Q1 2023 Earnings Call

Company Participants

- Bill Kuser, Director of Investor Relations
- Bob Trogele, Chief Operating Officer and Executive Vice President
- David T. Johnson, Vice President & Chief Financial Officer
- Eric Wintemute, Chairman and Chief Executive Officer
- Jim Thompson, Director of Business Development, Portfolio Management Biologicals and Non-Crop, AMVAC
- Scott Hendrix, Senior Vice President, U.S. and Canada Crop Sales and Application Technology

Other Participants

- Chris Kapsch, Analyst
- Gerry Sweeney, Analyst
- Wayne Pinsent, Analyst

Presentation

Operator

Welcome to the American Vanguard Corporation First Quarter 2023 Financial Results.

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

Bill Kuser {BIO 7525274 <GO>}

Thank you, Misty, and welcome everyone to American Vanguard's First Quarter 2023 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; Mr. Scott Hendrix, Senior Vice President in charge of the US and Canadian crop sales and our application technology initiatives. Mr. Jim Thompson, Director of Portfolio Strategy and Business Development, the one who is guiding our green solutions initiative. Also available to assist in answering your questions Mr. Robert Trogele, the company's Chief Operating Officer.

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, supply chain disruptions and other types of 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 Wintemute {BIO 1459813 <GO>}

Thank you, Bill. And so those of you who are joining us for the first time, just a quick slide and we're traded on the New York Stock Exchange as American Vanguard founded in 1969. We've got about 800 employees. And we're fully integrated ag company. We do basic R&D as well and our business model has largely been to acquire branded products from the majors. And we have two growth initiatives on top of that that we'll be talking about in a moment.

As you will have read from our earnings release and we have highlighted that on the Slide 5, our Q1 sales of Aztec and its impact were lower than expected due to supply chain delays in China in the case of Aztec and a glut of large volume herbicide specifically Glyphosate and Glufosinate in US market in the case of impact. However, with unusually low channel inventory of our domestic crop products, we expect strong sales for the balance of the year. In fact, even with the Q1 performance, we're well below our original forecast. Our 2023 full year outlook will improve upon our 2022 year with the ranges of revenue up 5% to 7%, adjusted EBITDA up 14% to 18% and net income up 17% to 25%.

So let's start with Q1 and move forward to the full year and beyond. There are two main reasons for our Q1 shortfall, Aztec, our leading insecticide and IMPACT, our leading herbicide, and in both cases, the drivers were unique.

Let's begin with Aztec. There are several raw materials needed to make Aztec, but our issues were with two. Let me walk you through slide 6. First is an intermediate called DAPRO that has been historically made by a European supplier. Last year, our supplier advised us that they would not be able to produce again until 2024. Accordingly, we successfully developed a DAPRO source in China, which successfully commenced production last year. DAPRO is used to make another key intermediate aspired for Aztec production called Sodium HP.

Historically, we've relied upon a domestic producer of Sodium HP. However, in June of 2022, that supplier informed that they could not produce until the end of the 2022 year. Since this would not be in time to meet our Q4 Aztec demand we engaged our new Chinese DAPRO toller to convert the DAPRO that they produce into Sodium HP. Initial production was to begin in October of 2022, but due to a series of issues people, equipment, shutdown and COVID, their production did not commence until the last week of December of 2022.

Steady production, however, did not really begin until the middle of February of 2023 and daily output levels did not optimize until April. Adding to the issue, our domestic producer of Sodium HP was unable to produce until March of 2023. As a result, we were able to produce only one-third of the Aztec demand in time for the 2023 season. We attempted to substitute our other corn soil insecticides but had limited success. That said, we have positioned both suppliers for full production and plenty of lead time in advance of the 2024 season.

For additional color on Aztec with respect to Q1 and market conditions for the coming year, I turn to Scott Hendrix. Scott?

Scott Hendrix {BIO 20685923 <GO>}

Thank you, Eric. On slide 7, you will see that our 2023 demand forecast for Aztec was approximately 7 million pounds. As we assessed and prepared for the 2023 Aztec supply challenge, it was critical that we understood our supply position at distribution and retail. Through our analysis of grower point of sale data and distributor reported inventory, we calculated that we had over 2.8 million pounds of Aztec in customer inventories. We use this data to develop extensive supply planning by customer for the 2.28 million pounds we sold to ensure historical Aztec users as much as possible.

Also we were able to secure additional Force 10G that equated to approximately 430,000 pounds of Aztec. Therefore, through a combination of channel inventory and season production and product substitution, we were able to provide 5.54 million pounds of AZTEC 4.67 equivalent for the 2023 growing seasons. This was a very fluid and dynamic scenario as we had daily and weekly supply updates that our commercial team overlay with geographic market dynamics to confirm proper product placement in the market. As we have continued to monitor the season, we calculate the channel inventory has declined to less than 5% of the annual demand, as compared to our historical inventory levels of approximately 30%. As a result, we anticipate strong demand for our customers in Q4 of 2023 in preparation for the 2024 growing season.

