09-Nov-2020

American Vanguard Corp. (AVD)

Q3 2020 Earnings Call

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the American Vanguard Third Quarter 2020 Conference Call. [Operator Instructions] And as a reminder, this conference is being recorded Monday, November 9, 2020.

And I'd now like to turn it over to Mr. Bill Kuser, Director of Investor Relations. Please go ahead, sir.

William Kuser

Director, IR

Thank you very much, Keith, and welcome everyone to our third quarter and 9-month earnings call. A few orders of business before we proceed. We are providing to the SEC our 10-Q report today. There has been some delays on the part of the SEC. But we will get that done today.

Also in our press release, you took note of the fact that we are providing some slides to accompany our conversation today. They deal with the quarter and they deal with our strategic growth initiatives. So if you're all online, you will see them scrolling across your screen. If you are on audio, telephone only, you can see such slides by going to our website. There is an icon on the very front page that allows you to see those slides.

Our usual cautionary reminder, which we will do before beginning. 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 include weather conditions, changes in regulatory policies, competitive pressures and other risks that are identified 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. Such information will not necessarily be updated by the Company.

In today's call, we will first be starting with our Chief Financial Officer. David Johnson, who will review the quarter and the 9 months followed by Mr. Eric Wintemute, Chairman and CEO of the Company who will talk about our strategic growth initiatives. We also have Mr. Bob Trogele present to answer any questions you may have.

So with that I will turn the call over to David Johnson.

David Johnson

CFO

Thank you, Bill.

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For a change of pace during this call, I will lead off with my remarks on our financial performance during the reporting periods and my analysis on issues of greatest interest to our investors, financially speaking. I will then turn the call over to Eric who will give you his thoughts on our 3 to 5-year targets for growth.

Going forward, we intend to keep you apprised on how we are doing against these targets, just as I do with respect to matters that are key to investors, understanding our business performance such as inventory and borrowing capacity.

With regard to our public filing, as Bill mentioned, our 10-Q document for the 3 and 9 months ended September 30, 2020 is presently in queue to be filed today. I do understand that the agency that assists us with our filing has a large number of documents in the queue at this time. Everything I am covering here is included in more detail in that document.

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, our customers and our suppliers have all operated more or less without disruption during the pandemic. This has continued through the third quarter.

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. We have also seen customer buying patterns that appear to have been moderated in the face of pandemic-related uncertainties.

On the other hand, the same restrictions have caused us to spend less on operating expenses. These marketplace changes have been challenging to manage. However, we have succeeded in maintaining a profitable performance throughout this difficult period.

With regard to our financial performance for the 3 months ended September 30, 2020, the Company's net sales decreased by 6% to $117 million as compared to sales of $125 million this time last year. Within that overall decline, our US sales were down about $7.5 million and our international sales were flat.

International sales accounted for 43% of net – of total net sales as compared to 41% of net sales this time last year. The main factors driving our third quarter sales performance are as follows. In our US crop market, sales were affected by reduced cotton acres, which according to USDA statistics, are down about 11% or 1.5 million acres in 2020.

Acres were impacted by cotton commodity prices that are down, driving growers to plant alternative crops. Our market performance has also been impacted by extreme drought conditions in West Texas and frequent hurricanes in the Southeast USA, both affecting grower ability to apply our products.

On a plus note, we saw a stronger than expected demand for our fumigant products, which are sold into the potato markets. The better than expected performance is attributed to cautious reopening on schools and restaurants across the United States.

In our domestic non-crop market, there were small quarter-over-quarter changes with some decline on our pest strip products which are used in bars and restaurants that were impacted by pandemic restrictions.

With regard to international sales, which were overall flat, there were really 3 factors. First, we had a very strong performance in Mexico, Central America and Australia. By contrast, our Brazilian sales were down in real terms as a result of reduced insect pressure and challenges getting in front of customers because of pandemic

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restrictions. In addition sales translated from local currency to US dollars were further negatively impacted by a decline in local currency exchange rates quarter-over-quarter.

Finally, whereas we saw Mocap and Nemacur sales lower in Europe, both products recorded significant sales increases in other parts of the world. As you can see from the table, the US crop market was where we recorded reduced sales.

This is pretty much in line with other market participants that have reported Q3 results. Our international business increased as a percentage of consolidated net sales and our comparatively low exposure to foreign currency rate movements was a strength for the quarter.

