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Earnings Call

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Presentation

Operator

Good afternoon. Thank you for attending today's Bioceres Crop Solutions Fiscal Fourth Quarter and Full Year 2023 Financial Results Conference Call. My name is Hannah, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to our host, Paula Savanti, Head of Investor Relations. You may go ahead.

Paula Savanti
Head of Investor Relations

Thank you. Good afternoon and welcome. Thank you, everyone, for joining our call. Presenting today during the call will be Federico Trucco, our Chief Executive Officer and Enrique Lopez Lecube, our Chief Financial Officer. Both will be available for the Q&A session.

Before we proceed, I would like to make the following Safe Harbor Statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements section of today's earnings release and presentation, as well as the recent filings with the SEC.

We assume no obligation to update or revise any forward-looking statements to reflect new or changed circumstances. This conference call is being webcast, and the webcast link is available at Bioceres Crop Solutions Investor Relations website.

At this time, I will turn the call over to our CEO, Federico Trucco. Thank you.

Federico Trucco
Chairman & CEO

Thank you, Paula, and thanks to everyone that is joining us today in our fourth quarter and full fiscal year 2023 earnings call. Good afternoon.

Please turn to Slide 3 for a brief overview of the highlights of this call. While fiscal year 2023 was challenging, mostly due to external conditions, it was one during which we proved the resiliency of our organization, adjusting business plans to ensure we continue to outperform. So, what have we accomplished in fiscal '23?

First, we continue to grow at double-digit rates, and as you will see in a minute, this growth comes after a record year in fiscal '22. Our growth in profitability as measured by our adjusted EBITDA, which grew by 31% to over $81 million, was even more impressive when you know that we are no longer excluding HB4 inventory ramp-up costs as we did in prior years, and that we are fully integrating Pro Farm, a business that was not profitable at the time of our acquisition a year ago.

Revenues in this quarter were flat compared to last year, and 9% lower on a pro forma basis, while the gross profit contribution was kept steady indicating an expansion in profitability for the products that were sold.

An important milestone for the quarter is that the legacy Pro Farm part of our business became EBITDA positive on an LTM basis for the first time, which is one of the objectives we proposed for the first 12 months. So congratulations are in order to the Pro Farm team for their sustained efforts in reaching this goal.

On the HB4 Wheat front, we have grown revenues by 28% in the quarter, but what is more important is that we grew our multiplier network by 8-fold, which is critical in two ways.

First, that it allows us to transfer inventory ramp-up costs to others, and thus achieve a leaner working capital model. And also, in that it expands our commercial footprint beyond the Generation HB4 Identity Preserve Program, which is a key step towards meeting our fiscal year '24 guidance in this crop.

On the HB4 Soy front, and more specifically on the HB4 Soy downstream side, we announced an agreement with Moolec Science, a provider of soy-derived food ingredients, to supply them with approximately 20,000 tons of ESG-linked HB4 beans, something we'll do jointly with our Generation HB4 farmers, monetizing data and traceability premiums for the first time since starting with this IP program.

Finally, our agreement with Corteva Seed Applied Technologies for MBI-306 will allow us to at least double the size of our joint business in the European region, and further validates our position as a leading provider of biological seed care solutions to top players in our industry.

Before I turn the call over to Enrique for a detailed discussion on our financial performance, please turn to Slide 4 so that we can put this year's growth in perspective. It's certainly not the same to show growth after a down year than to do so after a record year, and more so in one in which we had to face a historical drought in our main market.

The industry-wide after-party effects of inventory resetting in the United States and Brazil, our second and third largest markets, and the added challenge of integrating an excitingly unique business like Marrone Bio Innovations now Pro Farm, which was still pre-profit at the time of the acquisition.

So, to see this doubling in revenues over the last two years, and growing more than 60% in adjusted profitability for the same time period is indeed very impressive and a result that we are very proud of. Enrique?

Enrique López Lecube
CFO & Executive Director

Thank you, Federico, and good afternoon to everyone on the call today. I will dive further into our financial performance for the quarter and the full year.

So, let's start with Slide 5 to take a closer look at revenues. Full-year comparable revenue reached a record at nearly $420 million, which represents 25% growth with respect to reported Bioceres stand-alone fiscal year 2022 revenues, and a 12% year-over-year increase, if we take pro forma numbers that include Pro Farm historical revenues.

This strong result was obtained in a year with major weather issues in key markets, namely the drought in Argentina and the flooding in California, which impacted some of our fastest-growing products lines like the such as micro-beaded fertilizers, for example, or high-margin product lines such as our bioprotection portfolio for cash crops in the U.S.

These dynamics become very clear when looking at the quarterly contributions in revenue growth, and let me note here that these contributions are all presented in pro forma terms.

Our first quarter was incredibly strong, with our team getting ahead of what already loomed like a very dry summer crop season in South America. Then, growth was interrupted in Q2, as you might remember, which is normally one of our strongest seasonal quarters.

The negative contribution of Q2 this year illustrates the magnitude of the drought that hit summer crops in Argentina. This situation expanded into Q3, although the strategic agreement for our inoculants business with Syngenta allowed us to more than offset the negative impact from persistent drought in that third quarter.