Eric Wintemute {BIO 1459813 <GO>}

Thank you, Scott. To cap off this subject and it's worth noting the effect that Aztec sales have had on our overall profitability.

As you can see from slide 8, we estimate that missing Aztec sales of about $30 million in revenue is roughly equivalent to reducing earnings per share by $0.38. That was largely have been recognized over both Q4 and Q1. In the first quarter alone, this caused a drop in EPS of about $0.20 a share.

Now Scott, let's circle back to you for a better understanding of impact.

Scott Hendrix {BIO 20685923 <GO>}

As Eric pointed out and as you will see on Slide 9, the market dynamics for the 2023 season are much different than 2022. It is important that we understand our customers' buying behavior. Working capital over the last several years has not been a challenge as the cost of money was inexpensive and channel inventory had been running historically low as the supply chain had been under stress. According to early estimates, the US crop protection market surpassed $15 billion in 2022, which is $3 billion more than 2021.

Eric previously mentioned increased supply of Glyphosate and Glufosinate in 2022. The channel ended the 2022 season with higher inventories across all crop protection segments. If you combine increased ending inventories with increased prices at higher interest rates, customers had significant capital outlay in inventory entering the 2023 here. Furthermore, those large volume molecules along with a range of fertility products began devalue and as supply increase and demand decrease by all channel levels. Distribution and retail customers are now focused on reducing inventories and driving cash flow, which has influenced our IMPACT sales in Q1 of 2023.

Turning to Slide 10, our lead IMPACT brand drove our upside in 2022 and they use primarily in mid to late season applications by itself or combined with non-selective herbicides that are trade enabled to manage and difficult to control weeds. We anticipate retail agronomists will continue to exhibit best practices for weed resistance, but they will have a focus on exhausting existing inventories as dictated by their current financial needs. IMPACT inventories are normal, and this puts us in a positive position for the 2023 season and full year performance. We anticipate this is a short-term performance challenge with our lead IMPACT brand and will not continue as customers work through their surplus inventories of non-selective herbicides.

Lastly, I want to highlight our continued formulation innovation with our IMPACT brand family, we now have four brands that have expanded our historical use pattern in corn and across strategic customer basis.

Furthermore, our innovation pipeline continues to grow in rice and soybeans. In fact, we launched our latest herbicide solution rent day that contains our Pro lease technology. The Power of Pro lease optimizes weed control and stability, and to date, we are almost sold out of that brand.

Eric Wintemute {BIO 1459813 <GO>}

Thank you, Scott. As you can see from Slide 11, during the first quarter of 2023 IMPACT sales were about $10 million less than those in Q1 of 2022. This shortfall loan would have accounted for another $0.12 in earnings per share. Thus taken together the Q1 EPS effect on Aztec plus IMPACT was $0.32 a share. In short, had we not had these two unprecedented conditions, our quarterly EPS would have been $0.39 per share, not the $0.07 that we have reported.

At this point, let me ask David to make a few comments, and then, I will return to give an update on our growth initiatives, and to further talk about the balance of the year. David?

David T. Johnson {BIO 5831151 <GO>}

Thank you, Eric. With regard to our public filing, we plan to file our Form 10-Q later today. On slide 13, you will note the first quarter of 2023 has seen a challenging operating -- operating performance for the company, with overall revenues down about $25 million or

17% as compared to the same period of 2022 for the reasons that Eric has already outlined. The other main sales drivers for our business performed in a more usual manner, with quarter-over-quarter increases of 4% in our non-crop business and 2% for the international business.

Moving to Slide 14. As we indicated at the time of the last call, this is the first quarter that we're presenting our results in a manner that we think more closely parallels our market peers. We have moved our outbound freight and logistics costs, which are substantially variable and track closely with sales performance to cost of sales rather than operating expenses. This change results in an equal reduction of both gross margin percentage and operating expenses as a percentage of net sales. It has no impact on operating income or net income.

For the first quarter of 2023, under our new accounting approach for freight and logistics, on Slide 15, you see that our gross margin percentage ended at 31% of net sales, as compared to 34% in 2022. The lower overall gross margin performance is driven by the reduction -- the reduced sales of US crop products, which is some of our best gross margin performance and by reduced factory overhead recovery driven primarily by our inability to manufacture Aztec in the volumes we planned as a result of material shortages. As Eric detailed in his opening remarks, missing sales of these US crop products had a direct and significant impact on our gross margin performance.

