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American Vanguard Corp. (AVD)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Timothy J. Donnelly
Vice President, General Counsel, Chief Administrative Officer & Corporate Secretary, American Vanguard Corp.

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

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

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

Scott Hendrix
Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

Ulrich G. Trogele
Chief Operating Officer & Executive Vice President, American Vanguard Corp.

OTHER PARTICIPANTS

Chris Kapsch
Analyst, Loop Capital Markets LLC

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Brandon Rogers
Analyst, ROTH Capital Partners

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the American Vanguard 2022 Year-End Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference call is being recorded.

I will now turn the conference over to our host, Tim Donnelly, Chief Administrative Officer. Thank you. You may begin.

Timothy J. Donnelly

Vice President, General Counsel, Chief Administrative Officer & Corporate Secretary, American Vanguard Corp.

Thank you, Diego, and welcome, everyone. Our speakers today will be Eric Wintemute, the Chairman and CEO of American Vanguard; David Johnson, the company's Chief Financial Officer; Scott Hendrix, AMVAC's Senior Vice President of Crop Sales for US and Canada as well as for Application Technology; Jim Thompson, AMVAC's Director of Portfolio Strategy and Business Development. Also to assist in answering your questions, we have Bob Trogele, our Chief Operating Officer on hand. American Vanguard will be filing our Form 10-K with the SEC in the next day or two. That should provide additional detail with respect to the results that we are discussing on this call.

Before beginning, let's take a moment for our Safe Harbor reminder. In today's call, the company may discuss forward-looking information. Such information and statements are based on estimates and assumptions by the company's management and are subject to various risks and uncertainties that may cause actual results to differ from management's current expectations. Such factors can include weather conditions, changes in regulatory policy, competitive pressures and various other risks, as detailed in the company's SEC reports and filings. All forward-looking statements represent the company's best judgment as of the date of this call, and such information will not necessarily be updated by the company.

With that, I turn the call over to Eric Wintemute. Eric?

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Tim, and welcome, everyone. I'm pleased to report that, as I had noted on our February call, our full-year 2022 performance exceeded that of 2021 in nearly all material respects. I'm extremely proud of the work our global team delivered net sales of growth of 9% and growing our net income by 47%. We achieved this result despite a flat fourth quarter during which we were unable to sell our leading soil insecticide, AZTEC, due to a supply chain disruption which has improved during the first quarter of this year.

Here on slide 4, I highlight a few important points about our 2022 performance and 2023 outlook. First, our Core business is strong, on track to meet or exceed our 2025 targets. Similarly, our Green Solutions business is growing at a fast clip and is also on target. With respect to SIMPAS, we are moving a bit slower than expected due largely to delays from supply chain disruption and regulatory approvals. The work we are doing to grow precision application in agriculture is complex, but we feel strongly that the long-term benefits of SIMPAS play a critical role in maximizing the global farm economy.

In short, regulatory design and formulation changes have slowed us down and we are working on a number of initiatives to accelerate our progress. For example, we are applying additional resources to expand our portfolio and ensure broader adoption by growers.

I would like to conclude the 2022 strategic review by noting that we have also strengthened our balance sheet, while returning significant value to our investors through increased dividends and share repurchases. This sets up a path to target greater growth and profitability for 2023.

Just a few quick notes on market conditions highlighted on slide 5. As we outlined in our 10-K, 2022 was the second full year of an upcycle in the ag sector, featuring high commodity prices and a strong farm economy. Our corn, cotton, soybean, and fruit and vegetable products all recorded stronger sales during the year. Our non-crop business was about even with the prior year, despite a 30% drop in the domestic consumer product market. We did see a rebound in the commercial non-crop segment as the professional pest control market began to regain its footing.

Our international business recorded its highest sales increase, up 13% year-over-year as we enjoyed significant increases in sales of our Green Solutions products, higher demand for our soil fumigants in Mexico and Australia, and the benefits of a new soybean registration for Counter in Brazil. Also, I'm proud to report that our LATAM business hit a record $100 million milestone in sales. We look forward to building on this platform in the future.

At this point, I thought it would be helpful to review our actual 2022 performances versus our 2022 financial targets. As you can see on slide 6, we're within the target range for net sales. Gross profit margin of 40% was at the high end of the target, as were operating expenses as a percent of net income or net sales at 33%. Our interest expense was only slightly above our target, which is noteworthy, given how many times the Fed increased interest rates during the year. The tax rate came in at 24%, which is consistent with the target mid-20s.

