

For the full year, excluding the previously mentioned items and impairment expenses as well as transaction expenses in last year's fourth quarter, operating expenses were \$17.3 million in 2017, compared to \$16.1 million in 2016. The increase is attributed to additional investment in research and development programs primarily associated with the company's new product lines. And our SG&A expenses were up to support the company's strategic initiatives.

Adjusted EBITDA for the fourth quarter was a \$329,000 loss, compared to positive EBITDA of \$3.5 million in the fourth quarter of the prior year. For the full year, adjusted EBITDA was \$3.5 million compared to \$6.9 million in fiscal 2016. This is consistent with our previously announced results back in July.

The decrease in adjusted EBITDA is primarily attributed to the declines in revenue in Saudi Arabia, partially offset by improvements in gross margin and which accounts for \$2.5 million of the \$3.4 million decrease in adjusted EBITDA over the prior year. With the remaining decrease attributed to additional investment in research and development program and SG&A expenses.

Now, I also want to point out that during the fourth quarter of 2017, we recorded a valuation allowance of \$9.6 million against our deferred tax assets. This resulted in GAAP income tax expense of \$8.2 million for the fourth quarter of 2017.

I want to stress that these assets still exist and we still have the future benefit of our federal and state net operating loss carry forwards, while we have simply taking a reserve against the balance due to uncertainty surrounding the Saudi market. This will result in the company being able to release portions of the deferred tax asset reserve as we generate taxable income in future periods. Accordingly, the company will have no or very minimal tax expense for several future periods.

Now, I would like to give you a quick update on our banking developments. I am very pleased to report that we closed on a new two year \$35 million working capital facility with KeyBank yesterday. This new facility provides us with a significant amount of flexibility to support our production and growth plans. We are also working on securing a long term loan to refinance our promissory note due to Pioneer which comes due in December of 2017.

To recap our guidance based on information currently available to management, the company currently expects revenue for fiscal 2018 to be approximately \$75 [million] to \$80 million, and adjusted EBITDA to range between \$4 million and \$5.5 million. And for the first quarter of 2018, we expect revenue to range from \$9.5 [million] to \$10 million. I know we went through a lot of data here, so if you have any questions, please feel free to ask.

Let me turn it back over to Mark.

Mark Wong

Thank you, Matt. As I said at the beginning of this call, I am excited about the opportunity S&W has before it. We have a tremendous team of individuals. These are industry veterans who have high levels of expertise within their respective verticals. I am confident in our ability to build a great agricultural platform going forward by leveraging our existing assets while also incorporating new technologies and focused areas.

This is an exciting time to be in agriculture, and S&W has a tremendous platform to build from. I am committed to making S&W successful and appreciate the support of our shareholders and look forward to driving value for our customers, our partners and our shareholders over the years to come.

Now, we would be happy to take some questions and open up the discussion. Operator?

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press "*" then "1", on your touchtone phone. If you are using a speakerphone please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2.", again that is "*" then "1" to ask a question.

Our first question comes from Mike Malouf of Craig Hallum Capital Group. Please go ahead.

Mike Malouf

Great. Thanks guys for taking my questions.

Mark Wong

Hi, Mike

Matthew Szot

Hi, Mike

Mike Malouf

Hi, Mark, as I look at gross margins over the next couple of years, I am wondering if you could comment a little bit on where you see S&W's gross margins trending and how the sunflower and sorghum and Stevia play into that? Where should we really be? The 20%, 21% that does strike you as commodity-like prices. So, how do we get those into more attractive ranges?

Mark Wong

Yes. That's a great question, Mike. The industry gross profit margin percentages for sorghum and sunflower are probably more in the mid 30, 35ish kind of range. So, I think by focusing on those hybrid crops and again, those are annual crops not a perennial crop, where it's much harder with alfalfa to prove yield. And so, it's harder to maybe get farmers to pay based on a yield criteria but sunflower and sorghum, for sure yield is measurable. You weigh the seed or you can measure the seed over a combine and the industry, I think, has done a good job at providing improved varieties, hybrid varieties for their farmer customers and we are looking forward to competing in that industry. So, these other crops that we are moving into have a much higher gross profit margin than alfalfa and should be part of our efforts in the next few years to raise our gross profit margins.

Mike Malouf

And how about with alfalfa?

Mark Wong

Alfalfa, we would love to get our prices up if we could prove to our farmer customers that there's value there to be shared between them and we. So, that's always a focus of ours. So this whole customer, more customer focused strategy is to really understand and help our customers...for us to understand our customer's needs, but it's for our customers to understand what we are providing in our germplasm and in the trait package that we will be offering to them. So we are planning on doing more in-country demonstration trials. We are a little bit always US centric.

Our S&W sells products all around the world and we have to make an effort to put out information and demonstration trials in other countries around the world so our customers can see how our products perform. Traditionally, we've at S&W tried to also save on our seed costs and so getting higher margins for this last past year, I think our margins were up a couple of hundred bps, that was our effort to really reduce the seed growing cost. But, it's always a two-pronged effort in the seed industry, as you know, trying to reduce your own cost but trying to prove to your customers that you are providing more value.

