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American Vanguard Corp. (AVD)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the American Vanguard Corporation's Third Quarter 2022 Financial Results Conference Call and Webcast. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Tim Donnelly, Chief Administrative Officer. You may begin, Mr. Donnelly.

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

Thank you, Rob, and welcome, everyone, to American Vanguard's 2022 third quarter and nine-month earnings review. Our speakers today will be Chairman and Chief Executive Officer, Eric Wintemute; our Chief Financial Officer, David Johnson. And to assist in answering questions, our Chief Operating Officer, Bob Trogele, is also on hand. Also, by way of housekeeping, the company is filing its Form 10-Q later today with the SEC, which will provide additional detail on our financial performance that we will be discussing in this call.

Before beginning, let's just take a moment to go to our Safe Harbor reminder on slide 2. 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 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 thank all of you for joining us today. Moving to slide 3, we have listed the agenda for today's call. But first, I'd like to start off by acknowledging the terrific work of the AMVAC team to take care of our customers, increase prices to manage inflation, safely operate in our factories at very high levels and continue to drive our precision agriculture innovations forward.

We have delivered excellent financial results and expect to maintain our momentum in the fourth quarter. Additionally, we repurchased 1.2 million shares of our stock during the third quarter, indicating our confidence in the strength of our business. Simply put, we are managing our business well in challenging times.

Let's move on to slide 4 to discuss our top line performance for the first nine months of the year. Generally speaking, continued high commodity prices for corn, soybean and wheat are supporting a strong farm economy. With respect to domestic crop, we're up 20% year-to-date, led by Dacthal, which is used for weed control on high value crops and our cotton product Bidrin for pest control and Folex, our harvest aid due to increased cotton acres and favorable weather. We experienced higher sales of AZTEC for the nine-month period despite an inventory shortage during Q3. In addition, we recorded strong sales of our soil fumigant products in spite of the drought conditions in the West due largely to price increases.

With respect to non-crop, sales are down 11% year-to-date, due primarily to reduced US consumer demand for lawn and garden products. On the positive side, sales to professional applicators rose with more consumers returning to work. We are well-positioned with our mosquito adulticide following Hurricane Ian. Also, we are tracking Tropical Storm Nicole, which is expected to make landfall late tomorrow night. While forecasted to have lower winds than Ian, Nicole is predicted to travel at 9 miles per hour, which should result in considerable precipitation in Florida, Georgia and the Carolinas.

Our international business was up 14% year-to-date, led by Agrinos, which recorded sales growth of 55% and gross profit up 60%. And Brazil, which grew by 42%, due in part to sales of our nematicide, Counter. Further, net sales in Mexico grew 26% and gross profit grew 22% with strong sales of our proprietary soil fumigants. Further, our Central American business recorded sales growth at 11% led by products used on pineapples and bananas. And finally, our Australia business recorded sales up 11% and gross margin improvement from 35% to 39%.

Before revisiting our full year outlook and taking a first glance at 2023, let's first focus on current conditions as they will have an impact on both short- and mid-term performance. I mentioned earlier high commodity prices arising from scarcity in global food supply coupled with strong demand are driving a strong farm economy.

Turning to slide 5, we note the upward trend of corn prices over the past two years. As you can see, two years ago before the 2021 season, corn was at $4.05 per bushel. One year ago, it rose to $5.59 per bushel and now it is at $6.80 per bushel. That's a 68% rise over the past two years.

We see a similar trend with soybean prices over the same period. At this time in 2020, soybeans were $10.86 a bushel. One year ago, they rose to $12.05 per bushel. And now, they're at $14.52 per bushel. This is a 34% increase over two years. Higher commodity prices tend to drive procurement activity for both crop inputs and planting and harvesting equipment. However, procurement trends by distribution channel appear to be evening out over the course of 2022 which began at a torrid pace in the first quarter and returned to greater normalcy over the second and third quarters. Despite this level of investment at farm gate, channel inventories for AMVAC's products are at low levels and our distribution partners are bullish on the prospects for the 2023's planting season.

Let me show you slide 6 which will further highlight this point. As you see here, we're experiencing very high profits in the state of Iowa. And this is a calculation of revenues, cost and profitability tracking back to 1970. At the high point in 2012, we are currently about $200 an acre better than that which was our previous best year. That translates into about $2.5 billion above 2012 and nearly $7 billion in profits for Iowa corn growers, again, illustrating why I think our team is very bullish on the US farm economy. It is nevertheless useful to consider other factors in forecasting the market. Inflation becomes a significant driver in global economy and is affecting near all industries.