And finally, for the fourth quarter, revenue was just shy of $105 million, practically flat against standalone Bioceres's previous year number, and declining 9% year-over-year compared to the pro forma numbers, which is a $10 million drop that you see there on the slide.

The decrease in the quarter is both due to strong year comparison and also the tail-end of the consequences of the drought. We have noted in previous calls that the weather transition from a dry La

Niña pattern to a wetter El Niño was slower than expected, and in fact, it wasn't until well into the month of July that it started raining meaningfully in our cultural regions of Argentina. So I think that we can confidently put that episode behind us now because El Niño conditions were officially declared this month.

The fourth quarter also was marked by the industry headwinds that Federico just alluded to and that were also flagged by some of the larger ag-inputs players, because the channel destocking affecting sales of Crop Protection products mainly in the U.S. and in Brazil.

In our case, the destocking situation had somewhat of an impact on Crop Protection sales, but as we will see in further slides, it was neutral from a profitability perspective as we focused on high margin product sales and moved a bit away from lower margin products.

Overall, I think that the external context tested the business in several ways this year, and the positive annual performance to some extent reflects the success of the strategy to diversify revenue and profit sources.

So let's now turn to Slide 6 for a closer look at quarterly and annual revenues by segment. So for the fourth quarter, crop nutrition was the best performing segment with 7% year-over-year increase in revenues, which was mainly driven by high margin biostimulant sales in Europe and also in Brazil. This is a product line for which we see exciting growth potential in these two markets.

Also, although smaller in absolute numbers, we are encouraged to see growth in micro-beaded fertilizers having resumed in this fourth quarter, and this is even more important considering that Q4 fiscal year '22 was a record high for this particular product.

In seed and integrated products in the quarter, we saw the $15.8 million in HB4 wheat revenues that Federico just alluded to, that is a 28% increase compared to the prior year. The overall segment revenues were slightly below from the last year as some seed treatment products now fall under the Syngenta agreement and the compensatory payment we got in the third quarter is on account for all of these migration effects throughout the next 12 months, or I should say throughout the first 12 months of the agreement.

Crop Protection finally fully explains the 9% decline in revenues for the quarter, which was mainly driven by slow farmer purchasing in Argentina and the channel destocking dynamics that I just described. As we will see, when we address gross margins, this drop in Crop Protection revenues was almost neutral for profitability.

Finally, for the full fiscal year, Crop Nutrition was the main contributor to growth, increasing revenues by more than $40 million, mainly explained by inoculants, biostimulants and to a lesser extent, the slight growth in micro-beaded fertilizers, despite the soft performance we saw in the second and third quarter in these products.

Seed and integrated products also contributed to annual growth with a $5 million increase explained in full by HB4 sales, and Crop Protection remained roughly flat, a result that we find comforting in a year that was marked by steep declines in that particular industry segment.

Let's now turn to Slide 7, please, and we will take a look at quarterly and annual gross profit performance. We saw annual gross margin expansion from 40% in fiscal year '22 to 44% in fiscal year '23, as annual gross profit grew more than sales.

Gross profit increased both from the standalone and the pro forma metric for the previous year, reaching almost $185 million for the full year. The first and the third quarters were the main contributors to gross profit increase and margin expansion for the year, well in line with the top line performance I just described.

Similarly, the second quarter followed the decline in sales and decreased contribution to the annual gross profit number. In the fourth quarter, however, margin expansion driven by sales of higher margin products allowed us to offset the effect of lower sales that I just showed.

In summary, I think that the bumpiness that you can see in our quarterly top line and gross profit lines shows that this was a complex year, but one that we were able to navigate successfully when things are put on an annual perspective.

Let's now go to Slide 8, where you will find a more detailed view of gross profit by business segments. Gross profit for the quarter remained flat at almost $40 million. In terms of margins, Crop Nutrition combined higher sales with higher margins, which explains the steep increase in gross profit contribution, which reached $20 million for this fourth quarter.

Crop Protection margins expanded offsetting the decline in sales, as I just explained, keeping the gross profit flat for the quarter at $14 million. And finally, seed and integrated products saw a margin contraction compared to the year ago quarter, explained by lower high margin pack sales, as I explained out of a migration to Syngenta contract, and also lower margins in seed as new multipliers moved almost entirely to second generation materials, discarding first generation materials as grain, often as a loss and in detriment to the margin for that particular category.

For the full year, Crop Nutrition was undoubtedly the best performing segment, achieving growth in sales with margins expansions and contributing almost half of the $185 million in total annual gross profit. Same than with revenues, Crop Protection gross profit remained flat for the year and seed and integrated products annual gross profit mirrored the dynamics for the quarter.

So let's now please turn to Slide 9 for a view on the adjusted EBITDA for the quarter, which reached $10.4 million compared to $11.8 million from last year on a pro forma basis. So despite the relatively flat gross profit performance and an improvement in SG&A expenses, other expenses in the quarter and softer JV results drove a $1.4 million year-over-year EBITDA decline.

