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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, ladies and gentlemen and welcome to the American Vanguard's Fourth Quarter 2020 and Full Year Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the presentation. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the conference over to our first speaker, Bill Kuser, Director of Investor Relations. Thank you. You may begin.

William A. Kuser
Director-Investor Relations & Corporate Communications, American Vanguard Corp.

Well, thank you very much, Diego and welcome everyone to American Vanguard's fourth quarter and full year 2020 earnings review. Today's presentation includes a number of PowerPoint slides and two very informative videos. For those of you who may be on the phone and audio only, if you would wish to see these materials during the presentation, you can access by going to our corporate website, www.american-vanguard.com, at which time you would simply click on the clearly marked webcast section and connect with this visual content. These materials, following the presentation, will be posted to our website and available for your future reference.

With that said, let's have 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 that are detailed in the company's SEC reports and filings. All forward-looking statements represent the company's best judgment as of the date of this call and such information will not necessarily be updated by the company.

With that said, let me introduce today's speakers: Mr. Eric Wintemute, Chairman and CEO of American Vanguard; Mr. David Johnson, the company's Chief Financial Officer; and to assist in answering your questions, Mr. Bob Trogele, the company's Chief Operating Officer.

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

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Bill. Good afternoon, everyone. First, let me start by thanking our entire workforce for dedicating themselves to high performance during the global pandemic. 2020 was a year that was fraught with changing demands and conditions and our people weathered the storm admirably. We met our critical objective of keeping the workplace safe and healthy for our employees with virtually no work-related transmission. This in turn enabled us to operate continuously and to serve our customers reliably in all regions. Second, I would like to thank all of you, our stakeholders, for your continued support of American Vanguard.

As you will have seen in today's earnings release despite a slight decline in our top line; our net income increased by 12% during the period. By comparison, the top five public companies in our sector were on average flat on both the top and bottom line. While David will be giving you more detail on this and other aspects of our financial performance, I would like to cover a few highlights. Over the course of 2020, we committed to improving our balance sheet and I'm pleased to report that we succeeded in doing so. We generated a 9-fold increase in cash from operations versus the prior year due in part from inventory and factory management, controlled operating expenses and record high customer early pay participation. This in turn enabled us to pay down debt and improve borrowing capacity. We're able to make these improvements while, at the same time, concluding two key strategic acquisitions: AgNova for market access in Australia and Agrinos, a green solutions company. Further, we defined an environmental, social, and governance platform which includes extremely promising products and technology solutions.

Now, I'd like to turn to David for his comments on our financial performance with a focus on matters of particular interest to our investors. I will then give you my thoughts on our growth platforms and a particular focus on green solutions and precision application. I'll then close with my 2021 outlook and then take questions from our listeners. David?

David T. Johnson

Chief Financial Offer, American Vanguard Corp.

Thank you, Eric. With regard to our public filing, we plan to file a Form 10-K for 2020 within the next few days. As we have noted in previous calls, the company is fortunate to participate in industries that is considered part of critical infrastructure in all countries in which we operate. As a result, throughout 2020, our customers and suppliers, and our employees and operations have all continued more or less without disruption during the pandemic. Having said that, the pandemic has impacted us in a few ways including, first, at the start of the year we experienced a significant devaluation in a few key currencies specifically, the Brazilian real, the Mexican peso, and the Australian dollar. That negative currency effect has started to somewhat reverse as we reach the end of 2020.

Second, the pandemic prevented us from many of our normal infield activities, including face-to-face meetings with distributors, retailers or growers or activities such as product development and defense. On the other hand as you will see in our financial statements, the same restrictions and foreign exchange rate movements have caused us to spend less on operating expenses including travel. With regard to our financial performance for the fourth quarter of 2020, the company's net sales increased by 8% to $141 million as compared to sales of $131 million this time last year. Within that overall improvement, our US sales were up 4% to $85 million and our international sales increased by 15% to $56 million. International sales accounted for 39% of total sales as compared to 37% of total sales this time last year.

