



S&W Seed Company (NASDAQ: SANW)



S&W Seed Company Discusses Acquisition of Chromatin Sorghum Assets

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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 morning, and welcome to the S&W Seed Company conference call to discuss its acquisition of the Chromatin sorghum assets. 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 can press star, one on your telephone keypad. To withdraw your question, please press star, then two. Please note that there are slides that will accompany today's presentation. You can access the slides through the webcast portal, or directly on the company website, both of which are accessible at swseedco.com/investors. Please note that today's presentation is being recorded.

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

Robert Blum

Thank you so much, Ann. Thank you for joining us today to discuss S&W's acquisition of the Chromatin assets. 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 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 plans, expectations, 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 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 10-K, for the fiscal year ended June 30, 2018, 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. We are excited to discuss the successful completion of our acquisition of Chromatin sorghum assets. This acquisition is precisely the type of opportunity the management team and board has been seeking to accelerate our strategic plan to evolve beyond our original alfalfa business, and create a leading middle-market agricultural company, with leadership positions in multiple crops.

As we mentioned in the press release, Chromatin originated as an agricultural biotechnology company that has transitioned to a fully integrated sorghum seed company. We believe that sorghum hybrids that have been developed to date are very strong, and there is a tremendous pipeline of products about to hit the market that have the potential to significantly increase our market share.

Chromatin has established a global distribution network of sales representatives, 500 plus domestic farmer-dealers, and channel partners. We believe there also is significant opportunity for crossing synergies with our existing alfalfa sales organization. We are excited about what this asset purchase brings to S&W and its shareholders.

As we turn to slide 4, since I took over as CEO a little over a year ago, our focus has been to evolve beyond our dependences on alfalfa seed operations, as well as certain geographical markets which carry higher political, regulatory, and economic risks. We wanted to create an organization that was more customer centric, with direct access to our end customers, where sales synergies on different crops could emerge. At the same time, we want to develop and acquire higher value trade technologies. As you look at bullets on slide 4 of the presentation, which is a recap of our go-forward strategy for the next 12 months or so during our investor presentation, you can see how Chromatin acquisition checks the box for these key points.

Turning to slide 5, let's go into more detail on the acquisition opportunity we believe it provides us. For those not familiar, Chromatin originated as an agricultural biotech company, founded at the University of Chicago, with its scientific roots focused on technological innovation. Over the years, Chromatin has evolved into a fully-integrated seed company, with a diverse sorghum product portfolio, a market-leading R&D platform, a global sales network and operating platform, and an experienced operating team. We estimate that we have about 5% to 6% share of the hybrid sorghum market, with new products coming to the market that should accelerate growth going forward. We also think that sorghum seed markets are growing at about a 5% rate per year, which is higher than the growth rates in competing hybrid seeds.

Let's talk a bit about the product portfolio on slide 6. Chromatin's diverse sorghum portfolio offering is underpinning by leading technological and R&D capabilities. We acquired unique hybrids in four distinct sorghum types: grain, forage, food grade, and sweet sorghum. The Chromatin grain hybrids produce large amounts of grain, up to 45% of total biomass. They are rich in starch, about 70%, and are used as a source of protein. The stalks provide nutritional value as a forage, and are an excellent source of organic matter in crop rotation. These grain hybrids are primarily sold for livestock feed, brewing, and distilled beverages, and in the biofields market.

The Chromatin forage hybrids are extremely high value. They provide optimal palatability and digestibility, as animal feed use new semi-dwarfs and brown midrib traits. These forage sorghums are primarily sold for livestock feed, dairy operations, hay, and pasture or grazing. The food grade sorghum hybrids are defined in the super-food category. They are rich in antioxidants, vitamins, and complex carbohydrates. They are also gluten-free, GMO free, and are the fifth most consumed cereal worldwide. You will see these sorghums in end products, such as milled flour, wholegrain cereals and flakes, as well as certain beverages and sweeteners. And finally, the sweet sorghum types, which are used to produce molasses and other sweeteners, or as a drop-in source of sugar for ethanol and sugarcane mills. As you see, the product offerings support multiple end markets providing diversification.

Further, on slide 7, Chromatin's hybrid seed pipeline is tailored to specific geographies and environments, and includes various maturity profiles, suited to a wide range of latitudes and improved animal digestibility. Importantly, they have developed a system to bringing hybrids to market faster, typically within seven years, versus ten years for traditional breeding.