Let's please now turn to the next slide to Slide 10, where we will take a look at the full year adjusted EBITDA, which reached $81.1 million like Federico just mentioned, which represents a 31% increase compared with almost $62 million in baseline business adjusted EBITDA for fiscal year '22.

So just as a reminder of what this baseline business metric represents, it removes negative profitability related to Pro Farm and also to HB4 inventory ramp-up costs from the fiscal year '22 historical metric, which at the end of the day raises the bar against which we measure this year's performance. And that's how we like to see or to look at the business this particular year.

Also worth clarifying or reiterating what Federico mentioned with regards to our fiscal year '23, it fully accounts for inventory ramp-up costs. We consider that that business is now generating both revenues and profits and therefore we shouldn't carve out anymore this inventory ramp-up costs.

When adding Pro Farm and the ramp-up costs to fiscal year '22 adjusted EBITDA, the basis for comparison decreases to $45 million, which implies the 80% year-over-year increase EBITDA that you see in the slide.

Although, we don't consider this metric to sort of evaluate the underlying performance of the business, we do think it's important to put into perspective the improvement in inventory ramp-up costs, but more importantly, to highlight the positive evolution of Pro Farm in terms of moving away from negative profitability.

So we are glad to report that we have achieved our stated goal of getting Pro Farm assets to be positive contributors to our consolidated EBITDA 12 months after the merger, which takes us to the next slide.

From a qualitative perspective, we have reorganized the commercial teams and made headways in integrating Pro Farm's legacy sales and marketing teams with Rizobacter, building a truly global sales force that is dedicated to biologicals.

Similarly, we made progress in integrating Bioceres' legacy R&D platform with capabilities from Pro Farm, achieving what we believe is a world-class research and development team fully focused on upgrading our portfolio of commercially available technologies.

Now from an EBITDA perspective, we can say now that our target of $8 million in cost synergies post-merger has been fully achieved. And also, despite not growing Pro Farm sales as we would have liked, Out of a margin expansion, we have added more than $2 million in gross profit coming from sales synergies.

Just as a reminder, at the time of the merger, we estimated sales synergies to be in the tune of $20 million 36 months post-merger, which implies an additional $12 million in gross profit, of which we have accomplished $2 million in this first year. Although still modest, we believe this is trending in the right direction, and hence we are encouraged by that.

All of this coupled with a streamlined and efficient R&D platform has allowed us to get to positive EBITDA contribution not only for the quarter but also looking back to the last 12 months.

Looking forward, it is all about pursuing top line growth from Pro Farm products. We believe we'll bring strong operational leverage and that should show and will show in our profitability.

Finally, let's please turn to Slide 12 to wrap-up with some brief remarks on our financial debt and cash position. The total financial debt by year-end stood at almost $245 million. The increase that you see there relates to the execution of the agreements in connection with the merger that were done in the first quarter, and also the completion of a $26 million bond offering in the Argentine markets, which was done in the third quarter.

Despite the higher absolute net debt levels, our leverage ratio now stands at 2.25x versus 2.33x a year ago. And most importantly, the average cost of debt decreased from approximately 9% to 7% on an annual basis.

To summarize my remarks, I think that although we are glad to see how our business behave in a year marked by several complexities, the current financial performance still underscores the robustness for long-term strategy that is supported on a unique portfolio of technologies and a diversified commercial approach.

With that, I will turn the call back to Federico. Fede?

Federico Trucco
Chairman & CEO

Thanks, Enrique. And please turn now to Slide #13 for an overview of where we are with HB4 Wheat, as it advances through the conventional channel. And I think it is important to know that what we're seeing here in terms of growth is despite a 35% reduction in wheat acreage observed in HB4-targeted regions during the last two seasons, which resulted from one of the longest drought periods on record in Argentina.

So HB4 Wheat sales grew by 28%, as we indicated, from $12.2 million last year to $15.8 million in the current quarter. This growth was mostly driven by conventional sales, as we decided to keep participation in the Generation HB4 Identity Preserve Program steady at 50,000 hectares to limit our working capital exposure to this business.

Also, the full approval in Brazil, now including grain exports and not just flour exports, help us to transition to multipliers and distributors more aggressively, with an 8-fold increase in this number. This transition is allowing us to offload inventory ramp-up costs and expand our commercial footprint, which is a key step towards meeting our fiscal year 2024 guidance in this crop.

Another important consideration is that more than 50% of the area that is currently planted with HB4 Wheat is planted with second generation varieties, compared to only 6% last year. And we have concurrently moved to scale 5 second generation materials, compared to mostly only one material last year. And this increase in the number of varieties is helping us move beyond the Bioceres seed channel to include other seed companies as licensees, further expanding our go-to-market possibilities.

Now turn to Slide 14 to look at the HB4 Soy front, where we continue to make progress in Brazil and are scaling to good-performing varieties developed under the TMG collaboration, while we get ready to plant the first 1,000 hectares in the United States with varieties developed under our collaboration with GDM.