The main factors that are driving our sales performance are as follows: In our US crop market, sales increased by approximately 19% as a result of strong sales of products sold into the Midwest row crop market such as our SmartBox, COUNTER, and Aztec brands as growers reacted to increased work pressure and to increased commodity pricing for soybeans and corn. Sales for our domestic non-crop market declined about 45% as a result of lower sales of our DIBROM products [indiscernible] (00:08:18) primarily as customers worked to address slightly elevated channel inventory levels. Finally, our international sales grew by 15%. Approximately half of the improvement is associated with new sales related to the two businesses acquired at the start of the quarter. The balance of the increase relates to strong sales of Bromacil herbicide which has a much improved supply position this year and Counter sold into Mexico.

With regard to the underlying market performance of our products, during the quarter our US crop business recorded increased absolute gross profit, but gross margin percentage declined slightly. The decline in gross margin percentage was driven primarily by the lower manufacturing activity which is typical for the company's fourth quarter. Our fourth quarter non-crop gross margin declined from 42% in Q4 2019 to 35% in 2020 driven primarily by the reduced market demand for DIBROM already discussed, and by the lower factory activity rate. International margins improved with the addition of businesses acquired in the fourth quarter and strong sales of Bromacil reflecting improved material supply. Overall, gross margin performance for the final quarter of 2020 was in line with the prior year at 36%.

Operating expenses for the quarter increased by 11% as compared to the same period of the prior year. This includes the addition of the activities of the two newly acquired businesses which together accounted for approximately 40% of the increase. Other increases include additional marketing expenses, legal expenses, higher cash incentive compensation accruals linked to business performance, and some expense associated with the change in the fair value of contingent liabilities associated with an acquisition. As you will read in our earnings release, you can see that during the fourth quarter, we recorded a bargain purchase gain of $4.7 million. This relates to a business that we purchased out of bankruptcy. When the opportunity presented itself, we moved quickly and got a great deal. We engaged outside valuation experts to assist management in the assessment of the fair value of the assets acquired. The gain we recorded is the difference between the purchase price consideration paid and the fair value of the net assets acquired. Also during the three-month period, we recorded lower interest expense primarily as a result of lower Federal base rates on our loans.

Finally, our effective tax rate was low in the quarter. There're couple of reasons for this. First, the bargain purchase just discussed is a non-taxable transaction; and second, we were able to release some reserves associated with uncertain tax positions related to acquisitions we made in both 2017 and 2019. As a result of these various factors, net income for the three-month period was more than twice the level reported in the same period of 2019.

With regard to the full year performance, the overall business revenues reduced by about 2% in 2010 as compared to 2019. We consider that performance to be reasonably aligned with the prior year in a period that has been marked by widespread closure of many businesses during the prolonged period of the pandemic. Within that revenue decline, our US truck business increased by 1% to $223 million in 2020, our US non-crop business sales declined by 21% to end at $49 million and our international business remained approximately flat with new business revenue offsetting the effect of foreign exchange rates. Our 2020 manufacturing performance ended the year very close to our average long term performance. As you can see from the chart, net factory costs for the year amounted to approximately 2.8% of sales. This compares to 2.6% for 2019 and our target of 2.5%. This says that despite all the pandemic-related challenges, we were able to maintain our manufacturing activity at relatively normal levels.

For the full year 2020 despite some movements by category, gross margin percentage was in line with 2019 at 38%. For the full year of 2020, our operating expenses have increased by 2% to end at $154 million or 33% of sales as compared to $151 million or 32% of sales last year. In 2020, we have several dynamics affecting our operating expenses. These include pandemic-related reductions in travel activities, the impact of lower FX rates affecting translation to US dollars of operating costs recorded in other countries, and finally the addition of new businesses acquired in the final quarter of the year. Our interest expense is down primarily because of Federal Reserve base rates. Our tax expense is down primarily because of the bargain purchase gain which is non-taxable and the release of reserves [ph] for uncertain (00:14:26) tax positions related to prior acquisitions.

