

two liters containers of four fluid milk and they make products: butter, yogurt, cheese to the taste of the local Middle Eastern and Saudi markets out of that milk.

And so they're realigning all of that. In the short run, there was probably an over-inventory of seed in the country because it distributors were concerned that the Saudi's would not allow any seed imports in the country, so they kind of loaded up the pipeline in sort of the expectation there would be changes and not knowing what they would be. They prefer to have seed in country than out of country.

And the companies that produce hay, so there are companies who produce the alfalfa and the dairies themselves are in production. But independent farmers are also producing alfalfa hay and selling it to the dairies or holding it in their own inventory for future sales to the dairies. So in the short run, that hay inventory has to be used up by the existing cows in Saudi Arabia.

So even though you cut back on water, and even though you cut back on newly-seated acre alfalfa, maybe not total acres of alfalfa yet, although we expect that to be coming down, too. Farmers are reluctant to buy seed and seed new acres. There reluctant to invest in that incremental investment because they don't really know how long water rights are going to be maintained in a Saudi Arabia and, therefore, how long they can produce hay on a local basis.

So all of those things are changing, right? And everybody's trying to get used to what is going to really mean to have a dairy industry in Saudi Arabia where water restrictions change the kind of business structure that the company has in the dairy industry. So that's an incredibly long-winded answer to your incredibly good question. But that gives you some insight to why for us, as a seed company, seed sales are pretty much cut off and very difficult to do right now.

While at the cows still may be existing and even the acres of alfalfa still may be in production, but no new acres are being planted, right? And for us as a seed company, that's really the key to our sales.

Mike Malouf

And then just a quick question on the stevia side. How proprietary do you think your stevia plant is? I know we have Eversweet coming out, which is really a targeted Reb-M and Reb-D fermentation product from Cargill, and I'm just wondering how you see the markets shifting over the next year or two if that comes out and just kind of disrupts the stevia market. Thanks.

Mark Wong

Yes, so Cargill would be one of our customers, right? So Cargill takes the role stevia leaf and makes these new products that you described, and everyone is trying to manage the Reb profile. I don't know how many Rebs there are together, but there's probably 10 at least. People are trying to maintain the sweetness of their products while cutting down on that kind of funny bitter taste that sometimes you get from stevia when you use it as a sweetener.

To me personally, Mike, just my personal point of view, I think you can manage that profile a little bit, but part of that bitter taste, I believe, comes from the fact that it's so much sweeter than sugar that your mouth, the taste buds in your mouth really aren't made to appreciate sweetness at that level, even if you sort of mix other things in with it to dilute that sweetness and spread the stevia through more units of production.

But I think it's going to be a great product. I think the fact that Cargill is a key customer to the industry. Cargill provides materials into Coke and Pepsi, who are obviously key users of stevia in their diet beverages. And the diet beverage market share seems to be going up every year, so we think that stevia has a hugely exciting future.

What we're trying to do though is not only manage that Reb profile, but we're trying to make stevia into a crop that you can grow in America. So what that means is that you're not going to be able to hand harvested like you do in Asia, where all of the stevia is really produced today. So it's produced like a tea. You harvest it a couple of times over its life, a couple of years, and many times maybe in that year, and it's done by hand.

And so, if a crop comes to the US, it's not going to be probably economic to have enough people in the field to harvested by hand, so you're going to have to, at the same time you develop proprietary varieties with the right Reb profile, you're going to have to have a plant that's much more resilient to weather conditions, that can stand up to some of the conditions we would grow stevia here in the US, and is it going to be machine harvestable.

So we're working on those problems. We believe that we have proprietary expertise there. We've been granted three US patents on stevia. We think that's an indication of the power and breadth of our germplasm base. We like stevia. I like the stevia personally. The company likes stevia, we think it's a big, great opportunity for the sweetening industry and for S&W as a very small part of that industry, but an important base part, right?

Because we grow the seed, and as the ASTA says, you know, everything starts with a seed. That's the American Seed Trade Association. That's their motto.

Mike Malouf

Yes, great, that's helpful.

Mark Wong

I'm really excited about the crop. I love it. It's all I can do to just sit here and not go out and work on stevia.

Mike Malouf

Well, let's keep you focused in on all the other stuff, too. The last question I had is it just on a sorghum. You talk about acquisitions; do you have stuff identified? What kind of size are we talking about? Do you have the balance sheet in place to do this type of thing? Can you give us a little bit of color on the strategy there?

Mark Wong

Yes, good question again. So we actually have three candidates that were currently looking at. And I can't really tell you any more than that, because I don't want to elicit competition from other seed companies. But I think the industry knows that were in the market. And so the deals that might be out there are coming our way. That's always a good place to be, when people really believe that you want to stake out a position in a crop.



So, you know, we're excited about the opportunities. We're looking at due diligence and trying to understand the candidates that are before us. So we're pretty far along the way. I'm not going to make any projections on timeline, because we're only half of the negotiation. The other half is obviously the selling company, but we're pretty optimistic.

