

Transcript of
American Vanguard Company
Fourth Quarter 2024 Earnings Conference Call
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Participants

Anthony Young - Director of Investor Relations, American Vanguard Company
Douglas Kaye - Chief Executive Officer, American Vanguard Company
David Johnson - Chief Financial Officer, American Vanguard Company

Analysts

Ben Klieve - Lake Street Capital Markets
Mike Harrison - Seaport Research Partners
Wayne Pinsent - Gabelli Funds, LLC

Presentation

Operator

Greetings, and welcome to the American Vanguard Fourth Quarter Earnings Review Conference Call. At this time, all participants are on a listen-only mode, and a question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host Mr. Anthony Young, Director of Investor Relations. Sir, the floor is yours.

Anthony Young - Director of Investor Relations, American Vanguard Company

Thank you, operator. Good morning, and welcome to American Vanguard's fourth quarter and full year 2024 earnings review. Our prepared remarks will be led by Dak Kaye, Chief Executive Officer; and David Johnson, Chief Financial Officer. Tim Donnelly, CIO and General Counsel is also available to answer questions. We have prepared presentation slides which we will reference during this call. These slides are posted on the Investor Relations section of the American Vanguard website.

Let's begin this call with our forward-looking cautionary reminder. During this call, we may discuss forward-looking information. All forward-looking statements are estimates by the company's management and are subject to various risks and uncertainties that may cause actual results to differ. Such factors include weather conditions, changes in regulatory policy and other risks as detailed on the company's SEC reports and filings. All forward-looking statements represent the company's judgment as of the date of this release and such information will not necessarily be updated by the company.

Before commencing with the call, I would like to note the numbers that are being presented today are unaudited numbers. We anticipate there will be a delay in filing

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the audited 10-K and are working closely with our auditors to complete the process and we'll look forward to providing these audited financial documents shortly.

It is now my pleasure to turn the call over to CEO, Dak Kaye.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Thanks, Anthony. Hello, everyone, and welcome. My name is Douglas Kaye, but throughout my life, my family, friends, and colleagues have referred to me as Dak. So please feel free to call me, Dak, in the future. This is my first conference call as CEO.

So before discussing our results, I would like to take a moment to introduce myself and answer the question I have received most frequently during my 3 months on the job. Why did you join American Vanguard? I've been on the job as CEO for 3 months, but have known, competed, yet, and admired American Vanguard for many years. I started my career in finance, but have spent the second half of my career managing and growing large scale crop protection businesses. It was not an easy decision to leave my last role, but I saw a tremendous opportunity at American Vanguard to build upon a business that provides high quality, irreplaceable products that our customers value and needed by growers.

This company has a resilient revenue base that we can build upon, but we must improve margins, right-size the balance sheet, and get back to growth. As David will discuss in a few minutes, the one-time charges taken during this quarter are part of a broader strategy to improve this business. The magnitude of the charge is substantial. These steps are necessary to reposition the company for long-term growth and profitability.

We have a lot of ground to cover on this call. But before we get started, I wanted to emphasize that I plan on having a culture that stresses the importance of safety. Ensuring the safety, health, and well-being of our employees and the environment is an important part of my role here, and one of my goals is to ensure that our employees return home safely after every day of work. From the attached chart, you can see that our safety performance has improved over the last 12 months. One of my goals as CEO is to ensure that this trend continues to improve. While we may never be the largest agricultural company, I will strive to make this one of the safest.

Now, turning to the full year 2024 results, to be able to compare our 2024 results with previous periods, I will reference adjusted numbers. American Vanguard generated approximately \$42 million of adjusted EBITDA in 2024. Within the range of, we previously communicated a \$40 million to 50 million. Adjusted revenue was approximately \$563 million, slightly below our target of \$565 million to \$580 million.

We acknowledge that in the past, American Vanguard has had a history of missing its targets, but going forward, we want to be a company that sets achievable goals and consistently meets or exceeds these benchmarks. That is a commitment we want to make to our stakeholders, our customers, regulators, employees, and shareholders, and all other constituents.

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While we are pleased to have achieved our 2024 EBITDA target, the result is just the starting point for what is possible at this company, in my opinion. With an adjusted EBITDA margin of 7.5% in 2024, we would view this level of profitability as being approximately half of what our full cycle earnings power can be. On a percentage basis, we believe that we can achieve double-digit EBITDA growth over the next 3 to 4 years as we SIMPLIFY, PRIORITIZE, and DELIVER.