As you can see on slide 7, the Fed has been raising interest rates aggressively over the past seven months. Because the Fed took comparatively early action to raise those rates, the dollar had enjoyed a favorable exchange rate against many currencies. However, many other countries followed suit, and we are seeing certain currencies regain lost ground against the dollar. With the strong dollar and high commodity prices to date, the farm economy has been able to withstand inflation largely through price increases.

At American Vanguard, we're enjoying a second straight year of strong demand for which we've been able to build and sell sufficient inventory at improved margins. Having six North American factories as depicted on slide 8, we have been able to make in-season adjustments to manage fluctuating demand. These manufacturing assets have been essential in our ability to operate with autonomy.

Further, while the supply chain has not fully returned to the stable state of three years ago, we're seeing a drop in freight prices and the availability of both shipping containers and vessel – vessels are improving. However, some raw materials that originate in countries affected by pandemic restrictions or geopolitical considerations, for example, phosphorus, are affecting the availability and price of some of our key intermediate products. We are taking all available measures to ensure that we can order and receive our necessary inputs in time to meet demand. But I can tell you that this is much – as much an art as it is a science.

In short, the upcycle for the agricultural sector that began in 2021 is expected to continue through 2023. Geopolitical activity is lifting commodity prices, giving growers added incentive to procure both crop inputs and equipment. Further, our positioning of products in the distribution channel should enable us to maintain strong brand value. Thus, while there may be countervailing factors such as inflation, record low water levels in the Mississippi River and potential glitches in the supply chain, we believe that we are poised to continue our strong performance. In short term, we are targeting 2022 full performance to be unchanged from our prior call.

So, let's turn to slide 9. This is our 2022 performance target scorecard. You've seen this before and over the last nine months, we have seen our revenue growth at 13%, gross margins at 41%, operating expenses at 32%, interest 23% below 2021, however, we are expecting with interest slides that we just showed, to have higher interest costs in Q4. Tax rate for the nine months at 30%. We're expecting that to tick down 2% to 3% to 27% or 28% at the end of the year. Debt to EBITDA, we're currently at 1.9. We are expecting that to decrease before the end of the year sans any further acquisitions. We have, I should say, between stock repurchase and dividend, spent about $35 million so far this year. Net income is up 71% for the year and EBITDA is up 30%.

So, with that, David, I will turn this over to you for financial analysis.

David T. Johnson

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

Thank you, Eric. Let's move on to slide 11, please. Moving to slide 11, with regard to our sales performance for the third quarter of 2022, the company's net sales increased by 3.4% to $152 million as compared to $147 million last year. Within that overall improvement, our US sales were comparable to the prior year and our international sales increased by 9%. International sales accounted for 42% of total sales versus 40% last year.

Turning to slide 12, with regard to gross profit performance, our US Crop business recorded a 14% increase in absolute gross profit, on sales has increased by 4%. This performance was largely the result of focusing on improving gross profit on lower margin products by timely implementation of price increases to cover inflation for both higher cost of goods, increased inbound and outbound freight and interest expense. Overall, our crop margins improved from 45% to 50%. Our non-crop sales absolute gross margin reduced by 1% on sales that were down approximately 12%. The company was successful in implementing price increases aimed at improving gross profits, particularly on comparatively lower margin products in order to recover raw materials, logistics costs across a range of products. With regard to our third quarter international sales, we saw sales increase by 9% and an associated 1% improvement in absolute gross margins. The international business has contended with significant cost pressure as a result of strong US dollar impact on cost of goods. They have been effective at implementing price increases where possible given global competitive conditions.

The graph on slide 13 shows the impact of the factory performance on consolidated gross margin. You can see that in the third quarter of 2021 factory costs amounted to 1.2% of sales. Our performance this year was stronger, though they were both excellent factory activity periods.

On slide 14, we show operating expenses for the quarter that increased by $1.7 million compared to last year. Our expenses were 33% of sales for both the third quarter of 2022 and 2021. We are seeing cost increase as the business is returning more and more to face-to-face meetings with counterparties and the concomitant travel expenses. Further, we spent more on advertising and marketing. And in Brazil, where we had a very strong quarter, we incurred higher third-party agent commission expenses. And finally, we spent more on a range of administrative support costs. As an offset, freight expense was lower primarily as a result of lower volumes associated with our US sales of our metam product line.