On the HB4 Soy downstream side, we've announced an agreement with Moolec Science, as I stated earlier in the presentation. Moolec Science is a provider of soy protein concentrates and isolates. And we will supply this company with approximately 20,000 tons of ESG-linked HB4 soy that has an estimated value of about $12 million at the current premium that has been negotiated with Moolec. Something we'll do jointly -- this is something we'll do jointly with our Generation HB4 farmers, significantly monetizing data and traceability for the first time since starting with this Identity Preserve Program.

On the regulatory front, now on Slide 15, the full production approvals in Brazil and Paraguay allow us to value capture almost 90% of the LATAM wheat hectares, which is a significant improvement to where we were a year ago in this crop. And we have also added additional Food & Feed markets, like the recent approval also in Indonesia for HB4 Wheat.

And finally, if we turn to the next slide, slide #16, our agreement with Corteva Seed Applied Technologies for MBI-306 acts on top of our existing agreement for the UBP platform, and which Corteva is already commercializing Pro Farm biostimulants in this region with a brand, with a Lumidapt brand, which sales have doubled in the last 12 months.

As a reminder, MBI-306 is a cutting-edge biological insecticide that can be as effective as conventional insecticides with good feed for row crop agriculture, and can be used at rates that are almost 10x lower than our current bio-insecticidal offering, particularly in seed treatments. This agreement will allow us to at least double the size of our joint business in the European region and further validates our position as a leading provider of biological seed care solutions to players such as Syngenta and Albaugh, among others.

Finally, looking ahead, I think we have multiple growth levers to expect for fiscal year '24. On one hand, we think that the Pro Farm top line growth, expanding the current portfolio of biostimulants and launching MBI-306 in the United States and Brazil, will help us expand the profitability of that business and build on top of what we have recently reported, or just now reported, for fiscal year '23.

Also, we look forward for the HB4 growth, not just on the upstream side, but also as we are seeing with the Moolec agreement on the downstream side, both contributing to our profitability objectives. The actual growth in Brazil, with the inauguration of a new facility that has installed capacity to increase multiple times what we currently manufacture in-country. And also return from a historically very severe drought condition in Argentina. So we expect to resume growth in major categories such as micro-beaded fertilizer in this geography.

We expect to do all of these to continue to deliver the type of growth you've been seeing over the last few years, and also expand on partnerships with industry leaders such as Syngenta and Corteva, which we have recently announced.
So with that, I think we can open-up the call for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Ben Klieve with Lake Street Capital Market.

Benjamin David Klieve
Lake Street Capital Markets, LLC, Research Division

I'd like to start with a couple related to HB4 Wheat. First of all, you talked about kind of limiting HB4 Wheat growth this year as a means of preserving working capital. Can you first of all talk about the thought process behind this decision? And then also talk about perhaps how many hectares of HB4 Wheat were maybe not realized in the period because of this strategy?

Federico Trucco
Chairman & CEO

Ben, it's nice to have you in the call. So this is Federico. Basically, the main reason behind shifting towards the conventional channel has to do with avoiding the working capital that is associated with owning all of the productivity under the identity preserve approach. Remember, under that approach, farmers are service providers and engage with us to do production of ESG-linked HB4 Wheat. So that is something we can do up to a certain point. And after that, it becomes demanding from a working capital perspective, also from a green logistics perspective and so on.

So that is something we are monitoring. And if we're able to establish the type of agreements like the one which recently announced the soy with Moolec Science, there is an opportunity to sort of grow on that type of business model. So the main reason is basically because of that.

And then, originally we were planning maybe to do twice the number of hectares we're currently doing on HB4 Wheat under identity preserve. And that's what we're transitioning to -- to the multiplier network where farmers buy certified seed. We don't own the underlining grain. They will own the underlining grain. But this is something we can only do today after we removed the commercial concerns that existed prior to the full approval in Brazil.

Remember, we initially got flour approval, but not grain approval. And a significant part of the trade between Argentina and Brazil is grain trade. So the approval in Brazil, the availability of second generation varieties also help us transition from this high working capital model to one that is leaner and more standard in the industry. I don't know, Enrique, if you want to add anything to that.

Enrique López Lecube
CFO & Executive Director

No, I fully agree. Hi Ben, good to be talking to you. I think to reiterate something that Federico mentioned on the call is the fact that this doesn't affect the level of inventories that we will need for what we want to plant or what we want others to plant next year. So this is about making the cattle structure for the business more efficient without jeopardizing future growth.

Benjamin David Klieve
Lake Street Capital Markets, LLC, Research Division

Okay. That's helpful. So that kind of then gets into my second question on this around future growth. So you had targeted $15 million to $20 million of EBITDA contribution from HB4 Wheat by fiscal '24. Revenue in fiscal '23 of $16 million that suggests a pretty dramatic increase here from '23 to '24. And I understand the multiplier network expansion gives you confidence, but I'd really just like to hear a little bit more about why you still think that you can get from where you were in fiscal '23 to where you expect to be in '24, given the kind of slower progression than maybe was expected last year?

Federico Trucco
Chairman & CEO

Got it. Look, I understand the concern. I think the key here is basically to understand how that number is going to be generated. So initially, we had an identity preserve program where we were pushing these ourselves and at the end of the day, buying all of the grain ourselves. We, in the current year, transition into this more conventional process where we have multipliers doing the scaling up themselves and then realizing sales in which we collect the royalty.

