



















**Ben Klieve**

Got it. Very good. Thanks for your comments. I think that does it for me. I'll jump back in queue.

**Mark Wong**

Okay. Great.

**Operator**

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

**Mike Malouf**

Great. Thanks guys for taking my questions.

**Mark Wong**

Hey, Mike.

**Matthew Szot**

Hey, Mike.

**Mike Malouf**

Hey. If I could just sort of backup a little bit on Chromatin and could you give us some perspective on where their revenues have been over the last 3 to 5 years? And I guess just given the amount of money that they've spent on R&D over that period and the, obviously the amount of new products that they've also brought to market, sort of curious what specifically was the reason why they weren't able to capture a little bit more market share than you would have thought.

**Mark Wong**

Yeah, so you know, I think one thing to remember about the Ag business in general but the seed business in particular is that it's a pretty long sales cycle, right? It's not like a software company that has a 30-day sales cycle and new products come in and within six months you can kind of see the effect of those on your sales numbers. Yeah, we get two sales seasons a year, we get a northern hemisphere spring season, we get a southern hemisphere spring season, which is really been northern hemisphere fall season, clearly, but you're really only getting two seasons a year.

So, you know, like me, 40 years in the seed biotech business, you get 80 season, 80 sales cycles in 40 years. And so, you have to make the best use of every single one of those cycles because you don't get that many. And most people don't stay in the business for 40 years, I'll have to say.

But you know, those of us who do, you know, we're very proud of our history and industry. We think we understand the business. We think we understand the big opportunities strategically. You know, we have our eyes on the horizon on those and we think we understand the small things that a seed company has to do to be successful.

One of the problems Chromatin had was they kept having to raise money to pay their operating expenses, right, because they were really still in the venture sort of pre, new product stage. Yeah, they had sales, they hit \$30 million in sales I think one of the last couple of years. I can't go back for you to the question of the last four or five years because I don't remember their numbers.



But they really sort of, their sales, the profits generated from their sales never caught up to the expenses that they had and so they were funding their development costs out of new equity rounds. And you know, that's a tough place to be and I take my hat off to them. I think they did a pretty good job.

They didn't do the greatest of sins in my view, which is cut your R&D. It's easy to, when you don't have enough money, to sort of cut the thing that has a six year product cycle and hope that nobody notices because you've got six years before you get something. And you know, they didn't do that and they kept their breeding staff on, they kept their molecular biology staff together and you know, the result is that we have some really interesting projects like herbicide resistance and other things in sorghum that we are pretty excited about and we have a big pipeline of products coming in. I think no one asked the question but in one of the exhibits we put out, I think it might've been for the last call, there was a lot of product put into the market by Chromatin about two or three, maybe it was three or four years ago. You know, that was when they were making up for a shortfall that they had. They were acquiring companies, they were trying to make their product line uniform, and they had a lot more in productions in those years than in the past couple years where they've been introducing four or five, hybrids a year, which is probably the more normalized number. And they did a great job on the product pipeline on R&D. And they really probably didn't have enough money to really push the sales and marketing parts the way, you know, if they had time they would have. So it's a complicated question

**Mike Malouf**

Yeah, so I guess if you take a look--when you take a look though, and I note that the sales were 30 or 50 percent higher than they are now, what would lead to that sales falling off, especially given the fact there aren't very many sales cycles and I would assume that the products are pretty robust and so if a farmer is using this new product, gets sold on the new product through a long process, that you don't just over a year or two start switching to a different product. So, I'd like a, just a couple of comments on that would be helpful.

**Mark Wong**

Yeah, sure. So, of their sales, I would say it was a big component that were, the products that we are excited about, the ones coming out of their own research that had shown well and trials and farmers were excited about and they were producing seed and selling those. So that was a big piece of their sales, maybe half. But a lot of their sales was stuff they were purchasing and just pulling through their distributor system at pretty low margins. That's what they had such big losses. And they were, you know, they were doing that to make their sales number look bigger, Mike, that's all I can tell you.

You know, I'm not going to guess their motivation, I'm not going to say much about that because that's only going to me in trouble with some of the people who were there that are still my friends. I'm just not going to go there. But some of their sales, a big portion of their sales were purchase items that they were just pushing through in their sales organization.

**Mike Malouf**

Got it. That makes a lot more sense. And then just a quick question, if you have, do you have any update at all or any perspective, new perspective on what's going on in the Middle East, that would be helpful. Thanks.

**Mark Wong**

Yeah, I mean, we're still trying to understand when those sales are coming back in terms of the planted acres. We still believe that the dairies are doing about four different things. So, they are still buying alfalfa from local small alfalfa producers because the Saudi's have given those guys water where the big producers have been cut off. They are still importing hay, so number two they're importing hay from around the world including California. So, the hay price has been reasonably strong the last year on a per bail basis if you'd want to check that number.

They are expanding outside of Saudi Arabia so they have the big dairies like Almarai are, have bought land in California, have bought land in Argentina and are taking their own hay back to their cows in Saudi but also talking about building dairies in those areas so they can take milk back. And we've also seen from export data the fourth thing that they have been buying some milk directly.

So, they're buying from the EU, they're buying some milk from New Zealand, and their re-bottling that in Saudi for their Saudi customer base and the customer base in the Middle East because they sell, the big dairies are so big, they sell to most of the Middle Eastern countries. They are the milk supply for most of the Middle Eastern countries. Again, you know, there are 100, 150,000 cows. The two couple biggest dairies, the biggest dairy in the U.S. is about 35,000 cows. So, they're big, really big.

**Mike Malouf**

Okay, great. All right, that's really helpful. I appreciate the color.

**Mark Wong**

Yeah, thank you Mike. Appreciate the questions.

**Operator**

Once again, if you would like to ask a question, please press "\*" and "1". Our next question comes from Walter Young from Thompson Davis. Please go ahead with your question.

**Walter Young**

Hi, it's Walter. My question has already been answered. Thank you.

**CONCLUSION****Operator**

And ladies and gentlemen, at this time we'll conclude today's question and answer session. I'd like to turn the conference call back over to Mark Wong for any closing remarks.

**Mark Wong**

Thanks very much. So just to everyone on the call, thank you again for following the company. We're very, very excited about the opportunities that Chromatin has given us. I apologize for being a little short on the details, but we only closed the purchase a couple of weeks ago and in those couple of weeks, as I've said, we put our new organization in place and were much more focused on markets now because we're geographically organized rather than functionally organized.



And you know, we'll have a good, a better and good understanding of our business and we'll be able to convey that to you guys in future calls. For me as I've said, now it's a very exciting time. When I came into the seed business, there were 500 corn seed companies in the U.S. and now there's five. So, we've lived through consolidation, we've lived through the introduction of biotechnology crops, of GMO's. The industry has made many, many changes and I think, as I've said, this is one of the most exciting companies that I've had the privilege to be the CEO of and I am totally excited and I think our people are totally excited about what we're going to bring for our shareholders and our customers in terms of value. So, thanks very much everybody. And we appreciate your support, for sure. Bye-bye, now.

**Operator**

Ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.