As you will see on slide 15, our third quarter 2022 operating income was 26% higher than the level reported for the same period of 2021. We recorded slightly higher interest expense on lower average debt in the third quarter of 2022 as compared to last year. There are two factors. First, we have generated cash from operations during the last 12 months while continuing to develop our Precision Application systems, manage working capital in the face of both inflation and strong growth, invested in our manufacturing assets, paid dividends and executed on the biggest stock repurchase program in the company's history. Offsetting these factors, we are seeing the impact of rising interest rates. From a tax perspective, our effective income tax rate increased to 30.5% this quarter compared to 20.7% for the third quarter of 2021. The increase was primarily driven by the mix of jurisdictions of our domestic and international businesses where our taxable profits were generated, and one-time international tax benefits in the third quarter of 2021 that did not reoccur in 2022. All these factors came together to generate $6.7 million in net income as compared to $5.5 million last year, a quarter-over-quarter increase of 23%.

On slide 16, you can see that for the first nine months of 2022, our sales were up 13% and gross margins in absolute terms are up 18% both our US and international businesses have contributed to this exciting performance. Operating expenses increased primarily as a result of the proxy contest expense, the growth of sales affecting freight costs, increased regulatory and registration costs as our international business grew strongly, increased accruals for short term incentive compensation reflecting improved business performance and increased accruals associated with contingent consideration related to our Australian business that was acquired at the end of 2020.

Overall operating costs, which include outbound freight and warehousing, were up 9% as compared to net sales which increased 13%. Operating costs improved to 32% of net sales in the first nine months of 2022, as compared to 33% in the prior year. Interest expense has reduced by 23% and the tax rate increased from 27.4% in 2021 to 30.2% in 2022, mainly due to jurisdictions where taxable profits were generated. Overall, net income has increased by 71% for the first nine months of the year.

Now, I want to turn my attention to the balance sheet and the company's focus on capital allocation. Slide 17 shows the company's capital allocation model that drives many of our actions. We focus on managing debt under our credit facility agreement with a group of banks that we've worked with for many years. We aim at an average level of debt to bank adjusted EBITDA of between 1 to 2.5 times. The higher end of the range is generally driven by the impact of acquisitions. The credit facility allows us to manage through the strong annual cycle with working capital that expands during the first six to nine months and reduces at the end of the year. In addition, we have grown through acquisition and depend on availability under the line to fund such acquisitions. This has worked extremely well for the company over the history of our alliance with our bankers.

We are focused on paying a sustainable dividend and have historically paid approximately 10% of net income. We have diverged from that record only when faced with extenuating circumstances such as COVID. We have been committed to managing the number of shares outstanding and invested $34 million year-to-date 2022 to repurchase approximately 1.5 million shares. We expect to complete the current accelerated share repurchase arrangement during the fourth quarter of 2022 and will provide final share count at the next conference call.

Investment in the growth of our business is the key to our future success. We're working hard on the development and full commercialization of our SIMPAS, ULTIMUS technologies and recently announced that we have achieved the registration of our proprietary product to counter on soybeans in Brazil.

We're also growing our Green Solutions portfolio with, for example, our NewLeaf alliance. And at the same time, we continue to take actions to ensure our factories are safe and efficient and capable of supporting our growing business.

On slide 18, we show our progression on adjusted EBITDA from $38 million in the 12 months ended September 30, 2015, to $78 million for the 12 months ended September 30, 2022. That is a compound annual growth rate of 11%. It is pleasing to note that we are close to achieving the company's all-time high annual EBITDA, which was $79 million in 2020 – in 2012.

On slide 19, you can see that at the end of September 2022 we reported inventories at $192 million as compared to $167 million last year. Inventory management is a significant focus, and this year, we have made prudent decisions to hold higher levels of inventory than the past year – past years as we monitor lead times, continuing logistics challenges and the strong ag cycle demand conditions, procuring inventories earlier than in prior years to secure product for the 2022-2023 growing season. The graph shows inventory expressed as a percentage of trailing 12-month sales. You can see that our long term trend line for this important business metric is good, notwithstanding short term market conditions that have impelled us to make the decisions just discussed.

