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American Vanguard Corp. (AVD)
Q2 2019 Earnings Call
CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.

Joseph Reagor  
Analyst, ROTH Capital Partners LLC

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the American Vanguard Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Bill Kuser, Director of Investor Relations. Thank you. You may begin.

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

Well, thank you very much, Donna, and welcome, everyone, to American Vanguard's second quarter and mid-year earnings review. Our speakers today will be Mr. Eric Wintemute, the Chairman and CEO of American Vanguard; Mr. David Johnson, the company's Chief Financial Officer; and also assisting in answering your questions, Mr. Bob Trogele, the company’s Chief Operating Officer. American Vanguard will file our Form 10-Q with the SEC tomorrow, providing additional details to the results that we will be discussing in this call.

Before beginning, let's take a moment for our usual cautionary reminder. In today's call, the company may discuss forward-looking information, such information and statements are based on estimates and assumptions by the company's management and are subject to various risks and uncertainties that may cause actual results to differ from management's current expectations.

Such factors can include weather conditions, changes in regulatory policy, competitive pressures and various other risks that are detailed in the company's SEC reports and filings. All forward-looking statements represent the company's best judgment as of the date of this call and such information will not necessarily be updated by the company.
With that said, we turn the call over to Eric Wintemute.

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

Thank you, Bill. Good afternoon everyone. Let me start by thanking you for your continued support of American Vanguard. Today, I will start with an overview of our top line performance for the second quarter. Then for a change of pace, I will give some attention to a few areas of particular interest to our shareholders, namely inventory, factory performance and cash generation. Typically David covers these subjects, but I believe the circumstance [Technical Difficulty] (00:02:31) additional color from me. After hearing from David on a more comprehensive summary of our financial performance, I will close by giving future looking comments on technology, development and the full year outlook.

Since we last talked, there has been a lot of news in our sector. We've all read about, or in some cases experienced, the persistent rain, cold and flooding that affected parts of the Midwestern and Southern United States. Like many of our peers, we issued a pre-announcement on the second quarter forecasting the sales below those of our analysts’ consensus and citing domestic weather as the primary driver. Before going too far down that road, let's look at some numbers.

In spite of weather, which certainly did affect our domestic markets, our overall quarterly sales were actually up by 6%. While our results fell on short on the consensus number, I'm encouraged by three things. First, we grew on a global basis. Second, the 2020 planting season is shaping up to be promising and the third, our domestic results were actually mixed.

On the first point, it wasn't long ago, maybe five, six years when we were so dependent on Midwest row crops that a severe bad weather season in the Midwest would have been much more severe to our earnings. By contrast, today, we are benefiting from the fact that we have become increasingly diversified with respect to both geographical reach and product portfolio.

Our recent acquisitions have given us access into major markets in Brazil and Central America as well as into new crops such as soybeans and canola. This, in turn, has helped us to generate relatively smooth financial results over the past several quarters even as certain markets like U.S. crop have had subpar seasons. Indeed, during the second quarter our international businesses grew by nearly 14% with stable sales in Central America and the addition of new sales in Brazil and Canada.

On the second point the domestic crop market, which was down by 6% overall in 2019 may be poised for a rebound in 2020. During the 2019 planting season distribution exercised great conservatism in their procurement. However, even at their lower channel inventory levels, they purchased many of our crop protection products and volumes equal to those of last year. And in fact then there was greater penetration of those products into a weak market.

At the same time, it's been reported that several million acres which would otherwise have been planted with either corn or soybeans went unplanted as farmers who were unable to get their crops in the ground opted instead to accept prevent plant payments. This in turn has resulted in lower total acres of corn for the year.

With respect to my third point, even within U.S., domestic sales were actually mixed. Crop sales were off by 9% with products like Thimet and Counter declining during the period. By contrast certain corn products like Aztec were up significantly while others like Impact were flat versus last year's second quarter.
While dampening demand in the crop sector, however, the wet weather actually helped our non-crop sector, net sales of our domestic non-crop rose by 37% led by Dibrom mosquito products as users treat for vector-borne diseases and prepared for forecasts of hurricane activity. Sales of our pest strips also rose as is typical in wet weather conditions.