In summary, for the full year 2020, we're looking at our income statement performance. We have operated close to normal. Margins have remained very steady indicating that prices have held up. Raw material costs and factory performance have been well managed throughout this year of disruption. Our operating costs have increased slightly but do include additional businesses for both the quarter and the year. We made a good deal to acquire an exciting biologicals business for bargain price out of bankruptcy, and at the bottom line we have seen a very strong finish to 2020 in reported net income up 12% compared to 2019.

From my perspective, the operating and financial focus for the company remains as follows. We continue to follow a disciplined approach to planning our factory activity balancing overhead recovery with demand forecast and inventory levels. As you can see on this slide, we've had a very strong year with respect to cash in 2020. We generated slightly less from operations when compared to prior years, but have been focused all year on working capital, and as this slide shows; that has gone very well. Including working capital, we generated $89 million from operations which is about 9 times what we have achieved in average for the prior two years.

The cash generated was used principally for two purposes. First, we invested a total of $36 million acquiring two businesses, making a strategic equity investment, continuing to develop our manufacturing capability and advancing our SIMPAS delivery systems. Secondly, we paid down debt by $43 million. At the end of December 2020, our inventories were at $164 million. This includes about $14 million of inventory related to acquisitions completed since late-December 2019 and adjusted or underlying inventory of $152 million is slightly better than $154 million we indicated during the last call.

With regard to accounts receivable, as I noted earlier, our customers have continued to operate without significant disruption. They are placing orders for our products, making payments when expected. Participation in our annual standard early pay program was strong indicating that the customers we deal with have a good year. The end result for 2020 resulted in consolidated accounts receivable of $119 million in 2020 as compared to $136 million this time last year, notwithstanding the higher sales in the fourth quarter. Consequently, we can report that despite the pandemic we have not seen any material change in the assessment of our credit risk exposure at the end of 2020 in comparison to the prior year.

With regard to liquidity, as you can see from this chart we have been constantly working down debt from a high in the first quarter which is the normal rhythm for the company to a low at the end of the year. At the same time after a challenging first quarter which was impacted by the arrival of the COVID-19 pandemic, our quarterly financials have steadily improved. As you will see from our earnings release, our EBITDA for 2020 is very much in line with 2019 but nevertheless availability has improved.

There are three factors in the calculation of availability. The first is our financial performance which is broadly in line. The second is the multiplier under the terms of the credit facility which is slightly higher this year than last and accounts for about $15 million increase in availability. And the third is the level of debt which accounts for $43 million increase in availability. Taking all of that together, availability at December 31st, 2020 is $85 million as compared to $27 million for the same time last year.

In summary then, in 2020 from a balance sheet and cash perspective, we have continued to be acquisitive for the long term benefit of the company. We have carefully managed inventory and accounts receivable and, thereby working capital, cash and debt. At the end of the year, we believe we have improved our balance sheet and liquidity and are well-positioned to look at 2021 with a sense of optimism.

With that, I will hand back to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, David. As you may recall from our earnings call in November last year, I began to turn our attention to our strategic direction and long term prospects. In the course of my comments, I described our three platforms for growth; namely our core business, our green solutions platform and our precision application technology led by SIMPAS and Ultimus. I also gave you a view into how much we think these platforms will grow over the next three years to five years. Today, I would like to revisit these platforms with a particular focus on how our green solutions and precision application technology both provide unique and compelling environmental – what I'll call, ESG; environmental, social, and governance solutions and position us to grow our business at a faster rate than through conventional ag chem offerings.