Our Chromatin pipeline includes several products that are being launched in the 2019-2020 season, that are projected to result in improved pricing power, and overall increases in market share, including a new sugarcane eight-foot tolerant hybrid, and new herbicide-resistant traits.

Moving to slide 8, having been founded on R&D, Chromatin has a strong history of innovation, and brings unique products to market. The development of molecular markers has allowed the breeding team to identify and breed desirable traits, especially recessive traits, into commercial hybrids with improved efficiencies. Trade associated molecular markers are extremely valuable for improving seed qualities, and developing value-added products rapidly. Chromatin's breeding program is led by some of the best breeders in the sorghum industry, capitalizing on their years of industrial experience and academic research. Their efficient trait development program is driven by a close-knit, collaborative, multidisciplinary team, comprised of breeding, molecular genetics, and greenhouse assets.

On the testing side, their USDA-accredited seed laboratory is one of only 24 accredited seed entities in the United States, and differentiates it from smaller competitors. They have extensive global field testing, and hybrids, and technology through in-house testing, expertise, and third-party network globally. Key advantages to all of this is Chromatin's ability to bring superior products to market faster than its competitors.

Again, I want to reiterate that this is an organization rooted in biotechnology. They have spent about \$30 million in R&D over the past 8 years. We are acquiring a tremendous set of assets and capabilities in this transaction that simply needed to be run with more operational efficiency. This is one of the primary reasons we are excited about this acquisition. I'll dive more into these synergies in a moment.



On the sales slide, on slide 9, Chromatin Sorghum's sales network is broad, with a dedicated sales team selling to 500 plus farmer-dealers within the United States, but also have joint venture partners in South Africa, and a number of distributors outside the US. This sales network sells both company-owned brands, as well as private-label customers. From a geographical standpoint, it's about 70% North America, and 30% through the rest of the world, which enhances the diversification we have been seeking towards regions that carry lower political, regulatory, and economic risks.

One of the additional opportunities we're excited about is the ability to combine our two sales forces, and allow them to sell multiple products to the same end customer. We also know, from our own experience, that many of our alfalfa dealers and distributor partners have approached us to sell other products. We believe the same will be true for Chromatin's distribution channel partners. We have a slide coming up to show the opportunities geographically.

Bottom line is that we believe there is a strong potential for sale synergies between the two organizations, and have defined operational plans in place to see this through. We will talk further in a moment about how we are reorganizing the company to drive efficiencies from a multi-crop portfolio.

Turning to slide 10, much like alfalfa operations, Chromatin has built out a contracted production organization that operates very similar to ours. They contract with growers, on an annual year basis, to produce specific quantities of acres or specific hybrids. On the processing side, the company has fully-integrated capabilities. This includes seed drying, conditioning, treating, packaging, and warehousing, shipping, quality testing, and bagging in their company-owned brands or private-label bags. As we integrate Chromatin's operations with S&W's, you see the opportunities available to us to optimize cost savings, and ensure diversification from a production standpoint, while also meeting the critical demand of our customers with a higher level of focus.

Moving to slide 11, you can see the amount of investment that has been made over the last number of years in developing their pipeline. Chromatin has a healthy breeding pipeline that will continue to yield high-value products over the course of the next several years.

On slide 12, as most of you are aware, we have been involved in the sorghum industry for the last two years, through our SVG acquisition. SVG provides us with some elite germplasm, and we have initial sales agreements in place with partners around the world, which are starting to produce revenues. To go along with our SVG acquisition, we recently acquired the germplasm of NexSteppe. The NexSteppe germplasm has a strong filing with many of the leading bio-base companies around the world. As we have discussed on recent calls and presentations, it's been our objective to leverage this germplasm, and Chromatin provides us precisely that opportunity.

Because some of you are likely not as familiar with the sorghum market, let me take a moment to discuss the market as a whole on slide 13, and why we are so excited to expand our footprint in it. Sorghum's the fifth most produced grain in the world, after corn, rice, wheat, and barley. It can be adapted to grow in a high percent of the world's arable land, including land with limited water and salt contamination. At the end of the day, sorghum is viewed by many as an alternative corn, as it is the most efficient use of water and nitrogen fertilizer. While sorghum is a traditional food source, with momentum in high-value food areas, we are seeing more demand for sorghum in a variety of different markets, including beverage production and biofuels. In particular, sorghum is a major source of food and feed in Africa and Asia, where population growth will significantly impact the pressure on



agriculture. Due to its unique ability to meet high demand, while utilizing less resources, microeconomic trends are in its favor.