So at the end of the day, I think the capillarity that we can achieve with a multiplier network and the fact that the inventory ramp-up process is not on our shoulders exclusively is what gives us the greater comfort on achieving the stated guidance of $15 million to $20 million of EBITDA for the current fiscal year. Understanding that, it wasn't a linear sort of path between where we were last year and where we're going to be in fiscal '24. And that was mainly the reason why we never guided for fiscal '23, because we knew that the business model transition might be a possibility.

And in doing so, we were going to discontinue some first-generation materials and that might affect our gross profit for the period as indeed you saw it happened in the current quarter. So we would have preferred for this to be a more linear process, but the reason why we didn't guide to fiscal year '23 and we guided to fiscal year '24 is just because the current transition was something that was possible. And that is basically the main reason why we are announcing this today. But from sort of a performance of the varieties viewpoint, from an availability of inventory viewpoint, there's nothing that makes us reconsider the current guidance.

Benjamin David Klieve
Lake Street Capital Markets, LLC, Research Division

Okay. Very good. That's good to hear. Last question for me and then I'll get back in queue. With so many major dynamics competing against each other right now between, especially with sounds like a hopeful transition and weather patterns in Argentina, the industry destocking, and then year-over-year looking at how kind of wild your first and second quarters were of fiscal '23 relative to traditional seasonality trends. Can you just kind of give us any kind of rough expectations that you have looking at the first quarter and second quarter of fiscal '24, particularly relative to where your business was last year?

Federico Trucco
Chairman & CEO

Well, I mean, that's a tough one. Obviously, the first fiscal quarter of last year was a very good quarter, but not so the second fiscal quarter of last year. So it's probably easier for us to do better in the second quarter than what it might be in the first quarter. But we're very well positioned to deliver growth. I think the inventory situation is not done, but it's almost done. I think the type of products that, we sell are probably less affected by those dynamics, particularly in the U.S. and Brazil. And farmers need to buy inputs eventually to sort of go into the summer season.

So a lot of that has been delayed because of the drought situation and probably farmers waiting until later in the season to make their decisions. So we expect to be able to continue to deliver the type of performance we've shown on average over the last 2 years, 3 years or so. But obviously, that will be more challenging in the first fiscal quarter and less challenging in the second fiscal quarter, just because the numbers we're comparing to are very different in that respect.

Enrique López Lecube
CFO & Executive Director

Yes, I fully agree with Federico, Ben. And just to sort of like add a bit more color on that, remember that we always tend to look at sort of like the first half of our fiscal year all altogether, because there's that sort of like back and forth in revenues between Q1 and Q2, depending on what's the base of the season in Argentina and Brazil mostly. So I think that we are sort of like set for a year where we should be able to deliver growth and the type of growth that we target overall.

And also remember that we tend to look at our performance on an annual basis. And I think that this year is a very, very good example of that, where you saw some quarters down, some quarters up, but on a sort of like an overall basis, we're up and that's what we're targeting for. But that first half of the year, I think

that things are getting in line for that to be a good season. But the comparable season last year was a very good one in the first quarter, a very bad one in the second quarter. So we'll see how it all turns out to be.

Benjamin David Klieve
Lake Street Capital Markets, LLC, Research Division

Got it. Okay. Very good. Well, I appreciate you guys taking my questions. I'll get back in queue.

Operator

Thank you, Mr. Klieve. Our next question is from the line of Kristen Owen with Oppenheimer.

Kristen Owen
Oppenheimer & Co. Inc., Research Division

I wanted to ask sort of a follow-up to some of the questions that have already been addressed, but really more thinking about how farmers' willingness to invest in technology is impacted by some of the macro volatility that you've discussed, willingness to transition to an HB4 model or even some of the biologicals. If you can just talk maybe in broad strokes about that farmer sentiment piece first, and then I'll follow-up.

Federico Trucco
Chairman & CEO

I think farmers' willingness to invest in technology is always a key aspect of our business. In general, farmers are very eager to invest in technology that gives them a return on investment. In other words, improve yields as a result of that technology investment. And the dynamics of this is probably different today between Argentina, which is a market where we're looking at the HB4 growth, particularly in wheat initially, and the sort of growth of our biologicals business, which is mostly Europe, U.S., and in part Brazil.

So I think that the drought situation in Argentina may have exacerbated the negative profitability situation that exists because of the taxation situation and some of the macro situation that's specific to Argentina, which we hope will improve in the next political cycle as we're going through an election year. These things tend to change. And so I think farmer income in Argentina is likely to, in relative terms, be much better than where we were. And that will usually translate into greater appetite for the type of solutions that we commercialized.

Now, that is specific to the Argentine situation. In the case of the biological products that we sell in the U.S., in Brazil, and in Europe, I think a lot of that we do through industry leaders, like, for instance, Syngenta, Corteva, and what we're seeing from these industry leaders is almost like a frantic race to replace chemical active ingredients for biological active ingredients. So if that continues to be the case, I think we will stand as winners in terms of technology adoption in these other geographies.

