S&W Seed Company
(NASDAQ: SANW)

Third Quarter Fiscal Year 2018
Financial Results Conference Call

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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
Good day and welcome to the S&W Seed Company Reports Third 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 telephone keypad. 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, sir.

Robert Blum
Thank you, operator, and thank all of you for joining us today to discuss the financial results for S&W Seed Company for the third quarter of fiscal year 2018 ended March 31, 2018. 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 will open the call for a question-and-answer session.

Before we 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 future expectations, plans, results, or strategies and are generally preceded by words such as may, future, plan or planned, will or should, expected, anticipates, 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 risks 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 10-K 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, and good morning to all of you. Over the last few calls we have talked about the transition that S&W is undertaking to become a more diversified middle market agricultural company. While there's still lot of work to be done, I am pleased with the progress made to this point. Let me quickly recap the primary components to our strategy going forward, and then I will discuss progress made during the quarter on each of these areas.

First, we are evolving beyond our dependence on our alfalfa seed operations, which has comprised the vast majority of our business since inception. We are doing this by expanding our sorghum and stevia operations.

Second, we are evolving beyond our historical dependence on certain geographical markets, which carry higher political, regulatory, and economic risks. As you saw in our press release, we continue to be negatively impacted by the legacy effects of our dependence on Saudi Arabia for a disproportionately high component of our revenues. To this point, we are focused on building out on our alfalfa, sorghum, and sunflower programs primarily in Australia and in the United States moving forward.

Third, we are evolving beyond our classic trade development capabilities by utilizing the latest biotechnology tools to develop higher value products. This is a process that doesn't occur overnight, but one that can create tremendous value on a long-term basis.

And fourth, we are evolving beyond our historical marketing and distribution approaches to become more customer-centric focused.

Let's spend a few minutes through each of these focal areas. During the last few months, we have intensified our efforts in our stevia program through expanded collaborations, both on the commercialization and development front. For confidentiality reasons, I am unable to expand on specifics, but I can say confidently that we believe there is increasing interest in the marketplace for minimally processed stevia-based sweeteners with US-based production capabilities. S&W's current varieties as well as varieties we're developing in collaboration with our partners are ideally positioned to capitalize on these trends.

Additionally, the nomination for the S&W Board of Director Alan Willits is a significant addition to the company. Alan is a highly successful executive who has overseen critical operations for Cargill for nearly 40 years across North America, Asia-Pacific, Europe, and South America. Alan's understanding of the agricultural supply chain and processing in key end markets is already benefiting us in our stevia commercialization program. I know Alan is as excited as I am to help lend his experiences and relationships to the advancement of S&W's stevia operations where we believe significant growth will occur in the years to come.

As I reported last quarter, we are building out the infrastructure in Australia to expand our sorghum and sunflower operations in that region. In addition to hiring David Callachor as our commercial manager of hybrid crops, we are rebranding our product lines and enhancing our field trials and other marketing capabilities in the country.

In the US, we have expanded our germplasm base through the recent acquisition of proprietary sorghum varieties that will complement our existing portfolio and expand our capabilities in supplying the crop into biofuel markets. This is a potentially exciting new development.

As I mentioned previously, we are looking at various acquisitions to accelerate the sales and marketing capabilities in the US and focusing our efforts on becoming a more customer-centric organization. However, we will be cautious in our approach and ensure we find the proper fit to maximize return while minimizing our risk profile and driving value. Overall, progress is being made on the expansion of our stevia, sorghum, and sunflower portfolios.

On the trait technology front, our collaboration with Calyxt continues to progress. Crosses are currently being made in the greenhouse with field trials set for this summer. Our focus with Calyxt is on enhanced digestibility. As a reminder this trait will be considered non-GMO for the USDA, opening up what we believe is a previously untapped market both in the US as well as overseas for this trait.

In addition to our Calyxt as well as our generic genomics agreements, where we are focused on off-patent traits and technologies emphasized in gene editing in non-regulated technologies, we are doing a tremendous amount of work analyzing the markets to better understand the traits that we believe will be the most desirable to our customers. David Fischhoff, our current board member and a 33-year veteran with Monsanto Company has been instrumental in our technology advancements. In his career, David has covered a broad range of technologies, product development and business development in biotechnology, plant breeding, genomics, precision agriculture, and data science. Overall we are advancing multiple collaborations that I'm hopeful we'll be able to discuss in further details in the future.