Having said all this, I conclude my remarks on the top line by adding that we are very confident that the second half of 2019 will be far better than the first. Our team has gone to great lengths to pressure test our forecast both domestic and international. We expect strong performance in the second half of the year led by domestic sales of our soil fumigants on high value crops, cotton harvest products, mosquito control solutions and a broad array of offerings in Central America and Brazil.

Now, let's turn to the subject of inventory and factory utilization, which I would think are of particular interest to our investors. Our inventory for the quarter ended at $193 million which is up from $163 million at the end of the same period in 2018. As you know, we have set a year-end inventory target of $145 million. You're probably asking why the inventory grew and whether we'll be able to hit our target. Inventory is higher year-over-year for four primary reasons, about $13 million arises from new acquisitions, specifically the Assure II herbicide and Brazilian business. Nearly $9 million is from our expedited purchase of [ph] Acquis (00:07:52) which has been in short supply and which we ordered earlier in the year to minimize Chinese tariff expenses. The balance is from increased inventory to support our business in Mexico, specifically growing demand for products that we acquired at the end of 2017. And finally our cotton defoliant Folex, which we produced earlier in 2019 than we had in 2018. Despite increased levels of these products we fully intend to work down our inventory over the balance of 2019 and to hit our target of $145 million. As I mentioned earlier, we are forecasting a strong second half of the year over the course of which we expect to convert about $45 million of inventory into cash.

As David will discuss in more detail this in turn will serve not only to help us pay down debt, but also to improve our borrowing capacity through sustained generation of EBITDA. No discussion of inventory would be complete without mentioning the factory performance, as David will also discuss further the primary factor in reduced profitability for the second quarter arose from our factory under absorption. As you may recall second quarter of 2018 was the best factory performance utilization in our history. Factory activity actually exceeded factory costs in that period, this is primarily because we entered the 2017 season with unusually low levels of Counter and Thimet both of which are manufactured in our facility in Hannibal, Missouri. Accordingly we built more of those products to meet demands of 2018. When we entered 2019, however, inventory of Thimet and Counter were comparable and higher. Further, as I pointed out earlier, the adverse conditions within the U.S. affecting corn, sugar beets and other crops resulted in reduced demand for those products.

We in turn scaled back manufacturing activity in light of those market conditions. As a result we were unable to meet the absorption levels that we enjoyed in Q2 of 2018. The second quarter 2019 numbers for under absorption were closer to the historic norm. I hasten to note that the performance of our other three factories during the period was strong. We are, nevertheless, seeking to optimize our factory activity over the balance of 2019, while building to forecast and reducing the inventory.

Let me turn the presentation over to David for further discussion of our financial performance. David?
Thank you, Eric. Good afternoon everybody. As Bill mentioned we will be filing our Form 10-Q for the three months and six months ended June 30, 2019 tomorrow. Everything I'm covering here is included in more detail in that document.

With regard to the financial results as Eric just detailed, the company's sales for the second quarter of 2019 increased by 6% to $113 million as compared to sales of $107 million for this time last year. Within that overall improvement our U.S. sales were flat, while our international sales grew by 14%. International sales also continued to grow in importance and represented 43% of net sales in the second quarter as compared to 40% this time last year.

As Eric has mentioned notwithstanding the strong growth in international portfolio just discussed, the primary reason for falling short of the net sales consensus was the persistent wet weather across our major U.S. markets. In the face of a soft market rather than dropping prices which can be difficult to reinstate at a future time, we elected to take short-term lower sales volumes, thereby preserving longer term brand value.

As Eric has also mentioned during the quarter, we adjusted our manufacturing plan to start to address inventory levels, which have been impacted by soft sales in the first half of 2019. As a result of the change in manufacturing activity and the associated under-recovery of overhead costs, gross margins declined quarter-over-quarter and ended at 37% in 2019 as compared to 40% last year. Also during the quarter, our operating expenses ended at 31% of net sales compared to 32% this time last year. This improvement was achieved notwithstanding a 2% increase in operating costs and demonstrates improved operating leverage from our expanded business.

