



S&W Seed Company
(NASDAQ: SANW)



**Fourth Quarter and Fiscal Year 2018
Financial Results Conference Call**

**Thursday, September 20, 2018
11:00AM 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

Good morning and welcome to the S&W Seed Company Fourth Quarter and 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 "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw from the question queue, please press "*" then "2." Please note, this event is being recorded.

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

Robert Blum

Thank you very much and thank all of you for joining us to discuss the financial results for S&W Seed Company for the fourth quarter and fiscal year-end 2018, ended June 30th, 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, 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 risks that actual results may differ materially from those projected in the forward-looking statements, as a result of other...of various factors and other risks identified in the company's 10-K for the fiscal year ended June 30th, 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. Since I took over as CEO a little over a year ago, our focus has been to evolve beyond our dependence on our alfalfa seed operations, as well as certain geographical markets which carry higher political, regulatory and economic risks. At the same time, we want to develop and acquire higher value trait technologies and become more customer-centric focused. I am pleased that we are making strong progress in each of these areas.

As many of you saw, we entered a stalking-horse bid to purchase substantially all of the assets of Chromatin, a U.S. based sorghum operator which entered into receivership earlier this year. Further, at a hearing of the U.S. Bankruptcy Court for the Northern District of Illinois, S&W Seed Company was designated the successful bidder at \$26.5 million. There are still some additional steps required to get court approval, so we need to reserve any additional comments until that period of time. We do anticipate conducting a conference call in the near future to discuss the potential transaction in greater detail, but we will have to reserve answering questions on the topic until that time.

Excluding the impacts of the potential Chromatin transaction, we have executed on a number of components of our strategy plan to move beyond our dependence on alfalfa operations, evolve beyond our historical marketing and distribution approaches to become more customer centric, evolve beyond our historic dependence on certain geographical markets which carry higher political, regulatory and economic risks and achieve higher value germplasm and trait development capabilities that can be leveraged throughout our distribution channels.

In August, we announced the appointment of Dow AgroSciences veteran, Nicholas Willey to the position of sales technology lead. Nick, will interface with S&W sorghum, sunflower, as well as alfalfa breeding teams, participate on on-farm performance testing of the company's seed products and aggregate and package pertinent research data to assist the company sales teams to more effectively and efficiently sell S&W's products worldwide. Essentially, Nick will act as a bridge that connects our research and sales teams.

We also announced the appointment of Shane Kable as Territory Sales Manager in the state of New South Wales, Australia. Shane and Nick will join Dave Callachor, the company's Commercial Manager for Hybrid Field Crops, and Will Bazley, the Territory Manager for Queensland.



As we have discussed, Australia is important for us as a focal point for many different reasons. First, political and regulatory environment is stable compared to many of the global markets we also operate in.

Second, much of our germplasm 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.

Third, we believe the size of the market provides us an exciting opportunity to drive revenues.

Fourth and perhaps most importantly, it is one of our home markets. A key focus of ours has been to maximize returns while minimizing risk. We believe Australia will play a key role for us in that going forward.

As many of you saw, we are pleased to have created a joint venture with the subsidiary of Canadian-based AGT Food and Ingredients to produce and commercialize seed products in Africa for sale throughout the continent, as well as, selected export markets.

AGT is one of the largest suppliers of value added pulses, stable foods and food ingredients in the world. The new JV, named Seed Vision, will leverage AGT's production and processing facilities to produce S&W's hybrid sunflower, grain sorghum and forage sorghum for sale by Seed Vision. We believe Africa represents a large market and we look forward to successful collaboration with AGT to develop this critically important market for these important products.

Transitioning to trait development, in July Calyxt and S&W announced the successful transfer of our proprietary alfalfa seed and plants from the research and development facilities at Calyxt to S&W for field evaluation and testing. This marked a significant milestone in the collaboration between our two companies.

As background, in 2015, Calyxt and S&W embarked on a collaboration to research, develop and produce a commercialized alfalfa seed products involving Calyxt's proprietary gene editing technology talent and S&W's industry leading alfalfa seed genetics.

The collaboration between Calyxt and S&W is focused on providing enhanced traits in alfalfa that can drive improved productivity while decreasing input cost to meet the growing global demand for improved quality alfalfa seeds.

We will now conduct open field trials throughout the United States to progress the development and characterization of new varieties with this enhanced digestibility trait. We look forward to keeping you posted on the results.