When we talk about the advantages to become a middle-market agricultural company, this is due to the opportunity we believe exists in key crops, due to underinvestment by large agricultural companies. We believe this historic underinvestment in sorghum, relative to corn and other major crops, has resulted in a lower sorghum seed value, which should generally reverse as sorghum gains a stronger foothold in the market. For instance, corn was one of the first crops that benefitted from large breeding investments, and we see the value that has been created through breeding. This is what we hope to see in sorghum in the next years to come, and why we are excited our position will create value.

Obviously, we are acquiring a company that came out of a receivership, so there are certain managerial missteps along the way. Slide 14 shows an outline of a list of our near term and longer term action items that we will be implementing to drive efficiencies in our operations, while continuing to bring to market leading-edge products that have high growth potential. One of the first steps we have made is to reorganize our operations along geographic lines, instead of functional lines, to realize the cross-selling synergies available to us. To do so, we have created two new positions. The first of these will be filled by 25-year agricultural, biotechnology, and seed veteran, Don Panter, to the position of Executive Vice President Americas. Don has spent time in both startup and turnaround business situations, with expertise in such areas as product, project development, global planning, strategic planning, and technology evaluation. Don has held senior leadership positions at several seed and biotechnology companies, including Stoneville Pedigreed Seed, Emergent Genetics, Harris Moran Seed Company, and Mendel Bioenergy Seeds, and most recently, President and CEO of American DairyCo.

Likewise, we have promoted David Callachor to position of Executive Vice President International. David joined S&W in January of 2018 to expand the company's hybrid focus, and will now oversee all international sales, marketing, production, and supply chain, as well as R&D. Both of these gentlemen will report directly to me. The transition is being done to focus on selling multiple crops to the same end customer, one of the key benefits that this acquisition provides. Matt will go into more detail on the financials shortly, but what we see here is an opportunity to transition a business that was losing millions of dollars, to one that will be profitable, contributing to S&W operations during our next fiscal year. We have a lot of work ahead of us, but have a very concise action plan in place, and intend on executing it with precision.

So, to recap just a bit on slide 15, we believe sorghum is an exciting crop, and that Chromatin acquisition provides us with a number of growth drivers, including the introduction of sugar cane aphid insect-resistance traits, in about 80% of our new product pipeline, and the possible introduction of a herbicide-tolerant hybrid in the next two years, which could truly transform the sorghum industry.

The adoption of sorghum globally is expected to accelerate, but still remains under the radar, as the big guy companies, which allow us to benefit significantly from agricultural advantages and technological advantages that have been created by the Chromatin team.

Let me now turn over the call and presentation to Matt Szot, our Chief Financial Officer, to run through a few of our financial components of this transaction. Matt, please.



Matthew Szot

Thank you, Mark. So I would like to spend a few minutes providing some guidance on the P&L, and a recap of the assets we acquired. For the remaining eight months of our fiscal year 2019, we are expecting the acquired business to contribute approximately \$14 million to \$15 million in revenue, and essentially be breakeven from adjusted EBITDA perspective.

As we further integrate the operations and execute on target synergies, we expect it to be a positive contributor to EBITDA in fiscal 2020, based on approximately \$17 million to \$20 million in revenue. And as we look out further, we see significant runway for topline and earnings growth. We expect gross margins from our sorghum operations to be higher than our traditional alfalfa business, with gross margins ranging from 30% to 40%, depending on the specific hybrid. Hybrids with key traits, such as herbicide tolerance, will have the potential to generate even higher margins.

Now, as most of you saw in the press release, we acquired the sorghum assets and business of Chromatin for \$26.5 million in cash. The acquisition was funded with a \$27.5 million equity financing that consisted of two closings. The first closing was completed in September, where we sold 5 million of our common stock, at \$3.11 per share. And last week we closed on the \$22.5 million, and that's a 0% coupon Series A preferred stock, which automatically converts to common stock, to \$3.11 per share, upon shareholder approval. Shareholder approval is expected to be complete later this month on November 20th. Both financings were done with MFP investors, our largest shareholder.