Our management team and advisors, along with the board, is aligned on our way forward. We will continue our pathway on enhancing our trait technology capabilities to bring products to the market where we can capture an increasing portion of the seed economics, build out our alfalfa, sorghum, and sunflower programs with an emphasis on countries in which we believe the regulatory, economic, and political environments allow for a stable market to operate in the United States and Australia and commercialize our stevia program. We believe these actions will position the company for future success while minimizing risk to the extent possible

Before I turn the call over to Matt to go through the results of the quarter in detail, let me just make a couple of near-term observations on the market environment. Our international VP of sales has just returned last month from MENA, visiting customers and touring fields. We've also hired a technical agronomist who will be permanently stationed in the MENA region.

The Saudi Arabian market continues to be very soft and I'm certain as dairy and hay farmers determine what the new equilibrium in the market will look like. While the elevated inventory levels appear to have decreased somewhat, dealers and distributors in the region continue to be very apprehensive to take on additional supply until a perceived equilibrium in the market is reached.

While in previous years, we may have looked at opportunity to discount seed, to move product into this market, we will not take this approach going forward. In order to make the transition that we are discussing to become an elite supplier of seed into a market, we must be competitive but sell our seed based on its value to our customers.

As a result of the continued uncertainty in the Saudi market, intelligence just obtained during the last MENA visits, we are further reducing our expectations for sales into Saudi Arabian markets in the near term. This will have a near term impact on our fiscal 2018 results, as described in the press release. I will let Matt describe the walk up to this momentarily.

Overall, I am pleased with the program being made to better position S&W for future success. As is the case in all agricultural companies, these transitions don't occur overnight. However, we believe there are certain near-term activities that have the potential to be significant drivers of value for shareholders, including our stevia commercialization efforts, which I am hopeful to report out in more detail soon.

Let me now turn over to Matt Szot for the review of the quarterly results that. Matt?

Matthew Szot
Thank you, Mark, and thanks to everyone on the call today. For the third quarter revenue was $22.9 million compared to $21 million in the third quarter of the prior year. We experienced a $1.9 million increase in revenue, primarily due to timing of shipments to DuPont Pioneer, which was partially offset by a $1.1 million decrease in sales to Saudi.

The Saudi market continues to be very soft. As Mark mentioned, our VP of international sales just came back from an extensive four-week visit to MENA and he met with our customers in the region. Our findings from the latest trip indicate that our largest customers in Saudi still have meaningful levels of inventory carryover and the farmers in Saudi are very hesitant to plant new stands until they get more clarity on how the water use restrictions will play out. Accordingly, we're further reducing our revenue expectations for sales into Saudi this quarter.

Gross profit margins in the third quarter were 29.0%, an improvement of 140 basis points compared to gross margins of 27.6% in the third quarter of the prior year. This improvement was primarily due to product sales mix during the current period where we had a higher concentration of dormant seed sales as a percentage of total revenue coupled with the reduction of 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 the 150 to 200 basis point range.

Now, total operating expenses for the third quarter were $4.6 million, which is flat compared to the third quarter of the prior year. We will continue to focus on controlling costs and improving efficiencies in our operations.

R&D spend was up approximately $350,000, due to our continued investment in our hybrid, sorghum, and sunflower programs as well as stevia, which we see as the catalyst for growth.

Adjusted EBITDA for the third quarter was $3.1 million compared to $2.7 million in the third quarter of the prior year. These improvements were driven by the increase in revenues and gross margins I just mentioned. Adjusted net income for the third quarter was $1.9 million compared to $830,000 in the comparable period of the prior year.

Now, as discussed last quarter, we are carrying higher levels of inventory this year. You'll see that our inventory balances are up $25 million from the same time last year.

We stage our production contracts cadence to allow for the ability to reduce or increase production each year. We planted very few new acres for crop here in 2018 and the Australian harvest is coming in smaller than expected. Accordingly, we expect the production volumes for the 2018 US and Australian harvest to decrease and we also expect our inventory balances to decrease over the next 12 to 18 months and become more in line with historical carrying levels.

As a reminder, we've taken a number of steps over the last several months to strengthen our balance sheet and liquidity. These steps include a recent rights offering and other amendments to our bank line to provide further flexibility. Overall, we feel very good about the strength of our balance sheet and our ability to carry higher levels of inventory.

To recap our guidance, based on information currently available to management, we expect Q4 shipments to Saudi to be minimal and revenue for the year will range from $65 million to $70 million. Adjusted EBITDA will range from $2.0 million to $3.5 million.

As always, 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. Agriculture is at the nexus of opportunity where new technology in genomics and creation of new specialty product brands are coming together. The consumer wants high quality specialty foods, better for you starches, carbohydrates, oils, and proteins. It has been a long agricultural cycle. We first started with commodity flour and made commodity bread. Next we used commodity meat, vegetables and potatoes to make a specialty product, the TV dinner. Now we're at this cycle where we are creating specialty input like new low-gluten wheat in creating a specialty bread. The opportunity for us all in agriculture is to create a new class of specialty food products and brands based on a new family of specialty farm inputs.