This is a matter that I have been repeating since the first day I joined the company and will continue to repeat for the foreseeable future. For a relatively small business, I have noticed a significant amount of complexity and I believe that simplifying many of the things we do will allow us to better understand what is important and be able to deliver against the highest priority task.

The Board of Directors has taken the right initial steps to fix the business over the past 7 to 8 months. Exiting SIMPAS, cutting costs, and looking to install an ERP system were the right initial steps to fix the business. I had a deep understanding of what the Board was looking to accomplish before I joined the company, but I believe the transformation plan was a starting point for what is possible, not the ultimate destination. I don't think anything revolutionary is necessary to improve upon the business transformation that is well underway, but deploying modern management techniques that I have implemented in several prior positions should build upon the targets that we have already established.

Before I turn the call over to David, I can provide some details on what we are seeing in the farm economy. Since taking this role, I have met with many of our largest customers, with whom I have had longstanding relationships. These customers are indicating that the slight improvement in the sentiment since the low points experienced in the summer of 2024 has created a more positive environment amongst growers.

But they remain conservative in their buying patterns after enduring the recent cyclical downturn and facing the uncertainty of continuing high costs of capital and now the specter of increasing tariffs. It seems the channel is purchasing in season instead of ahead of the season as we have seen historically. It does not appear that customers are looking to rebuild inventories which have largely been depleted. Instead, they are buying just in time for the season. I firmly believe that 2025 will be better than 2024, but the improvement will be gradual and the interest rate environment, coupled with the uncertainty of potential tariffs, will lead to farmers remaining cautious for some time.

Taking into consideration these factors for 2025, we have an adjusted EBITDA target range of \$45 million to \$52 million and expect sales to fall in a range of \$565 million to \$585 million. We expect CapEx of approximately \$10 million for 2025, so free cash flow should be meaningful, which we will allocate towards the pay down of debt. As we continue to transform this business, we believe that future margins will continue

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to improve, and we believe there will be further margin enhancement in 2026 and beyond.

Now, I'll turn the call over to David to discuss financial results before returning for my closing remarks.

David Johnson - Chief Financial Officer, American Vanguard Company

Thank you, Dak. Good morning, everyone. Turning to our financial performance, I'd like to reiterate that our comments today are based on unaudited numbers. Our fourth quarter revenues were approximately \$169 million, a decrease of 2% as compared to the fourth quarter of 2023, and our adjusted EBITDA was approximately \$18 million, a decrease of 18% as compared to the fourth quarter of 2023.

During the fourth quarter, we were able to pay down \$22 million in debt. In addition, the company is focused on improving its balance sheet and we are pleased to be able to report that inventory has ended at approximately \$180 million, which included some write-downs for obsolescence and slow-moving.

In 2025, the bulk of the free cash flow we generate will be allocated towards paying down debt. For the full year 2024, the company recorded adjusted revenues of approximately \$563 million, a decrease of approximately 3% as compared to 2023. This excludes the credits we recorded to withdraw Dacthal from the market.

Our reported revenues will be approximately \$550 million. Adjusted EBITDA was \$42 million as compared to \$53 million in the prior period. We continue to make progress in our effort to drive down inventory. Before asset write-downs, we decreased our inventory by approximately \$47 million during the quarter, but slightly missed our inventory-to-sales target of 34%.

While we had previously targeted inventory-to-sales, we are now adjusting this target to inventory turns, as we believe this more closely aligns with the goals of the business. Our average inventory turns for 2024 ended at 1.67 on an adjusted basis and we should be able to push this metric towards about 2 turns by year end 2025.

I would also like to mention that we received an amendment to our credit facility. For over 35 years, BMO and its predecessors have shown continued support for our business. We appreciate the vote of confidence they are showing in our transformation work. With our credit facility expiring in August of 2026, we aim to announce a new facility in the summer of this year.

Let's discuss the one-time charges that impacted our performance. In total, for calendar year 2024, we have recorded \$118 million of non-recurring charges. The magnitude of these charges highlights the amount of work that was necessary to reposition American Vanguard. The one-time charges fall into two categories, asset impairments and transformation projects.