The increased operating costs compared to last year are mainly driven by the expenses necessary to manage the several products and businesses we have acquired in the intervening 12 months. As expected, our interest expense increased driven by our acquisition activity over the last 12 months, our higher working capital levels and increased LIBOR-based interest rates. These various dynamics generated net income in line with the level we announced to the market on July 23 in our earnings pre-announcement.

Overall, net income for the quarter ended at $0.11 per share as compared to $0.19 per share this time last year. For the six months period ended June 30, 2019, net sales were approximately flat at $213 million as compared to $211 million for the same period last year. Further, gross margin ended down slightly at 39% as compared to 40% last year. The manufacturing plan change, I already outlined, was mainly a Q2 factor. And therefore, the effect was diluted when considering the half year results. This relatively consistent gross margin performance across the first half of 2019 as compared to last year reflects the balanced nature of the company's portfolio.

Our operating expenses when expressed as a percentage of sales were basically flat year-over-year with a rounding change of about 0.5% when compared to sales revenue. The reported operating expenses include lower legal costs, adjustments to deferred consideration and a breakup fee on a potential acquisition.

Offsetting these beneficial changes, we have picked up additional expenses necessary to manage the products and businesses acquired since this time last year. Our net income for the first six months of 2019 amounts to $7 million or $0.24, as compared to $10.3 million of $0.34 in the same period of 2018.

From my perspective, the financial focus for the company rate remains consistent. First, we continue to follow a disciplined approach to planning our factory activity balancing overhead recovery with demand forecast and inventory levels. At the end of June 2019, we had higher inventory levels to a degree caused by the soft sales performance of the U.S. crop business, but also impacted by the expanded global spread of our business.
For example, our Brazilian and Central American distribution businesses build inventory towards the end of the second quarter in order to address customer requirements during the second half of the year, which is the strongest part of their annual business cycles. Our integrated manufacturing and inventory plan remains on track to meet our year-end targets of approximately $145 million excluding the impact of any future acquisitions. Reductions in inventory from current levels will come in relatively equal parts from inventory that we manufacture and from inventory that we purchase.

Our reduction in Q2 factory output reflects decisions made to start to hold back factory output a little earlier than we usually do and does not indicate a material change in our plans for the second half of the year which is normally characterized by lower output than the first half.

Second, our effective tax rate ended at 26.8% year-to-date as compared to 24.4% for the same period of the prior year. The current year-to-date rate reflects a slightly different mix including recently acquired products and businesses and that mix change is causing us to slightly adjust our tax rate expectations for the full year. We are working to modify our international tax structure to improve the tax rate related to recently acquired assets. We presently expect that our full year rate will be in the range of 26% to 27%.

Third, with regard to liquidity, at the end of the second quarter, availability under our credit lines was at $31 million as compared to $137 million this time last year. This decrease is due to increased borrowings in the second half of 2018, the first half 2019, to buy a number of products and businesses. Further because of challenging weather conditions in the U.S. this year and the different business dynamics of managing the needs of our expanded international business we have seen an increase in working capital which we are working to address.

Indebtedness as of June 30, 2019 was $165 million as compared to $97 million at December 31, 2018. Looking forward to the balance of 2019, we are expecting a reduction in inventory by 9–by September 30, 2019. But that reduction will take some time to work through the full cash cycle. And consequently, we are forecasting debt to be relatively flat at the end of Q3. In the fourth quarter, we are expecting to see debt decline and to generate cash as indicated in our earnings release.

In summary, when looking at our year-to-date financial results, we can say that we have recorded flat sales during difficult weather conditions in our U.S. crop market while our international business has continued to grow. Furthermore, despite taking the decision to dial down some of our manufacturing activities earlier in the year than usual and accepting reduced short-term profitability as a consequence, our margins have been broadly maintained in line with our projections. Our operating expenses have increased primarily because of the acquisitions completed in last 12 months and have remained approximately flat when expressed as a percentage of sales. As expected, we have higher interest expenses driven first by our acquisition activity and second by the working capital dynamics I have outlined.