With regard to the 9-month performance, the various market dynamics described for the quarter are broadly the same. Our US crop business was impacted by reduced cotton acres and by growers making cautious decisions with regard to input as the pandemic gradually revealed its impacts. As an offset, we have done a bit better than expected with fumigants as schools and restaurants reopened.

And in addition, we've had the benefit of sales of products acquired in the fall of 2019. Our non-crop business in mosquito control has been a little lower than we hoped given the storm intensity impacting our main markets, mainly due to vector control districts using existing inventory. Finally, our international sales have performed well, given the challenges with currency devaluation in some of our key markets.

Moving now to cover our gross profit performance. For both the quarter and the year-to-date, the trends are fairly similar. In our US crop business the drop in gross profit was driven by our lower sales of cotton products and partially offset by strong fumigant sales.

In non-crop, the impact of reduced sales of Dibrom and pest strips were negative for the quarter and was somewhat offset by strong sales in our horticultural business which has slightly lower margins.

During the quarter, we also recorded higher royalty income on our Envance technology business. For the international business, the decline in foreign exchange rates was offset entirely in the 3-month period and to a lesser degree in the 9-month period by strong performances in Central America, Australia and Mexico. As a result of these various dynamics, gross margin performance in the quarter reduced from 38% to 37% and for the 9-month period from 39% to 38%.

For the quarter, our manufacturing performance was strong with factory operating cost well controlled and activity improved as compared to 2019. Generally speaking, over the long term our net factory costs amount to about 2.5% of net sales, reflecting some latent capacity in our plants should the need arise. This kind of available capacity is necessary to help manage our production planning effectively.

In the third quarter our factories cost approximately 2.4% of sales as compared to 2% this time last year. The third quarter is typically a strong manufacturing period for the Company. For the first 9 months, the net factory costs amounted to 1.6% as compared to 2.4% of net sales for the same period of 2019.

For the 3 months ended September 30, 2020, our operating expenses decreased as compared to the same period of the prior year. The underlying performance is greater than its parent from the published statements because in 2019 we benefited from an adjustment to earn out liabilities on past acquisition. That benefit did not recur this year.

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On the other hand, we did record a benefit of approximately $1 million during the third quarter because we completed an update to our environmental risk assessment related to the Brazilian business we acquired at the start of 2019 which led to a decrease in our liability in this regard.

As we have reported for prior periods this year, our operating expenses were reduced because travel and entertainment costs were lower as a result of pandemic restrictions in all jurisdictions in which we operate. Our costs were also reduced because of the translation effect caused by devaluation of currencies that are important for the Company, including the Mexican, Brazilian and Australian currencies.

With regard to the 9-month period ended September 30, 2020 compared to the same period of 2019, our overall expenses have reduced. The reported reduction actually understates the real improvement because in 2019 we benefited from adjustments to earn out liabilities related to past acquisitions in the amount of $3.5 million that did not recur this year.

As a result, our underlying costs are down approximately $5.5 million or 5% for the 9 months. The drivers of the reduced costs are similar to the quarter. We have spent less on travel and entertainment because of pandemic restrictions. Both short and long-term incentive compensation is tied to financial performance and has reduced in 2020 compared to 2019.

Finally, operating expenses incurred in currencies other than the US dollar are reduced as a result of the devaluation of those currencies I have already mentioned. I've mentioned adverse exchange rate movements in three key currencies for the from the Company's perspective. I want to put some color on that comment.

If we had used the 2019 exchange rates for both the 3 and 9-month periods of 2020, our reported net sales would have increased for the 3 months by $3 million and for the 9 months by $7 million. When looking at gross margin, we would have recorded additional gross margin of $700,000 in the 3-month period and $1.7 million year-to-date.

Notwithstanding these impacts we have been effective at putting in place some natural hedges. That is that the majority of our operating expenses for the businesses in territory are also in local currency.

That mitigates the impact on sales and gross margin leaving relatively immaterial differences at the bottom line resulting from translation exposure. The Company experienced some significant transactional related exposures during the first quarter of the year. This has reduced as exchange rates have settled at new levels during the second and third quarters.

During the third quarter, we recorded lower interest expense than this time last year. Our average debt was lower than the prior year and we got a benefit from reduced borrowing rates in the US. In the 9-month period, our average debt was a little higher than the prior year, but we gained the benefit for the lower federal base rate resulting in significantly lower interest expense. Finally, our effective tax rate continues to decline in comparison to the prior year as we are having a stronger international performance in jurisdictions with lower rates this year as compared to last year.