On the stevia front we finalized an extension of our existing agreement with an international consumer products company to perform breeding and target of novel stevia traits. The objective of the collaboration is to improve stevia varieties. We are excited to expand this agreement which ultimately has the potential to be utilized in numerous products around the world. Our expertise in stevia research and development and understanding the U.S. based production dynamics has brought us to this exciting opportunity.



We are also working to create agreements that will further expand stevia in the U.S. As most of you know, most stevia is currently grown in China; an integrated supply chain system including growers and processors is required to make this happen. We are working on creating that system. Specifically, we are target testing markets for production, primarily in the Southeast U.S. with field trial set to take place in 2018 and 2019. These field trials will further determine how our varieties respond with the geographies and general production profiles.

One other key item I would like to mention with regards to stevia is that we currently are developing a strategy to move from clonal propagation to seeded propagation, which will dramatically drive down the cost of production. Overall, very good progress is being made in our stevia operations.

We discussed briefly last quarter, our acquisition of germplasm from NexSteppe from bankruptcy. NexSteppe had a strong following with many of the leading bio-based companies around the world, which we will look to expand upon further development within new markets, including certain forage and grain markets.

We also retained seed industry veteran Dr. Mauricio Barbosa to aid in the expansion of our breeding capabilities within its sorghum profile who joined us from NexSteppe. Given Mauricio's long history with NexSteppe and its germplasm, we believe he can be instrumental with our overall sorghum initiatives.

Our goal over the coming years is to significantly expand our sorghum operations in the US, the launch of a high quality NexSteppe sorghum germplasm; we require earlier this year is another key component of that strategy.

As you see from our results, we continue to face headwinds in Saudi Arabia, where revenues decreased from \$26 million in fiscal year 2016 to \$12.1 million last year and down to just \$1.5 million this year. This unprecedented decline also impacted our profitability. The silver lining to these headwinds is that we essentially hit the bottom of the Saudi market and alfalfa seed revenues excluding Saudi Arabia have remained relatively flat over the past couple of years, despite the difficult market environments.

We also have entered into a one-year extension with Pioneer to produce GMO varieties that runs through May 2019. You may recall that there are two components of the original agreement, one for conventional germplasm and one for GMOs.

For various reasons, Pioneer elected not to move forward with the GMO portion which had expired earlier in the year. However, we have now entered this one year extension, and we will continue to have ongoing discussions with Pioneer on how we may proceed with this specific portion of the agreement going forward. The distribution agreement covering conventional varieties remains firmly intact and runs through 2024.

Let me now turn the call over to Matt Szot, who will review of our financial results.

Matthew Szot

Thank you, Mark and thanks to everyone on the call today. Let me quickly run through a recap of our financial results for the year. I would like to note that we have not provided annual guidance for fiscal 2019. Given that the planned timing of our acquisition of Chromatin is fluid and subject to factors



outside of our control, we will look to guide you directionally in the interim and plan on providing additional insight and guidance during our upcoming Q1 conference call.

For the year, revenue came in at \$64.1 million compared to \$75.4 million in the prior year. As Mark just mentioned, we experienced a \$10.6 million decrease in sales to Saudi Arabia compared to the prior year. Excluding the decline in Saudi, our sales for the year were relatively flat. We've recorded revenue of approximately \$39.5 million from our distribution and production agreements with Pioneer during 2018. This was an increase of \$2.6 million from the prior year.

Our production agreement with Pioneer, which is related to the GMO traded varieties, was extended for an additional year and is now scheduled to terminate in May of 2019. As a result, Pioneer's minimum purchase commitments will be reduced by approximately \$6 million annually commencing with fiscal year 2020. Again, the portion of our agreement that terminates next year is only the GMO variety portion and we expect sales to Pioneer under our distributional agreement for conventional varieties continue to represent a significant portion of our domestic sales, as well as overall sales through 2024.

Gross margins in fiscal 2018 were 23.0%, an improvement of 160 basis points compared to 21.4% in 2017. This improvement was consistent with our expectations and was primarily due to product sales mix during the year or we had a higher concentration of sales to Pioneer as a percentage of total revenue coupled with reduction of production costs. We estimate that gross margins of our organic business, excluding any impact that may come from the planned Chromatin acquisition, was slightly decreased from 2018 levels due to anticipated sales mix in the coming periods.

