there. So, obviously, we keep track of the sales that go to our distributors. We then are able, through [ph] electronic debt index (00:29:09), to see the sales that they make to the retailers. The retailers' movement to the farmers is one that we have an assumption for. Generally, farmers at the end of the season return their product to the retailers and the retailers return to distribution.

So this year, and of course, bolstered by the fact that we had maybe 30% of the Aztec that we wanted to get into the market available, we saw that there were virtually no returns. It's a very – I mean, there were returns, but again, the total amount as a percent of our sales in 2022 is down to 7.5%. And generally, I think the rule of thumb has been, if you can get down to 20% to 22%, you're doing really good, but it probably averages, closer to norm, is in that 30% range.

So I think we checked that with what goes out and what comes back and then we do a balance of what the beginning inventory was and what the now stated inventory is. And so we're able to see if there's anything unusual.

We also do spot checks with our bigger retailers to just confirm that these are the numbers that we have, can you confirm this is actually what you have. And of course, there are payment programs that are associated with the sale of inventory. So it's a fairly honest system that we have a high level of confidence in.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Got it. Helpful. I'll leave it at that. Thanks.

Operator: Our next question is going to come from Gerry Sweeney with ROTH Capital. Your line is open.

Brandon Rogers
Analyst, ROTH Capital Partners LLC

Q

Hello. This is Brandon Rogers on for Gerry Sweeney.

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

A

Hi, Brandon.

Brandon Rogers
Analyst, ROTH Capital Partners LLC

Q

Just had a few questions. One was around the SIMPAS solution. I saw that you are operating now in Brazil. I was wondering if you could just comment on the multiyear targets that you indicated in prior calls, if there's any additional investment required or if things are going to go forward just as is?

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

A

Yeah. So the targets that we've given up to now, I think, have been without any thoughts towards Brazil because we weren't sure how the adoption would go. Our target is to get 19 systems running with large farmers this year. And based on their experience, I think we'll have a better feel for market adoption in Brazil.

Within the US, yeah, we had a beautiful 2023 season, operating for about 100 different systems that were out there. We had virtually no complaints. And we were able to do our infield kind of field check system for the time. That went well. We also – and that's kind of important to be able to develop or return on investment story.

In addition, we began initial with our liquid for the first time. We also did our first time, say, disposable, call it, poly bag. That's what we intend to use for biologicals that are not going to be able to be returned and refilled. And so we have some tweaking to do on that design system, didn't hold the bags quite as well as we had hoped. So we've made a minor adjustment to that so that they will rise steady under heavy walk conditions where the unit, the planter is jumping around quite a bit.

So we'll have a much better feel as we get our next – through this third quarter. Third quarter is a very large quarter in Brazil. So we'll have a better feel with how that looks. And so by the time we get to our next conference call, I [ph] should get (00:34:03) an update both. And I think also, as Jim mentioned, Q3 is a big quarter for us. So we'll focus on updating those targets at the next conference call.

Brandon Rogers
Analyst, ROTH Capital Partners LLC

Q

Got it. And then I just had one other question kind of around the cost reduction initiatives. Considering the challenging market conditions, you mentioned a few of the different initiatives that you're going to go forward with. But just can you give any additional color around some of the inputs within the cost reduction initiatives?

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

A

I mean inventory sticks out. Obviously, we've had – we've produced in advance and we were paying [ph] 2.2% (00:34:53) and now we're paying [ph] 6.9% (00:34:55). And I've told our team, look, our customers have done a great job [indiscernible] (00:35:00). It's our turn now. So we're going to focus on bringing down [ph] inventory and improve (00:35:05) our working capital inventory.

I mean given what we went through on Aztec, that is one where we said we're going to continue to buy [ph] key (00:35:17) raw materials until we've got 100% of what we need for the 2024 season. And I mentioned, we'll start that campaign next month. So we'll have 100% of our technical needs, won't have it all formulated, but by the end of the year. But some of the other products, yeah, we need to focus on being a little bit more prudent on when we bring inventory in.

Again, our suppliers in the various countries have pushed us to – as they're trying to make their numbers to buy larger stocks. And we told our team that's it. We're not going to be Mr. nice guy to everybody. We need to adopt a similar policy where we're not bringing inventories in to cover six months. There is ample supply of most of our products, and as such, we need to be more prudent. So that would be one area.