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We had approximately \$76 million in asset impairments during the fourth quarter, consisting of the SIMPAS write-down, which was approximately \$22.4 million, a goodwill write-down, which was approximately \$27 million, the write-down of slow-moving and obsolete inventories, which was approximately \$20 million, and the write-down of a previous investment and other assets.

We had smaller transformation charges during the fourth quarter related to our transformation consultant, Kearney, and our organization, Redesign [ph]. These expenses and the write-downs are substantial, but they position American Vanguard for improved profitability and growth over the coming quarters. I would be happy to answer further questions about these charges in our Q&A.

Finally, I would like to mention the delay in our financial filing with a number of somewhat complicated assessments required related to the write-downs, especially goodwill, that we have addressed in the fourth quarter. We will end up filing our 10-K after the statutory deadline, and consequently, we will be filing a 12b-25 with the SEC. We are working with our auditors in an effort to complete the open items with a view to filing the 10-K as soon as possible.

With that, I would like to turn the call back to Dak.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Thank you, David. Before we wrap things up, I would like to acknowledge two new members of our team and one promotion. We have recently hired Mike DiPaola as Senior Vice President of Strategy and R&D; and Jared Stanley as Senior Vice President of Operations and Supply Chain. We also recently promoted Nolteanus Gilliam to Senior Vice President of Manufacturing. Mike and Jared were hired to bring a skill set to American Vanguard that was missing, while Nolteanus is getting a well-earned promotion from within.

I am excited to have all three reporting directly to me, and over time I look forward to introducing them to the investment community, and I am sure you will be as impressed with them as I am. Looking forward to 2025, as we stated earlier, the agricultural economy is gradually improving, and we are making steady progress with our business transformation.

We have analyzed the ongoing tariff situation and believe it will have a nominal impact on a raw material cost with less than \$3 million EBITDA impact if tariffs remain in place for a full year. Given the fluid nature of the situation, it is too early to tell how this may impact growers, but we are in constant contact with our customers as we gauge how they are reacting to these developments. We have the capability to improve our profitability through our business transformation, and we look forward to even stronger results in the future periods driven by initiatives that are within our control.

Before closing the call, I would like to say that I am more excited to date than when I originally joined the company. I have seen a lot of opportunities to improve and modernize the company to drive improving results.

As we look forward to 2025, our goals are straightforward, operate our manufacturing facilities as safely and as sufficiently as possible, achieve the financial targets we have provided, further transform this business into a company that can consistently generate free cash flow to match the resilient revenue it already generates, and right size and strengthen the balance sheet, which will entail decreasing net working capital and paying down debt.

As we achieve these near-term benchmarks, we will be moving towards our longer-term goal of becoming the trusted provider of proven agricultural and environmental solutions.

With that, we will open the floor for questions. Operator?

Operator

Thank you. At this time, we will be conducting our question-and-answer session. [Operator Instructions] Thank you. Our first question is coming from Ben Klieve with Lake Street Capital. Your line is live.

Q: All right. Thanks for taking my questions. First question around the preliminary nature of the earnings release. You noted in the prepared remarks that this would get done as soon as possible. I'm wondering if you can, first of all, help kind of characterize your expectations for timing. And then second of all, it sounded like the reasoning behind this was purely a function of just kind of a more kind of complex dynamic around the series of write-downs rather than anything that was necessarily surprising or concerning. I just want to confirm that that's the takeaway that we should have here for the reason behind the preliminary nature?

David Johnson - Chief Financial Officer, American Vanguard Company

Yeah, I think that's a fair assessment. It's a little difficult for me to say exactly when in the next week or so that we'll file, but we're working as hard as we can with our auditors to finish off all the procedures.

Q: Okay. But you're looking at days or weeks, not months?

David Johnson - Chief Financial Officer, American Vanguard Company

Oh, certainly, yeah.

Q: Okay. Perfect. Very good. Great job on the balance sheet here in the second half of the year and appreciated your comments on inventory turnover expectations for 2025. I'm wondering if you can further elaborate on how much you think you could potentially still get out of working capital in 2025 given how much progress was made in 2024. Outside of inventory, do you expect any other working capital net inflows or do you think that's going to be kind of a more static number in 2025?

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David Johnson - Chief Financial Officer, American Vanguard Company

Inventory is certainly our high focus item. It's the one that we see as the greatest opportunity to move in working capital down. So, yeah, we're highly focused on it. We've got a newly sort of refreshed version of our SIOP model, and as Dak mentioned earlier, we've got Jared has joined and he's going to be leading that process. It's a focus that we haven't had before.