Mike Malouf

Okay great. And then moving to Stevia, can you just add a little bit more color on specific plans over the next couple of years?

Mark Wong

Yes. So, I am incredibly excited about Stevia, just what you read about the problems that we are having with obesity in this country and everything, these sweeteners as a class that are not based on sugar, I think are real opportunity. We certainly have had a mixed record in our ability to enter and earn money out of that market. So that's proving that we can actually achieve something in Stevia, you are just going to have to watch our progress and we are going to show you and other people in our industry that we can be effective in Stevia. But, we have three patents, I think the third one is being issued here, maybe almost as we speak. The patents are focused on the taste issues in mainly Reb-A, which is the main sweetening component of Stevia. It has a bitter taste and that's why its use may be not has achieved as much market penetration as it could.

So, we are doing breeding and we select for better tasting varieties that we also select for varieties that have better processing characteristics, so that it's easier to get the Reb-A and other stevia sides out of the actual plant. And so, we are working on all those things and I am a chemical engineer by education, even though I ended up in the seed industry and then the dairy industry. So, I have some experience in extraction and in large facilities doing extraction. I was in the ethanol industry that wasn't said in my bio and so I am very excited, from a professional standpoint too and think that I have some applicable background that would allow me maybe to help S&W get your place in Stevia that it couldn't get to before I became the CEO.

Mike Malouf

Okay great. Thanks for the help. I appreciate it.

Mark Wong

You are more than welcome.



**Operator**

Again, if you have a question please press "*" then "1."

And our next question comes from Sarkis Sherbetchyan of B. Riley & Co. Please go ahead.

Sarkis Sherbetchyan

Yes. Thanks for taking my questions here. Mark, can you maybe give us a few key milestones that your team plans to achieve? And also, perhaps what timeframes maybe we can think about achieving those key milestones?

Mark Wong

Sure, Sarkis, I would be happy to. So I am not going to plead longevity here because I am an older guy and that's where my experience comes from, but this is my 12th week and I think what I have said to people who have asked me your excellent question before is that, our senior management team really is taking the next five, six months to evaluate what the real opportunities are and what the timelines for those opportunities are and how to rank them against each other, what are short term, what are long term, what are maybe big profit opportunities, what are smaller profit opportunities but have a lower risk. So we will be generating that analysis and discussion. Part of it is internal; part of it is reaching out to other experts in the industry in different markets that we are interested in. So, you can really expect a definitive answer to your question in the February timeframe of 2018, that's what internally we have targeted. So, if I could just ask your patience and remind you to ask me that question again in a future call, hopefully I will have a much better answer for you. I am not trying to dodge the question, but frankly we are doing the work right now, Sarkis.

Sarkis Sherbetchyan

Yes. I appreciate that. And I think in the prepared remarks, you had mentioned after the closing of the KeyBank facility, that there is the opportunity to refi the Pioneer promissory notes that are due in December. Can you maybe talk a little bit about what you plan to do with the recent private placement money which obviously doesn't show up on your June balance sheet as well as, I think in conjunction with that release, you had mentioned a potential September, October timeframe rights offering, any thoughts or updated thoughts on that process?

Mark Wong

Sure. Maybe I should let Matt give you a better answer than I could give you to that. Matt, please.

Matthew Szot

Sure. Well, Sarkis, one of the uses of proceeds will be short term working capital needs. We are really pleased to have the KeyBank facility. That's going to provide us quite a bit of flexibility. But as we talked about probably 12 months ago, we did increase production for the crop that's being harvested now. Yields are coming in around average but year-over-year we will be carrying higher inventory balances with that increase in production coupled with the decline in sales in Q4. So short term, some of those proceeds will be used to help supplement the working capital facility. We are also working on the refinance of the Pioneer term loan. We are targeting a 15 year loan and we are in the final stages of that. We are just wrapping up our appraisals to conclude what the exact amount will be. So once that's done, we will know the exact allocation of those uses of proceeds. And then of course, we are really excited to have Mark onboard. And we want to have flexibility with the balance sheet that as we see opportunities that present themselves in the coming periods, we can be flexible to jump on those.

Sarkis Sherbetchyan

Got it. And just on expanding on this thought process, any initial targets on how you would like this either balance sheet or leverage ratio is going to play out?

Matthew Szot

Well, I would think that we typically would want to keep our cash flows from operations to long term debt probably to be around the three times level. In any given period that we might have a departure from that, but I would say from a longer term perspective, I wouldn't think we would want to leverage more than from a long term debt standpoint more than three times cash flows.

Sarkis Sherbetchyan

Got it. And then circling to the annual 2018 guidance, I think the revenue range was \$75 million to \$80 million, EBITDA range was \$4 million to \$5.5 million. It seems fairly in line with the year we just produced. Can we maybe talk about the cadence of either sales expectations or the distribution of EBITDA generation, would it be similar to this past year or would it be different?