In the 3-month period, we earned $0.10 per share as compared to $0.11 per share in the same period of the prior year. For the 9-month period, we earned $0.25 per diluted share as compared to $0.34 per share last year.

From my perspective, the operating and financial focus of the Company remains as follows. We continue to follow a disciplined approach in planning our factory activities balancing overhead recovery with demand forecasts and inventory levels.

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At the end of September 2020, our inventories were at $176 million as compared to $186 million this time last year. During the intervening periods we have made acquisitions and added inventory as a result.

The underlying period-over-period improvement in our base inventory before the impact of recent acquisitions amounted to approximately $14 million or 7.5%. We are highly focused on our balance sheet as we navigate through this pandemic period and having lower inventories at this point of the year is pleasing to report.

As we look at the final quarter of the year and our target for December 31, 2020 inventory, Eric will comment in a moment about acquisitions that we closed in the first and second week of the final quarter of this year. As a consequence, our inventory forecast will now be amended to incorporate these new businesses.

In previous conference calls, we expected to end in the region of $145 million. Given our latest operations planning assessment, we are expecting that our underlying inventory will increase a little from our prior forecast. In addition, the new acquisitions that Eric will mention in a moment are expected to add approximately $15 million at December 31, 2020. Accordingly, our latest forecast is to end the year at approximately $160 million to $165 million, effectively flat with 2019, but including the addition of inventory from recent acquisitions.

Our business has a distinct annual cycle and we continue to experience expansion – and we routinely experience expansion in working capital in the first part of the year and a reversal in the second part. During 2020 we, like most businesses, have been highly focused on working capital and its impact on debt levels.

During the period of the year when we typically expand working capital, we have contained the increase to only $5 million as compared to adding $49 million in the same period of 2019. This careful management of working capital is driving the improved cash generated from our operating activities.

In the first 9 months of 2020 we have generated $19 million from operations as compared to using $21 million in the first 9 months of 2019. Comparatively that amounts to a positive change of $40 million period-over-period.

At September 30, 2020 net indebtedness ended at $149 million as compared to $165 million this time last year. During the last year, in addition to paying down $16 million in debt, we have funded more than $27 million in investments, including fixed assets, product acquisitions and technology investments from the cash generated from operations.

These investments are focused on developing our consolidated business for the future. With regard to liquidity at the end of the third quarter, availability under our credit line was $45 million, which compares to $30 million at the same point in 2019.

In summary, for the third quarter and for the 9-month period though our sales were down, selling prices and gross margins in each territory remained good. We are seeing a stronger international performance than this year and the mix of US sales, generally higher gross margin, and international sales, generally lower gross margin, is tending to bring the average down slightly. Our factory performance improved compared to 2019 and our expenses for operating costs, interest and tax are all lower in 2020 than in the comparable periods of the prior year.

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 business. Finally, availability under our credit line has improved.

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With that I will hand over to Eric.

Eric Wintemute

Chairman and CEO

Thank you, David.

Many of our investors have expressed an interest in our strategic direction and longer-term prospects, particularly in light of our increased emphasis on technology innovation. In that spirit then, rather than getting into the weeds on market conditions over the past reporting periods, I would like to look forward to where we hope to be in the next 3 to 5 years.

We have 3 primary growth platforms within our business, our core business, our green product lines, and our precision application technology led by SIMPAS. There are synergies between these platforms. For example, SIMPAS is a market access tool for both core products and green solutions such as Agrinos biologicals. Also there is some overlap between these platforms. But for directional purposes, it is useful to take each platform in order.

Our core business consists largely of our synthetic chemistries. Using 2019 numbers as a reference, let's build a model using a baseline of annual sales of $468 million. We have grown our core business in 3 ways; first, organically, that is through additional market penetration; second through our new product pipeline, that is making new formulations or getting new users for what we already have; and third, through acquisitions.

If we were to grow at a rate of only 2% per year, we should be at $507 million by year 3 and $527 million by year 5 in organic growth. Let's add to that our new product pipeline. We regularly introduce several new products per year. For example, in 2020 alone, we launched 5 new formulations.

As these new products get traction and we continue adding new introductions, we expect that we will add another $37 million by year 3 and $109 million by year 5. The core business plus new pipeline products puts us at $544 million by year 3 and $636 million by year 5.

