

Mark Wong

Matt, do you want to take that?

Matthew Szot

Yes, Sarkis. So, thanks for that question. So, as we think about that \$15 million in revenues, incremental revenues that we're expecting from Chromatin, which would be sort of on the high-end of the guidance we gave, which we feel good about at this point. In Q2, we did about \$1.5 million, or 10% of that and I would say about \$4 million would happen in Q3, the quarter ended March; with the remaining say \$10 million or so coming in the fourth quarter. I think that sort of cadence is a pretty good indication what FY20 would look like as well.

Sarkis Sherbetchyan

Understood. So, it's more weighted towards 4Q, the sales?

Matthew Szot

Yes, the third and fourth quarter are definitely the sales quarters where most of the sales are concentrated.

Sarkis Sherbetchyan

That's helpful. And, then with respect to the cost structure as you layer that into your existing business or the P&L, if you will. Is the cost structure pretty similar, kind of call it quarter-in quarter-out, or are there any kind of material variances?

Matthew Szot

I would say that the operating costs would be incurred relatively evenly throughout each of the fourth quarters, Sarkis.

Sarkis Sherbetchyan

Great. That's helpful. And, then I think as you kind of look to the book of business that you have from the asset. I think you mentioned a pretty wide range, you know, call it 30% to 40% gross margin. Any indication on where you stand today? Is it kind of in the mid-point, is it towards the low end? Just kind of give us a reference point, if you will?

Matthew Szot

Well, as we're working through the first year sales orders, we want to be cautious. We're certainly expecting that over time this program should be generating 40% gross margins. But, I think in this first year to err on the side of caution, we'd probably in the lower end, sort of in the low-30% range.

Sarkis Sherbetchyan

Got it. And, if I take that in the context of having, call it the DuPont Pioneer sale kind of out of the way in the first half of your fiscal year and as we kind of look towards the back half, how do we think about the consolidated gross margin? I mean, is it—the first half looks stronger than the back half. Just kind of help us frame that please?

Matthew Szot

Yes, I think, Sarkis, as we look to the sort of full-year results, we're expecting margins to be in that 23%, 24% range. Certainly, as we're going to continue to generate some revenues from Pioneer in Q3, those are higher margin sales. And, as the hybrids season kicks in here over Q3 and Q4, that, those will certainly be incremental and help us expand our gross margins in the second half of the year. Mark, do you want to add anything to that?

Mark Wong

No, I think that's a good summary, Matt.

Sarkis Sherbetchyan

Thanks. And, I know you mentioned a little bit of recovery that you're seeing in MENA. Can you maybe talk about from the organic growth of, I think, you said \$8 million or so for the fiscal year, how much of that are you attributing to MENA and some of the softer spots we've seen versus some of the other programs?

Matthew Szot

So, Sarkis, of that \$8 million of what we would call some Saudi sales starting to come back, again, if you recall, Saudi used to represent about \$30 million worth of revenues for us. So, by no means are we at the stage were we think we are coming back to recovering anywhere close to that level of sales, but we are--of that \$8 million improvement over our existing business, excluding Pioneer and Chromatin, it's primarily coming from Saudi as well as Sudan. Sudan is a growth opportunity for us, but as you can imagine, that market also has certain geopolitical risks and certain customers have issues with accessing US dollars. So, while we're optimistic about what can be done in Sudan, we are also cautious.

Sarkis Sherbetchyan

Thanks for that. I'll hop back in the queue.

Operator

Once again as a reminder, if you would like to ask a question please press star (*), then one (1).

The next question comes from Soraya Benitez with Cougar Capital. Please go ahead.

Soraya Benitez

That's a nice interpretation. Hi, It's Soraya Benitez from Cougar Capital. Thanks for the color. Just a quick question on the inventory build. You know, looking here at your balance sheet, is that tied to the Chromatin sorghum assets? And, sort of if you could just walk through working capital for the year? You talked about sort of a low planting season for 2018, but how should we sort of see that move throughout the year?

Matthew Szot

Yes, sure. So, yes, the December inventory balances certainly include the Chromatin inventory balances, so when we think about our balances compared to December of '17 or the same time last year, that is certainly driving an increase. But, as we've talked about for the last several quarters, we are carrying higher levels of alfalfa and we're expecting those inventory balances to work down over the next 12 to 18 months. Our harvest that occurred in the fall of 2018 was down about \$20 million from the prior



year and the harvest, or the crop that's in the ground now that will be harvested in the fall of 2019, that harvest should be roughly half the size of the 2018 year crop. So, after that harvest, that will really be the pivotal amount, pivotal timeframe where we start seeing meaningful reductions and work-throughs in our inventory levels. And, as those inventory levels come down, we'll see meaningful improvements in our operating cash flows.

Soraya Benitez

Thank you.

Operator

Once again, if you would like to ask a question, please press star (*), then one (1). 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.

CONCLUSION

Mark Wong

Thank you, Chad. So, I'd just like to thank everyone for listening to the call today. We went a little bit longer than normally we do on these calls, but we had a lot of information to convey and, as Matt and I both said, we're very optimistic now and through the second quarter that 2019 is going to be a very nice year for us.

We expect a good performance in terms of sales and control of expenses, but it's really a growth year, right? We're visiting a lot of new customers, we're still hiring salespeople, and we are introducing those customers to all of the products that we have coming out of our research. So, thank you—thanks again for listening to the call today, and we appreciate everyone's interest in S&W Seeds. Bye-bye now.

Operator

And, thank you sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