Further to my remarks regarding the new presentation of our statement of operations on Slide 16, you can see our operating expenses are presented here without costs associated with outbound logistics. Typically those costs amount to about 7% to 8% of sales. For the three months ended March 31, 2023, operating expenses reduced by 4% from the same period of 2022. This was driven by lower administrative costs associated with short-term incentive compensation as a result of the lower financial performance and the benefit of some positive exchange rate movements across our global business. Something of an offset the Board agreed to pay crucial capitals, proxy contest fees resolving all outstanding matters.

In summary, on Slide 17, our net sales declined by 17% and gross profit ended at 31% versus 34% in the prior year. Operating expenses were reduced by 4%, mainly driven by lower accruals for short-term incentive compensation. Our cash management performance was good and we ended with debt at about the same level as this time last year and notwithstanding spending $27.3 million to repurchase approximately 1.4 million shares of the company's stock during the last 12 months.

Interest expense is up significantly, driven primarily by interest rates that averaged 6.8% during the quarter as compared to 1.9% for the same period of the prior year and more than 3.5-fold increase. We continued to follow a disciplined approach to planning our factory activity, including balance -- balancing overhead recovery with demand forecasts and inventory level.

On the graph on slide 18, you can see that at the end of the first quarter of 2023, our inventory increased to $219 million, as compared to a $168 million at the same point in

2022. This increase was driven by a few factors, including increased inventories of raw materials necessary to manufacture Aztec, comparatively higher inventories of IMPACT, and generally across our business, an expectation that we're looking at strong sales growth in the second half of 2023, and based on that forecast, we need to have higher inventories to meet related customer demand.

The slide -- the graph on slide 19 shows that debt ended at $97 million at the end of the first quarter of 2023 as compared to $98 million at the same point in 2022. Essentially debt remained flat despite the fact that we have spent $27.3 million repurchasing the company's stock over the last 12 months.

Moving to Slide 20, during the first quarter of 2023, we have made some additional share repurchases, and as a result of share -- shares outstanding and produced slightly. The share price remained relatively flat during the period. Debt increased, which is normal for the start of the company's annual cycle and cash remained about flat with December. Enterprise value increased by 7.6% during the period. Finally, leverage remains low, but increased from 0.72 times bank adjusted EBITDA at December 31, 2022 to 1.63 times at March 31, 2023 reflecting the company's annual cycle.

With that, I will hand back to Eric.

Eric Wintemute {BIO 1459813 <GO>}

Thank you, David. Having heard Scott's color on the major elements of our core business, let me turn next to two other important business drivers SIMPAS and Green Solutions. This review will give us a foundation for our full year 2023 and 2025 performance targets.

For an update on SIMPAS, I turn back to Scott.

Scott Hendrix {BIO 20685923 <GO>}

Thanks, Eric. Our focus for 2023 has and is to continue to innovate within our SIMPAS technology platform by introducing several hardware and software upgrades to deliver the targeted SIMPAS experience. We launched our Phase III SIMPAS technology, which includes units that will be equipped with liquid sensors. This technology will enable the grower to monitor and measure how much liquid material is prescriptively applied by the equipment.

Further, we have enhanced our tracing capability by installing a dedicated modem that communicates all SIMPAS data points to our ULTIMUS platform. Taken together, these advancements will enable users to measure, record and verify what they are applying where and when, whether it's granular or liquid. We have sold 50 new SIMPAS systems domestically. We are -- we're estimating that this will treat approximately a 100,000 acres based on the prescriptions that have been define. Our domestic total SIMPAS revenue outlook is unchanged at $12 million to date.

Slide 22 identifies the key financial drivers for SIMPAS commercialization. Our treated acre growth with our SIMPAS solar technology has grown almost 3x since 2021, while average revenue per use grew 56%. We now have 161 SIMPAS technology systems being used domestically to treat approximately 350,000 acres. To that end, we are currently adding a dedicated sales and marketing team to identify the biggest players in precision ag to forge alliances with those companies and to call upon distribution, retail and growers to embrace this technology. At the same time we're meeting with regulatory authorities to keep them apprised of the capabilities of this technology that we believe answers USDA's call for digital agriculture. After having spent about $27 million over the past five years developing this technology, we are now focusing on attaining broader markets as well. In fact, we plan to sell 15 units to 20 units in Brazil, which is the largest ag producer in the world.

With that, I turn it back Eric.

Eric Wintemute {BIO 1459813 <GO>}

Thank you, Scott. And I'd say that 15 to 20 systems is for the September 2023 season. So it's still to come yet. And next, let's turn to our Green Solutions. To cover that business, we'll have Jim Thompson. So Jim?

