























**Mark Grewal**

I'm going to let Matt really get into it, but about 30% of our sales are in that region, historically. So I will let Matt.

**Matthew Szot**

Yes Mark, last year we did \$31 million of the sales in the Saudi market and a good chunk of that actually occurs in our fourth quarter.

**Mark Grewal**

Okay.

**Matthew Szot**

Year-to-date our sales into Saudi are down \$4.4 million through December. We are obviously hopeful to recapture that in the second half of the year, but with the uncertainty that Mark just talked through, we don't have crystal visibility as to what's going to play out here in Q4. We are actually getting orders out in Saudi, it is just there is a certain amount of product at risk maybe about a million pounds that might shift into next year.

**Gerry Sweeney**

Okay. Could you reallocate that to other areas that we are seeing growth that you are thinking about maybe pulling back-on?

**Mark Grewal**

Gerry, that's actually just an excellent question, because remember, it depends on the product mix and the dormancy and the branding to determine the market. So some of that's not like an overnight shift to another distributor because it doesn't meet their geography or their criteria or their brands that are registered for their region. So as we work through that type of stuff, all of that will be sold. Every time we have this, every quarter, and guys get frustrated with it, but the bottom line is timing, it's timing and it's timing to sales. We're going to sell everything, it's just the time.

**Gerry Sweeney**

Okay. Now, I figured it was harder than just boxing that into another crate and shipping it somewhere else, so that's helpful. And then speaking on margins, congratulations, obviously, up substantially over last year. You talked about, I think, in the past, we've also talked about two things. One, the cost of goods sold, you had some lower production, so that you had to go out into the market and buy some seeds to fill some requirements. But to the optimization program, as we look at the margins today and the improvement year-over-year, how much was the improvement from cost of goods sold, how much is it from the optimization program? And then the third part is, I used to target 25% gross margins just for that alfalfa business. Is that still fair assumption at some point in the future?

**Matthew Szot**

Yes. So Gerry, this is Matt here. So, as it relates to the quarter-over-quarter margin improvement that we just experienced in Q2 that was really driven by two things. One, sales mix, Q2 had a higher concentration of our dormant varieties getting sold into DuPont Pioneer channel and that share is the higher margin. That was the main contributor, and additional to that the cost of goods sold on our non-

dormant varieties were lower due to the fact that we were entered into more favorable production arrangements this year than we did last year when we had certain contracts that were in essence subject to yield risk. So it's a combination of those two factors that drove the margin improvement for the year. The optimization margins improvement that we are really excited about, and that comes more into play in Q4, when we have the Australian crop come off. Right now, we have nominal levels of our Australian product on-hand, so there is not much optimization that can even occur. That happens in Q4, and certainly into next year. And then I think your question is, is 25% margins what we are targeting for alfalfa. Absolutely, it's not going to happen this year, but we see a clear path for how we are going to do this over next, say, three years or so, how we are going to ratchet up, slowly but methodically, up to 25% margins.

**Gerry Sweeney**

Got it. Perfect, I appreciate it. Thanks guys.

**Mark Grewal**

Thank you very much.

**Operator**

The next question comes from Jill Wickersham, a private investor. Please go ahead.

**Mark Grewal**

Good afternoon, Jill.

**Jill Wickersham**

Well, hi. It is Jill. How are you?

**Mark Grewal**

How are you doing?

**Jill Wickersham**

I'm fine. Thank you. So this is my first shareholders call and this is a general question. But I am just wondering why the stock price seems still quite low? Why it hasn't been able to get over \$5, besides the obvious, more people selling the shares and some buying them?

**Mark Grewal**

Well, Jill, I am not a stock guy, I am agronomist and a dirt farmer. But, we have a tremendous amount of holders of this stock that do not sell, period, so the float is very low.

**Jill Wickersham**

Yes, I knew it.

**Mark Grewal**

And we have \$17 million outstanding, I bet you maybe \$5 million is actually the float. So it's going to help that stuff freeze-up, but the bottom line is, it just based on, to me, results and performance. So I wouldn't be too concerned about it, we are building it. This company is really building into a fine quality



go to forage company. So I think every year that's actually got better, although, the stock price doesn't indicate that, it's a much stronger company than it was back in 2013.

**Matthew Szot**

And then Jill maybe one other factor and it's really hard to quantify. But we did, over the last three months, did have debt to equity conversions of approximately \$3.2 million. And we suspect that a lot of those conversions were probably sold right back into the market, which did have some probably downward pressure on the stock. But obviously, we are really excited now because that convertible debt balance is only \$190,000 it's basically gone at this point. So we don't think that that should be a headwind in the future. And at the end of the day, we can't control the stock price does on a daily basis, where we have our heads down and we are focusing on growing this business and expanding the profitability.

**Operator**

And this concludes our question and answer session. I would now like to turn the conference back over to Mark Grewal for any closing remarks.

**CONCLUSION****Mark Grewal**

Thank you, Carrie. The world population continues to grow, they continue to demand higher levels of protein and improved nutritional benefits and S&W will continue to meet these demands in the years to come. Again, our thanks to everyone for participating on today's call and we look forward to talking with you again at the conclusion of the current quarter. Have a great evening. Thanks for your attendance today.

