



**S&W Seed Company
(NASDAQ: SANW)**



**Second Quarter Fiscal Year 2018
Financial Results Conference Call**

**Thursday, February 8, 2018
4:30 PM Eastern**

CORPORATE PARTICIPANTS

Mark Wong – President and Chief Executive Officer, S&W Seed Company
Matthew Szot – Chief Financial Officer, S&W Seed Company
Robert Blum – Managing Partner, Lytham Partners, LLC

PRESENTATION

Operator

Hello everyone and welcome to the S&W Seed Company Reports Second Quarter Fiscal Year, 2018 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one, on your touchtone phone. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I would now like to turn the conference over to Robert Blum with Lytham Partners. Please go ahead.

Robert Blum

Thank you, Steve, and thank you all for joining us today to discuss the financial results for S&W Seed Company for the second quarter of fiscal year 2018, ended December 31st 2017. With us on the call, representing the company today are Mark Wong, President and Chief Executive Officer, and Matthew Szot, Chief Financial Officer.

At the conclusion of today's prepared remarks, we'll open the call for a question-and-answer session. Before I begin with prepared remarks, we submit for the record the following statement.

Statements made by the management team of S&W Seed Company during the course of this conference call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934 as amended, and such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform act of 1995. Forward-looking statements describe the future expectations, plans, results or strategies, and are generally preceded by words such as: may, future, plan or planned, will or should, expected, anticipate, draft, eventually, or projected.

Listeners are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events or results to differ materially from those projected in the forward-looking statements, including the risk that actual results may differ materially from those projected in the forward-looking statements as a result of various factors and other risks identified in the company's 10K for the fiscal year ended June 30, 2017, and other filings made by the company with the Securities and Exchange Commission.

With that said, let me turn the call over to Mark Wong, Chief Executive Officer for S&W Seed Company. Mark?

Mark Wong

Thank you, Robert. Good afternoon to all of you on the phone today. When I first spoke with you in September, I talked about the tremendous opportunity I thought we had at S&W to create a unique middle-market agricultural company that would leverage off our existing base of strong assets and expanding our key crops, integrating and developing a new trait technologies and becoming more customer-centric.

I also mentioned that we would take the first six months and further analyze our strengths and weaknesses as well as our opportunities and threats to create an overall strategy that would maximize return while managing our risk profile. After careful analysis of our current products, including alfalfa, sorghum, sunflower, and stevia, our current operational capabilities and footprint and review of our regional markets across the globe, our management team and advisers, along with our board, is aligned on our way to go forward.

Without going into certain aspects that might be a hindrance to our success from a competitive standpoint, let me provide the conclusion of our analysis. Number one, we will continue our push into trait technology. As I have mentioned on the last two conference calls, trait development will be the key driver for S&W going forward.

I think there is a large opportunity for us to build and integrate seed biotech platforms that can bring significant value to the marketplace. There are certain classes of genes that we are currently evaluating with a high degree of interest, including a digestibility, insect, disease, and herbicide resistance.

Over the last six months, we have been working on a number of pathways and collaborations to advance this initiative. Some we have discussed in the past, such as our agreement with Calyxt, where we will be moving plants into the field this summer focused on enhancing digestibility in our alfalfas.

We also have discussed in our agreement with generics, in which we are focused on off-patent trades and technologies emphasizing gene editing and nonregulated technologies. Beyond these two previously announced agreements, we are advancing the multiple other collaborations that we are not going to discuss in any specific detail at this time.

During the last six months, we have focused on analyzing the markets and better understanding the traits that we believe will be most desirable to our customers. The coming 12 months will be focused on the field and lab work based on the strategic directions we have chosen. We will share more with you about our progress in the future.



Second major conclusion of our analysis, we're going to build alfalfa, sorghum, and sunflower business in Australia. Beyond trait development, we are moving forward with a more specific commercialization strategies for our current crops. First, we are going to look to build out our alfalfa, sorghum, and sunflower programs in Australia. As many of you are aware, we have a strong presence in Australia with our alfalfa seed acquisition of Seed Genetics in 2013 and our sorghum and sunflower acquisition of SV Genetics in 2016.