With that, I will hand back to Eric.

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

Thank you, David. Now, I'd like to give an update on our technology development efforts and then close with a full year outlook. On technology, we will start with Envance essential oil products and then [indiscernible] (00:19:17) to SIMPAS.

Turning first to Envance, as many of you may have seen on July 8, The Wall Street Journal published an article highlighting the new consumer pest spray initiative at Procter & Gamble Corporation known under the brand
name of Zevo, which is based upon our Envance formulations. The article cites the U.S. market for household insecticides and an estimated $1.3 billion per year and the global market at $8.7 billion. This market is expected to post mid to high single-digit annual growth with international demand rising even faster than domestic. Given the size of the market and the novel attributes of Zevo products, we are confident that our technology will help Zevo to succeed in this marketplace.

As we have indicated previously, Zevo leverages formulations and technology from our subsidiary Envance Technologies. This patented technology platform targets biological receptors that are only active in invertebrate pests such as insects and parasites. These targeted receptors are not active in mammals or vertebrates. As such the unique differentiation of products based on this technology is that they are highly – both highly effective and safe for use around humans and pets.

Another important consideration is that as promising as Zevo is, we have only just begun to expand the potential uses of Envance technology. The mode of action of this technology makes it ideal for mosquito repellency products, lawn and garden, animal health and agricultural applications.

Turning now to SIMPAS at our Annual Shareholder Meeting presentation on June 5, we discussed the overall Precision Ag sector and highlighted the significance of our technology for the prescriptive application of crop protection and plant nutritional products.

As you may recall, we also outlined our domestic base case on three crops in which we forecasted annual revenue about $100 million by 2024 growing to $160 million by 2026. To attain these kind of numbers, we are working on multiple fronts to develop SIMPAS including, with respect to technology department, field testing, packaging design, distribution infrastructure and agronomic advisors.

On the technology side, we continue to work with Trimble Corporation for their geo positioning capabilities, their software integration synchronization skills and their vantage dealer network for providing the expert customer interface for the introduction of this new equipment system. Trimble has helped choose its design and interface that enables our system to be plugged into virtually any ISO-based tractor control system, which we believe constitutes about 90% of the new systems on the market.

Beyond the extensive field work that we have done with Simplot Grower Solutions, we're adding new distributor and retail organizations like Asmus Farm Supply in Iowa and Harvest Land Co-op in Indiana to use prototype systems during the upcoming 2020 planting season. In addition, we're working to finalize SIMPAS testing protocols with two of the largest U.S.A. based multinational distributor of retail organizations.

SIMPAS will feature products that are available in smart cartridge containers, which we have designed for ease-of-use, worker protection and convenient return for reuse. These containers can be snapped into place on a planter to facilitate the use of multiple crop inputs in each row. Also, we have designed an entire platform for SIMPAS products which we call Ultimus. Through this system, we can track product from factory to field and back. The farmer can track the amount of each product used on his or her field in real-time, and partially-used containers can be returned for a credit.

Smart cartridges will be filled and refilled at both filling stations which we are fabricating this year. Finally, to facilitate the ready adoption of SIMPAS by farmers, we are developing a core group consisting of some of the 13,000 certified crop advisors in the United States.
As you can see, SIMPAS is really a suite of technologies that together enable the grower to use only what is needed, where is needed. It's efficient because a farmer can do so much more in one pass of the field. It's smart because it is informed by GPS data, yield data and agronomic analysis and it's sustainable because it minimizes the environmental footprint in the field.

From technology, let’s turn to our full-year forecasts most of which we’ve covered in our pre-announcement last month. For full year 2019, we expect that net sales will be around $500 million, gross profit margin percent will be approximately 38%, operating expenses about $155 million and an overall tax rate in the neighborhood of 26%. By year-end, we have targeted a reduction in inventory of about $45 million and a reduction in borrowed debt of about $50 million.