Now, operating expenses were \$17.7 million in fiscal 2018 compared to \$18.5 million in 2017. The prior year operating expenses including nearly \$675,000 pertain to separation agreements with our previous CEO, as well as \$223,000 pertaining to our reserve for an uncollectable sublease receivable and an additional \$319,000 of impairment expenses. Excluding these items from prior year results, total operating expenses increased \$348,000 year-over-year.

R&D expense was up \$856,000 year-over-year, due to our continued investment in our hybrid sorghum and sunflower programs, as well as stevia, which we see as catalyst for growth in the long-term. This was partially offset by a decrease in SG&A. We're going to continue to focus on controlling costs and operating efficiencies while maintaining an investment and developing next generation products that are intended to drive growth and revenues and gross profit margins.

Adjusted EBITDA for fiscal 2018 was \$1.3 million compared to \$3.5 million in the prior year. Again, this impact was largely driven by the decrease in sales to Saudi Arabia.

GAAP net loss for fiscal 2018 was a loss of \$4.7 million, or \$0.21 per basic and diluted share, compared to GAAP net loss of \$11.8 million or \$0.67 per basic and diluted share in 2017. In 2017, we recorded a valuation allowance of \$9.6 million against our deferred tax assets.

Now, moving to the balance sheet, as we've discussed over the last several quarters, we are carrying higher levels of inventory. You will see that our inventory balances are up \$29 million from the same time last year.



We stage our production contract cadence to allow for the ability to reduce or increase production each year. We planted very few new acres for crop year 2018, and we plan to take a similar approach for the next production season.

Accordingly, we expect that production volumes for the upcoming harvest to decrease and we expect our inventory balances to decrease over the next 12 to 18 months and become more in line with historical carrying levels. We've planned for these increases, and we believe our balance sheet and line of credit facilities will provide us adequate flexibility to carry higher levels of inventory over the next year.

Now, as I mentioned earlier, we will plan on providing further guidance during our Q1 conference call. I do want to point out that although we have an extension of the production agreement with Pioneer, our sales for them will be down year-over-year given higher volumes in 2018 and the current inventory levels that they have. The decrease in revenue to Pioneer should be partially offset by expected growth in our domestic markets, both in the U.S. and Australia and North Africa.

Now, I do want to highlight that we adopted a new revenue recognition standard, ASC 606, effective July 1st of 2018. The new accounting standard results in a change in timing of revenue recognition specific to our contract with Pioneer. This change will not have an impact on an annual basis. However, it will result on the acceleration of revenue into earlier quarters of our fiscal year. I will elaborate on this further during our next quarterly conference call. I know I went through a lot of data here, so if you have any questions please feel free to ask.

Now, I'll turn the call back over to Mark.

Mark Wong

Thank you, Matt. As you can see from our operating results of our legacy alfalfa operations, it is important to diversify our business and bring our operations to back to strong profitability and leverage our operating structure.

In addition to the potential, the Chromatin acquisition can provide us; other key components of our overall strategy are on track including diversification of our sales efforts to geographical markets which carry lower political, regulatory and economic risks. Our continued push on trade, technology development, expansion of our non-alfalfa operations, modifying our sales strategies to become a more customer-centric focused and commercialization of our stevia operations.

Our mantra during the year has been "evolving beyond." We believe we are doing just that and hope you look back in history and that this was in fact a golden opportunity for S&W and its shareholders.

As always, I want to thank you for your continued support and would now like to open-up the call for your questions. Operator?



QUESTION AND ANSWER

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, you may press "*" then "2." Again, it is "*", "1" to ask a question.

The first question will be from Sarkis Sherbetchyan of B. Riley FBR. Please go ahead.

Sarkis Sherbetchyan

Yes, good morning. And thank for taking my question here.

Mark Wong

Good morning, Sarkis.

Sarkis Sherbetchyan

First, I understand that you can't really speak to the Chromatin purchase at the moment, but just thinking through the annual guidance or cadence of guidance. Given the DuPont agreement and the purchases being down \$6 million annually, do you expect fiscal 2019 to more or less look like this year that we just completed?

Matthew Szot

Well, Sarkis, this is Matt. We did extend the production agreement, as you noted, through May of 2019, but with that being said, revenue from our conventional varieties under the distribution agreement with Pioneer, those will be down year-over-year due to general oversupply in the domestic market, and we had higher volumes in 2018. Our GMO sales under the production agreement will also be down as well, but that's simply due to the production levels that we produce this year. Under that production agreement they take 100% of the seed we produce of GMO varieties. Overall, we will see a year-over-year decline in fiscal 2019.