Now that we are focused on three crops, we have the opportunity to build a more customer-centered approach to our product sales development. As you saw from our announcement a couple of weeks ago, we have hired David Callachor as our commercial manager of hybrid crops. David will be based in Southeast Queensland and Australia, will oversee sales and marketing and future development of our hybrid sorghum and sunflower seed businesses.

David has over 23 years of experience in the agricultural industry, including extensive international experience in hybrid seeds, traits, and new technology. He joins us from Limagrain and has also worked for Landmark, an Agrium company, for several years in Australia. This was an important hire for S&W as we look to build our commercial focus within Australia.

Australia is important for us as a focal point for many different reasons. First, the political and regulatory environment is stable compared with many of our global markets that we operate in. Second, much of our germ plasm across the three crops I mentioned were in fact specifically developed for the Australian market and thus performed very well, given the characteristics of the geography.

We see this as a key commercial development point. Third, we believe the size of the market provides us with exciting opportunities to drive revenues relative to our emerging market opportunities.

Fourth, and perhaps most importantly, it is one of our home markets. There is no acquisition required to enter Australia with existing troops already on the ground and facilities already operating there. Again, I want to reiterate our focus is on maximizing return while minimizing risk. We believe Australia will play a key role for us going forward.

Third, strategic conclusion: build alfalfa and sorghum in the US. Our key focal point will be expanding our US-based operations within the sorghum and alfalfa. On the alfalfa side, we already have a distribution agreement in place with Pioneer, where we will provide them with the production through 2024.

We have made strides to expand distribution with others such as Wilbur Ellis, but we believe there is a still a significant opportunity to expand our share of the US market. Key to the market share growth will be the development of trait technologies. The alfalfa seed market is transitioning to key traits, such as herbicides, disease, insect, and feed digestibility. As I discussed in the past, more value per pound of seed is garnered from the traits of than from the actual seed itself.

More specific to sorghum market in the US, we believe there is an opportunity to leverage our assets to further expand in that market. But I believe it is appropriate to pursue an acquisition that might accelerate our penetration into this market. I do not want to get into too many specifics, but we will be focused on all options for maximizing returns by minimizing our risk profiles and while driving value.



The fourth the strategic conclusion; we're going to build stevia in the US. All stevia currently grown is produced in Asia. In speaking with stevia customers, we believe there is a significant demand for stevia produced in the United States. Our goal is to use our proprietary germplasm in stevia and our farmer/grower network to create a US-based stevia production industry of high-quality stevia sweetener with superior taste profiles. I will provide more details of this plan over the next two or three quarters.

Evolving beyond recap, one of our themes for S&W since I took over as a CEO and has been evolving beyond recap. The four key items I just discussed will be key to our strategy going forward.

Number one: evolve beyond our dependence on alfalfa seed operations, which have comprised the vast majority of our business since inception.

Number two: evolve beyond our dependence on key geographic markets, which carry higher political, regulatory, and economic risks.

Number three; evolve beyond our classic trait development capabilities with the latest biotechnology tools to develop higher value products.

And fourth, lastly: evolve beyond our historical marketing and distribution approaches to become a more customer-centric focused marketing and sales operation.

Let me now recap a little bit from the quarter. Not all of our focus, obviously, has been on these strategic evaluations and decisions. We are also focused on our current operations. After all, we have a day-to-day business to operate. During the first quarter, we executed against our distribution plan with Pioneer, to whom we shipped approximately \$15.3 million worth of alfalfa seeds.

Overall, revenue during the second quarter of fiscal 2018 was \$20.8 million compared with \$20.2 million in the second quarter of the prior year. We continue to successfully execute on our gross profit margin initiatives, where margins improved by 130 basis points to 22.8% compared to 21.5% in the second quarter of fiscal 2017.

The Saudi Arabian market continues it to be volatile and uncertain as a dairy and hay farmers determine what the new equilibrium in the market will look like. We believe the Saudi customers will continue to demand fresh milk and forages for their livestock, which we require for importation of alfalfa hay from surrounding regions in the Middle East and northern Africa, as well as countries around the world.