Debt-to-EBITDA came in at significantly better at 1x of target better than 1x of target. Net income ended up 47% and adjusted EBITDA was up 15% as compared to 2021. While these were short of our target increases, they represent significant year-on-year improvements.

Before continuing, I want to take a moment to credit our global team for those results. We continue to show strong sales growth and increased profitability while expanding our global footprint, offering climate-friendly solutions, and commercializing leading-edge precision application technology.

Business success requires not only hard work but also high-caliber people. On today's call, we wanted to feature two of our key executives who are leading important growth initiatives at the company. To support me in revisiting our 2025 performance targets, Jim Thompson, our Director of Portfolio Strategy and Business Development, will report how we are successfully growing our Green Solution (sic) [Solutions] businesses, including expanding into huge markets such as China and India.

Also, Scott Hendrix, our Senior VP of Sales in the US and Canada for Crop Sales and Application Technology, will describe the focused measures that we are taking to ensure SIMPAS remains the vanguard of prescriptive application technology. At the end of the call, I will cover our 2023 outlook and then leave time to answer any questions you might have.

But first, let me turn the call over to David Johnson, our CFO, for his financial analysis. David?

David T. Johnson

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

Thank you, Eric. As you can see on slide 7, the 2022 year has seen a strong sales performance for the company with overall revenues up about $52 million or 9.3% as compared to 2021. Within that improvement, our US crop business increased by 9% to $289 million in 2022. Our non-crop business was slightly down, and our international business grew by 13% to $244 million.

Turning to slide 8, for the full-year 2022, despite some movements by category, gross margin performance improved by 2% to 40% as compared to 38% in 2021. This underpins the fundamental strength and stability of the business as we have managed to implement successful pricing actions in the face of significant inflation cost pressure, particularly as regards to the supply chain.

On slide 9, you will see that our operating expenses have increased by 9.5% to end at $201 million on sales of 9.3%. Operating expenses as compared to sales remained at 33% of sales in 2022, in line with the prior year. Included in operating costs, outbound freight amounted to 8% of sales in both 2022 and 2021. Selling, G&A and R&D accounted for 25% of sales.

Turning to slide 10, with the increases in sales and gross profit, and operating costs remaining flat at 33% of net sales, operating income increased by 31%. Our cash management performance has been strong throughout the year. Average debt is down, even though we acquired $34 million of the company's stock during the year.

Interest expense is up 7% as expected, driven by federal policy resulting in increased interest rates aimed at inflation control and reduction. Finally, our effective tax rate was 24% including the release of certain uncertain tax positions. This compared to an effective rate of 30% in 2021. The 2021 rate was higher primarily because of the onetime noncash charge to establish a valuation allowance against the deferred tax assets in Brazil that I discussed this time last year.

Our net income at $27.4 million was up 47% and EPS was at $0.92 per share as compared to $0.61 per share last year.

On slide 11, our adjusted EBITDA improved by 15% compared to 2021, and our EBITDA margin improved to 12% of net sales as compared to 11% in 2021. 2022 adjusted EBITDA amounted to $73 million as compared to $63 million last year. Over the last eight years, adjusted EBITDA has improved at a compound annual growth rate of 10% a year.

Looking at slide 12, I want to digress a moment and talk to you about the change we are planning to make. We've spent some time considering the statement of operations of our peers and have determined that our business performance would be most – more closely comparable and therefore more easily understood if we made a comparatively simple change in the company's statement of operations in its public filings.

We plan to move outbound freight costs from operating expenses to cost of goods. This will have the impact of reducing operating expenses and, at the same time, increasing cost of goods sold by the same amount. These costs on average amount to 8% of sales. This change will impact ratios such as gross profit and operating costs when compared to sales but will not impact either operating income or net income. Changes such as this require a public filer such as American Vanguard to get a preferability letter from its registered public accountants in order to be able to proceed with the change. We will give investors notice once we have received the necessary documents.

As you can see on slide 13, we've had another very strong cash performance. For 2022 and 2021 combined, we have generated a total of $144 million of cash from operations.

Now, I want to turn my attention to the balance sheet and the company's focus on capital allocation. Slide 14 lays out the company's capital allocation model that drives many of our actions. We focus on managing debts under our credit facility arrangement with a group of six banks that have been our partners for many years. We have a credit facility because our business has a strong cycle with working capital that expands during the first six to nine months and reduces at the year-end.