Jim Thompson {BIO 17224095 <GO>}

Thank you, Eric. As we move to slide 23, we wanted to highlight the key financial performance indicators and commercial achievements for Q1 of 2023. In terms of our financial performance for Q1, we generated Green Solutions revenues of $13.7 million, which was an increase of 39% as compared to Q1 2022 and in line with our growth estimates of 40%.

With the strong start to the year, we can reaffirm our Green Solutions guidance of $70 million for fiscal year 2023 with Q2 and Q3 generally being (Technical Difficulties) as an incremental value-add platform for AMVAC and its channel partners, and we will expand the Biowake product line into new crops in the future. Our AMGUARD team also executed a new supply agreement with NewLeaf Symbiotics in the first quarter, where both parties will collaborate to launch new products in AMVAC's non-crop segment. This further strengthens the relationship between NewLeaf and AMVAC in the United States.

Our AMGUARD team also recognized first sales of the American Biosystems products in the first quarter, which stem from the acquisition made at the end of 2022. We continued to grow our Green Solutions segment in our international markets. We received regulatory approval for the Agrinos products via our Latin American team in Costa Rica, which opens the door for increased sales of our proprietary family of products acquired from Agrinos in 2020.

Lastly, the business development and M&A landscape continues at a feverish pace. The recent changes in capital markets have caused more companies to seek partnerships with larger companies, accelerated financing events or potential M&A transactions, all of which increased the potential for incremental growth in the Green Solutions business. AMVAC is working diligently to evaluate all new growth opportunities with an intense focus on bolstering our Green Solutions portfolio.

On Slide 24, we wanted to tell a little bit more about our Biowake market opportunity. BioWake launched in Q1, and we view the market opportunity as very large in excess of 150 million treatable acres for corn and soybean in the US alone. We showed strong sales in Q1 and a good pace of sales in Q2. We're happy with the progress on line given the accelerated launch window and the fact that BioWake is our first product in the seed lubricant space. Developed the BioWake product pipeline that focuses on crop expansion into peanuts, cotton, wheat, and other broad acre crops, while also expanding the product line to include additional biological products, such as bioherbicides, bioinsecticides and micronutrients. BioWake is showing yield increases of 4.4 bushels per acre for soybean and 5.3 bushels per acre on corn providing a very attractive return on investment for our growers.

As we move to Slide 25, we wanted to show a short video clip that demonstrates the ease of use of the BioWake products for our farmers. We felt that would be very valuable for you to see our new products System at work. The video will follow shortly.

(Video Presentation)

And lastly, Slide 26 shows the continued strong guidance that we are targeting in our Green Solutions business. The bulk of the growth in 2023 will come from the organic growth of our existing portfolio, as we continue to integrate and market key products from our acquisitions. In addition, we are adding new products such as BioWake and the American Bio products. AMVAC's international business continues to be a strong driver for growth in all of our geographic areas in 2023. In 2024 and 2025, we expect to generate incremental revenue by new partnerships, geographic market expansion and M&A -- and M&A transactions.

Eric Wintemute {BIO 1459813 <GO>}

Thank you, Jim. At this point, we can turn to our 2025 performance targets. As you can see on Slide 27, with our revised Q1 performance, our upward trajectory has been moderated in the middle of the graph. However, the upward curve otherwise -- otherwise unchanged for the years 2024 and 2025. In other words, we remain on track to meet our midterm targets.

Our final important topic is the full year 2023 outlook. Even after factoring in lower-than-expected Q1, as you can see from Slide 27, we are still expecting that our 2023 performance will exceed that of 2022 and are targeting -- targeting the following. Net sales between $640 million to $652 million, which would be 5% to 7% above 2022. Gross profit margins in that 33% to 35% range, which is similar to 2022. Operating expenses as a percent of sale $25 million to $27 million, which is in line with last year. Adjusted EBITDA between $84 million and $86 million representing an improvement of 14% to 18%. Net income of between $32 million to $34 million, which would be 17% to 25% improvement over 2022.

In closing, following a first quarter setback, I see strong performance for the balance of 2023. Given the conditions of our core business, the trend line for our Green Solutions portfolio and our focused approach on gaining further adoption of SIMPAS, we are positioned to drive growth and profitability in both the short and midterm.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) It looks like we have a question from Chris Kapsch from Loop Capital. Your line is open.

Q - Chris Kapsch {BIO 2072625 <GO>}

Yeah. Hi. So I have a couple of questions. On the sales and let's focus on maybe on -- on -- let's see on the Aztec and soil insecticides. I'm just curious if, so the $0.20 in the quarter was that fully attributable to revenues that you think you would have had orders for and delivered or is there also an impact from not having the inputs, and therefore, getting adverse factory absorption variances, and therefore, affecting the gross margin for the rest of the business or is that $0.20 -- yeah, $0.20 exclusively attributable to the net sales?