Ultimately, milk demand for fluid milk, cheese, butter, and other dairy products will continue to grow. However, producing a dairy cows will relocate to geographic regions with available water. Our job at S&W is to find and service these new markets, both with alfalfa and for sorghum.

Also, as Matt will talk about in some detail, we continue to strengthen the balance sheet with a successful, completed rights offering in December. When coupled with our private placement in July of 2017, we have significantly improved our balance sheet position. I want to personally thank our existing shareholders for their continued support and look forward to driving value for them in the years to come.



I'm going to recap the strategy before I turn it over to Matt. Overall, I believe we have a very strong strategy in place, one that places a balance on a long-term evolution of our business into a leading middle-market agriculture company with a near-term focus on driving cash flows to becoming more efficient across our entire business.

We are focused on maximizing our opportunities, minimizing our risks, emphasizing our strengths, and managing our weaknesses. Nothing in agriculture happens overnight but I am extremely pleased with the progress we have made in the last seven months since I took over as CEO.

Let me now turn the presentation over to Matt Szot for a review of our quarterly results.

Matthew Szot

Great. Thank you, Mark. And thanks to everyone on the call today. For the second quarter, revenue was \$20.5 million compared to \$24.2 million in the second quarter of the prior year. We experienced a \$1.3 million decrease in revenue to Saudi Arabia, largely due to the regulatory uncertainty for water use restrictions.

We also had a \$1.1 million decrease in shipments to the domestic market, primarily driven by timing of shipments to Pioneer. Gross margins in the second quarter were 22.8%, an improvement of 130 basis points compared to gross margins of 21.5% in the second quarter of the prior year.

This increase is consistent with our expectations and our previously discussed initiatives to drive improvements in gross margins. This improvement was primarily due to product sales makes during the curve period where we had a higher concentration of dormant seed sales as a percentage of total revenue coupled with a reduction in product costs.

As we look to the full year of fiscal '18, we expect gross margins to increase over the prior year. This year-over-year improvement will likely be in the 150 to 200 basis point range. Total operating expenses for the second quarter were \$4.2 million, which is flat compared to the second quarter of the prior year. SG&A expenses were down nearly \$150,000, primarily due to cost reduction initiatives and a decrease in the stock-based compensation, while R&D expenses were up about \$100,000 due to our continued investment in hybrid sorghum and sunflower programs.

Adjusted EBITDA for the second quarter was \$1.6 million compared to \$2.2 million in the second quarter the prior year. Now, as Mark mentioned, during our second quarter, we did successfully complete a fully backed stock rights offering, raising a total of \$12.25 million. This is on the back of the several other recent initiatives to strengthen the balance sheet.

In November, we completed the \$12.5 million term debt refinance, which was used to repay our outstanding promissory note to DuPont Pioneer. And then in September we also closed out a new year, \$35 million working capital facility with Keybank. And also, in July 2017, we completed an \$11 million private placement. All of these actions have resulted in a deleveraging of our balance sheet and have really positioned us for further flexibility in the periods to come.

Now, there's one other balance sheet item I do want to point out, and that's our inventory levels. You'll see that our inventory levels are up \$31 million from the same time last year. As we communicated over the last year, we've increased our acreage dedicated to seed production for crop year 2017. In addition,



yields were higher in North America and particularly in Canada. So our year-over-year production increase represents about 60% of the increase in inventory levels and the other increase relates to higher carryover going into the season and a decline in shipments to Saudi.

While this inventory increase does require additional working capital and we will be carrying higher levels of inventory over the next year, it also positions us to capture as many sales opportunities as possible. Please keep in mind that our seed is not perishable and quality will not deteriorate as long as it's under proper storage conditions. So I do want to also provide clarity that we planted very few new acres for crop year 2018.

Accordingly, we do expect our production volumes from the 2018 US harvest to decline, and we expect our inventory balance to decrease over the next 12-to-18 months and certainly become more in line with historical carrying levels. From a guided standpoint, and to recap our guidance, based on information currently available to management, we expected to be at the low end of our previous guidance.

And for the third quarter of fiscal '18, we expect revenues it to be approximately \$19-\$20 million. I know I went through a lot of data here, so if you have any questions, please feel free to ask. Now, let me turn it back over to Mark.