As you can see on this slide, our leverage was extremely low at year-end, which is a typical position for the business each year. In addition, we have historically grown by acquisition and depend on availability under the line to fund such acquisition activity. This has worked extremely well for the company over the history of our partnership with our bankers. At the end of 2022, we could borrow up to $200 million on our credit line.

We focus on paying a sustainable dividend and have historically paid approximately 10% of net income. During 2022, we've increased our dividend per share by 31%, reflecting our strong financial performance, and have paid out about $3 million to investors as a result. We have a strategy to manage our shares outstanding and have invested $34 million in 2022 to repurchase a total of 1.7 million shares and ended the year with a fully diluted share count of 29.4 million shares, which was significantly below the 30.9 million this time last year.

Our activities to invest to grow our business is a constant focus for the company. We focus on the development and full commercialization of our SIMPAS/Ultimus technologies, for example, with the introduction of our proprietary product Counter on soybeans in Brazil. In 2022, we have self-funded $6.8 million in these exciting technologies comprised of R&D expenses and capital spending. We are growing our Green Solutions portfolio with, for example, our Greenleaf (sic) [NewLeaf] partnership and with the new BioWake acquisition we announced at the start of the New Year. During 2022, we invested $1.2 million supporting these activities.

The company has become adept at carefully assessing acquisitions of bolt-on products and increasingly, international distribution businesses. During the last eight years, we have acquired more than 20 such assets, which has helped us grow our sales as a compound annual growth rate of 9.4%. And finally, we continue to strive to ensure our factories are safe, efficient, and capable of supporting our growing business. And we have spent $13 million in that regard. In addition to all these actions, we were able to reduce debt net of cash at the year-end by 14% to end at $31 million.

With regard to making acquisitions, which as I mentioned, is a key part of our capital allocation strategy, we considered a significant number of opportunities during 2022 but passed on all if they did not meet our key criteria. We're finding that some buyers are paying excess multiples of EBITDA or sales in the acquisition market. In the first few weeks of the new financial year, however, we've closed on a small biological asset acquisition and are currently involved in diligence on a small international acquisition. Our criteria for approving acquisitions remains disciplined as we make critical capital allocation decisions.

One final comment on this slide. During the March board meeting, the board authorized the company to continue the program to repurchase stock up to $15 million during 2023.

With regard to debt, as per slide 15, we saw a decrease at the end of 2022 in comparison to 2021. This is even more significant for debt, net of cash, which improved by 14%, ending at $31 million as compared to $36 million last year.

With regard to liquidity, as you can see from this chart, we have been constantly, consistently working down debt from a high in the first quarter of 2022, which is the normal rhythm for the company, to a low at the end of the year. As noted above, we recorded improved EBITDA in 2022 versus prior year and at the same time reduced debt. As a result, availability under the company's credit line has improved [ph] to about (17:13) $200 million, as compared to $178 million at the end of 2021. The strong liquidity position ensures that we can continue to invest in the company's future.

With that, I hand back to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, David. And now I'd like to turn to slide 16, our 2025 performance targets. We've been covering these targets regularly over the past eight quarters. This is a chance for our investors to get a sense of how our three growth platforms of the Core business, Green Solutions and precision application are expected to trend through 2025.

This curve is from our earnings call for Q3 2022. Let's focus first on our Core business, which includes multiple conventional products within crop, non-crop, both domestic and international. Our current outlook is that we are on track to achieve our 2025 target of $694 million in revenues. The upward trajectory is driven by a continued strong demand for our legacy products, the expansion of product lines through innovation, mixtures, and formulations, for example, Impact Core, Sinate, and Impact seeds and new market access, for example, the new registration for Counter in Brazil.

The third component of our Core business is acquisitions. And although we expect this to continue to occur, we believe that we are on track to achieve our targets for Core revenue without additional acquisitions.

Next up is our Green Solutions segment. For that discussion, I'll turn the call over to Jim Thompson. Jim?

James Thompson

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

Thank you, Eric. As we've described in slide 17, the Green Solutions business within AMVAC has experienced a very strong growth year, with growth in both top line revenue and gross margin. Revenues net of licensing grew from $37 million in 2021 to $49 million in 2020, a year-over growth of 32%. Additionally, gross margins on our product revenues, excluding the licensing, grew from 40% to 41%.