In summary, I like the resiliency that I am seeing in the organization. While it is never enjoyable to encounter factors that are out of one's control like unprecedented rainfall in a major market, those things can serve as a test of business and its character and I believe that in the face of adverse conditions, organization handled itself well.

In the crop sector, we allow distribution to run through channel inventory while at the same time we preserve brand value. This sets us up well for 2020. In the non-crop sector, we capitalize on the wet weather to maximize sales.

In the international realm, I’m pleased to see continued growth at good margins including in markets that are relatively new to us. Granted, we still have work to do on our balance sheet and a business as large and complex as ours, however, one cannot turn the ship around in an instant. Over the next few quarters, we expect to increase sales, drive down inventory and generate cash. The key to succeeding here will be the exercise of continued discipline through normal business cycles. To that discipline, we will add continued investment in our future through technology initiatives like En Vance and SIMPAS. We have had a history of working through headwinds building upon the experience and learn from it attain greater growth and profitability. And that is what we will do in the coming months.

And we’ll now take your questions. Donna?
QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question is coming from Jim Sheen of SunTrust Robinson Humphrey. Please go ahead.

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.  
Good afternoon and thanks for taking my question. How are your international margins shaping up compared to your expectations for the acquired businesses?

Eric Glenn Wintemute  
Chairman & Chief Executive Officer, American Vanguard Corp.  
I think we're right on target. Our business model for each of the acquisitions, I think we're plus or minus 1% from what we expected. And so...

David T. Johnson  
Chief Financial Officer, American Vanguard Corp.  
For the quarter, we're exactly in line with where we expected to be.

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

[indiscernible] (00:27:41)

David T. Johnson  
Chief Financial Officer, American Vanguard Corp.  
Yeah.

Eric Glenn Wintemute  
Chairman & Chief Executive Officer, American Vanguard Corp.  
Yeah. So, yeah we're – year-to-date, we're up a 1 point. The quarter was exactly on line.

David T. Johnson  
Chief Financial Officer, American Vanguard Corp.  
Yeah.

James Sheehan  
Analyst, SunTrust Robinson Humphrey, Inc.  
Okay. And on the Envance product that you just covered, are you generating any sales so that in 2019 or can you describe the ramp of that product?
So we have a royalty stream on a base of net sales. There's a minimum which has been what we've been dealing with, I think this last year and at some point that the sales will push past that minimum.

Great. And then, in terms of 2020, what are your thoughts there, what kind of growth can you get back to assuming new change to the current macro and tariff environment?

So again, we've got some cautious optimism over 2020, because we know that the actual use of our products in the field were up and sales were down, I'm talking U.S. crop. And so, inventories that are there have diminished and that's in light of a season that was certainly in many sectors down and sluggish. So again, we think we've gained market share in that process. But I think it bodes well for the 2020 season assuming that the Chinese move to not purchase any agricultural products doesn't affect that 2020 season. So that could be the one factor where I think since that's happened, we've seen corn prices diminish from – they moved up in the end of June and then dropped over the last – these last 30 days.

Thank you.

Operator: Thank you. Our next question is coming from Chris Kapsch of Loop Capital Markets. Please go ahead.

Yeah. Hi, good afternoon. So I just wanted to follow-up to try to clarify some of the comments about how this season played out and this notion that you feel like you got greater penetration for some of your products in the Midwest, because I think you said that your overall sales were down. I think you also said Thimet and Counter sales were down versus prior year level. So I'm just wondering which product categories do you feel like you had greater penetration and especially against – so this backdrop is kind of characterized by other companies as a little bit more discounting in the crop chemistries this year given the backdrop under disruption. And you made the point that you preserve the brand value. You didn't do that. So you're suggesting also greater penetration without discount. So just want to understand where you're having that success and how?