As you can see on slide 20 with regard to liquidity, under the terms of the credit facility agreement, the company uses EBITDA – consolidated EBITDA, as defined in the agreement, to determine the borrowing capacity. Our consolidated bank EBITDA for the trailing 4 quarters to September 30, 2022, was $77 million as compared to $66 million for the 4 quarters to September 30, 2021. At September 30, 2022, our debt was $149 million (sic) [$148 million] (00:22:15) as compared to $136 million last year. This included the $34 million used to repurchase stock over the last 12 months. Availability has improved notwithstanding the higher closing debt and ended at $121 million as compared to $95 million this time last year.

In summary, on slide 21, for the first nine months of 2022, sales have increased by 13%. GAAP net income has increased by 71%. Adjusted EBITDA has increased by 30%. Adjusted EBITDA has also increased from 12% of sales in the first nine months of 2021 to 14% in the first nine months of this year. EPS has improved by 73%. We have acquired 1.5 million shares during 2022 as compared to 300,000 in the same period of the prior year.

With that, I will hand back to Eric.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Thank you, David. Moving on to slide 22, which is our three-element growth strategy. The core includes the growth of our traditional portfolio, our new product innovation and our M&A activities. Our Green Solutions initiatives consist of a portfolio of more than 120 regional products that we will focus to expand use globally. In addition, through Envance technology, we've begun basic R&D molecular discovery to create new green solution pest management products. And with regard to our Precision Application innovations through SIMPAS, we offer the entire industry the ability to prescriptive apply multiple crop inputs simultaneously. We're working diligently to expand our SIMPAS product portfolio to offer growers a wide variety of solutions. Additionally, we are developing multiple applications for ULTIMUS Documentation Software.

As per slide 23, with respect to our core products, we are on track to meet our growth targets through 2025. We'll accomplish this growth through both internal development and acquisition. For instance, our Impact Herbicide mixture products, which we developed as part of our innovation review process, are generating revenue growth, commanding good margins and are enabling us to expand our share of the post-emergent herbicide market.

With respect to acquisition, the markets remain robust. Year-to-date, we have looked at over 30 potential acquisition targets, of which we are still evaluating 10. As we have mentioned in the past, we are selective, strategic and rigorous in ensuring that new products or businesses meet or exceed our acquisition hurdles.

Turning to Green Solutions, as you can see on slide 24, we are poised to achieve our multi-year growth targets. In addition to our portfolio of over 120 biological and green products, we recently announced our alliance with NewLeaf, which has developed a line of soil health products, microbials that produce enzymes which improve a plant's ability to take up nutrients.

One of the key new lead products called Terrasym appears on slide 25. Here we can discuss and brief how Terrasym works. Focuses on the special group of bacteria, PPFMs that can use methanol efficiently as a carbon source to survive, thrive and sequester methanol preferentially over bacteria. As the plant's roots establish itself, specific microbes start to form a symbiotic relationship with the bacteria. The association between plant and bacteria forms. And finally, methanol is consumed as a food source by the bacteria to build bacterial population and release plant beneficial molecules and nutrients which enhance the plant's response.

As we present in slide 26, Terrasym is especially well-suited for use in corn where it serves to enhance root structure and plant health. In fact, we had been tracking the Terrasym technology for some time with that use in mind. Ultimately, we plan to make Terrasym available through our SIMPAS system.

This brings us to slide 27, the third element of our growth strategy. Presently, we have 81 systems -SIMPAS systems in use including 1 in Ukraine and 1 in Brazil.

As you can see from slide 28, we remain on track to meet our multi-year growth targets for SIMPAS. Bear in mind that this is US-only. We are currently testing a SIMPAS unit in Brazil which is the largest ag market in the world. As we recently announced, we have obtained a new label that permits the use of Counter on soybeans in Brazil. This should double or triple our sales in Brazil of this proprietary nematicide within a short time. On a relative note, one of the largest growers in Brazil with over 550,000 hectares is coming to the US to observe the prescriptive application of Counter through SIMPAS in this upcoming planting season.

In addition, as shown on slide 29, Robobank – Rabobank and its leading – as the leading lender in the carbon credit market, John Deere Financial and AMVAC have joined together to offer 2.65% financing with harvest terms on new SIMPAS equipment. This alliance should enable us to gain even greater traction and market acceptance of SIMPAS.