As far as capital, you know, our board, management has conveyed to the board of that our strategy, which I described in the comments I made some minutes ago that acquisition was one of our primary ways to grow our business. And they're own board with, if we get the right acquisition at the right price, obviously, with earnings potential and growth potential, they would consider raising more capital to fund it.

Obviously, it's unfair to ask people to fund things specifically until you have a deal on the table. So I can't sort of say to you that there's a pool of funds that that's been committed of X or Y. I think that will have to wait until we see what kind of deals we wanted to do and what the price of those deals is.

Mike Malouf

Okay, great. Thanks for the color, appreciate it.

Operator

And as a reminder, if you would like to ask a question, please press star, then one.

Our next question comes from Ben Klieve with Noble Capital Markets. Please go ahead.

Ben Klieve

Hi, guys. Thanks for all your comments here. Mark, especially thanks for the comments at the start of the call. It sounds like you guys have a lot going on and we appreciate the color that you've provided.

A couple things. One, I'm curious regarding your kind of customer-centric initiative you been working on here for the last couple of months. I'm wondering if your distributors have noticed any changes in the dialogue with your customers yet, or if that's still something that is still a few quarters away?

Mark Wong

Sure. I think it's too early for people to see the effect of that. Distribution, getting closer to customers, may, through lots of different structural mechanisms, and while we're absolutely pleased as punch with our relationship with Pioneer and having them distribute our dormant alfalfas through their farmer/dealer network. When I say getting close to the customer, I mean, I'd love to have a farmer/dealer network like Monsanto has through Dekalb or Pioneer has through their farmer/dealer's.

But, you know, you've got to be a big company in corn and soybeans to be able to afford the economics of that. But it gives you incredible reach and access to your farmer customers. So we're trying to imitate that without having a farmer/dealer network because, you know, we're not a basic company in corn or soybeans. Nor, as you can tell from our plan, do we plan to be in the sense that we've picked our three crops and we're going to focus on them.

Is that to say that if a germplasm company came along and we saw an opportunity for non-GM corn in international markets, that we already have a significant share in, that maybe we consider that? Yes, but maybe I come from a household where we stick to the plan. And, you know, the plan is sorghum,



sunflower, alfalfa, and stevia and, you know, we're going to try to stick to that as close as we can without leaving any opportunities pushing them off the table without at least looking at them.

We're trying to get closer to the farmer. We believe as farmers consolidate that there's a fewer and fewer of them and that they are smart people and they make good decisions and that they make it based on good data, the performance of our seed varieties and other companies' seed varieties in their local markets and that's the kind of thing that we want to demonstrate and show that we can be a good partner with our customers.

Ben Klieve

No, that makes a hell of a lot of sense. Another question I have is with the shift of hybrid operations to Australia and bringing David on board, I'm curious if your earlier estimates of kind of a five-year target in the \$30 million range are still appropriate, or did you make those initiatives because you think the feeling may be a bit higher than that \$30 million range in the long-term?

Mark Wong

You're just trying to get me to say a number higher than 30. I'm not going to do it. I'm just not going to do it, Ben. You're a persuasive guy, but I'm not going to do it. I mean, we think 30 is a gigantic target. You know, we're going to be the happiest group of managers and salesmen and research people in the whole world if we get the \$30 million.

You know, we're going to Australia because, frankly, the timelines are a bit shorter, right? The material has been chosen for Australian conditions. What a seed company does, you know, they do their plant breeding and then they evaluate those hybrids in the field with farmers for a couple of years and then they decide whether good ones are, and then that they raise a what we call "Foundation seeds," which are the mother seeds that we grow all the commercial seeds from. And then we have to put commercial seeds in the field and harvest those, clean those, back those and sell those to customers.

So that's a white Matt said the process is always a slower at the beginning and then hopefully gained some momentum. And we think that momentum is a couple years more advanced in Australia than it is, for instance, in the US for us. But we're going to be in high cotton, so to speak, if we had \$30 million in five years.

Ben Klieve

Well, you can't blame a guy for trying, but I appreciate that.

Mark Wong

You're a good man.

Ben Klieve

A nice lesson I have is with regards to the stevia development. I'm curious. On the last call, you talked about the development agreement that, you know, negotiations are ongoing, kind of the next generation of that. I'm curious if you could update us on the status of that.



Mark Wong

Yes, so we haven't made an announcement yet, so there's really not anything officially I can say. But we're pretty close to a multi-year agreement with one of the big customers in the stevia market and that's about all I can say right now.

But no one could be as excited as me, so there almost as excited as me, but we think we're getting there. You know, we're going to have to put a little bit of money into stevia. Some of our breeding programs have some places where we need to some work. We do need to do some mark-assisted breeding there in a way that we haven't done it before. We're working on some new analysis techniques on HPLC and then a mass spec to make sure that our varieties have the performance we think they have.