So Aztec was up 29% in the quarter. And I think that's just kind of reflective of the later planting season. But so far the Impact was basically flat in sales, but were up in usage and that's in our corn herbicide. And I think by this time, we see most of returns from retail to distribution and at this point, it's extremely low. And looking at the sales as we were going through this last period, I mean, we were getting small orders every day and it would appear that and I think distribution has reported that they've just watched. They didn't want to get stuck with inventories. I think they are looking at some long positions on seed. But with regard to chemical, they watched fairly closely and
[ph] positions there that (00:32:17) may have taken higher percentages of an annual season. People knew when the planting season started to get delayed, they've just kind of shifted the whole buying pattern to – if we – we know there's product available and we'll just get it and with our products, I mean, we're generally able to deliver within a day. We have products stationed all over the markets in U.S. So it's kind of a just in time approach maybe more than the more traditional load and move. So I think when people thought it was going to be an abnormal year, the buying pattern shifted.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

Okay. Just to follow up on that. So despite the present acreage, you feel that your channel inventories for, I think we're presumably talking soil...

[indiscernible] (00:33:14)

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

Corn products.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

Yeah are low. And...

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

Right.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

...and then, where you got greater adoption is in the corn herbicides basically?

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

Right.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

Okay.

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

Can we have – we had a new corn herbicide ImpactZ that we've launched and I think we've got a few more Impact combination products coming out for next year as well. And so, [indiscernible] (00:33:43) continues to be Impact product line and it continues to be a nice product fit for us going forward.
Christopher Kapsch
Analyst, Loop Capital Markets LLC

And just so is the broader adoption of that of your corn herbicides, is it really a function of this increased resistance to Roundup? Or is it a function of some commercial strategy you've had?

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

Well, in 2012 Monsanto picked Impact as their Roundup partner for resistance management of glyphosate. And so that kind of set the stage for us to move continually in that market.

Christopher Kapsch
Analyst, Loop Capital Markets LLC

Okay. And then just one other quick follow-up is, I mean the full year gross margin guidance of 38% does that contemplate any or increasing amounts of royalties from Envance. Thank you.

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

Yeah. David is saying, no.

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

There will be no [indiscernible] (00:34:51) the rest of this year.

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

No. Yes. Right, okay. So, yeah, it does...

Christopher Kapsch
Analyst, Loop Capital Markets LLC

[indiscernible] (00:34:54).

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

...it does take Envance into account, but there...

[indiscernible] (00:35:02)

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

Yeah. There will be no additional revenue recognition in the second half year.

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

...revenue recognition this year, yeah.
So, you don't expect any additional royalty payments this year.

Correct. Yeah.

We recorded earlier in the year.

Okay.

Sir did you have any additional questions?

Yeah maybe I was under the understanding that the royalty payment structure would be maybe twice a year...

From June 20 onwards it will start to be quarterly.

Yeah June 20, next year.

June 20, yeah, 2020.

June of 20.

Yeah.

June
Right, okay.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

Quarterly. Okay.

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

Yes.

Christopher Kapsch  
Analyst, Loop Capital Markets LLC

All right. Thank you.

Operator: Thank you our next question is coming from Joseph Reagor of ROTH Capital Partners. Please go ahead.

Joseph Reagor  
Analyst, ROTH Capital Partners LLC

Good afternoon, guys. Thanks for taking the questions.

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

Sure.

Joseph Reagor  
Analyst, ROTH Capital Partners LLC

So, I guess first on Envance, can you give us kind of a magnitude of what that could mean to you? Maybe long-term, is this is a small royalty stream a couple million a year max or is this something that could be meaningful to the bottom line?

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

So there is a minimum in the range which you're talking about, but there's a percent of sales as sales ramp up and we do think at least from Procter & Gamble's discussions in the way they view this, they will definitely trigger pass that minimum royalty.

On there are other technologies which – where we've got a really effective mosquito repellent that we need to find the right company to take to the market. We've got lawn and garden products, which we're testing right now and we'll be looking for somebody to take that into the market. But then with that lawn and garden development will come agricultural products, which we're really excited and that we would probably take to the market ourselves. And then, there's also some animal health products as well that are there.

Joseph Reagor  
Analyst, ROTH Capital Partners LLC
Okay. Fair enough. And then which of your categories do you guys kind of consolidate that under, so we can think about it long-term?

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

David T. Johnson
Chief Financial Officer, American Vanguard Corp.
Yeah. Non-crop.