Sarkis Sherbetchyan

Okay. Just to understand, it sounded like that there were a few markets that might have experienced growth, so that's not going to be enough to offset some of this decline that we should expect for Pioneer?

Mark Wong

Well, it's early in the season, but we are expecting growth in North Africa, Latin America and there has been a continued focus on growing both in the U.S. and Australia. We are hopeful that does offset declines in Pioneer, but I think we will be able to give you more clarity as we complete the first quarter and give overall update in Q1.

Sarkis Sherbetchyan

Got it. As it relates to the ASC 606 commentary, can you provide us some cadence, how does that change the allocation of sales maybe first half versus second half? Any initial thoughts?



Mark Wong

Yes Sarkis, about 90% of the revenue that we generate from Pioneer on an annual basis will be accelerated into the first two quarters. It's ultimately going to be dependent on the timing of the harvest when we receive the crop which is a milestone that triggers revenue recognition, but it definitely will be pulling revenues into the first half of the year versus traditionally would be recorded more revenues in the third quarter. We plan on our Q1 call to provide further clarity on the cadence of what that looks like for 2019 future periods.

Sarkis Sherbetchyan

Got it, one more from me, and I'll hop back in the queue. I think you mentioned that you would expect gross margin to decline from the fiscal 2018 levels on mix. Can you maybe give us some more color on, would that be a 100 to 200 basis points decline? Any order of magnitude we can think of?

Mark Wong

Sure. Sarkis, I would say that margins by individual product launch should be flat or up. However, our overall sales mix will be impacted by the sales mix with respect to our Pioneer revenues, so we were anticipating lower revenues to Pioneer, which happen to be our highest margin product line, and that would have a drag on the overall consolidated margins. At this point, we are probably projecting a 50 basis point drag compared to what we just put up on the board for FY 2018. Sarkis, that obviously that doesn't include any margin changes, if we move into higher margin profile products that would come along with the Chromatin acquisition.

Sarkis Sherbetchyan

Thanks, good luck.

Operator

And ladies and gentlemen, to ask a question you may press "*" then "1."

The next question will be from Mike Malouf of Craig-Hallum. Please go ahead.

Mike Malouf

Yes, good morning, guys. Yes, I have a couple of questions. With regards to Saudi Arabia, can you just give us an update as we look into alternative areas, I know you talked Sudan a lot, and just give us a little bit of timing and maybe just update on that whole market? Thanks.

Mark Wong

Mike, the whole situation in the Middle East is still changing and it's difficult to know exactly what's happening on an exact timeline. The situation in Sudan, basically production of alfalfa is being moved to places where there is water. Obviously transportation costs for alfalfa seed are high on a pro weight basis and so the closer you are to the cow, the better off you are. So, Sudan has been targeted as a place that has water and available land and there is big projects going in there, but as sometime happens with big projects, the timeline for development is slower. Just the technical part of getting the wells down, putting all the circles in, planting the crop to that, land leveling to be able to have uniform production over a big area, all those kind of things seem to be taking longer. Obviously, we are not involved directly in all those. Our customers are doing that but that's the delay there.



It also seems that the big dairies in Saudi are as we have said many times, moving to other parts of the world. So Southern California and Argentina seem to be places where they believe they can produce seed or now move cows to those locations and basically have milk available, and so they are implementing that. We are watching that. We are getting start of some direct sales to operations in those areas. We are having to though work with the local representatives of the dairies in those areas. It's not a blanket purchase order from the home office that then we fill and a piece of that goes to California, piece of that goes to Australia, piece of that goes to the Sudan. That's not the situation; we are having to develop each market with the people on the ground from each of the dairies.

Does that answer your question or would you like some additional issue?

Mike Malouf

No, I think that's helpful thanks. Then, as you look into stevia, just a couple of questions on that. One, is the stevia in exclusive to your consumer product company? And then number two, as you look out over the next three years, how long will you get to, how long it will take do you imagine to get to commercialization?

Mark Wong

Sure. The arrangement with the consumer products company has got exclusive elements. It's a difficult market to just make a blanket statement about exclusivity or not. The big issue for the consumer products' company is, it's clear to them that the markets for non-sugar sweeteners are growing, and that the general public, at least in the U.S., is focused on obesity and some of these other issues that are triggered by the amount of sugary drinks that the population in the U.S. is consuming. There is a big push to go to stevia which is a plant product, all the other products in the market are produced. They're chemical products produced by fermentation. There is no other plant products other than real sugar which comes from sugar cane obviously. But all the other non-caloric high sweeteners or high end sweeteners are chemically produced.