A - Eric Wintemute {BIO 1459813 <GO>}

That $0.20 is to the sales, there is a factor performance. Again we're running the factory at about 33% of capacity during that first quarter. And frankly, actually over the quarter probably even less than that. But once we're -- once we're beginning manufacturing, we can't -- we can't shut down and do something else because we've got a three-week or four-week turnaround. So we basically had a plant that was running well below capacity, and that's the particular unit at access. We have other units there, but that's our main unit.

Q - Chris Kapsch {BIO 2072625 <GO>}

Okay. And then, just to understand that, obviously, you were not able to deliver to the channel, but as of the end of the quarter, I think corn plantings were only 2%, end of April, just 26%, maybe yesterday from the USDA, it's up to half the acreage. But it's, so the question is that are you -- were you able to recoup any of this lost sales in the first quarter and the second quarter as plant -- corn plantings are progressing?

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah, and we did -- we did sell more in the second quarter than we did in the first quarter. And -- but I think, Scott, we probably were done about April -- somewhere between April 15 and April 20. We did continue to produce and we do have -- and we do have additional tech and we've got some formulation. But basically, the channel really kind of shutdown on us in that -- by that third -- at the end of the third week maybe of -- of April. Scott?

A - Scott Hendrix {BIO 20685923 <GO>}

Yeah, I would confirm that Eric. There is an optimum planting window for most of the producers, and as we were getting close to the middle to the end of April understanding there is time and logistics to get product to the market, and customers at that point made a decision that it was going to be too late for the market.

Q - Chris Kapsch {BIO 2072625 <GO>}

Got you. And then, on the -- sorry, on the IMPACT, so a part of this is not sort of post-emergent broad spectrum herbicide, but more one that complements some of those workhorse herbicides like obviously Glyphosate and Glufosinate. So I don't, it's a little counterintuitive that just the surplus availability of though that I get that there is a downward pricing pressure on those molecules, given the normalization of the supply chain, but the extent that those are more available and to the extent that your product was to complement those especially in areas where resistance was an issue, I would have thought that demand would be okay for those. So can you just reconcile that -- that difference?

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah, I'll take the first one of that, but, I don't Scott or Bob? But so what we saw and Scott alluded to was that both do -- I mean, distributors and the dealers were sitting on a good quantities of both Glyphosate and Glufosinate carried over. And each of them, they charge their units for cash management. And so from a buying standpoint, totally unlike what we saw in -- for the 2022 season where people were just buying everything they can get their hands on. At this point, they're saying, okay, we're going to move through our inventory, some of which is upside down in terms of cost versus where the market is, and then we'll -- and then once we've accomplished that, then we'll look to delay or so.

So Scott, maybe any color you might want to add on that.

A - Scott Hendrix {BIO 20685923 <GO>}

Yeah, Eric. I'll try to build upon it. 2022 performance was outstanding. We were able to position IMPACT in substitute for a lot of the large non-selective molecules that we're trade-enabled Glyphosate and Glufosinate being primarily two of them. Most of the supply that we've referenced in our commentary came in the second half, middle to the second half of last year, which was too late for the season. So a lot of the upside that we took advantage of in 2022 by increase in rates as the market that prepare or was preparing for 2023. We still think best practices from a weed resistance management is going to take place. IMPACT is very complementary to both of those molecules. And we just want to have the same opportunity because of the surplus that's in the market today of both Glyphosate and Glufosinate that we had in 2022.

A - Eric Wintemute {BIO 1459813 <GO>}

But as a brand too, we've got the three other combination products that we see the brand we're building, and...

A - Scott Hendrix {BIO 20685923 <GO>}

Yeah.

A - Eric Wintemute {BIO 1459813 <GO>}

...in addition to our overall herbicide portfolio with what we've got now in soybeans and lentil. So we were -- really herbicides was a weak spot for us back three years, four years ago other than IMPACT, and since then, we've built out a nice portfolio.

A - Scott Hendrix {BIO 20685923 <GO>}

Well, I mean, last one on this subject, and I can jump back on -- in the queue. But so given this normalization of the sort of these major herbicides roundup in particular. So pricing is way down for those practices that to the extent that there is upward pressure on pricing as the supply chain was challenged and that provide an umbrella for other suppliers of herbicide to lift their prices with the normalization. Is that creating pressure on your sales of IMPACT or your pricing for impact other herbicides?

A - David T. Johnson {BIO 5831151 <GO>}

Jim Thompson, go ahead.