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. Thank you for your continued support, and we will now like to open up the call for your questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed, and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question will come from Sarkis Sherbetchyan with B. Riley FBR. Please go ahead.

Sarkis Sherbetchyan
Good morning and thank you for taking my question here.

Mark Wong
Good morning, Sarkis.

Sarkis Sherbetchyan
So first I want to touch on the guidance, obviously the reduced expectations seem to be primarily on the Saudi market. Can you maybe help us kind of delineate what it would take to get to the low end of guidance, so the $65 million versus the high end of $70 million please?

Mark Wong
Yes, Matthew, do you want to take that?

Matthew Szot
Yes, sure, Mark. I would I would say at this point, Sarkis, just for a bit of background. In FY '16 we did about $30 million of revenues into Saudi, into the Saudi market, and that number was down to $14 million in FY '17. At this stage, based on our guidance of $65 million to $70 million, we're assuming $1 million to $4 million of annual sales into Saudi and that $1 million has already been shipped. So the baseline would be—the $65 million would be assuming no further shipments into Saudi and if we are at the top line of that guidance, so that would be if we ship another $4 million for the product.

Did that address your question?

Sarkis Sherbetchyan
Yes, that's very helpful; thanks for that. I noticed the Pioneer alfalfa production services agreement may have expired or been modified. Can you maybe help us understand what the amendment was and if it has any impact on the annual revenue run rate kind of going forward here?

Matthew Szot
Mark, did you want to take that or would you like me to?

Mark Wong
Sure that doesn't matter. So Sarkis, we had an agreement with Pioneer to acquire their alfalfa business now a couple or three years ago. It was a two-part agreement. We acquired all of the conventional

germplasm and are selling that to their farmer dealer system and they're selling it in the Pioneer brand, for the most part a couple minor brands, but basically the Pioneer brand. And then, there was a second piece that was the sort of trait-added varieties, which were sort of the GMO varieties people call them. Pioneer had been basically taking for the last three years fairly large volumes of those materials and so they sort of, for various reasons, including the now merger of Dow and the DuPont assets, to not go forward with that piece. I think that's maybe what you're referring to.

Sarkis Sherbetchyan
Yes, and I guess an adder to that would be, if we look at the forward revenue number into the season, what does it do to your Pioneer channel revenues? What kind of impact does it have?

Mark Wong
Matt, maybe you want to answer that one.

Matthew Szot
Sure, so Sarkis, the GMO production contract has an annual minimum commitment level of roughly $6 million of revenue a year. So without closing our tranche two acquisition, the minimum annual commitment of the GMO revenues will be down $6 million for their annual commitment levels.

Sarkis Sherbetchyan
Got it, so that's really the hit that we should see on a go-forward basis, nothing more material in that. Is that correct?

Matthew Szot
Any other variation is going to be dependent on how much product Pioneer wants to take from the conventional side. Those agreements are still operating as normal. There's no impact to those and those extend through 2024.

Mark Wong
And Sarkis, the Ag markets in the US, while prices have come up a little bit in the spring, we're definitely in a trough in terms of farm income. And you've probably been reading some of the popular press about how the Corn Belt senators are working with the government to try to get a new farm bill passed here. We need to get a farm bill passed. There are five-year, ten-year government programs.

And, Ag markets are really tough. China is not helping much in the sense of the sorghum business in the Western Corn Belt is tough because China has put a big tariff on sorghum inputs. They've stopped importing soybeans from the US and are buying their soybeans from Brazil and Argentina now. There's been some ships that have actually turned around and not made it to port. The dairy business is fairly poor. In the US, lots of dairy bankruptcies in the Midwest. Dairy farmers are under a lot of pressure. I think the last numbers I saw, the poor guys in California, and it's a fairly regional market, but the poor guys in California their costs were higher than the prices they could sell their milk at, Class III milk at. So they even had a bigger problem than some of the other areas in the country.

So it's just not a very good Ag market and all of the seed companies, whether you're big like Pioneer and DeKalb, or middle market like S&W, we're all sort of working hard to see what farmers are going to plant this spring, but it's not an uptick in the Ag market, I would just remind you of that, which I'm sure you know already.

Sarkis Sherbetchyan
No, that's fair and thanks for the added color there. I think just switching gears here, if I could kind of poke around on the stevia program, obviously you've been sounding fairly confident in the collaborations and commercialization opportunity there in the out periods. Can you maybe give us some more flavor on what gives you the confidence and perhaps what the capital requirements would be to either your partners and/or S&W? And then secondarily, what the return on that capital could potentially be?