For instance, in Brazil, where we've seen the headwinds of inventory readjustments, we've seen 20% growth on the biologicals business that we have with Syngenta on top of what's being contractualized in the agreement that we announced. So I think we feel very positive in terms of customers, be them farmers in Argentina or these major industry participants elsewhere, accepting the value proposition of our main solutions today.

Kristen Owen
Oppenheimer & Co. Inc., Research Division

That's actually very helpful. And then one of the follow-ups that I had to a question that Ben asked is just, again, on the HB4 profitability, can you just help us understand sort of the profitability of the identity preserved model versus this transition to the royalty model, just so that we can contextualize what that impact is to gross profit?

Federico Trucco
Chairman & CEO

Sure. So the identity preserved model usually has a profitability that is above the average profitability of the company. So we're talking upwards of 50%. When you go into the royalty model, obviously revenues decrease, but then the profitability is higher because there's no added cost of goods. We are not involving the manufacturing of the seed product itself.

So we're talking about probably between 70% and 80% profitability when we deduct the payments that we need to do to other technology partners. And we sort of then have to look at our ownership interest on the royalty since, for instance, in Wheat we have a JV with a French company in this particular business. So short answer, it's about 50% or around 50% for the identity preserved program and much higher, closer to 80% on the royalty front.

Operator

Thank you, Ms. Owen. Our next question is from Bobby Burleson with Canaccord.

Robert Joseph Burleson
Canaccord Genuity Corp., Research Division

So maybe the first one, other callers have touched on this, but there's been a lot of volatile weather, both South America and California, and maybe that changes seasonal patterns a little bit. But can you just talk a little bit about the health or perspective of the California farmer right now? They had drought conditions followed by flooding conditions. And I'm just curious what you think the setup is for the next 6 months here?

Federico Trucco
Chairman & CEO

Yes. Hi, Bobby. Thanks for joining the call. It always feels like there's something missing to finally realize the California opportunity for the products that we have. But I think that we expect the situation to improve. Well, we expected the situation to improve last year and finally, because of the flooding, we weren't able to fully materialize on what we expected. So we do expect that business to get to a more normal setting and if that is the case, and after inventories have been cleaned up, which is what also happened over the last few quarters, I think we can resume growth there because we do have a very compelling product offering for cash crops and high value agriculture in that particular state. And that is almost our home state in many ways, because that's where the Marrone Bio Innovations business originated.

So we expected it to be positive or more positive than what it's been over the last 2 years. But after sort of having had some frustration on that front, we're a little bit more conservative in terms of our statements regarding California ag input business.

Robert Joseph Burleson
Canaccord Genuity Corp., Research Division

Understood. And then just to follow up, maybe a little bit different question. With the inventory drawdown that we've been seeing kind of afflicting the synthetic chemicals demand, it seems like that's been less of an issue for biologics. I'm just kind of curious, across your portfolio, do you feel like that headwind is kind of concluding here? Is there expectation that it lingers a little bit longer? What's the thoughts around how distended this inventory drawdown could be?

Enrique López Lecube
CFO & Executive Director

Hi Bobby, this is Enrique. Good to have you on the call. Look, I think what we have been seeing is what you just mentioned, that it has affected less on biologics, particularly in cash crops, I think that it's mostly a dynamic that has been more relevant in row crops. But in any case, the one product category that for us is important, very important there in terms of profitability, are our adjuvants and what we've seen is that there's some headwinds, but not as big as what other industry participants that have a big offering in chemicals for Crop Protection have been facing.

So it's something that we've been able to navigate. And that's why you saw that in the quarter, we decreased sales of Crop Protection, getting away from lower margin products that might need a push into the markets and focusing the sales force on higher margin products. So we tend to do that, which is not always the best thing if you want to show top-line results, but it might be a good thing to do if you care about gross profit and cash generation.

Robert Joseph Burleson
Canaccord Genuity Corp., Research Division

Great. And maybe if I can just sneak one more in here, you were talking about the downstream benefits on HB4 with this Moolec partnership on soy protein. And curious, you guys have had a relationship clearly with Moolec, financial relationship, etcetera. And I'm wondering, what are the partnership opportunities that this kind of helps pave the way for outside of Moolec? Do you see a robust opportunity for similar downstream arrangements with other players?

Federico Trucco
Chairman & CEO

Yes, I think for sure, obviously, Moolec is a little bit of a category creator in this molecular farming approach to functionalize soy ingredients. And to be able to do that, I think the ESG nature of the generation HB4 program came very handy to them because it in a way helps them address the upstream part of their business. And eventually in the future, combine their technologies around functionalizing beans with our productivity solutions like HB4 and also the biological offering that comes with it in terms of seed treatments and so on.

So I think there's an opportunity to continue to do this type of stuff. And one thing that I believe is important on the Moolec front is that when we partner with farmers to originate the beans that will go into the Moolec agreement, the way we pay for those beans is in part with the equity ownership that we currently hold of Moolec.