Let's start with a quick update on our core business. As I mentioned earlier, in Q4 we closed on the acquisition of AgNova, an Australian-based company headquartered in Melbourne that sources, develops and distributes specialty crop protection and protection solutions for the agriculture, horticulture and non-crop markets. The addition of AgNova improves our market access in the region including with respect to SIMPAS, Agrinos, and green plant solutions and gives us greater critical mass in an important territory. Furthermore, AgNova offers product lines that we can readily market in other regions.

Now, let's turn to the other two platforms. In doing so, it is first necessary to lay the proper groundwork. I mentioned earlier we have defined our ESG position. Public companies far and wide are increasingly being called upon by investors. Such as BlackRock, happens to be our largest shareholder, institutional shareholders services like ISS and regulators such as the SEC to report upon their commitment to ESG. We, at American Vanguard, have a great story to tell with regard to ESG. As I take you through our green solutions and precision application technology platforms, you will see this more clearly.

At the close of 2020, we published our statement under the tab ESG on our website. As we stated on that page, we are committed to the principle of sustainable agriculture which, to us, means that all people should have the right to a stable, affordable food supply both now and into the future while at the same time maintaining and preferably improving soil health. As an essential part of that commitment, we seek to promote three equitable considerations; climate, environment, and food.

As per our climate change commitment, also on our website, we are committed to making enterprise-wide progressive and measurable efforts towards helping to arrest the trend of global warming. With respect to environmental equality, we seek to leave the planet in a better state than we found it. And as a key supplier of crop inputs, we are essentially involved in food equity. In order to advance these three agendas, a crop input company such as our self with focus on products or application technology that promote carbon sequestration, improved plant and soil health, have an environmentally friendly profile and improved yield.

As an example, you can see from this slide, courtesy of our Agrinos business, biostimulants can advance all of these considerations. They reduce carbon dioxide thus improving air quality and the climate; improve yield per acre making food more affordable, improve food quality helping growers to succeed, conserve water advancing environmental equity and improve the soil's microbial community. We have many such ESG-friendly products within our green solutions platform. For example, OHP provides several biosolutions to domestic nursery and ornamental customers. AmGreen in Central America offers a range of tailored biologicals to customers like Takeda. And we continue to see consumer acceptance of our low-impact insecticides from Envance Technologies that are safe for children and pets. This technology forms the basis of our innovation partnership with Procter & Gamble specifically their Zevo brand of consumer insect control products. After having achieved success in 2020 with Home Depot and Target, Zevo's 10-store test in Tampa's Walmart stores has exceeded expectations and will enable the P&G team to aggressively sell to full chain distribution for calendar 2021.

Let me share with you a short video posted on P&G Venture Capital – Ventures website that positions Zevo well.

[Video Presentation] (00:25:18-00:27:40)

Okay. For any of you who have not tried any of the core Zevo products, I urge you to go out and purchase them and give them a try. In addition to Zevo for household use, we offer Guardian mosquito repellent and are expanding these solutions into animal health and professional pest control. At the same time, we are pursuing two novel development platforms. Under our Merlin research platform, we are using our patented screening process to discover and create novel insecticide compounds. This is true R&D effort. Over the past several months, we have screened over 130,000 active ingredients in our lab and have identified a manageable number of promising candidates for further development and possible commercialization. Similarly, under our Envance Technologies' [ph] Dragonfire (00:28:38) research platform, we're developing patented bio herbicide products and applications to help us address a global $18 billion market for non-selective herbicides. These products will feature high efficacy and will give users eco-friendly solutions for weed control. Between the Merlin research platform and in [ph] Dragonfire's (00:29:04) bio herbicides, Envance Technologies continues to ring the bell for environmentally responsible solutions.