And finally, on slide 30, we summarize the financial targets of our three growth pillars, core, Green Solutions and Precision. I am pleased to say that our entire AMVAC team has both contributed to and embraces our three-year growth targets. As I mentioned at the start of the call, we are performing strongly and consistently in the face of variable conditions. We are well-poised to address demand in the ag upcycle – as the ag upcycle continues into 2023. Further, we are maintaining a strong balance sheet and high borrowing capacity while self-investing in innovation and total shareholder return.

With that, we'd like to open up to any questions you may have. Rob?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question is from the line of Gerry Sweeney with ROTH Capital. Please proceed with your questions.

Gerard Sweeney Q
Analyst, ROTH Capital Partners LLC

Hey, good afternoon, Eric, David, Bob. Thanks for taking my call.

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

Yeah. Our pleasure.

Gerard Sweeney Q
Analyst, ROTH Capital Partners LLC

Just wanted to start at the top. Obviously, sounds like increasing bullishness on 2023. Just wanted to get your thoughts where we are – where you think we may be in this cycle and how 2023 plays out, maybe a little bit after that since you've been through this several times?

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

Well, of course, there's no way of predicting exactly how long upcycles happen. But right now, I'm not hearing from any of our customers that they can see a downward [indiscernible] (00:30:33) the more years you go out, the more variables there are and hard to predict. But certainly I think for 2024 certainly looks very good. 2025, I think [indiscernible] (00:30:44) strong. Bob, any color you want to add to that?

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

A

Well, I think, Gerry, there are, of course, challenges on there. We see a strong US ag commodity through the next cycle, meaning till October harvest time. The big factor, which is the unknown, is really what will the China demand look like for South America and for North America. That will play out in the first and second quarter. I think one other major issue is where energy price is going to be as the replenishment happens with the US strategic reserves, the Russia conflict. So those are kind of little bit unknowns. But as Eric stated we have a strong pipeline of technology. So we feel very confident to grow, whether we have those headwinds or not. So, as we penetrate the market more with our technology, I think we'll be in good shape.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC

Q

Speaking of technology, that was actually a good segue into my – one of my next questions. You call it core business, new growth. I call it sort of the old kids, new kids, right? But when you looking at Green Solutions and even, I guess, to some degree SIMPAS and ULTIMUS, but maybe just they're probably different routes to market. But when you look at those two businesses, is there anything you need internally to drive growth? I mean, are you going to leverage the same channel but have some different education with the end users or with distributors, I guess, overseas? Anything that we can think about or you're thinking about that could enhance growth or ensure growth, etcetera?

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

A

So, it's a question we've been asked before and it's a good one. It's one we think about as well. We are green-lighting our team's interest and whether it's marketing or expense or a capital or adding people. So, definitely those two units are being said. I think the resources that they've asked for I have looked at John Deere and seen how their See & Spray has gathered so much attention. And it is – there's – I mean, it's really good technology. But it is one input and that's herbicides. And that's not kind of a time and plant those are going through and kind of. So, I guess exposure is one part of it. It's one of the reasons why we've worked with our peers in their products that we're adding to the portfolio. So, I would think probably it's just getting our message out.

We've been handicapped some through the COVID where we could not meet in person with people. But that activity has stepped up dramatically. And I think it's why we're pretty bullish on what we can accomplish both in those two, both in Green Solutions and SIMPAS, which again each quarter I go through with the team and say, all right, any adjustments up or down and right now everybody feels confident with those targets, which again if we achieve those in – over the next three years, it's – I think we're going have a lot more notoriety out there.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC

Q

Got it. Switching gears, I think you mentioned maybe 10 potential acquisitions or that sort of a funnel. I'm not sure exactly what you said on that front, but market's strong. There's this shift focus, obviously, of your core business, right? But then maybe even a shift in focus or more attention to the greener solutions. Some of those businesses are probably getting much more attention. I imagine multiples and prices are going up. How do you look at prices, biological's long lead, long runway-type growth businesses that you can acquire but may be more expensive than what you paid [indiscernible] (00:35:23)

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

So, obviously, we paid well under just the assets.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC
Q

Yeah.