Geographically, we saw strong growth in our Asian business as our Indian and Chinese markets grew above expectations. Our Latin American biological business is the largest contributor to revenue, which grew over 60% in 2022. We will continue to expand the business by securing product registrations in several new countries and by expanding the portfolio with products from new partners. These results reflect a dedicated focus on Green Solutions as a critical pillar to AMVAC's growth strategy.

In 2022, we established dedicated commercial teams in the US and Latin America, and also established a global team focused on growing our specialty nutrition business.

Two of the key acquisitions made by AMVAC, Green Plants and Agrinos, have formed strong product portfolios within AMVAC. Both acquisitions brought unique product portfolios, strong intellectual property, and personnel with expertise to grow the biological portfolios. In 2022, we also signed on new partnerships with NewLeaf Symbiotics and with LowMuTech, and launched our BioWake products for corn and soybean at-plant treatment in the US. In early 2023, we completed our transaction with American Bio Systems in our non-crop business.

Turning to slide 18, as part of our Green Solutions business growth, we are further analyzing the various product categories in the biologicals marketplace. As you can see, we have three primary categories driving the business, biostimulants, biopesticides also known as biocontrols, and specialty nutrition products. The biostimulants class is driven by sales of the Agrinos products, but also includes several other third-party biostimulant products. The biopesticides market has a large component from our AMGUARD non-crop business as well as several partnerships. And lastly, the specialty nutrition business is led by the sale of our Green Plants products.

And lastly on slide 19, we are expecting 2023 Green Solutions revenues to grow to nearly $70 million, a 43% increase in revenue over 2022. And we're expecting product revenue margins to grow to 44%, which is a 3% increase over 2022.

Over the past two years, we've strengthened our internal expertise in the Green Solutions business and all areas of the company. This, in turn, has led to a very robust business development pipeline of new opportunities that will fuel growth in 2023 and beyond. Lastly, the capital markets are more challenging than ever for early and mid-stage companies, which increases the number of potential M&A targets for larger players in the market, such as AMVAC. We will continue to seek third-party relationships and selective M&A opportunities to achieve our $140 million revenue target in 2025.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Jim. At this point, I'd like to ask Scott Hendrix to take over. Scott?

Scott Hendrix

Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

Thanks, Eric. I'd like to build upon Jim's comments by elevating our US focus on Green Solutions and in particular, soil health. As we continue to conduct research with our Green Solution (sic) [Solutions] portfolio of assets, we are seeing very promising results from our microorganism library that is commercially available. Our brand iNvigorate, is comprised of multiple microorganisms that is demonstrating very positive results in broad-acre crops such as corn by making soil nutrients more readily available, optimizing the plants' performance through the growing season.

As seen in the performance graph on slide 20, we are demonstrating significant root and tissue growth versus a check in corn production. Our objective to bring sustainable Green Solutions has been on an accelerated path for multiple segments in the last 24 to 36 months. Soil health solutions that enable nutrient efficiencies and optimization by the crop will be a key to achieving the maximum potential for that crop through our platform, SIMPAS.

Turning to slide 21. The year 2022 was another exciting and challenging period for our SIMPAS technologies platform. We had over 110 SIMPAS technology systems that treated approximately 160,000 acres that covered geographies from North Dakota to Georgia in the United States, which resulted in a number of key learnings. As precision ag retailers, innovative growers, and our technology partners continue to evaluate new and exciting avenues to create value through this digital space, our commitment to this segment is unresolved.

Our Application Technology team annually reviews our SIMPAS platform to ensure that we are meeting our customers' needs today and most importantly, tomorrow. 2022 was no different as we debrief with our technology partners to ensure we deliver the SIMPAS experience to our customers moving forward in 2023 and beyond. This resulted in upgrades to hardware and software for the 2023 SIMPAS system. Such improvements were made to our valve assembly, cartridge brackets and software to ensure the durability across all production practices for the future.

As we look at slide 22, we will highlight how digital agriculture is transforming our industry in the United States. One of the questions we frequently get is where does the data come from that drives the SIMPAS platform. According to a recent Economic Research Information Bulletin released by the USDA, US agriculture digital technology adoption has generally increased since 1996. Key components of this adoption curve range from yield monitoring, soil mapping, yield maps, variable rate technologies, guidance systems, et cetera. This repository of data that has been collected contains the power of digital agriculture in US farming, variable rate technologies, and SIMPAS.