Now let's spend a few minutes on Agrinos. First, let me note that I was very pleased with the fact that we're able to acquire this business at such a reasonable cost, as its parent, a foreign holding company in Norway, was in liquidation. From its three operations in the US, Mexico and India, Agrinos produces a line of high-yield technology, soil-applied solutions that it markets into eight regions across the globe. These products promote carbon sequestration, nitrogen fixation and soil health. Its iNvigorate line as an [indiscernible] (00:29:57) approved consortium of 22 bacteria that have been developed to promote multiple benefits include improvement of the soil microbial community on many global crops and soil conditions, facilitating nitrogen absorption and nutrient uptake while supporting root biomass and plant health. Its Uplift products which are derived from biologically extracted chitin have similar effects. And their B Sure nutrient solution provides time release nitrogen which, in turn, improves soil health and helps to reduce the need for nitrogen-laden fertilizers. With nearly 150 pending and issued patents in multiple countries, Agrinos is proving to be an excellent fit for American Vanguard. We gained an established product line, considerable IP and a specialized fermentation and manufacturing infrastructure. In fact, our initial interest in Agrinos came last year when we were seeking distribution rights for putting their solutions through SIMPAS. The opportunity for Agrinos to be a part of American Vanguard organization is so much the better. After having owned the business for only five months, we have already realized a high percentage of the synergies that we had forecasted. With our global reach, we can now give these products the market access they deserve.

Let's now turn our attention to SIMPAS. For some time now, we have been reporting on the exciting development and commercialization of our SIMPAS precision application system. Let me now elaborate on SIMPAS as an ESG technology. Put simply, SIMPAS is the ideal tool for advancing both climate and environmental equity, and for that reason, food equity as well. With respect to climate, SIMPAS is designed to be far more efficient than single product application systems. It can apply multiple inputs at varying rates; only what is needed precisely where it is needed in one pass. In addition because it applies inputs only where they are called for, as per the agronomic prescription, SIMPAS enables the grower to use potentially far less full rate at his or her field with significantly less water. Consequently, the grower's environmental footprint is much smaller and the potential for runoff is that much more reduced, but there's more to the story. In addition, to efficiency and lowering of the environmental input or footprint, SIMPAS is designed to apply not only chemical inputs but also biological; the very types of products that we have described as promoting carbon sequestration, nitrogen uptake and soil health.

Even as I speak we are testing multiple green technology solutions for use in SIMPAS smart cartridges. In short we are supplying not only the product solutions but also the application technology with which to advance climate and environmental equity. And the icing on the cake is that with our Ultimus platform, we can trace all inputs from factory to field and measure how much of each input is used in each area of each field. This platform also permits the return of empty and partially used smart cartridges. So on top of environmentally responsible products and applications technology, we offer unrivaled measuring and tracking capability for multiple inputs.

With this functionality, Ultimus is the ideal technology for measuring inputs in order to obtain carbon credits. While many carbon banks are being formed and multiple sets of rules are being discussed, they all require a means to measure what the grower is adding to the field. To our knowledge, no technology does this better than Ultimus, nor is this just conjecture on our part. In this slide, we show the results of an actual SIMPAS 2020 beta system application in which we demonstrated that we could apply Counter 20G precisely as per agronomists' prescription and it's important that we could measure that application after the fact. This will be a fundamental importance in the carbon credit market. The picture on the left illustrates the prescription written for a field in North Carolina. The picture on the right depicts the actual application. And when we shared this with our SIMPAS growers, they were all very impressed.

Now, for an update on SIMPAS systems; as of this call we've placed 70 systems which includes 900 rows which should cover about 85,000 acres. Our team this morning told me that the number might be closer to 65,000 acres to 70,000 acres, but we are targeting more systems for this planting season and we expect or hope that we will get into that 100,000-acre target which is the target that we set for ourselves.

Now, let me share our latest SIMPAS video that illustrates key advantages.

[Video Presentation] (00:35:57-00:38:16)

As ESG has now taken center stage in the public's eye, we believe that SIMPAS has truly come of age as the most comprehensive solution for our industry.