Now, remember that Bioceres owns almost 2 million shares of Moolec that we got in exchange for assets that we sold to them at the time of the Verdeca acquisition, the GLA assets that are in the food ingredient side. So the way we're going to pay in part the -- for those 20,000 tons is by using that ownership stake. So this is also a way to create this additional business, if you will, with an incremental value for the data that we gather and the traceability that we put in place, but also from a working capital viewpoint, not affecting our cash position, but rather sort of in a way divesting our equity interest in Moolec and having that sort of be done jointly with farmers that are participating in this program.

Robert Joseph Burleson
Canaccord Genuity Corp., Research Division

Great. Thank you.

Operator

Thank you, Mr. Burleson. Our next question is from Kemp Dolliver with Brookline Capital Markets.

Kemp Dolliver
Brookline Capital Markets, LLC, Research Division

Great. First question, on Slide 14, you have some graphics in the upper right-hand corner comparing the HB4 varieties versus top commercial materials. And I'm just trying to understand whether I'm interpreting the data correctly, because just looking at the height of the bars, 7.3 clearly outperforms everything else, but it's not clear to me if that is the variety that you will be advancing. So can we start with that?

Federico Trucco
Chairman & CEO

Yes. So first, Kemp, thanks for joining the call. 7.3 and 7.4 are two of the varieties we're scaling up. Remember, the data we're seeing here is not under drought conditions. This is the average of 4 sites

where we compare these two materials with the top performers, commercially speaking, in each of these locations. And you're averaging the top performers on one end, and then, so check I and check II are top performers, and comparing that to the two varieties that we're scaling, but this is not under drought conditions.

So the reason why we think these are great varieties is because in the past, we were able to achieve 10% to 20% improvement with HB4 under drought, but under normal conditions or high-performing conditions, we were still some distance away from the top commercial materials. That has been something that we faced significantly in Argentina, almost delayed us in the past, as we were trying to sort of move forward with HB4 soy. Well, that's not the case in Brazil.

So we have materials that are equal, if not better, than these top commercial varieties and can deliver incremental yield under drought, which is not what's being shown here. This is just sort of under normal or not dry-affected conditions.

Kemp Dolliver
Brookline Capital Markets, LLC, Research Division

Okay, so to summarize, essentially, the sales pitch is that you have the varieties that can match or, in the case of 7.3, modestly outperform existing commercial varieties under any conditions, and then when you get a drought, they will outperform noticeably?

Federico Trucco
Chairman & CEO

Yes, yes, and again, 400 kilos of soy, even if that is modest, is significant enough to sort of give you a good return on investment in terms of the added value of HB4 seeds.

Brian Kemp Dolliver
Brookline Capital Markets, LLC, Research Division

Right. Okay, good. Second question relates to the industry headwinds that you've mentioned, and I'm curious, one thing we've read several times over the course of the last few months is that fertilizer prices, after running up last year, have rolled over or dropped significantly. Is that a factor in the recent performance of the business?

Enrique López Lecube
CFO & Executive Director

Hi Kemp, this is Enrique. Good to have you on the call. So, look, obviously, I would say that the micro-beaded fertilizer line, because of the way that technology works, that is essentially by replacing commodity fertilizers, is exposed to price dynamics in MAP and DAP. What is not exposed is the margin that we make, because MAP and DAP are essentially the main raw material for the micro-beaded fertilizer that we manufacture.

So, in terms of top line, yes, we might be exposed to that, and that might be part of the drop in revenues that you saw in Q2 and Q3, but it was mostly volume out of the drug situation in Argentina. So, what we believe now is that MAP and DAP prices seem to have stabilized, and that should sort of like allow us to continue resuming growth. And when we talk about growth in micro-beaded fertilizer, we essentially measure that in volume to draw out any noise from increasing or decreasing of commodity fertilizer prices. But for the sake of a forward-looking exercise, what we are assuming is that MAP and DAP prices will remain stable, and that should allow us to keep growing the revenue line if we grow volume.

Brian Kemp Dolliver
Brookline Capital Markets, LLC, Research Division

That's great. And then just one last question. The other income line, which is normally volatile, was higher than what we've seen in the last couple of years. Is there anything in particular that led to the negative swing?

Enrique López Lecube
CFO & Executive Director

In which one in particular are you mentioning? I lost you there.

Kemp Dolliver
Brookline Capital Markets, LLC, Research Division

Yes, sorry. That's okay. This is the negative 2.2 million for other income, which you report just above the operating income line.

Enrique López Lecube
CFO & Executive Director

Yes, yes, yes, absolutely. So, obviously there, it's anything that is not strictly related to the segments, and in particular in this quarter, we are accounting for some of the inventory ramp-up costs that we decided not to identify in the $81.1 million EBITDA. So, if you were to make an apples-to-apples comparison to the $62 million in adjusted EBITDA that we took as the base to compare last year's result, in reality this year, you should be adding back this $2.2 million. But we decided not to do that because we consider that this is part of what the business needs to digest from a profitability perspective, but it's essentially driven by that.

Operator

Thank you, Mr. Dolliver. Our last question is from the line of Brian Wright with ROTH MKM.