But now let's add acquisitions. It's hard to predict the acquisition market, but I can say that it is extremely active today. As you may have read, we just completed 2 acquisitions; Agrinos, a biologicals company that I will talk about further in a moment and AgNova, an Australian company that gives us greater critical mass and market access in Australia and the surrounding region.

To establish our forward-looking target, we look backward over the past 5 years and determined that on average we added $40 million per year in sales of newly acquired products. If out of conservatism, we cut that number in half to $20 million per year and extrapolate it forward, we find that our incremental acquisition growth that put us at $60 million by year 3 and $100 million by year 5. The core business plus new product pipeline acquisitions puts us at a 3-year top line target of $604 million and a 5-year target of $736 million.

Now let's turn to our green solutions platform. Before we get back to the model, I would like to bring you current on a recent acquisition. In early October, we acquired the shares of Agrinos, Inc. and its sister companies at a very favorable price as they were being sold in an auction by the Norwegian parent in a liquidation process.

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Agrinos makes and markets unique blends of biological products into many markets and operates 3 factories. The first located in Oregon ferments a 22-species consortium of bacteria into an end-use product that enhances soil health and plant growth by, for example, increasing nitrogen update.

The second located in Mexico produces a microbially enhanced tightened base product that tightens a calciferous substance comes from shells of shrimps that are locally grown that has similar applications.

The third located in India producers biologicals for that region, including sales to the Government of India. With this investment, we have created a biologicals team to manage these green product offering globally. That effort will also include our management of the advanced TyraTech business.

So, let's get back to the model. Now, admittedly some of the green solution businesses are already included in our core business. For purposes of this discussion, we will focus on the incremental addition. Through the end of the third quarter of 2020, we had already been on track to sell approximately $22 million in green products this year, including biologicals, bio-nutritional products through both our domestic and international businesses and essential oil products through Envance which are the active ingredients in Procter & Gamble's Zevo line of consumer products.

Let's use that number as a baseline for our green products platform. And as mentioned, we are already in the consumer pest control space through the P&G's Zevo product line and we are expanding our essential oil product line into other areas, including lawn and garden, crop and public and animal health.

We expect that with the addition of Agrinos, the growth of our other biologicals and the expansion of Envance/TyraTech we should see incremental revenues in year 3 of $48 million and in year 5 of $118 million. Let's take our prior graph of core, including product pipeline and acquisitions and now add green products. That would take us to about $70 million in year 3 and $140 million in year 5.

Now for the third platform, namely precision application. We have been reporting regularly about our SIMPAS technology which we believe is at leading edge of prescriptive application systems. We know of no other system that enables a grower to take an agronomist's prescription for multiple crop inputs based upon field conditions and prior-yield results and apply those products variably in multiple rose automatically in one path.

Further with our Ultimus technology, we can trance product from factory to field and as important, we can measure precisely what was used in any given application. And now, we are enhancing this technology to permit seed treatment at time of plant.

After seeing positive results from field trials by growers in many states, a number of our peers are performing their own tests with the goal of making their products available in smart cartridges through SIMPAS. That said, some investors are asking that we give them a better idea of where SIMPAS could be in 3 to 5 years.

In order to answer the question, we will consider the following elements; first, revenues from our existing portfolio of products, and I'm talking about increased users which would be dramatically enhanced by applied prescriptively; second, revenues from the sale of active ingredients, licensed from other basic producers to be sold under RNA; third, royalties from third parties for marketing their products through our smart cartridges under their name; and fourth, a share in the growers' incremental yield benefit. Using conservative estimates of market penetration and domestic markets only, we are targeting top line contribution on the order of $35 million in year 3 and $131 million in year 5.

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In addition, we are confident that SIMPAS will be well received outside the US and are already planning to host SIMPAS field trials in Brazil in 2021. Also, these figures do not include the potential for additional revenues from our seed treatment innovation. In other words, these are conservative, domestic, in-furrow SIMPAS targets only.

Let's put all of the platforms together. If we add Core plus Green plus SIMPAS we are in the neighborhood of $687 million in year 3 and $985 million in year 5 at the top line which is roughly double where we are today.

There are many moving parts of the equation. We will continue to control the things that are within our control. For example, exercising strict discipline on managing working capital and operating expenses. Further, we are committed to maximizing our consolidated profit margin.