Mark Wong
Sure, so stevia is part of the low calorie sweetener market. It's about $3.5 billion market worldwide. Stevia is $500 million of that. Our business plan—if I can just state it one more time to make sure everybody is kind of up to speed on our thinking. We're not selling seed in the stevia market; we're selling the leaf to probably someone like Cargill who's going to do the processing on that leaf and then use it in their [audio disruption] business and also sell it to the big beverage companies, which are customers of theirs today. All that stevia today is coming from China because of cost. It's hand-harvested and the labor costs are such in China that there's relatively low cost per unit of production. And so, our model is to work with these companies, the beverage companies and Cargill to basically have a US source of stevia and to have that source be machine harvested to allow the end users, Cargill and the beverage companies, who are going to put the stevia in their products or sell it on a tabletop packet to allow them to have a competitive cost with China.

So we're working through that now. We're putting, we think, the production part, which we're very good at growing seeds with our third-party growers. We're going to be using third-party growers to grow stevia. We're not going to be growing that ourselves. But we're putting out trials about an East Coast and the West Coast to deweight common varieties that we might put into the market for the stevia levels. So the amount of stevia is important.

But also the profile of stevianoid, the taste profile is important. So there are probably twenty different stevianoids They have different tastes and the beverage companies and Cargill have some preferences as to which ones they want to see more of and which ones they want to see less of. And so, not only are we looking at how our varieties perform on a production basis in the US, but we're also looking into our own breeding program and trying to not only breed more stevia per acre, but breed the stevianoids that the companies want in their products.

And so the model is what we're calling an origination business or a closed loop business. We basically will get a contract from the beverage companies and Cargill. Then we will place our genetics in the fields with third-party growers, have them produce the stevia leaf, and take that stevia leaf to a production plant. We're working through the details on the production plant, Sarkis, it's not clear if whether we will participate in for instance making a tea because stevianoids are soluble in water, so it's a fairly easy process to get the stevia out of the leaf. It's a more complicated process to actually go through, and then refine it in a way that the beverage companies in Cargill want for their final products.

So I can't really give you an idea, frankly, of what kind of capital is going to be required. We believe that our partners will be building the processing plant. We'd obviously like to have an equity interest in that plant, so we would be willing to put up some of the capital for that to be part of this whole process of a closed loop business. That's why we call it that. And, we're working at the details now. We hope to have some significant headway with our partners over the next year.

I can't be too much more specific than that. I'm not sure that we are in control of all the timelines frankly. These companies have huge investments in their brands and in their beverages and in their tabletop business, and they're the ones that are entering into the market and distributing the products. All of that takes some time to lineup, so we're working on that.

We've added some more assets to our breeding program in Napa, where we do stevia. I was just out there last month with a consultant and a bunch of our people just to fine tune what we're going to do. We're using market-assisted breeding on stevia We're doing some sequencing on some of our varieties to look at the different pathways. We're applying that same new biotech tool box that people are using to improve Ag products and create, as I said in our opening statement, these specialty products that then you can make specialty consumer products out of. So we're very excited. We think it's a huge market, we think it's a market that's growing and we think we can participate in that. We've got one of the longest going breeding programs in the US, and we're pretty excited.

That's a long-winded answer to your short question, so I apologize for that.

Sarkis Sherbetchyan
No, thanks for the color, I'll hop back in the queue. Thank you.

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

Ben Klieve
Alright, thank you. Just a couple questions for me, first of all the sorghum germplasm acquisition you made sounds interesting. A couple of questions on this. One, I'm wondering if you can elaborate at all on the economics of the transaction. And then second, regarding the commercialization, I'm curious how developed that germplasm is. Is this something you'll be able to commercialize in the traditional sense, traditional seed sales kind of in the near term or is it you're going to be doing more R&D work here for the next few years? Any thoughts on that would be helpful.

Mark Wong
Sure Ben, so the germplasm was in sorghum bred in Texas by a company called Next Steps [ph] and we bought basically that asset from them. There was another company called Ceres that was in the business and their germplasm base was purchased by FGI about a year ago, or maybe a year and a half ago, and we thought that was really a good idea, so we purchased Next Steps' germplasm. They were a competitor of Ceres and Ceres and Next Steps basically they competed in the sorghum market for biotech products.