Mark Wong

Thank you, Matt. Let me just conclude the last few minutes here by giving you all some comments on the board and some additions that we've made. I really feel we have a great team here at S&W and I'm excited about some of the new board members of that we've added to help drive trait development and new crop market strategies going forward. In particular, I believe S&W will benefit tremendously from the addition on our board of several experienced ag executives like Consuelo Madere.

Consuelo has experience across a diverse product and geographic set. She was a member of the 11-person Monsanto executive team responsible for development and implementation of the company's overall strategy as well as management of the day-to-day business operations.

Consuelo joins another fellow, Monsanto executive David Fischhoff, who joined our board last year. Considered by many as one of the founders of agricultural biotechnology, David's 33 year career with Monsanto Company covered a broad range of technologies, product development and business development in biotechnology, plant breeding, genomics, precision agriculture, and data science.

As we look forward, we will look to expand our expertise in trait and market development. As I said at the beginning of the call, I am excited about the opportunity S&W has before it as a unique middle-market agricultural company. We have gone through an extensive strategic planning process and believe we have laid out a pathway that allows us to maximize our upside while minimizing our risk profile and ultimately creating shareholder value.

Thank you for your continued support. Thank you to all our employees for their hard work over these past seven months. I know that I have asked a lot of many of them and I now will open the call up for your questions. Thanks again.



QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one 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 star, then two. At this time we will pause momentarily to assemble our roster.

And our first question comes from Sarkis Sherbetchyan with B. Riley FBR. Please go ahead.

Sarkis Sherbetchyan

Good afternoon, guys, and thanks for taking my question here. Just first question really revolves around the expansion for your hybrid sorghum and sunflower seed programs. You mentioned that to maximize return you're going to go ahead and kind of to focus on that. Can you maybe give us a little bit more color on maybe the timeline or some of the initial targets for that set of crops?

Mark Wong

Sure. Understand first, structurally these hybrid crops are a bit different than traditional alfalfa that we have built the company on. These crops have a little bit higher margin and they are planted every year. And if so we're looking forward to closer interaction with our former customers, either directly or through distributors and dealers.

That's why we're focusing on being more customer-centric because we believe we have valuable information that we need to convey to our former customers about the performance of our seed varieties, whether it be alfalfa, but specifically sorghum and sunflower. So we expect margins to begin to, on a percentage basis, improve as our product mix shifts to a larger and larger piece of sorghum and sunflower.

Not that we expect alfalfa sales to go down, but we don't expect alfalfa sales, because we have a big market share, to improve or grow at the same rate that we figure sorghum and sunflower do, where we obviously have a smaller market share. So that's how the math works. We all kind of know that. But we're very excited about the crops, and were really very excited, as I mentioned, and the talk about how when you have three distinct lines going now to many, many more different markets. Just the opportunities it gives us and it gives our salesforce, you know, we like to be a fact-based company.

We want to have farmers and users of our products because sometimes we sell to an industrial user that's not a farmer, but we want them to understand what value our products hold and we want to demonstrate the value either through field trials or trials with the particular company. If it might be, for instance, an oil company in the sunflower business. You know, oil quality is obviously another area that we're looking at trait development.

So we're really excited. You know, it's fun to be in these markets. It's fun to be in some new markets that we have historically not had strength in and, and while maintaining the stevia and alfalfa businesses, which we've, over the years, built the company on and obviously like a lot.

Hopefully, that answer your question.



Sarkis Sherbetchyan

It helps. No, I guess it just kind of following up on that, if we take a low end on this year's annual sales guidance, right, call it \$75 million on the low end, what percentage of that sales would you say this year would be attributable to the hybrid sorghum and sunflower seed program? Maybe just kind of help us understand that.

Matthew Szot

Yes, Sarkis, that'd probably be about 2% of that annual number would be attributed to both of those product categories, both hybrid sorghum and sunflower combined.

Sarkis Sherdetchvan

Okay. And then, with regards to kind of the expected growth rate of that, any color there on how either quickly that piece can grow or if it's more the linear path or a log path? Can you just help frame of the growth pattern there?