Matthew Szot

Yes. I would say the sales cadence, we are probably expecting to be more similar to the 2016 year as opposed 2017. As we mentioned, Q1 is a very light quarter for us as the harvest is preparing. But certainly revenues are back then in the second, third and fourth quarters. But Sarkis, I think if you look to the 2016 year, that will give you a much better idea of revenue cadence.

Sarkis Sherbetchyan

Got it.

Matthew Szot

And then also, I would just mention, in Q1 our gross margin is just based on sales mix. Gross margins in Q1 are a bit thinner and then we really start seeing that more dramatic gross margin expansion in the second, third and fourth quarters as we have higher concentration of sales of our dormant varieties which carry higher margins.

Sarkis Sherbetchyan

Got it. And then moving on to Stevia, is the thought process here to become a commercial producer? Or is it to eventually license out or collect the royalty to those commercial producers that exist today?

Mark Wong

I presume Sarkis, you are referring to Stevia.

Sarkis Sherbetchyan

Yes. That's correct.

Mark Wong

Yes. I think, again, we were in an evaluation process. But we are thinking through our previous position that licensing these varieties to other parties is the way to go. We are concerned about our intellectual property, especially since most of the production is done in China and these plants can be cloned and your germplasm can be copied. So we are trying to figure out what those issues have on our strategy



and we will frankly be redefining that. I have some ideas of where I would like to go. But I am not going to say much about that until I have some more meetings with other people from the industry because there might not be partners or others that want to cooperate and are willing to co-develop or co-invest with us. And so I am going to hold off on giving you any specifics. But we are concerned about the IP issues in Stevia and maintaining our very valuable IP and we are adjusting our strategy to take that into consideration.

Sarkis Sherbetchyan

Alright. That's helpful. I will hop back. And thank you.

Operator

Our next question comes from Jonathan Fite of KMF Investments. Please go ahead.

Jonathan Fite

Good afternoon, gentlemen. Thanks for the call. I think most of my questions were answered, but I just want to clarify something on the rights issue. I thought I heard Matt say that even with the securing of the \$35 million line, you guys are still actively considering a rights issue just for working capital liquidity purposes. Is that right?

Matthew Szot

We are. Our intentions are to launch a rights offering this fall. We anticipate on filing a document with the SEC here in very near future and that will give us further details around the mechanics of that rights offering and use of proceeds.

Jonathan Fite

Do you have an initial sizing on where you are looking to raise through that?

Matthew Szot

Yes. I would rather wait until we file that S1 with the SEC to give all the details on the rights offering.

Jonathan Fite

Okay. Thank you. That's all I have for now.

Matthew Szot

Thanks, Jonathan.

Operator

Our next question comes from Al Shams of American Capital Partners. Please go ahead.

Al Shams

Yes. Gentlemen, good afternoon.

Mark Wong

Hi, Al.



Al Shams

Hi. Correct me if I am wrong, but one of the things that I surmised from Mark's comments is that over the next two to three years, we have got the chance for substantial revenue growth and that there are various projects that have been incubating over the last two, three, four years that are now coming to fruition from a revenue point of view. Is that essentially correct?

Mark Wong

I would say so. Yes.

Al Shams

Okay. Good. Secondly, with respect to the severance package and paying about \$650,000, can you talk about that? I am sure there was a contract there and you have honored the contract. But was there any other way around that? Just talk about the circumstances of that please.

Mark Wong

That package is something, that separation agreement was something decided at the Board level. We have filed our SEC disclosures around the details of that. And it's really has nothing to do with the go forward operations of the business. We are rather focused on our strategic initiatives that we are working on.

Al Shams

Okay. And then for Mark or Szot, you were talking about the, was it a write-off of the tax deferral asset? But that's just for book purposes. We still have that asset from a tax paying point of view.

Matthew Szot

Absolutely. Those net operating losses are still there: The assets still exist and the future benefits of those assets are by no means gone. We simply have taken a reserve against our balance sheet. So as we generate future taxable income where we otherwise would have GAAP income tax expense, we will be releasing the reserves off of our balance sheet. So that would trigger not only minimal to zero GAAP income tax expense, but probably just as important from a cash flow perspective, we will be utilizing those NOLs resulting in no cash income tax expense as well.

Al Shams

Okay. And let me complement you on that very nice transaction, the raising of capital in a non-brokered fashion. So that was a real value transaction to shareholders. So thanks on that. That's it from me. Thank you.

Matthew Szot

Alright, thanks Al.

CONCLUSION**Mark Wong**

Well, thank you everyone and thank you, Andrea, for helping keep people in communication and helping us field the Q&A. I would just like to finish up and just thank those of all of you who are on the call today. There's a lot of work still to be done, as you have all heard. There is inevitable challenges that



will come up. But we think there are great opportunities in front of us and we are going to drive value for shareholders at S&W. Again, we thank all of you today for taking your time and listening to our discussion. We look forward to speaking with you again in mid November. Thanks very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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