So we think that that germplasm term has two values. One, they did some very good yield work on the female side of the crosses and we think that that material alone will combine really well with the material that we have in our Australia breeding program that we acquired a couple years ago. But also, they were looking at a couple of different markets they were providing. So in South America, where you basically make ethanol from sugar cane sugar, there is a rotation of sugar cane, I think it's after two or three years, depends on the disease pressures, but there's a rotation where you basically have to plant another crop. And so you have to have enough acreage to keep your sugar plant in production and your ethanol plant in production, and so, Next Steps as well as Ceres was focused on providing sweet sorghums, high-sugar sorghums that basically these guys could use to make sugar or ethanol out of in the off year.

And then sorghum is also known as the crop that takes heavy metals out of the soil, and so Next Steps had been working on a program in China to take some of the most polluted heavy metal, polluted soils in China and plant sorghum and then draw those heavy metals out of the soil, and then have the sorghum used to fire boilers to make electricity.

So I'm not sure we're going to go into all those businesses. It depends on kind of the price of sugar. It depends on the price of oil, whether those businesses are economic. Clearly when oil hit $35, both Ceres and Next Steps had some problems with their business plan.

And so, we want to be focused on the markets that we've described to all of you, the more traditional sorghum and sunflower and alfalfa markets, and our big effort in stevia. But we think that the germplasm itself has some value. They had a very, very excellent breeder and he did some really good work and we're happy to have their germplasm and combine it with ours.

In the seed business, you want diversity of your germplasm. The whole effort is to get different germplasm from all around the world and combine that so you have the greatest probability of success when you're creating new hybrids or new varieties for these different markets around the world. That's what we try to do in stevia with our collection, that's what we try to do in sorghum and sunflower and this acquisition was just another step for us along the sorghum pathway to make sure we have the absolutely broadest germplasm base that we can going forward.

Ben Klieve
Okay, very good, thanks. Thank you for that. One other question kind of big picture question here, I know you're a ways away from commercialization of the genenetted alfalfa variety that are being developed with Calyxt, but with field trials coming up here, I'm guessing you've really begun to think about the commercialization strategy. And so with that being said, I'm curious what if any outreach to growers do you think needs to be done now well in advance of commercialization of the brand new technology to really ensure that the roll out of those new varieties is successful, even though that is a few years away still?

Mark Wong
Yes, great question. Remember the market for a non-GMO, more digestible alfalfa. It's probably in countries with big dairy industries that are kind of not using GMO products at this point. So the Middle East is a big market, where we have traditionally held a large market share. So we think that this non-GMO's trait in our best performing alfalfa lines is going to go to those markets, so we'll be selling seed to those markets so we need to work with growers in those markets. I think you know that we added a technical rep who's now servicing those markets and lives in the Middle East and we just think in our move—as I've said many, many times in the last ten months, we're trying to get closer to the customer. Well, you have to provide service. You have to provide technical knowledge to get closer to the customer, and we put a technical rep basically on the ground to help our distributor customers over there evaluate our new product. So they will be looking at the traditional alfalfa's that we have but also looking at this Calyxt trait, the digestibility trait that Calyxt has helped us put in.

In addition, there's hay. Hay is an interesting business. So alfalfa is grown on the West Coast of the US mainly and then sent around the world to Asia and the Middle East in the form of bales of hay. And those bales of hay in general in some places can have GMO seed used to produce them, and in other places that's not allowed and so we also think there's a US customer base for non-GM alfalfa hay that's going to foreign markets that are another set of customers. And so we'll be developing a plan to introduce the product and its technical capabilities and teaching people how to plant it and grow it and those kind of things that are important.

Frankly that's not going to really start until our 2019 fiscal year, so the spring of 2019 would be the first time we'd start to put out trials for farmers to visit and start to really have things in the field that a farmer can look at. A farmer likes to read data, but there's nothing like seeing something green growing to get them excited. And so that's the next step for us is kind of the spring 2019 planting season.

Did that help you?

Ben Klieve
Very good, thanks. Yes, it is. Thank you, Mark, and with that I'll jump back in queue. Thanks, guys.

Mark Wong
You're welcome.

Operator
Our next question comes from Gerry Sweeney with Roth Capital. Please go ahead.

Gerry Sweeney
Good morning, Mark and Matt. How are you?

Mark Wong
Good morning, Gerry.

Matthew Szot
Hi, Gerry, how are you?

Gerry Sweeney
I'm doing well, thanks. So Mark, you outlined several initiatives moving beyond alfalfa, some geographic expansion, high value products and then marketing and distribution. As we look at those buckets and we look out to next year and year after, which areas do you think we can have the ability to positively impact the income statement in the near term and maybe to what extent? We're looking at Saudi market shrinking at least in the near term and we have a lot of initiatives, but curious as to maybe when some additional monetization of some of these efforts are going to sort of come through.