Variable rate technology continues across the United States, broad-acre crop production. As you can see in the recent USDA Economic Research Information Bulletin, significant expansion has occurred in the United States across these crops. Data mining from data generation will be the enabler for precision ag retailers and innovative growers to break their yield barriers.

Power of SIMPAS is reflected in slide 23. Put simply, the continued adoption of variable rate technology has and is the driver behind our SIMPAS technology. As a result of the data generation through data mining, our SIMPAS ecosystem can deliver powerful results.

Nematodes are one of the most damaging pests in ag production across the US. They are also one of the most difficult to treat as historical predictability methods have demonstrated until now. As seen in the example of the performance data shown, SIMPAS enabled this grower to increase their yield by 21 bushels. Precision ag retailers' ability to write prescriptions from their data repositories for our SIMPAS Applied Solution Counter enables their growers to target treatment zones in their fields that minimizes the yield- robbing effect of nematodes.

The capability of our SIMPAS platform that combines precision ag technology with SIMPAS Applied Solutions is a powerful combination that will enable customers to drive profits for their operation, the prescriptive ability to apply the right product at the right rate, at the right place at the right time with SIMPAS.

As per slide 24, our revenue projections for SIMPAS technologies have been revised to align with our team's current outlook. We are projecting the 2023 revenue to grow to $12 million, a 33% increase in revenue and we're expecting 49% growth in margin year-over-year. This is down from the previous forecast of $28 million in total revenue for 2023.

We are strengthening our focus on SIMPAS technology platforms by restructuring and transitioning our Application Technology team to a business unit that will be solely focused on creating demand in SIMPAS research and development. This will enable a dedicated unit that will have a centralized focus on precision agriculture and the future of SIMPAS technology, enabling us to achieve our target of $125 million in revenue by 2026.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, Scott. Okay, and let's pull it all together. As you can see from our graph on slide 25, we're revising our consolidated net sales target for 2025 downward to $907 million from $947 million. This reflects maintaining the original trajectory of our Core and Green Solutions, while reducing our SIMPAS target to $75 million in 2025 and adding a 2026 million SIMPAS target of $125 million. We will continue to report and update, where appropriate, our progress for each of our key growth initiatives.

So now let's turn our attention to 2023 on slide 26. We are seeing positive conditions for the company's continued strong financial performance. With high demand for our corn and soybean products, an improved supply chain for raws and intermediates, comparatively lower freight costs, and a low level of AMVAC products within the distribution channel, we're targeting net sales to grow between 8% and 12%, a gross profit margin of 38% to 41%, and operating expenses as a percent of sales at 32% (sic) [31%] to 33%.

Our interest target is between $6.5 million and $7.5 million. Our tax rate is targeted at $27 million to $29 million – I'm sorry, from 27% to 28% (sic) [29%]. Our debt-to-EBITDA remains the same as last year's target. And we are aiming to achieve a net income increase of between 25% to 35% (sic) [22% to 34%] and adjusted EBITDA growth of between 20% and 25% (sic) [18% to 25%].

In summary, we recorded an excellent performance in 2022, strengthened our balance sheet, delivered substantial value to our investors, and expect to achieve significant growth and further profitability improvement to 2023.

We thank you for your continued support of American Vanguard. And with that, I'll turn the call over to the operator to take any questions you may have. Diego?

QUESTION AND ANSWER SECTION

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

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Yeah. Hi. Good afternoon. So, curious about just the market conditions currently, a couple things. One, obviously we've gone through this supply chain disruption, inflationary costs. That's now abating a bit. I've heard some larger crop protection peers have talked about that. And – but I'm curious in the context of AVD, to the extent that you've had pricing actions help offset inflationary costs, how do you see that playing through this year? Will you more than make up for any cost inflation pressures via pricing? And how is that against the backdrop of some sequential diminishing of inflationary costs in various areas?

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

A

Well, I think we've done a very good job implementing price increases. We've gone through the last couple of years we've had multiple price increases during the course of the years. If we look at some of the commodity products that we sell that are not a major focus for us, we have seen some softening in prices coming out of China. And competitors may bring pricing down in order to compete in that market. However, for our Core products, for the vast majority of what we do, we don't have a lot of generic pressure. And as such, I think we're in pretty good shape to achieve any improvements that we have in raw materials and freight. So, I don't know, Bob, if you have anything to add to that or?