Mark spent time going through the valuable group of assets we acquired, but to help quantify, we acquired approximately \$20 million of tangible assets and assumed minimal liabilities. This includes approximately \$9 million of property, plant, and equipment, with an additional \$11 million of inventory and accounts receivable.

So, essentially, we only paid approximately \$6.5 million for the intangible assets, including the customer base, invaluable distribution channels, including a farmer-dealer network. It also includes a robust portfolio of hybrids, an elite germplasm, a leading R&D and breeding program, product registrations, and trade names. We are really excited about the valuation here. Purchasing a business out of receivership comes with plenty of challenges, and we'll see a few headaches along the way as well, but it also provided us an opportunity to buy key assets at very attractive valuations.

While we have believe we acquired this business at a deeply discounted valuation, we are clearly focused on the opportunity to drive revenue growth, and execute on cross-selling revenue synergies. And integrate our R&D and G&A functions to improve efficiencies, and ultimately drive improvements, and profitability, and cash flows.

In the coming quarters, we'll continue to go through additional details of the acquisition and the benefits we expect it to bring. I'm going to now turn the presentation back over to Mark.

Mark Wong

Thank you, Matt. In summary, as we turn to slide 17, we are extremely excited to have concluded this process and be the winning bidder for these assets. In addition to the obvious crop diversification it brings, this acquisition provides us with diversification of our sales efforts, into geographical markets, which carry lower political, regulatory, and economic risks. It also enables us to evolve beyond our historical marketing and distribution approaches, to become a more consumer centric, aligning



ourselves geographically instead of functionally, and brings biotechnology tools to the company to expand higher value products, and develop these for our customers, than we previously possessed.

As I said on the outset, this acquisition checks the boxes of nearly every single component of our go-forward strategy. We have talked for a while about evolving beyond, clearly, this acquisition is a key component of that strategy, but it is simply the first component of it. We will stay diligent in our pursuit of additional opportunities that may present themselves, as we believe we are ideally positioned to acquire highly valuable assets, at affordable prices, during this difficult period in the ag overall cycle. When you look back in history, we hope this, in fact, is a golden opportunity for S&W and its shareholders.

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

QUESTIONS AND ANSWERS

Operator

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.

The first question is from Aman Gulani of B. Riley FBR. Please go ahead.

Aman Gulani

Hi, guys, thanks for taking my question, and congratulations on closing the acquisition. So, first question, what is the cost structure coming into the platform? And then, post-integration, how do you see the cost structure looking like after sort of all your integration initiatives are complete?

Matthew Szot

Aman, let me ask you for a qualifying question. By cost structure, I'm not sure what you mean. You mean what costs we're allocating to R&D or sales and marketing? I'm not sure I understand your question.

Aman Gulani

Yes, yes, sort of what's SG&A going to look like? Obviously, you're going to have a gross margin accretion, but what is like R&D and SG&A going to look like? And what sort of cost synergies do you think you can pull out of the business?

Mark Wong

Chromatin had huge losses, lost the majority of their equity over the last couple of years, and one of the reasons was personnel. They had a huge number of people at one time, there were about 180 employees at the company. We have taken roughly about—they had a couple of layoffs before the company went into receivership, but we've taken about a third of those 180 people. Not even a third, about 20%, 25%.



Part of our whole process in assessing the company's assets was, obviously, like in any acquisition, to look at the assets, the breeding program, the farmer-dealer network, the registrations that they had in many countries around the world, the relationships they had with foreign distributors, and to evaluate what we thought the value of those were, and to come to a decision about what we thought we could offer to pay for the company, and still make a very, very nice return on investment for the shareholders. But, in this case, we also had a second task, important task. We had to figure out, in the first couple of years, whether we were going to have the huge losses that they had, or whether we could cut those. And as Matt said, we're in a partial year this year, but that's sort of the projection of sales number, \$14 million to \$15 million for the partial year. We expect to be EBITDA breakeven this year, and that's a major achievement. Obviously, it doesn't maybe sound like much, but the company lost huge amounts of money.

We've cut back on personnel, we've assessed all of the fixed property assets, the plant and equipment. We have a production plan to use those plant and equipment in efficient sort of ways. We're about halfway through the harvest of the sorghum crop for 2019. Well, our fiscal year 2019, crop year 2018, so we're harvesting right now in Texas.