Joseph Reagor
Analyst, ROTH Capital Partners LLC
Okay.

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

Joseph Reagor
Analyst, ROTH Capital Partners LLC
Okay. Thanks. The rest of my stuff has been touched on already.

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

Operator: Thank you [Operator Instructions] Our next question is coming from [ph] Bruce Winter (00:39:01), a private investor. Please go ahead.
Yes, thank you. Could you tell us who is using this pest strips because of wet weather and what are they using them for?

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

They're sold under a couple of different – well several brands actually. There's what you would find in the retail stores would No-Pest strips, it's marketed by Spectrum. And if you pull upon Amazon, you'll see Nuvan, which are targeted towards the professional pest control operator. So those come in multiple strips per bag in a receivable container and they come in different sizes as small 10.5 gram and a larger 65 gram bar which is what you find in the retail stores. Then we have kind of a brand called [ph] Butterfly (00:40:05) which is an individual who's built a market in restaurants and bars for specifically [indiscernible] (00:40:13) and fruit flies that would hang around the bar. We have business in Australia, that's doing well and in Canada, Scott's markets under I forget the exact brand but they have a brand that strips [indiscernible] (00:40:34) 80 gram bar that they sell out there.

And [indiscernible] (00:40:38) those applications?

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

So obviously a higher amount of insects with wet weather. And so again this is inside an area, I mean, as you've got cockroaches in your pantry or you've got flies in your attic house that sort of thing. Mosquitoes control as well.

What's the range. Historical range of Dibrom extended because of the floods in the upper Midwest?

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

So Dibrom we're up – some of it's just timing of the placements. In 2018, we had some purchase by our biggest customer. In the first quarter and in this quarter and this time, they took it in the second quarter. But I think they do anticipate a fairly robust season and we've already had a couple of meaningful tropical depressions which have resulted in mosquito infestation.

And my last question is, is there any application to the Panama disease for bananas either through distribution or through proprietary products?

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

You're saying the Panama disease?

David T. Johnson  
Chief Financial Officer, American Vanguard Corp.
That Black Sigatoka?

Yeah, the fungus stuff, I guess not.

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

We – yeah [ph] Brian (00:42:14) we – that's probably a segment that we target the most in our Central America business. So we're very active in that across the board with several inputs. So with specific questions, are we in that business? Yes. And are we trying to grow it? Yes.

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

And we do, I mean this is throughout, it's not just Panama disease, right this is throughout the Central America.

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

You also [indiscernible] (00:42:44) the Philippine Black Sigatoka.

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

Yeah, right.

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

... [ph] row banana (00:42:49)...

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

Bananas, yeah. So Bananas are good product [indiscernible] (00:42:52).

And it's through your distribution not through proprietary products, is that right?

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

That's correct. That's correct. But we do have a development center in Central America where we focus on three crops, that's bananas, pineapple and citrus. And we work directly with the large grower plantations Chiquita, Dole et cetera, but we also have a nutritional business called Greenplants, then we have third-party products and we pool that together to give a complete solution to the Chiquitas both agronomically, but also commercially. And we also sell our insecticides to that sector. So there we're getting the AMVAC manufactured products to the growers and of course that gives us an increased margin.
On our third-party business, we're looking for quality growth. So we're through contracts with our third-party suppliers and trying to increase our margins, I think Eric mentioned that before our margins right now look at least what we're trying to target stable, but it's continue focus on improving our emergence through our distribution system.

So there could be a lot of potential in Central America.

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

Yes.

**David T. Johnson**  
*Chief Financial Officer, American Vanguard Corp.*

Yeah.

Sounds good. Thanks for taking my questions. I appreciate it.

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

Sure.

**Operator:** Thank you. At this time, I'll turn floor back over to management for any additional or closing comments.

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

Okay, well on behalf of management, our board appreciates your tuning in for and appreciates the questions as well. We look forward to updating you at our next conference call. Thank you very much.

**Operator:** Ladies and gentlemen thank you for your participation this concludes today's event. You may disconnect your lines at this time and have a wonderful day.