Ulrich G. Trogele
Chief Operating Officer & Executive Vice President, American Vanguard Corp.

A

I think it's a mixed bag, Chris. Hi, Chris. So, on the biological range, I don't see any issues there. I think the market is growing. It's accepting the value proposition. We don't have any major cost issues that we see there in the supply chain.

On the chemical front, it's very mixed. I mean, we're just not in certain markets like glyphosate, right, which where the price is coming down and some distributors are upside down, or fertilizers where distributors are also having challenges. So, we're playing in niche segments and doing quite well. I think the team is executing extremely at a high level, like Eric said. And we'll continue to do so because that's what's good for our shareholder.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

That's helpful. And a follow-up, if I could, just on the supply issues that impacted your availability and therefore your sales in the fourth quarter. Are those fully resolved? And just how do you – there was discussion about either recouping those by offering an alternative product or just deferring some of the sales or wasn't really clear. Do you have more clarity on how that plays out here in this year's growing season?

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

A

Sure. So, again, AZTEC was the product that we had challenges of. We weren't able to produce it in Q4. We have been producing here in Q1. As we mentioned before, we have three other forms of insecticides, Force, Counter, and SmartChoice that we are substituting where we can. I think we're probably not from a sales standpoint, going to hit 100% of what we were looking to accomplish. However, from Scott's standpoint, he's kind of happy with the thought that he'll be looking at extremely low inventories in the channel as we come to the Q3, Q4 period. We will start production of – we will continue to run AZTEC through the end of April and into mid-March. I think part of how – mid-May. A part of this will depend on planting season as to when people will have to – or could no longer be purchasing the corn soil insecticides. But, Scott, as far as timing, any outlook as to – I mean, I think the South is pretty well there. But as you get to Mid-South and – or I mean, the Upper and Midwest area, what are people saying as far as planning activity?

Scott Hendrix A

Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

Yeah. So, today, we've been very fortunate. We've received a number of rain events and really, I'd say, precipitation events that's moved across the geography. It was much needed in a number of arid regions. So, therefore, it's put us in a position where spring planning and production activities have been delayed. We're certainly looking at the potential for a elongated planning window, but certainly environmental conditions are subject to change. But at this point, the outlook's pretty positive.

Eric Glenn Wintemute A

Chairman & Chief Executive Officer, American Vanguard Corp.

And I think also what we're experiencing here in California, coming out of a three-year drought situation where last year people were foregoing a lot of their annual crops in order to protect the tree crops. That issue is not going to be a factor this year. And I think we're already starting to see some of our fumigant and other key products being pushed into that position.

Scott Hendrix A

Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

Yeah. Absolutely. California specifically, going into 2022, we had most of the state was in a severe drought. As we entered to that same period of 2023, we have actually moved away from that signaling to maybe some areas or slight drought areas, but for the most part, moisture has been significantly higher than the previous, really, last three seasons. And in some cases, we do need these conditions to subside so we can get in the field and actually plant crops for the 2023 season.

Chris Kapsch Q

Analyst, Loop Capital Markets LLC

Appreciate that color. And then if I could, just one follow-up on, well, it's a big subject but your growth platforms and your update in terms of visibility through 2025. If I understood what you said, so you're basically sticking with your target on Green Solutions, the SIMPAS target was maybe protracted out by a year, if I understood correctly. Help me clarify if that's a mischaracterization. But on the Green Solutions, there was still, it looked like what you referred to as, I don't have the slide deck in front of me, but as growth initiatives in order to reaffirm that trajectory to achieve the Green Solutions sales expectation by 2025. So, can you just remind us what comprises that growth initiatives and the visibility around that? Thanks.

Eric Glenn Wintemute A

Chairman & Chief Executive Officer, American Vanguard Corp.

I'll comment and then turn over to you, Jim. So, yeah, within that [indiscernible] (39:04) if you're projecting out a 20% increase across the normal business, we have quite a few, as Jim kind of alluded to, we have quite a few companies that are talking to us about different products that they would like to put through our distribution system, as well as we continue to have kind of what seems to be driving our M&A activity is more in the Green Solutions space. So, I think those two components, I think we're feeling pretty comfortable that those targets are going to be there. And also we mentioned the BioWake, and maybe, Jim, you can just kind of elaborate on that or, Scott, if you'd rather, yeah, but go ahead, Jim.