And we're very optimistic that we can control the costs, but we had to put the new organization in place from day one. We could not spend 90 days figuring out where we were going to cut and where there were advantages. We had to know all of that the day that we closed purchase of the company, which we did.

Aman Gulani

Got it, that's helpful. And then this, how long do you think integration will take?

Mark Wong

Well, I stepped out of my meeting with the senior management of both Chromatin and S&W to do this update to the markets. So, we're on it and—I mean, we're getting used to, obviously, the assets, the customers, our new employees. It's all very, very, very exciting, but we're in the integration process now.

Aman Gulani

Got it, okay. And then the last question from me, just, what sort of inventory levels are going to be sort of on your balance sheet after, now that you've closed the acquisition?

Mark Wong

Yes, I mean, inventory levels will be minimal. If you look at averages for different crops, and what kind of carryover inventory you have from one production season to the next, in sorghum, our inventories, carrying from the 2018 crop season to the 2019 crop season, will be minimal.

Aman Gulani

Okay, thank you, I'll pass it on.

Operator

The next question is from Ben Cleavey [ph] of National Securities Corp. Please go ahead.



Ben Cleavey

All right, thanks for taking my questions. First one here, it sounds like Chromatin had a pretty robust breeding program here, and I'm curious if you think future trait development is going to be done kind of entirely in-house, or do you think you're going to be looking externally, kind of perhaps in a manner similar to the alfalfa development program you have with Calyxt?

Mike Wong

Yes, great question, Ben. So, I mean, we always are looking outside the company, because technology development by third-party technology companies that focus on these new developing tools like CRISPR, and things like that, that everybody's read about in the public press. We're not specialists in those, and we look to others to develop techniques that are much more efficient than what's even used today, and then to—our job is to apply those in a partnership to sorghum or alfalfa or sunflower. But, the company's a science-based company from its outset, and breeding, and the proprietary products that breeding produces, have been a focus of the company throughout all of its tenure, and the company is roughly 14 years old. To Chromatin's credit, despite the fact that they had highs and lows on the financial side, and they had to continually raise money to keep the company moving forward.

Research money was not wasted, but certainly it was not cut back either, to the point where you were cutting into muscle and bone, and we're incredibly grateful to Chromatin for sticking to their guns and understanding that research is the most important thing, in terms of a crop pipeline, and in terms of creating proprietary products that give improved performance to farmers, and that farmers are willing to pay a premium for. I mean, if you can't create value in the farmer's field, you're not going to be able to charge a premium for your seed. And we think Chromatin's products allow us to do that.

Ben Cleavey

Got it, perfect, thanks, Mark. And then, kind of another breeding related question here. I'm curious how you feel about your sorghum germplasm today, after the NexSteppe and acquisition and now this. Do you feel like you have an asset right now that you really can fully leverage, or are you looking to continue building that asset base? And then, also, along the same line, what visibility do you have regarding the quality and the value of your germplasm assets relative to your peers?

Mark Wong

Yes, so, all of the seed companies do field trials of their new material, and they do trial their materials against their competitors' materials. Several of our competitors have larger breeding programs than Chromatin had, because they're larger companies. If we're just talking about brands, because there's been so many consolidations of the big six now into the big four, however many you want to count it. Pioneer and DEKALB, the two dominant brands in corn, are also the two dominant brands in sorghum, and their breeding programs are large.

I'd say, though, to answer the first part of your question, we have a very, very broad germplasm pool now, based on our acquisitions in Australia, The germplasm we got from NexSteppe, which was just an absolute bonus, we didn't see that one coming. There were not other companies looking for sorghum germplasm, other than ourselves, and we got a very good deal on that germplasm. We're in the process now of obviously figuring out a strategy worldwide, to integrate that broad germplasm base into the various markets around the world through our breeding programs. And that's one of the things we're actually working on this week, is the sort of technology strategy, in all markets who are our breeders.



Ben Cleavey

Perfect, thank you. And then, last one from me and I'll jump back in queue. Can you talk about kind of how the issues that led them into receivership may have impacted some of the relationships, be it distribution relationships, license agreements, etc.? Are you going to have to rebuild relationships here, or are those pretty healthy, despite the issues that they ran into over the last couple years?