There is a big demand, but the consumer products companies are reluctant to make big product commitments while the only source of stevia is China. One, there are the normal stories from China of prison labor, quality issues. There is just the supply issue of do you want to launch a new diet soda brand as an example with only one source of raw material, that being Asia. And the answer pretty frankly is no from these guys, and so our whole strategy is to supply at least that is produced in the U.S. where the system is much better under control. Where you know exactly what kind of labor and inputs are being put into the product. We have coming here in the next month, October is a big fall planting date for us.

We've expanded our evaluation of all of our most promising stevia lines to do some field trials, fall field trials in October. There will be October planting in the Southeast, mainly the Carolinas, Georgia are target production areas. We're trying to gather more field data as to the effectiveness and efficiency of our seed lines and how much stevia technical material on a per acre basis we really can generate and what is going to be the cost of that.

In the prepared remarks, we discussed that one of the big issues for us is moving from clones to seeds so the farmers can plant seed. We think that clones right now are about 40% of the cost that a farmer has to incur to grow a stevia crop in the U.S. That's just when you look at other seed cost in relation to benefit provided in corn or soybeans or some of the bigger crops, that's way too high a ratio. So a big

part of what we're doing too is working with big farmers. Obviously, you want to put your trials out with farmers that are what we call bell cow farmers in these areas. Farmers that will lead other farmers to the crop and be able to then with their reputations convince other farmers that this is a good crop to try and that you can make money as a farmer.

That's the second big effort of putting out trials this October is to get a bunch of loyal farmers comfortable with our genetics in our stevia line. We will be following up with spring planting of course also in the same markets, sometimes with the same farmers. We want to understand what fall crop versus spring crop planting looks like, what the economics look like, what yields look like, that's all an important part of understanding how your crop performs and what that economics for us and the farmer are going to be. We are pretty excited about all that. Remember that stevia is such an important opportunity for us, about \$500 million current sales at least going to we think \$3 billion, if additional sources of material can be generated from the U.S. and that's a big opportunity even compared to sorghum and alfalfa and sunflower, the other crops that are our major focus.

Mike Malouf

Okay. Thanks for the help. I appreciate it.

Mark Wong

Yes.

Operator

Ladies and gentlemen, this will conclude our question and answer session. I would like to hand the conference back over to management for closing comments.

CONCLUSION**Mark Wong**

Thank you very much. I just want to make a couple of comments. This is a very difficult time for farmers in the U.S. The issues with tariffs and what's happening with our tariff war with China. I am not going to make any statements about my beliefs and whether that's a good effort or not. It's not up to me, it's up to our President and he seems serious about getting China to change the way trade is done between the U.S. and China. Unfortunately for the ag sector, there's a real problem in that. China is a giant demand market for the U.S. in terms of the commodity products, corn, soybeans, cotton, but also some of the meat products that we export, chicken, hogs, and beef. So, it's a tough time for agriculture in the U.S. We obviously with our Chromatin efforts which we'll talk about more in a conference call once the court makes some more progress with the process of actually having us close the transaction, there are just things they have to do with secured and unsecured creditors before our winning bid is basically closed.

It's a difficult time for ag, but we think it's a time of opportunity. Sometimes when markets look the worst, it's the time to be buying. We are fortunate to be able to raise equity and purchase seed companies in the market that we think have very attractive pricing. We appreciate that our own performance quarter-to-quarter has had some difficulty as we have stated in the last few quarters, but I think we'd like everyone to focus on the fact that we're being aggressive. We're buying new assets, we're building on the same theme and strategy that we've talked about since I came on as CEO, so stevia, sorghum, alfalfa, the main focus, then sunflower, and we're trying to build our business internally



and we're trying to build our business through acquisition. I just want to remind everybody to be patient with us. I know that the patience can be a hard thing to find in financial markets sometimes, but we really are excited about the future and the opportunities of S&W. And we think in the intermediate term for sure, it's going to be an excellent investment for people.

With that, thank you everybody for the call and we appreciate the interest in S&W Seeds. Thanks again.

Operator

Thank you, Mr. Wong. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