With that, let me now turn to our 2021 outlook. We see an ag industry that is generally optimistic for 2021. Reopening of schools and businesses following 2020 lockdowns and a potential for less volatile international trading disruptions promises to refresh ag sector demand. The increase in crop commodity prices for corn, soybeans, corn and other crops has improved the prospect for grower profitability and with that, a more normal purchasing pattern versus the very conservative procurement behavior that we witnessed during the 2020 pandemic. We estimate a low-double digit year-over-year revenue increase for American Vanguard. We expect profit margins to remain steady with recent history and operating expenses will increase somewhat due in part to newly acquired businesses and the SIMPAS launch. We expect interest expense will be similar to 2020 levels and our overall tax rate should be in the mid-20% range. Consequently, we are targeting a significant percentage increase in net income and earnings per share in 2021. Finally, we are targeting a debt to EBITDA ratio in the 2 times to 2.5 times range and note that at the end of 2020 our debt to EBITDA ratio was 2.2 times.

With that, we'll take any questions you may have. Diego?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting our question-and-answer session. [Operator Instructions] Thank you. Our first question comes from Gerry Sweeney with ROTH Capital. Please state your question.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Hi. Good afternoon, gentlemen. Thanks for taking my call. Little newer to the story; I've been working with Bill, but just curious on the revenue guidance that you gave low-double digit revenue growth with this fiscal 2021; is there any chance you could give a little bit of granularity to maybe where some of the segments are going to come into play with that projection? Then, secondarily, does that include any potential acquisitions and how do they – how's that factor in? Thanks.

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

A

Yeah. So thanks, Gerry. Welcome to – [indiscernible] (00:41:28) appreciate ROTH for years. So yeah, I guess, across our businesses I think we see the business units OHP, Envance, AgriCenter, Australia and Brazil and of course bolstered by Agrinos as well. So, we see upside certainly there. I think we're also seeing a pretty healthy increase in our herbicide area particularly around our [indiscernible] (00:42:02) molecule as we've added combination products there that we think will do well in the marketplace. Our DIBROM, we had some bring down of inventories that we see that kind of rebounding back, similar with our two cotton products, Folex and Bidrin in the US, we see a rebound, that was a particularly low year this year. And then with Bromacil again demand seems to just keep continuing certainly in Mexico for the [indiscernible] (00:42:39) market, but also in Japan for kind of [ph] home ride away and other ride away (00:42:44) business. So that's kind of general thought, so we'll see corn certainly increase. I mentioned cotton. Soybeans, that's another growth area for us. We have several herbicides that we'll be marketing into that sector for this year. So that's kind of the upside.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Got it. And a question about SIMPAS and I apologize. Hopefully, this is the right environment for it, but after seeing the video and reading about it [indiscernible] (00:43:24) a little bit better perspective, but I just couldn't help but notice at the end is it powered by Trimble which I understand how that comes into play but also notice that the equipment was that green and yellow who may be a large ag company. How do you go to market with some of the equipment? Do you have to partner with some of the agricultural companies or distributors? I was just curious as to what the process is to get some more systems out into the market.

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

A

Right. So with SmartBox, we did all of the sales ourselves. We inherited that from DuPont back in 2000. We've sold as many as 1,200 systems in a given year but as direct sales to the farmers. With SIMPAS, we have aligned ourselves with Trimble. So, Trimble's dealers will be handling the distribution of it. And as you mentioned, you've got John Deere in there and those other videos where we're basically able to go, what we call, with any color tractor. Adoption is very simple. And so Trimble will handle the actual sales to the farmer and servicing because again this will be something we believe is a lot bigger than what we've done with SmartBox.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Perfect. Got it. And then final question coming up. This question has come up quite a bit and just I'm actually getting it from clients just across the board. Inflationary pressures, are you seeing anything give ability to manage that if [indiscernible] (00:45:03) in the presentation and I know that's been an area that I think that's been popping up recently. So, thank you.

Ulrich Trogele
Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.