We had started – we started a year an – I guess, about 12 months ago, an initiative on factory efficiencies. We've identified different build factors, different run times, turnaround times. So we've got a team that's working on that. We just brought up an individual, 25 years with DuPont. He's a Sigma Black Belt in the chemistry operation standpoint, and we are looking for him to help us as well develop better factory efficiencies and kind of run with that. But we have a few areas where we think we can gain efficiencies. And of course, we're looking at all of the metrics with operating expenses, not just the plant efficiencies to see what [indiscernible] (00:37:21) to lower our operating cost in this environment.

Brandon Rogers
Analyst, ROTH Capital Partners LLC Q

Awesome. Thank you. All the rest of my questions have been answered. Appreciate it.

Operator: Our next question is going to come from Chris from Loop Capital, who has a follow up question. Chris, your line is open.

Chris Kapsch
Analyst, Loop Capital Markets LLC Q

Yeah. So thanks for the update on SIMPAS. But I'm curious about – I mean, that obviously has a growth trajectory that is part of the 2025 growth target framework that you put out. And I'm just wondering how – at this point, given where you are resetting 2023 expectations to, how do you want investors to think about those growth targets? And what's the right way to think about progress towards those? Are you planning on recasting those? Or when would you communicate something – an update along those lines? And what kind of visibility do you have in terms of continued progress towards those sorts of numbers? Thank you.

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

Yeah. So, yeah, we haven't come – I mean on the SIMPAS and the Green Solutions, at this point, we don't have a thought that we would be resetting those. But a lot of that's going to depend on what we see over the next couple months.

But with regard to the growth targets that we laid out of, I think it was the $907 million and the $140 million by 2025, yeah, we expected to make a lot better progress this year moving EBITDA up into the $90 million range and the fact that we're going to be well short of that would kind of indicate that we're behind.

So I think we'll have a pretty telling as we get through the balance of this year. Are we going to leap forward in 2024 because if we've taken six months out of 2023, and if demand stays the same, then we should have a big jump in 2024 with a full year of normalized buying. But we just went through the last couple weeks about 10 different budget meetings for the 2024 season and there are forecasts for 2025 and 2026.

And so we haven't had time to digest that. We need to obviously pull that together. I think we want to have our budget kind of figured out here by next month and then kind of drill down on the 2025 and 2026 outcome. And so I would think by our next call that we'll have the ability to upgrade the target graphs.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Okay.

Operator: Our next question is going to come from John Roberts with Credit Suisse. John, your line is open.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you. The 6% volume decline that you saw in international. That was less than the other volume declines you saw. Was it a similar inventory correction just off of higher growth rate that's there or was it a much smaller inventory direction?

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

A

No. I think – I mean we've had initiatives for growth in Mexico. They continued to perform strongly. Australia also did well. And as I said, our greenhouse screen solutions did also well. I think we – I mean, there was definitely generic price pressure in Mexico. I mean we heard this from everybody that the people were sitting long on inventories and were pushing things through. And actually, we had – usually, this happens in that last couple days of the month. We have things that we think shipped and it didn't get out so we could bill. But I think it was – we generally have a pretty kind of specific portfolio of products. I mean our Counter is doing well in Brazil. We have our Bromacil, our Krovar, which is used in the agave market, has performed well.

So I think, generally, I mean, we had good supply positions where we were able to meet demand. And so I think – yeah, I mean, I was pleasantly surprised. I do think as I looked at our peers, as they've broken out the various segments, it does seem like North America got hit as hard as any place. We don't have much of a market in Europe. So that's not there. But I know a number of companies did have difficulty certainly in Brazil.

And I think if you've got – if you have countries where your products were in tight supply and there was a flood of orders and you filled those orders, whether it was in time for the 2022 season or those were carried over into 2023, I think those are definitely an issue. But, again, we don't play in a lot of the big volume generic chemistry. So that's probably a main reason.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

And then on slide 11, why was US crop gross profit only down 9% when sales were down 11%? Normally, we think about gross profit being down more than sales would be down. Was that price raws coming through as an offset?

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

A

Yeah. We did have some improvements and particularly our soil fumigant has improved in profitability. That's our single biggest product. So I think it's largely product mix. And again, we have – a good portion of the products that we sell in the US, we are proprietary on. And they have the healthiest margins along both crop and non-crop.

John Roberts
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: [Operator Instructions] Okay. Doesn't look like there's anybody else in queue. So I will turn it back over to you for any closing remarks.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Okay. Thank you, Misty. And again, really appreciate you people taking the time to listen to the call today. Great questions from the three of you. Thank you. And we look forward to updating you as our Q3 unfolds and what the balance of the year will look like for our Q4. And then at the next call, maybe some thoughts about our longer-range targets.

Okay. Thank you very much, everybody. Bye.

Operator: This concludes your call. You may now disconnect.