Mark Wong
Sure, so first let me say that we're in the budgeting process now, right. We have a fiscal year that basically ends in the middle of the calendar year because that's a natural break point between our Northern Hemisphere and Southern Hemisphere productions traditionally of alfalfa, but now of obviously sorghum and sunflower and hopefully someday of stevia. But, we're in the budgeting process now, so I can't give you really any statistics because our management team is really in those kind of hard

discussions about what are the priorities. Clearly on the next call, we'll have some more insights to that and we'll be explaining our 2019 fiscal budget, and so I'm so sure you and others will have lots of your normal good questions for us then.

Clearly, we need to boost the income of the company, so looking at business opportunities including acquisitions that help our earnings in the short run that are accretive to earnings are a high—maybe the highest priority for me at least and our management team, and controlling our costs are also important. We don't want to sort of make more money with a new opportunity maybe internally grown sales but also in acquisition and then go spend it all on something that we're not going to see the benefits of for three or four years. Remember that when you spend money on breeding program and stuff, it can be a very, very long process, four, five, six years. So we want to sort of be very cognizant of the earning opportunity in the short run, yet invest in best opportunities for the sort of the sort of middle years kind of the three-, four- and five-year period, because you got to fill your pipeline with opportunities.

Ag is not a quick turnaround business, but once you establish a business and you establish your profitability in those markets, you should be able to have the benefit and ride that for a while. We've been doing this for a long time. We have always external factors, like I mentioned this poor Ag market right now that we have to deal with, those are not the shocks to the system or anything like that. It's part of being in agriculture. So we're cognizant of all of those things and we're also cognizant that the earnings are really important to us and controlling our costs is really important to us.

Gerry Sweeney
Got it, that's helpful for now.

Mark Wong
You'll hear more. Ask that question again in three months, because it's a great question and we'd love to answer it once we know more.

Gerry Sweeney
I completely understand. I understand that we're in a transition period and when the time is right you'll let us know. Another just quick question on the Saudi market and this is more out of curiosity than probably anything else. You mentioned $1 million to $4 million of revenue in 2018. How much is that just revenue drying up or was some of it did you draw the line in the stand with pricing and to say this our pricing and we're going to let the market come back to us? Did that play a role in that revenue?

Mark Wong
Look, I think we want to be competitive in the market, so we're not going to price ourselves out, but we sell high-end alfalfa, high-end protein that we think is worth more to a dairy farmer than frankly cut 101. And so we're in two different issues in Saudi. One is how much seed are they—how much acreage are they really planting. And they kind of don't know, because the small guys, the 50 hectare guys that are getting water allocations are absolutely more positive and aggressive than the bigger companies, which are being frankly shut off because the government feels they have the balance sheet and operational expertise to maybe grow their alfalfa someplace else or move their cows someplace else.

Everybody agrees that there's a really good milk market in the Middle East and Saudi is a big producer and servicer of that market, both in Saudi and then the other MENA countries. How you sort of get here from there, or there from here is the question.

So the first question is we're trying to evaluate is how many acres are really being planted; and then the second question is what kind of seed is taking that market. Is it the cheap cut 101, is it the higher value kind of alfalfa that we sell and that have a huge market share? Did we have maybe 60% or 70% of the market? That's probably my guess. Obviously there's not good published information on planted acres in MENA. We look at all the data that's available, but it's just some of the countries are suspect.

But you would think though that, if there's no water grow alfalfa, then what you're competing with is hay that's grown in Argentina or maybe even in another country in the Middle East. We're in Western US, and then that's shipped to Saudi where it's going to feed the large vertically integrated dairy cows of the couple of three big diaries or four big diaries there.

So that alfalfa, basically it's nutritional value on a per ton basis is going to have the cost of production in the US and Argentina, just to stick with our example, plus the freight. And so the delivered FOB cost of those nutrients in Riyadh is going to be more than currently the price of growing that same bale of nutrition with Saudi water. But the Saudi government has decided that it's worth taking that extra cost because they don't have the water. Now, I'm not going to get into maybe they should take some lessons from the Israelis. Yes, maybe they could use their water better, but it's competitive economics of a delivered ton of alfalfa hay in front that cow.

And so the value of alfalfa hay should be higher in Saudi Arabia because of this water decision that the government has made. So if I was a grower there and I was lucky enough or small enough to get my water allocation, I'd be buying the best seed I could with the highest amount of protein in the product, because I would know that I'm going to get a superior price for that. Basically I'm going to get the West Coast US price or Argentine price plus freight, and those countries are a long way from Saudi Arabia.