Mark Wong

Yes, I mean, so, when you're in the kind of situation that Chromatin was in, obviously, every dollar you spend, you want to spend it on the most important things to generate value. And, as I said, they were continuing raising money, so they had to show progress. I would say that the way we look at their assets, there's probably from, at least the sales and marketing side, a bunch of customers that will take some work to sort of see what the relationship between S&W and they will be. Some of those customers are, frankly, a bit marginal. We know the seed industry very, very well, and we know pretty much the whole customer list. There's not very many strangers on there to us. And we understand sort of the weaknesses and the strengths of some of the distributors. And so, we'll be looking at those relationships pretty closely just to figure out what, is there really a relationship there for them and for us that works for both of us. Because to have a successful distribution agreement, you have to have a successful partnership, and you have to have shared common goals.

But then there's probably the 80-20 rule. There's 20% of the customers that account for 80% of their sales, and those are great relationships that we're going to jump on. Those are the opportunities for cross-selling in the short term. Those are the opportunities for having a different relationship. We can offer sorghum, but we can also offer alfalfa, and in some places, some of our sunflower lines. So, we're really looking forward to sitting down with the more important customers, and really having a strategic discussion in the next three-to-five years, sort of what do we both want out of a relationship, and how can we build markets together.

The seed business is not a sort of "change your customer every year" kind of business. You want to find customers with common goals to yourself, and then you want to stick with them, and you want to hope that you can have a deal where they stick with you, where, basically, the relationship is mutually beneficial. That's how you build recurring sales, and a real sort of market share in the seed industry. And we're looking forward to doing that. It's very exciting times.

Ben Cleavey

Very good. Thanks, Mark, I'll get back in queue.

Mark Wong

Yes, you're absolutely welcome.

Operator

Again, if you have a question, please press star, then one.

The next question is from Gerry Sweeney of ROTH Capital. Please go ahead.

Gerry Sweeney

Hi, good morning, Mark, thanks for taking my call. So, a question, I think you touched on it a little bit in your previous answer, but how much overlap is there between S&W sales and distribution and



Chromatin distribution? Is there a similar customer base today, or distributor base, or is it pretty separate? And how long would it take to get some of this cross-selling going? I suspect it would be more of a fiscal 2020 opportunity, and less so this year?

Mark Wong

Yes. Look, a calendar year is one crop season, right, if you're in the northern hemisphere, and one crop season in the southern hemisphere. It's not like other products, where your sales cycle is three weeks or something like that. It's a pretty long sales cycle. I think 2020 is a good estimate of when discussions we're having this year will start to really bear fruit, and I think Matt has reflected that in our sort of estimate of \$14 million to \$15 million in sales.

There's not that much crossover really. Internationally, some of the distributors are cut and a distributor is usually a real sort of distribution company, or a seed company that doesn't have germplasm in our particular expertise, sorghum and alfalfa and sunflower. And so, they're looking for a seed company partner, where they can sell our products in a focused geographic market.

So, there's not that much common sort of customer list, so that's one of the super exciting things, is that pretty much everything's an addition, everything's an addition. It's hard to find an acquisition where that's true. So that's internationally.

Domestically, having a farmer-dealer network is just a great privilege. I mean, if you look at all of the integrated seed companies carrying on business in North America and South America, frankly, I mean, the farmer-dealer network, because of how huge the ag market is in the US, the farmer-dealer network is really only a US distribution model. It's not done in any other place in the world, and it's so efficient in the US, because you're getting so close to the guy who's going to put the seed in the ground, the farmer.

And we're just totally excited to have Chromatin's farmer-dealer network. Because of the way Chromatin acquired the different companies that they did, at one point in time the farmer-dealer network was part of Syngenta. And so, one of our questions is to sort of figure out how many common distributors, farmer-dealers do we still have with the Syngenta network, because obviously their network is separate from Chromatin's network now, and how many are common.

But, there are no middle-market seed companies in America that have a farmer-dealer network except us. And that's because only the big companies can afford the money that it takes to establish one, so the Pioneers, the DEKALBs, the Syngentas, the AgReliants of the world, all sell through farmer-dealers, Dow.

We are just so fortunate that Chromatin acquired a company that basically had one of the big companies' farmer-dealer network, because they couldn't afford to establish one from scratch either. And so, we're just sitting here with a giant smile on our face just going, man, this is just a wonderful time to be looking at the opportunities to cross-sell into our farmer-dealer network, our 500-member farmer-dealer network. Most of those guys use alfalfa, we're trying to figure out who they're using today, whose alfalfa germplasm they're basically planting. And so, it's just a tremendous, tremendous opportunity for us, and we're totally excited about the ability to have a farmer network.