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

A

Sure. Yeah. First, so there's a number of factors that we think will drive that growth to the $140 million target in 2025. Mergers and acquisitions is a bucket to get there, and that's one of the faster ways to get there. But as we mentioned, a lot of the multiples we're seeing are really high, and we have a very disciplined strategy around that.

Second, we do see a really robust pipeline of third-party companies that want to work with AMVAC and take advantage primarily of our expertise in the space, as well as the market access that we have around the world. Strong in the US, but also very, very strong in Latin America and Asia. So, we plan to continue to work with growing our portfolio through licensing or distribution or M&A, and all of those look very active in the coming years.

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

A

And, Scott, maybe – I know you're kind of excited about BioWake, and it's a totally new market for us to enter, but maybe some of the initial vision that you're seeing and what's awaiting our distribution partners.

Scott Hendrix
Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

A

Yeah. As we look at the opportunity this technology brings to our organization and really our customers downstream, this is a new space for our retail partners, for growers as they look at how they're going to innovate and continue to derive profits to their farming operations. And it also aligns with our focus as a US crop team on at-plant solutions and how we deliver it. And this particular technology combined two elements. One, it's a great story as the [indiscernible] (41:24) agents is actually a result of soybean research checkoff funds and that's something that's needed and required for a number of crops, the planters that they use to plant those crops, and then the technology itself is something that allows the plants to optimize nutrients that would be readily – or not readily available in the first days of germination and emergence. And so, we're really excited about the consistent win rate that this particular combination delivers. It's over 80% and it's 4.5 bushels on corn and around 2.5 on soybeans. So, very exciting.

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

A

Yeah. So, what this is, Chris, is it's basically a seed lubricant, right? So, virtually all the corn seed and a number of other crops have either a graphite or a talc added to them in order to help it as it goes through the seed delivery system in the soil. So, this is a natural-occurring kind of extract from soybeans and works extremely well. So, the idea of being able to do something other than putting [indiscernible] (42:46) talc into the soil is attractive to the space.

In addition, by adding a biological to it, that's what Scott was alluding to, that not only with this [indiscernible] (42:59) strong lubricants and also get some bio-activity at the same time. So, yeah, we're really excited about it. Again, our distribution, it's a segment where they have not been profiting. In fact, the lubricants are kind of – I think are being sold by the equipment companies, right, today. So, this is a whole new space for the whole ag sector.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Thank you.

Operator: And thank you. Our next question comes from Wayne Pinsent with Gabelli Funds. Please state your question.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

Hi. Thanks for taking my question.

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

A

Sure.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

You guys mentioned the extremely low channel inventories for AZTEC, obviously due to the supply disruptions you had. Could you just speak to more broadly channel inventories across the portfolio by region and how much visibility you have there?

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

A

Sure. Scott, do you want to talk as far as the North America piece is concerned?

Scott Hendrix
Senior Vice President-US & Canada Crop Sales and Application Technology, AMVAC

A

I'd be happy to. So, certainly, coming out of – I'll give some context, coming out of 2021 and going into 2022, we were at all-time-low channel inventory rates. And then we saw a shift, really a change in the cadence of purchasing behavior based on what was needed and required to drive the opportunities in 2022. A lot of that supply, depending on the segment, did come in either in-season or late.

So, as we started into the second half of 2022, for some of the larger molecules such as glyphosate, glufosinate and others, came in after the use season or in the middle of the use season. So, some of those inventories carried over now for the 2023 season. So, our customers are managing through that today, and there's two elements of that. One is the inventory itself. The other one is the evaluation associated with that inventory.

As it pertains to our products, we actually came into the 2023 season at relatively low inventory levels, comparatively speaking. AZTEC being one of those that was at one of our all-time lows even with the four SKUs we sell today. And so, you combine that with the current supply position we're in now in the second half. So, as we look at preparing for the 2024 season, should put us in a very strong position to sell into that segment.

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

A

Yeah. And I think globally, I can't think of an example, Bob, where we have a supply chain issue. I know with some of our – I mean, our factories were running 24/7 trying to keep up with demand. And so, there are a number of less profitable markets globally that we elected not to supply in order to keep up with those segments which were more profitable.