Mark Wong

Yes. So just remember the basics of the seed industry. It is hard to gain momentum in these products. There's a lot of work that your technical people and your salespeople have to do to demonstrate these products in the field trials and have customers see, in their own geography what the performance is, because, depending on climate, soil type, latitude, because plants are very daylight sensitive, all of these things can affect the performance and yield of our seed crops and of all the companies' seed crops.

So it's always slow going at the beginning, but hopefully you start to gain momentum and sales start coming at a rapidly more rising pace.

Matt, you might want to just talk a little bit about the actual sales numbers that we have for the next couple of years looking at these crops.

Matthew Szot

Yes, I mean, and again, Sarkis, these numbers certainly are subject to change, but last year we did roughly \$1 million and in FY 18, we'll do closer to one and a half to \$2 million, and then we think that FY 19 will be sort of closer to that 3 ½ million dollars, and then from there we'll start seeing a more pronounced ramp from there. But over the next two years, it's steady progress, but the out years are really where we see the significant ramp.

Sarkis Sherbetchyan

Understood. That's helpful, and then if I can kind of touch on the gross margin profile. Obviously, as you start to throttle the sales in that program, gross margins should likely go upwards. Maybe switching gears here talking about the alfalfa business, do you expect fiscal '19 versus fiscal '18 year-over-year improvement in alfalfa gross margins again?

Mark Wong

Well, in '18 we're expecting margin improvement probably 150 to 200 basis points. As we look to '19, there's a lot of factors in play at this point. Certainly over the long-term, we think we got a clear path for how we continue to expand margins based on initiatives we previously laid out. But that's not to say that we're going to consistently put up 150 or 200 basis point improvement each and every year. But I think as we look out over a longer period of time, there's a pretty clear path.



Sarkis Sherbetchyan

Got it. One more for me and I'll hop back in the queue. So looking at your quarter OPEX run rate, I think for G&A it was posted at \$2.4 million or something like that. Is that the right level it to kind of think about our model going forward? And if not, what would the variances be for us to kind of think about?

Mark Wong

Well, Sarkis, cost control is going to continue to be a focus for us, but we typically do run higher in Q3 and Q4, where we have a higher concentration of sales, so you will see an increase in our SG&A versus Q2. You're probably going to be closer to that \$2.8 million number in Q3 and 4.

Sarkis Sherbetchyan

Understood. I'll hop back in. Thank you, guys.

Operator

Our next question comes from Mike Malouf with Craig-Hallum Capital Group. Please go ahead.

Mike Malouf

Great. Thanks for taking my questions. Can we get a little bit more detail on what's going on in the Saudi market? How much did it actually impact you guys, and any update on any with regards to the water issues over there or how you think this will play out over the next year or two?

Mark Wong

Sure. Great question, Mike. So as you know, from the public press, Saudi is going through some significant changes, whether it be trying to decide if they're going to take their basically state oil company public to being put into the Ritz-Carlton and asked for a contribution to the government coffers. You know, there's just a lot of things happening there and agriculture is a place where they're trying to also make improvements.

So we see the water reduction as a permanent reduction. It takes some years for that to make its mark on the milk production in the country, but on the seed production, it can be quickly felt, as it is being felt by us.

So, you know, the normal cycle for dairy cows is to basically milk them for about three years, even though they have a much longer production cycle, they can have calves for up to 10 years. The cows get to a place where they're inefficient in their conversion of feed to milk, so most dairies around the world in year three or four, the cows are taken out of production of milk and new cows are brought in, younger cows are brought in to replace them.

So that's happening in a Saudi Arabia. As you remember from previous calls, the dairies there are incredibly modern and efficient. They are the biggest integrated dairies in the world. The largest dairy there is milking somewhere in the number of 135,000 cows, and in the US, just for round numbers, 35, 40,000 cows is the biggest dairy.

So the Saudi's is three times bigger than the US' biggest dairy, and the Saudi's second biggest dairy is milking about 100,000 cows. So it's two times bigger than the biggest US dairy. So they're very sophisticated. They buy alfalfa seed. They raise all of their own calves, they feed them. They milk them three times a day. They take the milk to a processing plant that they own, they package it in one and



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.