So I think it's going to be good for the growers who get a water allocation and survive, and we do expect the market to come back, but the market has to work off its inventory, the market has to figure all this out and that's clearly taking a little bit longer than we thought. But, as Matt's pointed out, basically we're not hardly selling anything there, so in terms of our own sales the downside risk is basically zero, because it can't go negative, it can only go to zero. So I guess that's the good news in a bad situation.

But we're obviously very intent on understanding what's happening there, helping our distributors. We put our new tech rep to help our customers get through all this and we're hopeful for the future. That's all I can say.

Gerry Sweeney
I appreciate all that detail. Thank you.

Operator
The next question will be from Mike Malouf with Craig-Hallum.

Mike Malouf
Hi, guys. Thanks for taking my question, just a quick question stevia. I know that Cargill's working pretty closely with Evolva on this EverSweet and if they ever get this thing going then they won't really need a lot of stevia. So I'm just trying to get a sense of what do you see as the opportunity of stevia, given that opportunity that Cargill's kind of approaching? Thanks.

Mark Wong
Yes, so stevia, or these low cal sweeteners, are a big market opportunity, and big market opportunities attract technology. And hopefully you'll hear what I'm going to say and know that we're doing our homework well.

But you can make stevianoids through a couple of other processes currently. You can make them through an enzymatic process and you can make them through a fermentation process. So I'm not sure how much I'm able to discuss because of confidentiality, but there are strains of yeast that have had point mutations put in them where they can ferment stevianoids.

So we know that stevia produced in a plant has to compete with not just Chinese stevia produced in a plant and not just other low cal sweeteners, but also stevia produced through fermentation and stevia produced through enzymatic production. And so, there's lots of projects in the market because the opportunity is so big. I think that sweetener market worldwide is $35 billion, some number like that. So at $3.5 billion the low cal sweetener market is barely 10%, 12% of the total, and so people also would like to take some share away from high fructose corn syrup and some of these other products like that. And so people have been doing work on this product, on the stevianoids, for some time.

So our market just to be absolutely clear, we probably can't compete with a fermented or enzymatic produced stevia. So our market's going to be for the all-natural from a plant product, that's probably going to have the highest price. I'm not a beverage company and I'm not Cargill, so I can't tell you how they're going to sell their brands and what kind of stevia they're going to use to sweeten or what kind of source of stevia they're going to use to sweeten their products, but this is where the industry is all working through.

So we compete against Chinese-produced full plant stevia, but we also compete against stevia produced through fermentation and enzymatic production. So, we're cognizant of all those things. We're talking to all our potential partners about those issues. We're trying to figure out how from a branding standpoint, they want to go forward. And that's why this whole new idea for us—because we didn't—we've been working on breeding stevia for a long time, but we didn't have this sort of closed loop or origination business concept. We need to know, we need to have a contract to know how much of the plant-produced stevia the beverage companies and Cargill really want from a US production base. That's the question we're trying to work through with them and they're trying to work through what relative costs we think that that's going to come to them on a sort of effectively sweetened—there's some standards, units of measure that you use to look at sweetness, but they want to know what kind of cost, because cost is important to them.

So whether they end up with a high-end product where plant-produced stevia is the sweetener and they have some lower price point products, where they're using other sources of stevia, I think that's going to be one of the really interesting things in the industry to watch.

But clearly, they're interested in plant-produced stevia. They buy it now from China. They're just concerned that China is not a source competent and dependable stable source of supply, especially given the current trade issues that are going on between China and the US. And, before they commit to product roll outs, they want to have a US source of production, just from a stability and viability standpoint.

Mike Malouf
Okay, that's very helpful. Thanks for the help on that.

Mark Wong
Yes, so I hope it's—I mean we really know a lot more than we knew ten months ago about how stevia is used. We have a lot better communications with the consumer companies and the industry. As I said in my comments, we're looking forward to working closer with Alan Willits, who's been in the sweetener business. He ran Cargill's corn milling business in the US, which included all of the ethanol and the sweetener businesses. This isn't a ground that we haven't plowed before or that at least Alan hasn't ploughed before, and we're frankly looking forward to his sage guidance to help us figure out where the market's going.

Mike Malouf
It sounds great, thanks.

Mark Wong
You're welcome.

Operator
Our next question comes from Ian Gilson with Zacks Investment Research. Please go ahead.

Ian Gilson
Good morning, gentlemen.

Mark Wong
Good morning, Ian.

Matthew Szot
Good morning, Ian.

Mark Wong
We're looking for your normal good question Ian, not to put the monkey on your back here to start off, but you always ask good stuff, so fire away.