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Just summing up on that one real quick before the couple others, is the best way to describe that that's just an inventory write-down of $2.2 million based on some of the other comments? Is that a fair characterization?

Enrique López Lecube
CFO & Executive Director

Hi Brian, yes, yes, I think that that's a fair characterization. Just to clarify, what we are not going to do anymore is adjust EBITDA or talk about baseline business excluding that. We believe that that's part of the underlying business, and therefore, it should be deducted from the EBITDA, and that's why we're including it as a negative result in the $81 million that we reported in EBITDA. But that, in this particular quarter, was essentially driven by the inventory ramp-up costs.

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Got it. Okay. And just a little bit differently, because we don't have the full balance sheet yet, can you give us an update on the inventory level?

Enrique López Lecube
CFO & Executive Director

Yes, yes. I think that that is to some degree related to what Federico mentioned about the strategy in HB4. Remember that when we came out of the droughts in Q2, so when we reported Q2 in February, we anticipated that we were going to see high inventory levels and high accounts receivable levels most than anything coming from Argentina because we had decided to hold hands with our distributors. I think that we're still waiting for that to be normalized.

It might take an extra quarter or two, but I think that you shouldn't see sort of like a trend line or an increase in that, but rather stability and then going down. That's the plan, and that's what we're hoping for as profitability in Argentina for farmers improves, and we can start sort of like a cashing back part

of the cash that we put out in the street to back up distributors, but it's mostly related to accounts receivables if you're referring to working capital.

Inventory-wise, I think that you're going to see a more streamlined inventory number in the coming quarters, because part of that was also related to the fact that we had prepared micro-beaded fertilizers inventories for what was supposed to be a fantastic season in Q2 last year, which didn't materialize. So part of the outflows micro-beaded fertilizers that we're having now is historical inventories. Accounts receivables should go down in the next couple of quarters, and inventories should as well get back to normal levels in the next couple of quarters.

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Great. Is there a way, because the go-to-market model is changing to the seed multiplier route, but is there a way to think about effective hectare capacity by expanding through this route? I imagine it's a lot larger than the hectares via the direct route, but any way to help us kind of think about that from a quantification standpoint?

Federico Trucco
Chairman & CEO

Like in terms of understanding how many hectares might a distributor multiplier address, like as a rule of thumb?

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Yes, the capacity that they'll be able to fill, I guess.

Federico Trucco
Chairman & CEO

Look, I think a general rule of thumb is that these multipliers can actually do between 20,000 to 50,000 hectares each. Obviously, 20,000 being the smallest and most frequent types, and 50,000, those are kind of the outperformers. Of the 26 multipliers that we have on-boarded, I would say the majority, if you want to do an average, there's more like 30,000 hectares each. Instead of 50,000, but there are some that can do the 50,000. That's more or less the type of reach we expect them to give us, but obviously not initially 100% HB4. Also, they will be significant HB4 the first year, but we expect for them to be almost 100% HB4 or mostly HB4 will take probably two to three years, and we will continue to add multipliers.

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Great, perfect. Thank you so much for that clarification. Another one, and then one more after that, and then I'm done. You talked about doubling the European biological business. Can you help us out on maybe quantification of the current size of that business?

Federico Trucco
Chairman & CEO

Look, today, I think the Lumidapt or the UBP relationship we have with Corteva is probably close to $10 million on an annual basis, and obviously, that is twice what it was last year and will continue to grow. We think that the MBI-306 opportunity will double that potential growth that we currently have with the UBP on a standalone consideration. Is that good enough?

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

Oh, that's perfect. And then just last one is with the change to the dollar for the functional currencies, are there any legacy impacts for currency devaluations to be kind enough to know in inflation in Argentina and how that's impacted at all?

Federico Trucco
Chairman & CEO

Well, what I would say is also as a rule of thumb is that inflation is something that hits you up every month. The devaluation is when you sort of are finally able to catch-up, and that happens in more discrete events, like during last month, I believe we had a 20% devaluation, so that obviously will help us dilute some of our peso-denominated costs in real dollars, and in a way, catch up a little bit against the inflation that we experienced over the last several months, as we were probably having higher dollar inflation that would otherwise be normal.

So I think the 20% devaluation in the business in which we operate should help us from a profitability viewpoint, as we still have a significant part of our costs in Argentina, which are peso-denominated.

Brian Michael Wright
ROTH MKM Partners, LLC, Research Division

I really appreciate the time with all the questions.

Operator

Thank you, Mr. Wright. There are no other questions waiting at this time, so I will turn the call over to Federico Trucco, the CEO, for closing remarks.

Federico Trucco
Chairman & CEO

Well, thanks again to everyone for joining and for the good questions. I think there's a lot of information, as we are reporting our full fiscal year results. Do feel free to reach out to the IR team, to ourselves, to continue to sort of address any questions that you might have and looking forward to continuing the interactions, and hopefully have a fiscal year '24 in which we can materialize the growth that is embedded in our business, and not have to deal so much with the headwinds that come from external factors. Have a great evening, everyone. Thank you.

Operator
That concludes today's call. Thank you for your participation. You may now disconnect your lines.