While our expansion into distribution within international markets has tended to lower our gross margin percentage, we expect that the introduction of newer technologies across these markets will create an updraft on profitability. In future calls, I will be updating you on how we are progressing against those targets.

Finally, let me pull our focus to the present and the near term. 2020 has been an unprecedented year for this industry. In spite of the pandemic, weather effects and farm economy as David mentioned, we have kept pace with Q3 of 2019 in terms of profitability, even with modestly lower sales.

Looking forward into the fourth quarter, we are already seeing greater optimism in the domestic agricultural sector, hurt in part by rising crop commodity prices for corn and soybeans and cotton which would tend to contribute to improved grower profitability. In the Midwest with less crop rotation and more continuous corn over corn planting, we are beginning to see a resurgence of soil insect pressure. In addition, demand for our soil fumigant products continues to rise. Based upon these trends and current sales activity, we are encouraged by our prospects for the balance of this year and into the 2021 season.

We'll now take any questions you may have. Keith?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question is from the line of Joseph Reagor from ROTH Capital Partners.

Joseph Reagor Q

I guess first thing, thanks for providing this longer-term outlook. I know a lot of us has been asking a lot of these questions anyway. But kind of like just a base question on it. When the world return to normal, what would be your expectation for annualized number, like ex-COVID impacts without all the growth?

Eric Wintemute A
Chairman and CEO

So you're talking about our core business?

Joseph Reagor Q

Yes. Like currently the core business if it wasn't for COVID impacts around the world, what do you think the annualized 2021 revenue might be?

Eric Wintemute A
Chairman and CEO

Yes. I think so – probably in the range of $5 million to $10 million is, I would say, COVID related. The growth part where we have – again it is part of our core business, where we have our products that expanded – again a lot of the products that we were looking to develop in the market this year we weren't able to accomplish because of not being able to go face-to-face in the fields. And so a lot of our product development and customer work was remote.

So I think also what I see is that we've really been in a commodity down cycle since the prices collapsed in '14. And although they've stabilized, this is really kind of the first uptick that we're really seeing and I think with more normalizations and particularly the idea of this vaccine does indeed work, I think so many of the restaurants and that area of food consumption and more normalcy will increase demand for crops overall. So I think we're on an upswing as we go into this 2021 year.

Joseph Reagor Q

And then kind of looking backward a little bit, you guys gave a ton of what I would call market commentary on the quarter. It seems like there was a lot of impact in Q3 related to weather and then related to crop pricing. Is there any way you or David could quantify that? On a sales number, what do you think that was as an impact?

Eric Wintemute A
Chairman and CEO

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Well, I think if we just looked straight at corn, and David, we were looking at just core. So – not corn, I'm sorry, cotton. So I think for the quarter on cotton – sorry, just give me a second, that was – that was about $5 million.

David Johnson
CFO

A

$6 million.

Eric Wintemute
Chairman and CEO

A

Okay. 3 and $2.5 million, so, yes, just about $6 million. So that's probably kind of the biggest. The other we had probably stronger – stronger cushion in Dibrom last year as a lot of companies – a lot of the perishers were placing orders for fourth quarter.

This year they – so far they've been kind of chewing through some of those pre-orders that they placed with our main distributor. So we see inventory drawing down and would look probably at the end of this year to have lower inventories of Dibrom. So those are probably the three products that contributed the most.

David Johnson
CFO

A

I also mentioned pest strips were down a little bit and that was pandemic related because of these in bars and restaurants.

Eric Wintemute
Chairman and CEO

A

All right.

Joseph Reagor

Q

Okay. And then one final thing. Any concept of how much revenue you might pick up in Q4 that was lost in Q3 for timing reasons or whatever? And then kind of like a brief outlook of how Q4 is going so far? It seems like prices are up and maybe demand is up too.

Eric Wintemute
Chairman and CEO

A

Yes. We feel good about Q4 for a variety of reasons. One is, as you mentioned, there are some carryover, just timing that didn't happen in Q3. The soil fumigant business has been very strong for us. We're fortunate not to have much in the way as snow. So a lot of ground got treated, although we did – we've got snow-capped mountains here in Southern California today.

But then as we look into the 2021 season, we did hear during the course of '20 that corn rootworm pressure has increased and I think people are a little more bullish now on the concept of treating corn rootworm. So I think we'll see an increase in our corn activity.

Operator: The next question is from the line of Chris Kapsch from Loop Capital Markets.