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

Licensing [indiscernible] (00:35:31) during distribution part, alliances with really great companies like NewLeaf has a good ability for them to not have to invest in building the market access platform with a lot of overhead and can benefit from the structure that we've got set up there. So those types of arrangements enable us to grow meaningful in the space without us having to put up a multiple like what you were talking about.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC
Q

Got it. And of those 10 acquisitions, more core, more Green Solutions, how – what does that look like I guess the funnel?

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

Yeah. I mean, it's across the space, Bob (sic) [Gerry] (00:36:29). I mean, there are – as you mentioned, there are Green Solutions companies that are looking to cash out on the enhanced view of what Green Solutions going to offer in a potential growth. We see some what we would consider more core products that are available that can be kind of bolt-ons that make sense for us. So, again, overall, there's plenty of opportunities. And I guess from our standpoint, we want to make sure we've got adequate resources to develop our two initiatives to defend our existing products but also look opportunistically at these acquisitions. And again, some what we see, we're kind of on an exclusive basis and those types of deals that we've done several over the last few years, generally, are more accretive to us upfront.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC
Q

Got it. One more question, then I'll jump back in queue. I think sales up 13%. Do you know how much this is maybe volume versus price?

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

Yeah. So I think that the- yeah. At the last call I think we were looking. It was more 50/50, and I think we're now, what, 85% to...

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

No. 80/20.

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

A

80/20. Okay. 80% price and 20%. We had some really hefty increases that we put in place for the third quarter that kind of drove, particularly our soil fumigant was a big part of that. We had significant increase in that and it's a big product for our third and fourth quarter.

Gerard Sweeney
Analyst, ROTH Capital Partners LLC

Q

Okay. Perfect. I appreciate it. Thank you.

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

A

Sure.

Operator: Thank you. [Operator Instructions] Thank you. The next question is from the line of Wayne Pinsent with Gabelli Funds. Please proceed with your question.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

Hi. Thanks for taking my call – my question.

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

A

Sure.

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

So just on – back to that 80% price, 20% volume, can you just – was that for the year-to-date? And just looking at the quarter, like, a lot of comparisons with the quarter versus [indiscernible] (00:39:25) and then a lot of talk about year-to-date numbers. Can you just discuss sort of pricing what you're getting through now, volumes and how it's looking in the quarter and sort of the seasonality of your business if you could just go over that?

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

A

Yeah. So, I think your question was – I'm sorry, I didn't quite understand. So, the first piece is about the 80/20 that's for the year. And I think that was your first question. And again, can you remind me what your second question was?

Wayne Christopher Pinsent
Analyst, Gabelli Funds

Q

Yeah. If you could go over sort of what the pricing and volume was in the quarter? And then third question I guess is if you could just discuss the seasonality because we're talking a lot year-to-date on the call, and just looking at the quarter – quarterly numbers if you can discuss the seasonality of your business too?

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

And so, from – yeah, from the seasonality, again, our soil fumigant business, VAPAM and K-PAM are our biggest products and what we've seen is market grow outside of the United States and US were probably about 10 million gallons in that range. But we've got about 2.5 million gallons now that have grown into Mexico, Australia, Central America and those markets are growing strongly for us.

As I mentioned, we had drought conditions in US and some up in the Pacific Northwest. So, volume overall was down in the US, but up internationally, so they kind of cancelled each other out and then – but as I said, we had significant increases in costs going into the quarter, and there were pretty hefty price increases. So, that's probably what drove the most. We also had – I mentioned our cotton, two products, both of those had high cost increases, and they had substantial 25%-type price increases and that led obviously to I think some – it skewing more towards price rather than volume.

Wayne Christopher Pinsent
Analyst, Gabelli Funds
Q

All right. Thanks. And then just in addition to that, looking forward, you guys mentioned farmer economics are in great shape going into 2023. How much pricing do you think you can push through in the fourth quarter and into 2023 and how do you think that's shaping up?

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

Yeah. So far, we're not having price pushback, which is good. We've – we made good progress in 2021. I think we kind of were ahead of our peers on that regard. I think they've caught up in 2022. We've got – for the US season we've put through price increases in the September timeframe that look [indiscernible] (00:42:54) going forward. Internationally, we've had delayed increased results in Mexico, and that has now kicked into place and they've increased their prices. Similarly, in Central America, they were not quite as far behind Mexico and Brazil as well. Australia, yeah, they've been able to and most of the products been able to put through price increases but it has been a little slower internationally than domestically. But I think, right now, we feel pretty good about where our margins are going to be based on the cost increases that we've had.