Ian Gilson
On the DuPont Pioneer agreement for GMO alfalfa, is that going to go to zero?

Mark Wong
Is that going to go to zero? Yes, yes.

Ian Gilson
Now that is an above average price seed, so do we look for average price moving downwards?

Mark Wong
Matt, maybe you want to talk about the sort of weighted average and how many dollars it is and stuff.

Matthew Szot
Yes, sure, and Ian, as I mentioned earlier, the minimum annual commitment level to purchase GMO seed from us was 6 million a year. This year in FY '18 that number is actually higher than normal, it's about 15 million. And the sales price on that GMO sales were higher, but the cost of production was a bit higher as well. So from a gross margin standpoint, on sales to Pioneer, we're not expecting any sort of material shift. But it will be reducing our year-over-year revenues because we won't have that recurring GMO sales any further.

Ian Gilson
Okay, so is inventory transportable in the sense that do you own inventory outside the US, and can that be moved from one country to another?

Mark Wong
Do you mean GMO inventory?

Ian Gilson
No, I'm talking about alfalfa seed in general.

Mark Wong
Yes, alfalfa seed in general certainly can, and the seed itself has a relatively long life--three, four, or five years. And we can move it if you store it under good conditions. Seed never likes high heat nor high humidity. If you leave it out in the sun, it's like anything else, you'll lose germination fairly quickly, but that's why we store the seed whether it's in bags or in bulk inside. And as long as you keep the temperature sort of under control and the humidity is not too high, it's fine.

We also obviously are always germinating the existing inventory that we have and watching for any lots that are losing germination, or seem to be losing germination faster, maybe than other lots. So sometimes you have a production area that for whatever reason the seed doesn't hold up as well and clearly we'll make an effort to sell that seed while it still has an excellent germination and not hold that seed longer.

And so we know sort of the quality of the inventory that we have. Matt's told everybody that we have more inventory than we'd like, and so we're doing an extra special job looking at the shelf life of that inventory, but, yes, you can move seed around. We don't like to do it because it adds cost, so normally we will either ship from the US or Australia directly to our distributors around the world. But we do move some Australian seed, because it is cheaper on a per pound basis to the US to supply some lower-priced customers say in Mexico or someplace like that in alfalfa. So we do that, but in general we try not to handle it. Handling it the fewer times you can is the best policy.

Ian Gilson
If I remember correctly, part of the Australian crop also goes to the Middle East, into Saudi in fact. Is that correct?

Mark Wong
No, that's why I say we have such a huge market share in Saudi, so the sort of 65% number, 70% number I think threw out 15 minutes ago. Saudi is just an incredibly important alfalfa market to us for our US S&W brands and for our Australian bands. Because we were so dominant in those warm weather

alfalfas. It's the non-dormant alfalfa that Pioneer sells for us are very different in the—excuse me, the dormant alfalfas that Pioneer sells for us are very different than the non-dormant alfalfa which have been the bread and butter of S&W since its inception. So maybe people didn't understand it, but in our sales numbers were always this sort of double market share, the US brand in the Middle East and the Australian brand in the Middle East because both of our big production operations sell to MENA.

Ian Gilson
Okay, now you said the Australian crop is going to be weak this coming season. Is that a yield acreage basis?

Mark Wong
So let's give you some detail to the word "weak." Last year the crop was about 5.6 million pounds. This year we thought the crop was going to be bigger than that, so the 2018 crop we've harvested and we're cleaning now, but we think that crop is about the same size, we think 5.7 million pounds. We thought it was going to be bigger than that, so that's obviously a good thing in the sense that we have plenty of inventory and we didn't need a bigger crop. But we had some lower yields than we thought in Australia and it looks like the crops coming in in 2018 about the same size as the 2017 crop.

Ian Gilson
Okay, great. Thank you. That does it from me.

Mark Wong
You're very welcome.

CONCLUSION

Operator
Ladies and gentlemen this concludes our question-and-answer session. I would like to turn the conference back over to Mark Wong for any closing remarks.

Mark Wong
Thank you very much. So these were great questions. We always enjoy our sessions with the analysts. We appreciate you all following the company and your interest in us, and we appreciate sometimes your tough questions as well, as they're always good. It makes us think about our business, makes us try to run our business better and we really appreciate our working with you and our partnership with you all.

So thank you very much and we look forward to another discussion in three months. It will be a big call. We're looking hard at the 2019 fiscal year for us. We're going to have hopefully some well thought through initiatives to discuss with you all and we look forward to that in the next few months.

So thank you everybody so much. Thank you for your support of the company. Thank you for following us the detail and we look forward to the next call, which is always a high point for us. Thanks again.

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