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Chris Kapsch Q

One follow-up on the impact of cotton this season. Just curious if this will translate into a headwind for 2021 not unlike what happens in – for the Corn Belt when we have weak season and then sort of an overhang from excess inventories in the channel. Given that you then, I guess, couldn't apply – they couldn't apply – in the Southeast they need to apply your products in West Texas. Is that – so are we going to see an overhang, a headwind from channel inventories in that key product line next year?

Eric Wintemute A
Chairman and CEO

Yes. I don't think so. As we mentioned earlier, I think we saw orders being placed during this – really since the pandemic started where you might get half a truckload or a truckload order pallet at a time. So we got a lot of orders but they were generally smaller as we saw everybody trying to preserve cash and watch their inventories levels – level. So the sales that we see that didn't occur, we don't see an increase in channel inventory. We have more inventory then what we would like to have. But – yes, I don't – we don't see a headwind going forward.

Chris Kapsch Q

And then you expressed some optimism about the fourth quarter and certainly into 2021 largely on – while there's a lot of crosscurrents, but largely on firmer ag commodity prices. In terms of the channel demand that you're starting to materialize in the fourth quarter, could you just talk about which product lines is – where is that most pronounced? Is it really products tied to corn or is it more across the board? Just a little bit more color on that would be appreciated.

Eric Wintemute A
Chairman and CEO

Yes. I think it's across the board. I mean, we were struggling for supply of Bromacil and that has resolved itself. We've had some tightness in a couple of the – couple of the product lines. But, yes, I think generally if the ag industry can get back to a more normalized approach and again if we're – if people – I mean if today's reaction is any sign of that, I just – I think, across the board, not just domestically, but globally we're going to see people pushing to meet the demand that should be up for this next year.

Chris Kapsch Q

I appreciate your comments about the possibility that there is increasing corn rootworm pressure and your citing the maybe the absence of crop rotation more recently. That seemed to be a contributor back in – when corn prices spiked, what was that, '12, I guess 2012 or '13 that big drought that 1 year.

So I mean, are you suggesting that basically the farmers generally have adhered to good crop rotation practices stayed between then and up until now so that's diminished crop protection? Is there anything else that's contributed to diminished pest protection than pest protection by crop?

Eric Wintemute A
Chairman and CEO

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Yes. I mean, obviously there is the trade as they advance or don't advance or the weather conditions certainly being conducive. I think all estimates are that corn will be up, probably 2 million acres this year, this season versus last season and it was pretty strong last season. So I think those are the factors.

Bob, I don't know if you've got any more color you'd like to add on that.

Ulrich Trogele A

So I would look at soybean market driving a little bit the corn market. I mean the stock and use ratios that are at a 23-year low. So the market is very tight in soybeans. So maybe corn may be up a little bit depending on demand coming out of China. But the big news really is that this year farm income is much more profitable than it was in 2019, 2020.

So going into the spring I think you might see a little bit more of a loosening of the belt by the farm community. I think that's a plus going into the season. I think then I would say that there are – right now Brazil and Southern Brazil there is a drought, which is going to hurt a little bit their production capabilities. I think the Chinese are coming back online with their purchases. So unless we really have another COVID-19 effect, and we all hope that it's not the case, I think next year things are shaping up nicely.

Eric Wintemute A
Chairman and CEO

Yes, I would just additional.

Chris Kapsch Q

Right.

Eric Wintemute A
Chairman and CEO

I was down in Brazil a couple of weeks ago and one of the things they told me was that the Brazilian government is opening up import lines of corn from the U.S. this year because they're out. The Chinese really wiped them clean as they shifted away from U.S. and so they don't have enough corn to meet their – just their demand this year given the drought and the expected yields.

Chris Kapsch Q

Interesting, and what can – just one last one on the corn rootworm – you guys have probably – maybe the most efficacious I guess, the soil-applied insecticides. But then there is the liquid variants that are maybe less robust. But there is also the possibility that Monsanto was going to have and RNAi technology that was approved and relevant in that market?

Can you just sort of talk about what the competitive landscape looks like today for – if in fact we do see this intensifying corn rootworm pressure, what the landscape looks like for – your product vis-à-vis your competition?