It's a little bit more difficult, so this is one of the difficulties of stevia, it's a little more difficult than it just going after yield, because I think, as Mike asked, you have to manage this Reb profile, Reb-A, M, L, whatever they are, K, I think there is. You have to manage that taste profile as well as yield. So you're looking at total yield, but you're also looking at the quality of yield, and that's why these analysis techniques are so important and we just want to make sure that on a science basis we're actually up to speed with everything that we can be doing there to maximize the efficiency of our breeding program.

Ben Klieve

Okay, very good. And a question regarding Saudi. The level of uncertainty on the Saudi market seems unchanged over the past few quarters, and it seems that your customers are kind of looking at one of a dozen different things they can do in the aftermath here, but there is no more clarity today than there was a couple of quarters ago, from what I can tell in your comments.

Do you have any sense of that your customers are gaining any clarity? Or is it truly as uncertain today? Is their strategy as uncertain today as it was a few quarters ago?

Mark Wong

No, I think that they're gaining clarity. I mean, just make sure that we all understand here what we're talking about, structurally. Right question but these are huge dairies. The biggest in the world and their vertically integrated, right? So you're in a vertically-integrated business where you've got the production of the feed, the cows, the bottling plants, the distribution trucks that go to all the grocery stores.

You got at least four steps. You're not selling the milk directly to customers yourself. Those are going through grocery stores, but you're basically doing everything else about that. And for them, we all like to understand and reap the profits of vertical integration because there are cost savings and you get to the market, probably, faster. You're more innovative in your understanding of what new products need to look like.

But you got an investment in that vertical stack of assets, and so when somebody basically kicks the basement window out, you know, they tell you that you can't have any water to grow the crop. It's not exactly, in all respect to these big companies, it's not the easiest thing to go through, to think through your vertically integrated strategy and figure out which pieces, at the least cost and profitability, can come out of your stack, of your vertical stack, to allow you to continue to be a profitable company.

So, you know, I'm not going to mention names because that would just get me in dutch with some people, but it's clear that some of the companies are doing better than others at managing this issue.



You know, when we talk to them, that's kind of what we--some companies we here with a pretty good understanding of what their issues are and what their options to solve those issues are, and others are still, frankly, a bit caught in the deafness of the hand grenade going off next to them in the sense that their basic business assumption, that a vertically integrated business was the most efficient way to address the dairy markets in the Saudi, has been thrown on its ear.

And it's very, very difficult. I take my hat off to them. I think they're all trying to do a great job and I just don't--if I was in their place, I don't know what I would necessarily do. And, you know, I'm coming from and not necessarily my seed background or the seeds of S&W, but I have been in the dairy business. I am in the dairy business. My partners operate a dairy, and I have some direct experience with what happens at a dairy day-to-day. And it's still incredibly difficult to figure out what there is to do when you have this vertical stack of added value that's built on getting high-quality milk and milk products to a local market, and then that's turned on its ear because water is taken away from you.

I think it's daunting. I'll just add that this water problem is a problem around the world, and I think Saudi's maybe brave in the sense that they been one of the first countries to sort of take this head on and try to make a decision. And I just wonder what other countries, including parts of the US, need to go through the same kind of hard decision-making to get to a situation where we've got an equilibrium environment in water usage for agriculture.

Ben Klieve

Yes, I can certainly see that. I certainly empathize with the position they're in. Last question for me. Quick one, and I'll jump back in queue here. The \$15 million Pioneer number that you discussed, could you remind us what that was Q2 last year?

Matthew Szot

Ben, it's a roughly the same number. There's a little bit of variability, but year-over-year for Pioneer will be pretty much be in line with the prior year numbers and year-to-date we're roughly in line with where we were at last year.

Ben Klieve

Perfect. Thanks, Matt. Thanks, Mark, and I'll jump back in queue you guys.

Operator

Our next question comes from Keith Gil with Carter Terry. Please go ahead.

Keith Gil

Good afternoon, Mark, Matt. My question was already answered previously, thank you very much.

Mark Wong

You're welcome.

Operator

And this concludes our question-and-answer session.

I'd like to turn the conference back over to Mark Wong for any closing remarks.



CONCLUSION

Mark Wong

Yes, I would just, again, like to thank all who are on the call today, especially the analysts who follow S&W. Without your support, the public would not know about us and we value your questions, your commitment to understanding our company, and we look forward to obviously working with you all in the future.

Again, I want to thank our new board members, our old board members, our employees. I hope everyone feels, like I do, that there's some momentum gaining in the company. We're all learning from each other. We're all learning from the different skill sets that we bring to the table for all of these problems that were trying to address. You know, we're doing something that is not easy. We're creating a new kind of company in these middle-market crops and we think we have the skill set to do it.

And we certainly have the support of our shareholders, but these things are never easy and you can depend on our commitment and our intelligence and our work ethic to try to get this done to the best of the abilities of our organization. So thank you everybody. It's always great being on these calls. I obviously enjoy them, and thank you all for your following of S&W.

Operator

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