A

Yeah. Hi. This is Bob. Yeah we're keeping an eye on that. In our own portfolio, we're not that oil-dependent. We have our own factories. We've had inventories in place as David described. So I think in the short term, for our own portfolio, not too much. In other parts of the world where we buy from third parties, we are seeing that they're starting to raise prices and we'll pass those on where we can.

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

A

Yeah. I mean we have experienced. I mean, I think it was back in 2012 was really a year that the prices in our industry started and we're really gaining our control and there was so many products coming into 2013 that were on allocation. And so we did see some pretty, pretty major hikes at that time. So we've kind of conditioned our people that – I mean, there's – everybody would like to just put out a price going into the season and maintain that through the whole year, but we can't do that. I mean we have – I mean even if you take the tariff situation, you go from 5% to 35%, in a drop of a hat; you've got to be able to put that through. So I think our customers are conditioned to that. I mean, I think the currency swings are a little bit more difficult to do and particularly, as we get down into Brazil, we're seeing such changes there but it is top of mind for us.

Gerry Sweeney
Analyst, ROTH Capital Partners LLC

Q

Got it. That's very helpful and I appreciate you taking my call especially that they may be a little bit newer or rehashing, but thanks a lot.

Operator: Thank you. [Operator Instructions] Our next question comes from Chris Kapsch with Loop Capital Markets. Please state your question.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Hey good afternoon. Apologies, I joined this call late owing to some other obligations I had. So I may have – I missed most of your formal commentary, but I did have question about the industry and curious if you're seeing any effects in your business but there's one major ag chem company who talked about disruption, inability to supply their customers because of tolling being disrupted by COVID. You guys manufacture, I believe, most of your own and blend most your own materials. So I'm guessing that's not something that's impacting you, but conversely was it something that somehow may translate into a commercial opportunity for you to the extent that other suppliers may have been struggling in sourcing product going into this growing season?

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

A

Well, I think I would say within regards to the United States, certainly, I think there was better expectations in 2019 and 2020 that occurred and there was a lot of inventory of products that were brought over from China to try to beat the duties. And so with the markets not strong, I think there's been some lagging inventories there. From raw material-wise, we have had some tightness here and there where we have shipments. We live close to Long Beach Harbor. I go down there and last time I went down [Technical Difficulty] (00:49:05) raw materials for our PCMB herbs, our fungicide that we've just started manufacturing again. They are sitting on a container there that we're waiting for, but I would say overall we've been in a better position as you've kind of alluded to than others, and a good portion of our raws do come from the United States and so we're able to service our manufacturing facilities okay; so.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

And then some of your – in certain product lines you compete with alternative sources out of Europe and the euro has been relatively strong, call it I don't know, over the last seven months. So has that affected that or just the overall a more favorable environment with stronger commodity prices? Has that affecting the pricing dynamic at all? Is there any cover there for you to – for a pricing entitlement or is it as competitive as ever? Any changes in the competitive dynamic from a pricing standpoint for your core products?

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

A

Well, I've certainly seen chemical companies, not specifically in the ag side, but signaling price increases and particularly a company over in Germany that's big in chemistry. It seems like every day I'm seeing them announcing new price increases which certainly is favorable, and with oil going up we do have some methanol-linked products going into our soil fumigant, but we're watching it closely. And you know, as I mentioned to Gerry, it's top of mind. And you know we have continual meetings on it and just to make sure that the whole team is linked together.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Okay. And then I know you guys have diversified away from corn judiciously and you have some growth innovation platforms that are starting to get traction. That's great, but you still have this core franchise of soil-applied insecticides that could benefit in this environment. And I'm just curious if you guys brought up there's the trade reg talk about the corn rootworm resistance resurfacing again because of the absence of rotation. So just wondering if that – I don't know, if you commented on this, but you're seeing that in your order patterns or any times from growers that they're given the strong pricing backdrop that they're intent on using that protection this year as they grow corn in the corn belt?