Q: Very good. Dak, a question for you. You noted the complexity of the organization and some how you're looking to improve that dynamic. Can you talk about kind of the steps that are needed to improve the complexity? How much of the complexity will be addressed, do you think, by a modernized ERP system versus larger structural or organizational change that needs to take place? Yeah, I guess that's my first question.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Thanks, Ben. Yeah. So, it was extremely complex when I came in. It was on the path from an organizational restructuring with the Kearney transformation plan. So, there was a lot of work done through in 2024. We finalized that plan, that organizational plan, which simplified the structure so that we had some accountability and responsibility in the functions. I think that was the first necessary step to get the organization accountable and also at the same time reduce some of that complexity in the organization to identify who's responsible for what.

The ERP system absolutely will help us reduce the complexity. The flow of information will be a tremendous improvement over 2025. So the ERP system will greatly enhance or simplify, I would say, the transfer of information around the organization. The other items I would say there on the simplifying as the SIOP process along with the ERP system implementation of the SIOP or reimplementation, I'd say, that will greatly improve our efficiencies in managing inventory and procurement. So there's a simplification there.

And I also would say, as we refocus the business on growing our portfolio organically, a stage gate process of managing new product development will simplify that process as well. So, there are a lot of things ongoing inside the business today that will create that simplification and prioritization and allow us to deliver as well.

Q: Great. We're looking forward to hearing progress on that throughout this year. Last one for me and then I'll get back in queue. You've flagged tariffs in multiple manners. Appreciated that the impact on raw materials would be pretty negligible as we understand the tariff situation to be today. But I'm curious your comments on revenue guidance and the kind of cautionary note you have regarding tariffs. How are you seeing farmer buying patterns kind of impacted by this uncertainty? Is it a function of them just really wanting to have a just in time kind of approach to buying crop protection products? Are they really concerned about kind of the trade dynamics as a fallout of this and not having end buyers for their harvested grain?

What really are farmers looking at in the context of tariffs right now that are impacting your guidance?

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Absolutely. I mean, uncertainty in any business creates uncertainty. So that's what we're seeing around the tariffs right now. As you mentioned, I don't believe that the tariff impact on our raw materials is material in nature around \$3 million for 2025. When we're talking to our customers, who are the distributors of distribution in the channel, they're relatively positive about the change from 2024 to 2025 in the ag industry.

But growers are being cautious around this, because of the impending tariff implications, not necessarily on their underlying costs, but as you mentioned, the potential on the reciprocal tariffs on their commodity products. So that's the concern there, but we do have a feel that the 2025 will be better than 2024. That's a pretty positive indication in the marketplace. If we can get through these tariff issues, I think it will be a very good year for 2025.

Q: Very good. Well, I appreciate you guys taking my questions. Best of luck here with all these ongoing initiatives. I'll get back in queue.

Operator

Thank you. Our next question is coming from Mike Harrison with Seaport Research Partners. Your line is live.

Q: Hi, good morning. Thanks for taking my questions. Was hoping just kind of piggybacking off the last response to the last question there. In terms of channel inventories in the marketplace, can you talk a little bit about what you're seeing in your key regions? Are there still areas where distributors feel like they have elevated channel inventory and they're continuing to pull back on purchases? Or have you seen some improvements either broadly or in specific regions?

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Yeah, Mike, this is Dak. Thanks for the question. And it's a good follow-up question to finish up on Ben's question. The channel inventories, we do see those down considerably in the U.S. and around the world. They are down and we hear that from our customers. The issue is that the cost of capital now, the channel seems to have gone to just in time servicing of the products for the growers, so that we see just in time now. So, there's not a real indication of restocking as they were in previous years before the downturn. So, it's more of the channels have destocked, but the restocking is not going back to levels that they were pre-2023. But, we are seeing favorable conditions in the marketplace as the growers are and distributors are purchasing, but just in time for the season.

Q: Got it. And then a couple of questions on margins. You talked about the 7.5% EBITDA margin that you did for the full year 2024 being about half of the earnings potential or that earnings power over the cycle. Can you just help bridge how you

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guys would expect to get to a mid-teens EBITDA margin? How much of that is kind of volume recovery and operating leverage? How much is related to the ongoing business transformation? And, I guess, are there any other key pieces or key drivers of margin improvement over time?