A - Jim Thompson {BIO 17224095 <GO>}

Yeah. Really good -- really good question. What I'd share with you the complementary nature of IMPACT and really the proprietary nature of what it delivers to help control some of the most difficult weeds in the marketplace today. So that's (inaudible), water helm, (inaudible). Those molecules are either resistance meaning Glyphosate or Glufosinate or resistant or the performance is very low. So the impact is complementary and helping manage and to control those difficult weeds. So, the value proposition is completely different than Glyphosate or Glufosinate, and so we feel good about our current pricing position despite what's happening with pricing dynamics on the other molecules.

Q - Chris Kapsch {BIO 2072625 <GO>}

Thank you.

Operator

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

Q - Gerry Sweeney {BIO 15217227 <GO>}

Good afternoon and thanks for taking my questions. So I wanted to start with Aztec right and actually take a step back. This sounds like with Aztec it was a long lead time sort of supply chain issue. And it had started and sounded low last year developed through December into this year. And then really just the question is, does this change how you view your supply chain or how you can manage it or track it. So we don't necessarily have issues like this in the future.

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah. So when COVID hit, we shifted dramatically our focus on supply chain, and we looked at those areas where -- where we're sole sourced and we had a huge challenge in phosphorus when Pakistan shutdown, people declared force majeure and China was no longer going to export phosphorus. And that put a monumental strain on us. But we were able to steer our way through that and really not miss sales in any material way. This one did kind of hit us. We -- and this product DAPRO when we got hit with that, we said okay. We're set somebody up to manufacturer. They did a good job at manufacturing. But we did have just one source of our Sodium HP and it was domestic.

They had issues and we're and push back what we thought was going to be a June 2022 campaign and went to -- as we started moving towards September, we engaged our Chinese supplier of DAPRO to convert the DAPRO into the Sodium HP. And with that we felt also that our domestic supplier who is going to come on stream. So even though we knew we were going to be at some point, we figured we'd have some challenges making all the demand we needed for fourth quarter. We were pretty sure we would have product available by -- through first quarter to meet the demand, which was down 7 million pounds very, very strong.

As we kind got through it, they had start up problems at the Chinese producer in manufacturing this new product that they've never made before and it just got coupled with China with the COVID shutdowns. They had the New Year's, they had a park shutdown for the whole industrial park. There were a whole series of things that just kind of kept going forward. And they initially had expected to be able to produce around 3,500 kilos a day. But for quite a while, it was down at a 1,000 kilos per day. We were airfreighting every three days. Everything that we could get. Our US producer who is going to be 4th in December, then got pushed into March. And so each week we just kept seeing it's getting tougher and tougher.

So that being said, we did construct with the two manufacturers to make sure we have plenty of material going into fourth quarter when we'll do our next campaign with Aztec. And overall, I would say we have -- before I think previously as we got into later part of 2021 going into 2022, we talked about positioning in advance of needs to make sure that we didn't get squeezed.

So we -- if you look at our inventory, you'll see it's gone up considerably over where it was first quarter last year. A number of those things are -- are raw materials to use, and whether it's packaging labels, intermediates and we did manufacture all of the campaign for the other half of the Aztec molecule we made at the Axis facility. And so I guess as far as changing, I think for the foreseeable future until we see something different, we will be bringing materials in advance to make sure that this doesn't happen again.

Q - Gerry Sweeney {BIO 15217227 <GO>}

And then even taken a step further. I mean, not necessarily, I mean, maybe are there any other sort of intermediary products that are sort of sole-sourced that are key ingredients or key intermediate ingredients that are larger revenue products, right so...?

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah.

Q - Gerry Sweeney {BIO 15217227 <GO>}

Outside of Aztec right, maybe, could you give up a couple of points of margin? But you have a -- and go out to a couple of different producers and set up a couple of different producers. Have you sort of reviewed the supply chain to understand what's going on from that perspective?

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah. We have and we've gone through, so our supply chain. Sinate has -- has basically chartered out every product that we're sole-sourced on and the path on and we've been doing that for the last 2.5 years, the path to dual source and we're pretty well complete on that. We have one herbicide that -- we have a second source that we're able to use for outside the US, but we're in the process of getting the EPA to approve that sources for US as well.

And we've had our Bromacil was sole-sourced after we lost our supplier in China that got shut down, but we have also back that up with the source out of Malaysia. So we're pretty well focused on that do that we would not be sole-sourced on product again, and that being said, to your point do we, if - to keep two suppliers alive, we have a blended cost that is potentially higher than one -- one producer. Yeah, we're going to do that and so far we've been able to factor those increases into our pricing program, so.