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

A

Yeah. I mean it seems like, each day we see whether it's nematodes or corn rootworm nutrition particularly focused towards the corn and soybean market. So there's certainly a lot of awareness out there more than I've seen really since 2013. So we've got nice potential upside certainly in corn and as I also mentioned soybeans. Bob, do you want to [indiscernible] (00:52:58)?

Ulrich Trogele
Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.
A

Yeah. Chris, I think we're going to have a good – assuming weather plays, I think we're going to have a solid and maybe up in ag plant insecticide control. We see two margins emerging, but this is more of 2022 factor. One, the soil health market; looks like it's going to expand at about 12% to 15% clip. If the Biden administration incentivizes that, you'll see that grow rapidly. We're well-positioned, as Eric had said on the call, with our SIMPAS systems to take advantage of that in conjunction with the portfolio from Agrinos. We're doing all the testing this year on our product line and other companies' products lines look very positive. Then the second effect, which you know was just announced by Mexico, is that they will not allow any GMO corn and they're also banning glyphosate. And of course they have been traditionally the number one export market for corn out of the United States. That would then result in US growers going back to conventional traditional corn, and of course, that's positive for us and our product lines, but that's a 2022...

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

When would that come into effect for Mexico [indiscernible] (00:54:31)...

Ulrich Trogele
Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.
A

Well, that would be 2022, right?

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Okay. Okay.

Ulrich Trogele
Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.
A

Right? Because then – so right now, for example, if you're growing traditional corn for non-GMO, you're getting over $6 a contract, right? So it's about $0.40, $0.50 higher than GMO corn. So it's attractive. And the cost of actually producing it is about the same. So it's bottom line.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Yeah. Got it. Interesting. I'll let somebody else take the question. I'll circle back if there's time.

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

Thank you, Chris.

Operator: Thank you. [Operator Instructions] We have a question from Mr. Chris Kapsch, Loop Capital Markets. Please go ahead.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Hey, so the follow-up was – so let's just say a year from now we're looking back at 2021. So relative to the setup that you guys envision currently, what sort of, I don't know, top two or three things, positive or negative, do you think that could be a positive surprise as the 2020 ensues or 2021 – and we're all trying to forget 2020, trust me – 2021 ensues or something that could end up being a source of negative surprise?

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

A

Well I see from the top side, I kind of mentioned we're looking at, I think, our impact and DIBROM [indiscernible] (00:56:21) in cotton on Folex and Bidrin. Our continue supply line for Bromacil looks good now, but there's always the chance that we do get interruptions starting up our PCMB facility. We've had different transmitters and bells that haven't worked right. So we're running behind there, but we're only planning on running at about 60% of capacity anyway. So we'll catch up but [indiscernible] (00:56:59) some sales right now but it's not a huge number. So I don't know, I mean you've brought up the concept of inflation, super hyperinflation; that certainly could happen but we're poised for it. The exchange rate certainly could be significant or could go either way, plus or minus, but I think as far as our assets, our utilization, right now things look pretty good.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

That's great. Thank you so much.

Operator: There're no further questions at this time. I'll turn it back to management for closing remarks. Thank you.

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

Okay. Well, thank you very much. For those of you that didn't get to watch all the pretty pictures and the videos that were on the phone, it will be posted on our website and you can go through them and re-live the experience and look forward to updating you not all that long from now. I mean, we're maybe a month-and-a-half away or something like that, yeah?

Ulrich Trogele
Chief Operating Officer & Executive Vice President, AMVAC Chemical Corporation, American Vanguard Corp.

Two months.

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

Two months? Yeah. So anyway, we'll be in touch soon. And I will note that I think some of you have probably noticed as well that we've traded well over this last month in highs that we haven't had in like 2.5 years, so happy to be back on the right track. And with that, thank you very much.

David T. Johnson
Chief Financial Offer, American Vanguard Corp.

Bye.

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