Wayne Christopher Pinsent
Analyst, Gabelli Funds
Q

Okay. Thank you.

Operator: Our next question is from the line of Chris Kapsch with Loop Capital Markets. Please proceed with your question.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Yeah, hi. Good afternoon. I had some follow-ups on some of the discussion that sort of taken place but just on the pricing dynamic for the industry, one of the – one of your peers [indiscernible] (00:44:02) talked about pricing also, but juxtaposed against a cost inflation that seemed to be moderating at least looking forward into 2023. So, I'm just wondering if you see any of that cost inflation moderation happening and how do you think the stickiness of your pricing increases that you've had based on cost push will hang in if in fact a cost inflation moderate over the course of the next, I don't know, probably 18 to 24 months.

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

Yeah. So, certainly within our proprietary products [indiscernible] (00:44:43) good portion of the products that we sell were kind of it and certainly most of the organophosphates. And so we are seeing phosphorus costs improving. We are seeing freight – at least inbound freight improving. And so I think that we have – I guess your question maybe, if costs improve, are we going to need to trim our increases? And I don't think so. I mean, based upon the farm economy today, I think it's robust. I think people are making money. We tend not to play in the commodity markets. So, we certainly have some products where we've got generic competition. And there could be some of those products that do fluctuate downward and – but, again, those are areas that we don't emphasize sales. So, if we're in a moat where it's not going to be profitable to our liking, then we just step aside. So, I think that – I guess to answer your questions I think we feel we're in pretty good shape to maintain our margins.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

Great. So, if we were to look at granularly at the price increases that you have achieved or pushed through, would it be sort of across the board in magnitude for all the product lines or is there certain areas where you're more tactically pushing more price because of either some differentiation or because of some more acute costs associated with that particular product line or is it just kind of like a blanket price increases? Just had a [indiscernible] (00:46:47)

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

I'll just speak domestically, and I think they were looking at somewhere in the 6% to 20% depending on the product. So, there is wide variation. I think a lot of that is driven by cost. So, when we [indiscernible] (00:47:06) we've talked about before is that all of the marketing managers know [indiscernible] (00:47:12) cost by what we have in inventory, what replacement cost is, what we expect cost to be 90, 180, 270 and 360 days out. So, based upon that I think our team has – looks at that and [indiscernible] (00:47:31) that they want to make sure they do not have margin deterioration. And so, I think we have seen some price increases when I mentioned with – maybe with our VAPAM product line where we're going up – maybe cost is going up a couple hundred dollars an acre to fumigate. And our people are saying, well, maybe I'm not going to apply quite as much. So, there is – there has been a little sticker shock with that. But that being said our net sales of the product are increasing. Just it's more in price than in volume.

Chris Kapsch
Analyst, Loop Capital Markets LLC
Q

That's helpful. Thank you. And then talking about the what looks like a favorable backdrop and relative bullishness about the agricultural market going into next year, once you peel that back a little bit, it looks like early indications are that they'll be – in North America will be a shift, a preference towards corn versus soy, last year it was the opposite. So, just wondering if based on the channel demand at this stage if you're seeing that likely shift to corn acreage or maybe a increase in corn acreage relatively speaking? Is that manifesting in demand pull for your sort of like insecticides or is it too early to say? How do you feel about that particular product line into the 2023 season? And do you think the competitive landscape for your products are same as they've been or is it evolving? Thanks.

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

Yeah, so with regard to corn, I mean a slide that the Bob [indiscernible] (00:49:16) this morning on Iowa, certainly if I was a corn [indiscernible] (00:49:22) the economics of the soybeans, but we'll have that shortly, but the corn profitability obviously looks strong, and I would agree with you that people are going to look strongly at corn. That being said, all – I mean, if you use corn as the barometer and that just puts pressure on everything else which again increases the cost – or the commodity price on those other products as you – other crops as you put down acreage. So, that's just kind of the feeding cycle that I think will help keep commodity prices up for some period of time.

So, with regard to our products, I mean our corn soil insecticides look strong. We did see a fair amount of corn rootworm damage this year. If commodity prices stay at this high level, people are going to want to protect that corn. The investment and return on the investment are strong, so, yeah, I think we feel poised well certainly for this year. And that being said, on soybeans, again, we are building our soybean crop input line as well so that we look to benefit whichever way growers decide to go.