**Gerry Sweeney**

So, I mean, at the end of the day, that farmer-dealer network is not only for alfalfa, but also a springboard for other potential acquisitions of other types of seeds, etc., and just...

Mark Wong

Yes, I mean, look, the big—yes, the big profit monster is corn, right. So, can we sell corn to our farmer-dealer network? That's a question, we're talking about the farmer networks, dealer network, in our management meeting that's on the agenda for this afternoon. That's one of the big questions is, what crops should we be selling through them, in addition to the crops that we currently have germplasm and breeding programs in, and what is the real opportunity here? Because there's not two handfuls of farmer-dealer networks in America.

Gerry Sweeney

Got it. And then, just one other quick question. Is there any type of technology from Chromatin that you can bring over to S&W or the alfalfa, or some of the other seeds that you're working on that bring additional value?

Mark Wong

Yes, Chromatin has—because Chromatin was such a good research company, they were not afraid, and they had the people, the quality of the people, to sort of look at other different technologies. They have very good tissue culture technology. The herbicide resistance that we're working on putting into sorghum, which is a couple years from market, they've been working on this about five or six years. That came through some proprietary tissue culture techniques that they have. They also do mutant genesis, they also can search for genes with tilling. They're very familiar with marker-assisted breeding, with the different marker-assisted breeding kind of basic technologies. So there's really a big toolbox there.

We're focused on the near-term opportunities, so how to use a farmer-dealer network, how to sell more sorghum seed. What's going to be really our demand plan going into 2020, so that we can get the crop correct in the spring planting season in 2020 in sorghum? The northern hemisphere is really the big sorghum production hemisphere, and the best costs really are in Texas, on a worldwide basis. So we're in the process of pulling all those costs together. We like to understand what the opportunity to produce sorghum in the different world markets is, and what the relative cost is, the grower cost and the seed cleaning costs, so that we have an all-in standard cost that we then compare and match up with sort of where our customers are.

To be truthful, we haven't really delved into those technologies yet, but there's a toolbox there, and we'll open it and see what other kind of projects that we want. But we're also trying to make the most of the assets that are close to the sales point, like this herbicide-resistant tolerance, resistance in sorghum, and those are big, big, big opportunities. So, we'll concentrate on putting some of those fish on the boat before we start to spend more money on developing some technology that still might be six-or-eight years from market.

Gerry Sweeney

Okay, got it. I appreciate it, Mark.

Mark Wong

Yes, thank you.

Operator

Again, if you have a question, please press star, then one. The next question comes from Eric Des Lauriers of Craig-Hallum. Please go ahead.

Eric Des Lauriers

Hi, guys, thanks for taking my questions, and congrats on closing the acquisition.

Mark Wong

Thanks, Eric.

Eric Des Lauriers

I was wondering if you could add some color and just help us understand the farmer-dealer network a little bit more, and why it's so important compared to what you guys have now.

Mark Wong

Sure. So, what everybody, except the big guys have, is they sell through other distributors, like distributors that sell ag-chem products or ag-chem and fertilizer products, or, as I said, seed companies that might want to sell sorghum, or alfalfa, or sunflower, but don't have a germplasm base and don't have their own breeding program. Because breeding's expensive. You can't afford to breed all the products, only the big, big companies can afford to do that.

So, the farmer-dealer network though, if you look into history, when hybrid corn first was invented back in the '40s and '50s, most of the ag-chem products were sold through store dealers. You basically drove up, and there was a store, or a couple of stores, in your town, and they had a warehouse and they sold seed, and they sold ag-chem products, and they sold fertilizer. There was some trepidation, on the part of the existing distribution in these stores, that hybrid corn was such a new idea, that it wasn't going to work very well, and that they were worried that if they sold it and farmers bought it, and it failed, that it was going to taint the store's reputation, and through that tainting of the reputation, reduce the sales of their ag-chem products and their fertilizer products, which, at that point in time, in agriculture, were the two major segments. Seed was not worth as much per bag as it is today.

So the two seed companies, and they were great seed companies, and survived today, the original families that funded and operated these families were sort of a great tradition to the seed industry, so that would be Pioneer and DEKALB. They fought over the corn market from the first day that hybrid seed came out, and they continue to fight over that market today, and they each have share in the 40% plus range today. And those companies have survived many, many, many decades with success.