Q - Gerry Sweeney {BIO 15217227 <GO>}

Got it. That's helpful. I appreciate that. And what -- do you have a sort of projection of maybe your EBITDA sort of free cash flow conversion or what would potential free cash flow will be this year? And then the follow up with that that would be any changes sort of your investment schedule with the reduced cash flow from this year ostensibly from the Q1?

A - Eric Wintemute {BIO 1459813 <GO>}

David?

A - David T. Johnson {BIO 5831151 <GO>}

And we have given the forecasted range for EBITDA from a cash flow perspective. And we are a little bit behind in the first quarter, but anticipate our annual cycle is to fund our working capital in the first three quarters or four quarters and then start to come down at the end and I don't see any difference in our profile for 2023 at this time.

Q - Gerry Sweeney {BIO 15217227 <GO>}

Okay. Got it. All right.

A - David T. Johnson {BIO 5831151 <GO>}

And...

Q - Gerry Sweeney {BIO 15217227 <GO>}

Sorry, go aheah.

A - David T. Johnson {BIO 5831151 <GO>}

I don't think there's any change in our strategy with regard to investments. I mean, we're looking at all sorts of different things all the time and yeah, we're not planning to change that.

Q - Gerry Sweeney {BIO 15217227 <GO>}

Got it. Perfect. Yeah, that's it from me. I appreciate it.

Operator

Our next question is going to come from Wayne Pinsent with Gabelli. Your line is open.

Q - Wayne Pinsent {BIO 17267498 <GO>}

Hi. Thanks for taking my question. Most of my questions have been answered, but just to expand a little on the Aztec supply issue when you guys got back online with that -- I thought that was pretty well resolved when you guys reported the Q4 in March. But then, you mentioned the selling season going through late April. I know prior, you guys had mentioned that you were anticipating getting a lot of those missed sales from Q4 into the first half. Just if you could walk through the cadence there just -- is it just that those few weeks, it was just came on a little too late to be able to make those sales. And then you mentioned some going into Q2 like what percentage of that $0.20 miss in Q1. Do you think shifted into Q2 and we might see recovered.

A - Eric Wintemute {BIO 1459813 <GO>}

So as far as that the shift, yeah, we did -- we did have higher sales in Q2 than in Q1 and year-over-year I think we were a little - a little higher in Q2 than Q2 -- than in Q2 of 2022. But on the -- yeah, on the $0.20, if you take, I'm talking about what we actually did sell and what -- and what Scott's numbers reflected on the 2.3 million pounds out of the 7 million pounds that includes second quarter sales, which were about $1.3 million and I think we had about $1 million in Q1 of Aztec equivalent. So that miss of $0.38 was, let's say, the difference between the 2.3 million pounds and the 7 million pounds. So I don't know if that was, so David, if you got the second part of the question, I'm not sure if I answered it.

Q - Wayne Pinsent {BIO 17267498 <GO>}

Yeah, just because that's from the Q4 into Q1. Like you said, the sales have picked up in Q2 you may have sold a little more, but the selling season sort of ended there, can you just quantify how much -- was there any shift there from what you missed in Q1 into Q2?

A - Eric Wintemute {BIO 1459813 <GO>}

Well, as I said, we were just -- we were a little ahead of sales in Q2 of 2023 versus Q2 of 2022. So I'd say those are kind of more natural. But the bottom line is that of the 7 million pounds, which was a bigger demand than what we had for the 2023 season, of that of actual sales of Aztec, we did about 2.3 million pounds. And this is equivalent to the 4.67% materially granule. And so I mean the $0.38 on reporting is the difference between 7 million pounds and the 2.3 million pounds. So there'll be a marginal pickup in Q2 of what we missed, but the total toller combined leaves us 4.7 million pounds short on the Aztec. But as Scott alluded, we did pick up additional sales of a substitute product, which was equivalent to another 400,000 pounds.

Q - Wayne Pinsent {BIO 17267498 <GO>}

Okay. And then, I know it's different dynamics with the IMPACT, but just the missed sales there, the ability to make those up or is it just that inventories are looking good going forward, and then we should just see more normalized demand?

A - Eric Wintemute {BIO 1459813 <GO>}

Yeah, go ahead, Scott.

A - Scott Hendrix {BIO 20685923 <GO>}

Yeah, I think we'll see more normalized demand. We've had growth in our IMPACT brand family for the last three years. 2022 was significant for the dynamics that we described earlier. We anticipate to continue to grow our portfolio through the four brands that I referenced in my comments. And then we're continuing to innovate in this space. So you will see at least one, maybe two brands to come in that within our pipeline.

Q - Wayne Pinsent {BIO 17267498 <GO>}

Okay. Bye. Thank you.

Operator

And looks like we have a follow-up question from Chris Kapsch. Your line is open.