Chris Kapsch Q
Analyst, Loop Capital Markets LLC

Got it. And if I could just do one follow-up on the – sort of the intended acquisition and the funnel you might have, are we more likely to see something akin to a biologics acquisition with those sorts of, I don't know, if green solution is the right terminology, but something along those lines or something – obviously Corteva, for example, recently at their Investor Day in Iowa talked about rationalizing a bunch of products over time to sharpen their portfolio. So, are those the kind of things you would look at that certainly been in play in the past? And so what's more likely and what would be the criteria for those different buckets of potential acquisition? Thank you.

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

Yeah. So, I'll let Bob elaborate. But I'll just say accretiveness as we're looking at deals and trying to figure out what are the best acquisition opportunities for us, I'd like to say we're sometimes agnostic as to the product we are searching for certain pieces to fill out our portfolio gaps, but we're not going to pass an opportunity to add to existing strengths. And as you mentioned, our bigger peers they go through every three to five years and trim the sales. And so that's part of what's driving this. And so, Bob, maybe some color on just in those 10, how does that break out as far as market access, Green Solutions, more traditional-type chemistry? We've got kind of a blend, do we not?

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

Yeah. It's fairly balanced Chris and Eric. I think the – we've got a couple small deals, medium-sized deals and a couple large deals. And we're trying to strengthen all three pillars of our strategy, whether it's core business with chemistry, Green Solutions. But I would say it's probably more focused on those two. We're not looking for anything in the precision ag arena. And as Eric said, we're looking at being accretive for the shareholder, return on investment, EBITDA growth and also earnings per share. So, we rank them accordingly and then we look at the complexity, the execution. Acquisitions is all about integration and execution. And we do that extremely well and that's how we prioritize.

Chris Kapsch Q
Analyst, Loop Capital Markets LLC

Thanks for that, Bob. And maybe if I could just one last one. You mentioned the, I don't know if the partnership is the right word, but the financing package for SIMPAS via an alignment with John Deere Finance (sic) [John Deere Financial] (00:54:04) and I guess the...

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

A

Rabobank.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

...Rabobank, yeah. So, curious though because, obviously, John Deere, with its equipment franchise and some focus on, even mentioned one of their precision ag equipment, is there anything to read into their interest in your SIMPAS or is this a completely autonomous arm for John Deere that's not necessarily working with the equipment side of that business and looking at solutions in the precision ag world?

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

A

Yeah, I think your word, autonomous, the financing arm of John Deere is very autonomous to the equipment side. I mean, they do have also internal interactions as far as financing their own equipment. But the John Deere Financing (sic) [John Deere Financial] (00:54:55) works with all major companies. Growers are looking for financing options. This is an option. It's a competitive option for the SIMPAS line of products. But really a alignment with John Deere, if that's what's you're asking, way too early in the process. I think, right now, we're really focusing on getting as many systems into the hands of farmers. There's a lot of education there to do. And up to now we've seen excellent results. Like Eric mentioned, we were slowed down 1 year, maybe even 18 months through the pandemic. But things are picking up very nicely for us. And the results, the economic results for the growers are excellent.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

And just on that [indiscernible] (00:55:49) you're going to be able to kind of share, quantify some of the yield benefit associated with SIMPAS and the return, but I don't know if it's too early to share any of that. Thank you, guys.

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

A

Yeah, it is early. I mean, generally, we look at kind of latter part of November into December before we start with yield results. And it kind of depends on – when we do studies, it depends on how fast the research is. Sometimes that goes into January before we get the reports, but yeah we'll be sharing that as it becomes available.

Chris Kapsch
Analyst, Loop Capital Markets LLC

Q

Thank you.

Operator: Thank you. [Operator Instructions] Thank you. At this time, I'll turn the floor back to management for closing remarks.

Eric Glenn Wintemute

Chairman & Chief Executive Officer, American Vanguard Corp.

Okay. Well, again, I thank all of you for listening in on the call. Great questions from the three of you. Thank you very much. We look forward to reporting our [indiscernible] (00:57:07) and – or with the next call, we will give kind of our outlooks with some targets for 2023. So, with that, thank you very much. And again, appreciate your time. Bye.

Operator: This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.