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Yes, good question. And the way we envision it, we'll have the transformation process. So, we've got ongoing with the commercial activities. That's one component of it. And I figured that around 3%, we can go from 29% to, say, 32% gross margins on products on sales that will give us a portion of the way. The rest of the way, roughly, we need to come down from that OpEx as a percentage of sales of 26% to low-20s to around 20% is what I would say. Some kind of mix of those two. The OpEx is being addressed ongoing with not only the transformation reorganization process, but also administering cost cutting strategies as well and initiatives as well. But the 7.5% plus the gross margin, plus the OpEx reduction should get us into those mid-teens full cycle.

Q: All right. Very helpful. And then just in terms of trying to understand the earnings cadence for 2025, at the midpoint your guidance is, call it, 8.5% EBITDA margin. You're coming off the Q4 where you did closer to 10.5%. So just kind of curious, should we expect EBITDA margin to kind of start lower in the first half and then show improvements and momentum, maybe even getting further into the double-digits in the second half. Just kind of what are your thoughts on margin and earnings cadence this year? Thank you.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Great question. Yes, we are seeing the second half of the year being more positive in the EBITDA margin. So, we anticipate the Q1 and Q2 being lower in that respect. And the Q4 has always been a strong quarter for us and we've seen that projecting this for 2025 as well. So H2, the second half of the year will be more positive than the first half of the year.

Q: All right. Thanks very much.

Operator

Thank you. Our next question is coming from Wayne Pinsent with Gabelli Funds. Your line is live.

Q: Hi, Dak. Thanks for taking my question. Congrats again on your first call as CEO.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Thank you, Wayne.

Q: Just wanted to piggyback on that question. Just given everything that's going on in the industry and specifically at the company over the past couple of years, can you just further speak to your confidence in the 2025 guide and what could take you to the upper and lower ends of the range?

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Douglas Kaye - Chief Executive Officer, American Vanguard Company

I think it's a good question, Wayne. Thank you. The lower range would be something slower than in the ag industry slower than 2024 and the upper end would be a positive influence on 2025 in the ag industry. There will be lack of – it would be more positive and from the purchasing from the growers, but we anticipate that the lower end of the range would be something negative, I would say, in reflection, as compared to 2024. So, we anticipate doing better than 2024 in nearly all cases.

Q: Okay. And then you mentioned a few of the things you're working on and the transformation plan being a starting point. Is there anything substantial and that you're going to be doing in 2024? And can you quantify if there's any further substantial transformation costs in 2025?

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Yes. So from the transformation costs will not be substantial. We've got those projected at around \$5 million for 2025. So, way down from 2024. The largest pickups in 2025 from the transformation will be around the commercial activities. We expect \$4 million to \$5 million around those. And then also in logistics and procurement, another \$2 million to \$3 million. And then there's also some organizational pickups as well around \$2 million. So it gives us around \$8 million to \$10 million of transformation benefits in 2025.

Q: Okay. Great. Thank you very much.

Operator

Thank you. As we have no further questions online at this time. I would like to hand it back over to Mr. Kaye for his closing remarks.

Douglas Kaye - Chief Executive Officer, American Vanguard Company

Thank you, operator. I'd like to conclude by thanking everyone for listening and participating in our call today. I look forward to providing further updates on our ongoing initiatives and value your questions and support as we strive for the long-term success and growth of the company. These interactions give us an opportunity to think in a disciplined way about how we are assessing our recent past performance and our prospects, and also to hear from you about what's on your mind and maybe the gaps in what we've explained to you and how we can better respond.

We are committed to maintaining transparency and open communication. So, please feel free to contact us if you have any questions or need further information. I hope to meet and see some of you in-person in the near future. I'll be traveling to New York City next week to participate in the 16th Annual Specialty Chemical Symposium hosted by Gabelli Funds and, perhaps, I will have the chance to meet some of you there.

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Importantly, as I stated earlier, I don't think anything revolutionary is necessary to execute and improve upon the business transformation that is underway at American Vanguard. My mantra is straightforward in this regard, simplify, prioritize and deliver.

Thank you again for the participation and we look forward to reporting our first quarter 2025 results to you in May. Thank you.

Operator

Thank you. This does conclude today's call. You may disconnect your lines at this time, and we thank you for your participation.

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