So, unlike those examples you gave, glyphosate, glufosinate, the nutritional fertilizer products where there is some glut. I think, I mean, we've been struggling to keep up with demand. So, I don't see that as we're – that's one of the reasons why we're so optimistic for this season coming up because, of course, it includes the restocking that will happen in Q4 of this year.

Ulrich G. Trogele
Chief Operating Officer & Executive Vice President, American Vanguard Corp.

A

That's correct, Eric. We also, if you look at the statistics that David showed you as far as inventory levels to percent of sales, we keep in a pretty good line as far as where we're currently at. So, I don't know if they would show it this time, but normally it shows about 28% to 30% inventory levels, right, to net sales, and we've been pretty consistent with that. So, as we grow, our inventories are in line with our growth rates. But as Eric states, demand is really outpacing our factory utilization right now. So, it's – feels good.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

All right. That's very helpful. Thank you. And then just on Green Solutions, you guys are talking a lot about that. Obviously, fast-growing, growing area. But you mentioned that you'd be disciplined with M&A there. Can you just talk to some of the metrics as you look at some of these more nascent early technologies?

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

A

So, you mean the metrics we use to decide...

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

Evaluate.

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

A

...to evaluate, yeah. So, we use the same model we use for all our acquisitions and frankly, investments, which essentially does the 10-year P&L. We forecast where sales are, we – cost of goods all the way down to earnings per share. And then, we have a hurdle rate something between 10% and 15% depending on each individual situation for a five-year payout. And one of the things that again, we strive for is to have the deal be accretive from day one. So, there are exceptions to that. But generally, that's what we look for. So, I hope that answered your question.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

Right, that's helpful. Right. Thanks a lot. And look forward to seeing you on Thursday.

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

A

Okay, great. Thanks, Wayne.

Operator: Our next question comes from Gerry Sweeney with ROTH MKM. Please state your question.

Brandon Rogers
Analyst, ROTH Capital Partners

Q

Hello, this is Brandon Rogers on for Gerry Sweeney. Just had a question on margins, they improved this past quarter. Do you see the gross margin improvement being maintained through price actions and offsetting inflation cost?

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

A

Yeah. I feel very strong about it. And again, we talked about it earlier, that the price increases we have put in place haven't had pushback particularly here in the US. And so, again, our products are more in the niche space. And so, I think we feel very positive about our – maintaining our margins.

Brandon Rogers
Analyst, ROTH Capital Partners

Q

Thank you. And then just a follow-up, switching over to the SIMPAS side, do you feel that AVD has sufficient resources to drive the adoption of SIMPAS both in the US and in Brazil as well?

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

A

Yeah. So, I think, as Scott mentioned, we've decided to break out as a separate business unit. We do have people that – in that system that have been dedicated, but what we haven't had is dedicated salespeople. So, Scott is in the process of getting people that have kind of precision ag backgrounds that will just focus 100% on SIMPAS. And I think that's going to be a key difference because, again, asking our existing team, who has a full plate to start with, trying to service the US market was a difficult task. And I think we probably overestimated what our retail partners and our equipment partners were going to be able to accomplish as far as pull-through.

So, we're going to call on the customers that have the strongest footprint in precision ag. And we really – didn't really focus hard on that. I think we spent – I mean, two of the 10 biggest players in that field were people that we work with, and that's Nutrien and Helena. So, we're going to focus more on that.

Internationally, we're pretty excited. We've got SIMPAS systems, I think we've got 19 that are going down there for this plant season in September. And it's led by Counter for soybeans, but also in corn and cotton. We'll bring in a team of Brazilian growers up to the United States to [ph] witness (51:34) planting here in the United States and share that technology. And then we'll be taking our SIMPAS team down to Brazil to help with installation and any questions they have in getting this off and going with these first 19 systems.

Brandon Rogers
Analyst, ROTH Capital Partners

Q

Awesome. Thank you. That's it from me.

Operator: Thank you. [Operator Instructions] Thank you. There appears to be no additional questions at this time. I'll turn the floor back to our management for closing remarks. Thank you.

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

Thank you, Diego. And thank you all for joining us. We had a large crowd today, which we're pleased to have. We'll be giving you updates and have clearer pictures on the 2023 year when we – for the first quarter results, which will be sometime in the first or the second week of May. So, we're not all that far away. So, anyway, look forward to updating you as we move through the course of the year. And thank you very much for joining us today. Good-bye.

Operator: Thank you. And with that, we conclude today's conference. All parties may disconnect. Have a great day.