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Eric Wintemute
Chairman and CEO

A

Yes and I one thing too, just before I turn it over to Bob for this. So, we are expecting to get into the prescriptive level. I mean, we did it on a beta testing last year, but this year we'll actually have quite a few more systems out there. And also, we'll have what's called the – what we call SmartBox plus, which is essentially a SIMPAS system with a 50 pound SmartBox on it that would be able to apply prescriptively a corn soil insecticide. So I think we'll get a lot more attention in that prescriptive field. So anyway but, Bob you want to comment on that one?

Ulrich Trogele

A

Yes, so I'd like to just confirm what you said that AMVAC has the best technical solution for high corn rootworm pressure. It's also the most expensive solution in the market. So we're the market leader in that. The market is really broken down into two sectors, granular and liquid. I would say that the granular market is holding both on price and volume.

We've increased, I would say, in the last two years our share marginally in that market. The liquid market seems to be more competitive and is looking to be a little bit more price sensitive. So hope that answers your question.

Chris Kapsch

Q

And do you know – any visibility on the RNAi technology?

Eric Wintemute
Chairman and CEO

A

So, yes if I turn the clock back to 2015, I think it was supposed to be launched in 2020 and we haven't seen any progress. There seems to be that – the case that they are still a long way off from the market, if it comes to the market at all.

Operator: [Operator Instructions] There is a follow-up from the line of Chris Kapsch. Please go ahead.

Chris Kapsch

Q

Yes and I appreciate your sort of the – trying to provide a bigger picture, longer-term snapshot of what your growth factors might look like. I'm curious on the organic piece of it, what do you anticipate sort of the mix and therefore margin profile look like? And two, if I understood you correctly and also go back and look closely at the numbers you provided. But you said – so the products, the new formulations that you've launched that you anticipate?

I think just – you said, just five new products alone might contribute $37 million in revenues by year three and $109 million by year five. And so that looks like a pretty steep hockey stick kind of adoption for those products. So I'm just wondering what the basis for that belief is and does – the math that you provided in that piece of the three buckets? Does it reflect that yes some of these new formulations might cannibalize some of the core sales that's baked into the 2% for your core sales? Thank you.

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Eric Wintemute
Chairman and CEO

A

Yes, so the five new products were just what we launched in 2020. I think we did 10 or 12 the previous year. We've got several on target for 2021 and 2022. So it's kind of the cumulative effect of these new products that we're launching each year. So it's not based on five it's based on more than 20, I would think, at this point. So that's one piece and I'm – can you refresh me again with what your other question was?

Chris Kapsch

Q

Does your growth expectation there reflect some cannibalization from those new introductions of your existing legacy products? And then – in this sort of bucket of the three different vectors that you discussed. What is sort of the gross margin or mixed profile expected from the aggregate of that tranche of sales?

Eric Wintemute
Chairman and CEO

A

Yes when we did this, we tried to pull the growth of core products out from the growth that we're talking about with the product – new products. And I don't think we're anticipating cannibalization. We're looking at better market penetration. So I'm sorry, the last question again was what?

Chris Kapsch

Q

Sure, any expectation on the gross margin profile of the mix of the products in that first bucket of sales that you described there as core with new products?

Eric Wintemute
Chairman and CEO

A

So I think, where our margins let's say have gone from – I mean, our margins in the U.S. still are in the mid-upper upper 40s and have stayed pretty consistent. Our international sales, as they've grown, have brought our overall margins down. As we've mentioned that we were expanding our market penetration through acquisitions or distribution.

But as we take kind of new products and particularly the biologicals, they have very high margins. And as we position those globally, we see particularly in that green line area that our margins should increase well across the globe.

Chris Kapsch

Q

Okay. And then one last one, just in terms of funding this ambitious growth that you envision, so what sort of – do you just envision the company being completely self-funding that you'll be able to drive – these growth opportunities solely from free cash flow from the core portfolio? Thank you.

Eric Wintemute
Chairman and CEO

A

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Yes, as it stands now that's certainly the case. Obviously, if there was a major acquisition, we're talking hundreds of millions that sort of thing that would probably require maybe partnership type approach, but nothing – certainly nothing in this model reflect anything in that arena.

Operator: There are no other questions in queue.

Eric Wintemute

Chairman and CEO

Okay. Well, I appreciate again you guys have given input and asked for – asked for us to put together a model. And I guess, what we'll be doing each quarter is we will pull off different pieces and kind of give updates and as we move through our quarterly growth expectations. So thank you all for joining us and we'll – next call will be sometime in early March. Thank you very much.

Operator: That will conclude the conference call for today. We thank you for your participation and you can now disconnect your lines.

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