So, they had to find a different way to sell and supply their seed, and they came up with this idea of a farmer-dealer. So a farmer-dealer, there's really two kinds of farmer-dealers, there's selling dealers and buying dealers. A buying dealer is a bigger farmer, now maybe—I don't have statistics currently, but it's maybe a 3,000- to 5,000-acre farmer, who is carrying your product so that he can get a discount on his purchases. So he's planting, he's in the heart of the corn belt, he's planting half or 60% of that in corn. And he wants to get the best corn seed, and he wants to get a discount for being a farmer-dealer.



Then there's selling dealers who, as the name describes, they buy through their own account, so they're all farmers, maybe they're not as big, 500, 1,000 acres, 1,500 acres for a selling dealer. And they also get the discount for any seed they use on their own farm, but because they're smaller, they are in the business of selling other [indiscernible], hence, the name, as I said, a selling dealer. And so they'll sell other people in town, not just their brother-in-law and their relatives, but they'll sell other people in town, and maybe in the next town over. So, their business is based on their own use of the seed, but also the use of the seed by other close farmers to them that they provide the inventory to.

The other major important thing about farmer-dealers is, they have the inventory of your seeds in a warehouse on their farm or in their barn. Originally it was in their barn, now some of them are so big they actually have warehouses. But it's very important to have the seed distributed in the field, so when the rain stops in the spring, and everybody, all the farmers want to plant, once the fields are dry enough to drive a tractor through, they can drive down with their pickup, or send a truck down and pick their seed up very close to where their farm is, and get going with the planting. And so, that's the other thing that farmer-dealer networks provide is distribution and logistics right to the farmer himself. And that's super important, and is one of the main reasons why the farmer-dealer concept has been successful, because the farmer can get his seed in less than a week.

Eric Des Lauriers

That makes sense, that's helpful, thank you for that. And my next question is, I just wanted to dive into the pipeline a little bit. I know you mentioned that you're diligent in your pursuit of additional opportunities, and I know you're busy working through this Chromatin acquisition, but I'm wondering if you can provide a little bit of color around the areas that you're targeting within the space, and specifically, if you're looking to acquire more breeding technology, or if you're looking to expand to additional crops.

Mark Wong

Yes, great question. So, the seed markets are—well, let me back up a step. What we're really looking for is companies that have breeding programs, and a proprietary position in crop, in a different crop. Or they're distribution companies, like they will add to our ability to reach customers in really our two home markets, which is the US and Australia.

Frankly, we think the possibilities provided by the Chromatin farmer-dealer network are so huge, that we're not really looking that hard at distribution in the US anymore, until we sort of master the controls on how to maximize the value of our Chromatin farmer-dealer network. But, in Australia, we are looking at one company that has distribution. But we're trying not to go too far afield when it comes to companies that have products, proprietary products. Most of the products that we look at are in the forage area. We want to provide forages to farmers, ranchers, basically beef and dairy industries first, and then some of the live animal industries, after those two big ones.

So, it's really forages, not too wide, not anything we haven't sold before, we don't understand the performance of, and distribution is still important to us, especially in Australia.

Eric Des Lauriers

Makes sense, appreciate the color, thanks, Mark.



Mark Wong

Yes.

CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mark Wong for closing remarks.

Mark Wong

Thanks very much. Again, as I've said in the presentation, and obviously, that hopefully come out because we had such excellent questions from everybody, this is real turning point for S&W. We love the alfalfa business. We've been one of the three major players in the alfalfa industry for many, many years. The Pioneer acquisition added to that position, in the sense that we went to a dominant position in the dormant alfalfa, as well as the non-dormant that we had traditionally sold. But, the Chromatin acquisition has really got us all excited about, not only the products that are coming out of breeding, but the distribution that Chromatin offers us, especially in the US through the farmer-dealer network.

So, you'll be hearing more detail about our plans as we sort of understand the assets more, and specifically what we want to do with those, and how we're going to translate that into future sales. Those will be coming on future calls. But it's a very exciting time for S&W, and I really do believe we'll look back at history and say this was one of the turning points in S&W's history for how it went to really be a dominant seed company in the middle markets.

So, thank you, everybody, for listening to our presentation, for asking great questions, and I think we have an earnings call in a few weeks, so we'll look forward to speaking with everybody then. Thanks again.

Operator

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