Q - Chris Kapsch {BIO 2072625 <GO>}

Yeah, I have a follow up on focused on Green SAolutions and maybe just focused on biologics first so when you sort of establish the beachhead in that niche, if you will sort of the M&A and it was a time when the rest of the industry, at least the big guys were sort of going through a wave of consolidation so maybe is focused on it. But now fast forward to today it's viewed as a one of the Corteva is highlight is the probably the single largest growth area within crop protection. And it seems like the big guys are more focused on this. There're more development efforts may be committing more resources to the developing the market, and obviously, the sustainability characteristics some more interesting. So just curious about how you've seen this effect your positioning there as it become more competitive or conversely given the awareness that the big guys might be bringing to the marketplace and the commercial push made that beneficial to where you are with your product. I'm just wondering how you see that playing out as we focus on delivering your growth goals in that sector.

A - Bob Trogele {BIO 3430538 <GO>}

Chris, Bob here. That question is a good question, and it's a space which is growing very fast, very profitable, better margins than the, I would say mature crop protection chemical business. We feel that we're outpacing the market today with a 40% growth rate versus a growth rate of, let's say 15% in most of the segments. We feel that we have established good solid -- good solid foundation in manufacturing, with the two plants, we acquired through the Agrinos acquisition. We have good research capabilities both in RTP and also in India. So where we've got an excellent pipeline. And we've got great market access throughout the market access structure in the Americas, China and India. And we have dedicated people in selling that. I think so from a business model. We're about as advanced as anybody in the business, and therefore, as you shown today that Biowake for example, is an opportunity for us, where companies are coming to us because they see that know-how, they see that structure. NewLeaf, which we also announced is another company which is coming to us with their technology. So we have not only in-house technology, but we're also getting licensing opportunities. So we're actually, we feel we're very well-positioned to be competitive in that space, that space is only going to grow and we're going to grow with it.

So I don't know if you have a follow-up question to that, Chris.

Q - Chris Kapsch {BIO 2072625 <GO>}

Yeah. And I appreciate that color, Bob. And maybe the follow up would also be maybe for you. Did they know SIMPAS is near and dear to you. And when you joined the company, it was something that you were pretty enthusiastic about the progress that we're -- and the opportunity there. So the question focused on SIMPAS is, I think it was you that mentioned that the infrastructure and around delivering that was also going to provide a data platform for with which growers could measure and capture there or measure and track of I guess there carbon avoidance, if you will. And given the momentum behind sort of decarbonizing our economy. It seems like ag is certainly in focus in that regard. And this is a platform, which may enable that. So I'm just wondering if there is still a play for SIMPAS in that regard, or is it really just more focus right now on delivering the inputs in a more precision planting manner. Thanks.

A - Scott Hendrix {BIO 20685923 <GO>}

While SIMPAS as you say is the perfect delivery mechanism for any biorational products are nutritional products at plant. So we're developing that range. You've seen in the announcements that we partnership we have with (inaudible) on the nutritional side. We're delivering those products. The partnerships we have with other companies that are coming to us. We have actually more opportunities than we can process right now.

The holdup is really the getting those products registered through the EPA, you're going to see a lot more announcements coming in the future, but we also, through the Agrinos range, I just want to just remind everyone that we bought four product -- four products and three of those were for soil health with one of them that we're seeing now that we're getting good results in our trial work for nitrogen fixation, which goes right into the carbon market, and that's a tremendous opportunity for us going forward as the soil health market develops. And I think it's again, part of the system that we wound up developing because of that wanted to be able to trace and measure what goes into the soil that the ultimate system, right, which is -- which is why we're talking about being able to measure, validate and record. And so that, as -- as we're implementing that through the SIMPAS system that winds up giving the grower the ability to have a third-party validation of his practices. So what we're really looking to do is capture his practices as far as nitrogen reduction let's say in our biologicals that Bob mentioned as far as that we're going to help with nutrient uptake. So that's -- that the platform that we'll be using that we talked about before.

Q - Chris Kapsch {BIO 2072625 <GO>}

I appreciate the color. Thanks.

Operator

(Operator Instructions) Okay. It doesn't look like there are any more questions, so I will turn it back over to our speakers for any closing remarks.

A - Eric Wintemute {BIO 1459813 <GO>}

Okay. Well, I appreciate everybody that participated on the phone today and listened in. Obviously, we were disappointed with the first quarter, but we do see that we will have a strong recovery over the balance of the three quarters, and ultimately, report very positive results for the year, and more importantly, that we continue to be on track with our -- our next two year goals and targets. And also we're making good progress on our -- on all three of our growth platforms. So with that, thank you, and we will have another discussion with the shareholders meeting on June 7, I believe. All right, thank you everybody.

Operator

And this concludes your call. You may now disconnect.