# S&W Seed Company
# (NASDAQ: SANW)

## Third Quarter Fiscal Year 2019
## Financial Results Conference Call

**Thursday, May 9, 2019**
**11:00AM Eastern**

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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

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## PRESENTATION

**Operator**
Good day everyone. Welcome to the S&W Seed Company reports third quarter fiscal year 2019 financial results conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. And to withdraw your question please press star then two. And please also note that this event is being recorded. And I now would like to turn the conference over to Robert Blum with Lythym Partners. Please go ahead with your presentation.

**Robert Blum**
Thank you so much. And thank you for joining us today to discuss the financial results for S&W Seed Company for the third quarter of fiscal year 2019, ended March 31, 2019. With us on the call representing the company 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 Amended, and Section 21E of the Securities Exchange Act of 1934 Amended. And such forward looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Reform Act of 1995. Forward looking statements describe future expectations, plans, results, or strategies and our generally preceded by words such as may, future, plan or planned, will or should, expected, anticipates, drafts, 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 10k for the fiscal year ended June 30th, 2018. And other filings made by the company with the Securities Exchange Commission.

With that said, let me turn the call over to Mark Wong, Chief Executive Office for S&W Seed Company. Mark?

**Mark Wong**
Thank you very much. Good morning everyone on the call today. I'd like to spend my time talking to you a little bit our and giving you an update on our new organization. And then spend maybe a little bit of time on the Chromatin acquisition and give you a report on how we're doing with that asset.

So, all of you know this is a very busy time for seed companies. It's really why we have a June fiscal year, because farmers in the northern hemisphere are planting in April and May, and in some cases, June. And so we are very busy getting seed out to our customers, and fine-tuning sort of all the different product offerings that we have in the marketplace. So, let me touch a little bit and update on the Chromatin acquisition. As you remember, from prior calls, Chromatin was a unique and important acquisition for S&W because it allowed to us move towards diversification of our crop focus. So, as I've been saying for the year and a half that I've been CEO of the company, we're moving from alfalfa into other crops. Not because we don't like alfalfa, but we think there's also opportunity in other crops. We continue to push stevia and, through the Chromatin acquisition, we now have a significant portion of our sales, maybe 17% or so in this fiscal year in sorghum, grain sorghum, and forage sorghums.

The Chromatin acquisition was a very, very difficult one. And I just want people to understand that it really was, the difficulty was in two different areas. One was the acquisition of the company itself. Remember, that it was a state-run bankruptcy, and the bank who had the revolving credit line had to foreclose to get control of the asset. And so, an auction was held, and we and one other company were invited to bid on the asset. We prevailed over the competitive company, which was a European company, about 12 times bigger than we were. So, that was significant win on our part. And we got the asset for what I consider to be a very, very affordable price. Maybe we paid 30 to 35 cents on the dollar for the asset. The assets that we acquired. And remember, that major assets in the company were the germ plasm and product line sorghum, grain sorghum, the marketing network in the U.S, the marketing networks that existed internationally in the company. And a really nice production plant in and breeding location down in Texas.

So, it's great to buy things at a good price. But, then of course you have to earn a return on those assets. Or maybe the price that you thought the asset was worth, really wasn't as good as you thought. So, we've been focused on making sure that the Chromatin acquisition, as we saw it, would add to the operations of S&W. And remember, we acquired a lot more employees. We increased our employee pool by about 80%-85% when we acquired Chromatin. And those people were spread all around the world. So, it was a difficult thing to integrate everyone into one company.

Remember, also that Chromatin had a huge history of losses in the last couple of years. Over $30 million EBITDA losses, each of the last two years before we bought the company. And so, as I've said in prior calls, one of the key issues for S&W was to make sure that those losses did not survive the acquisition.

We cannot afford to have EBITDA losses from the companies that we buy. They need to acreed(SP) up to our earnings, that's important criteria for management in the board of S&W, and it's something that we take absolutely seriously.

So, the Chromatin deal, I'm happy to announce, and we're sort of into the big sales season. The approximately $15 million of sales that we expected in sorghum is going to be around that number. Our control of expenses has been excellent. We're within 5% of the expected overall expenses that we forecasted for the business. We cut a huge amount of expenses out of the company in various places all around the world. And we will be in the 2019 year, EBITDA or small contribution to EBITDA at S&W once it consolidation into our 2019 results.

So, you know, we're incredibly happy. We consider ourselves skillful, but a little lucky, frankly, that we've made such great progress with Chromatin. But, I think it says something about our organization, that we have the financial structure to understand these kind of complicated deals, that we have the deal expertise to get them done, and we have the operating expertise to run them, and integrate them into our company, and achieve the goals that we set for ourselves when do the acquisition analysis. And our board and management go forward on trying to acquire these kinds of companies. So, I'm very, very happy to report on that. I'd like to put that in the context of our new organization, which as I said on our last call, we put it into place immediately after the Chromatin acquisition was made.

So, as you remember from our past investor call, we refocused the organization into two different markets. So, we have the Americas, which includes the United States, and Mexico, and Argentina, the other two markets for sorghum and alfalfa. We're looking at Brazil. Brazil is obviously a big soybean and corn production area. And we will have more information for all of you in the next couple of quarters about that. But, the major market in the America's is clearly the United States of America. I'm happy to report that sales are good in that market. And we are doing the work that needs to be done in terms of improving our distribution system. One of the themes that I've said in past calls is, that we have to get closer to the farmer. We are trying to do that with new dealer and distributor agreements. But, more importantly with our farmer dealer network that we got with the Chromatin acquisition. Chromatin did not have a lot of cash. So, as you might surmise or guess, the farmer dealer network was left a little bit under invested over the last couple of years. And so, we've made a big effort to look at all of the territories to realign them along where the new acreage lies in alfalfa and sorghum. We've integrated the S&W and Chromatin sales forces. We only have one sales force now in the U.S, and we've had our first sales meeting. We're in the process of delineating plans in each of those territories and doing analysis to help our sales reps with their bigger customers, and key points based on our product line of how to sell to those key customers. We're pretty happy with the progress. Its going to continue on until the 2020 year. Hopefully, by the spring of plantings next year, we'll see some effect and some growth in our unit sales from our farmer dealer network.

The other thing that we're doing is really, which may not be very obvious, but which good seed companies do, is we're organizing ourselves so that we can focus our R&D around the world. And so the U.S management staff has responsibilities for alfalfa worldwide, R&D, and production, in sorghum worldwide R&D and production. And the international markets under David Callachor have responsibility for the R&D in sunflower and the worldwide production of sunflower. So, we've tried to delineate those crop functions where the markets are the most important so that our people with the most knowledge can make the best decisions about what kind of breeding we do, what kind of products are coming through our pipeline, what our product life cycles should look like, how aggressive should we be on inventory, what do with parental seeds for each of those varieties or hybrids that we're producing. The seed business is a very complicated business, and it's a business made with small decisions that have to be made correctly, if the big results in terms of sales and earnings are going to happen.

We're pretty happy with all of those. We've added a VP of Sales and Marketing, a guy named Mike Heed(SP), who came from Pioneer Dupont and a few other seed companies. And we've added a VP of R&D, Steve Calhoun, who came from buyer Monsanto, and has been with BISF. So, these are guys who have a long history in the seed industry and know the strategies for improving market penetration and sales, and have skill sets to do the blocking and tackling.
So, we're pretty happy with all of that is going. And clearly, we're happy with adding two new senior people to our America's organization.

On the gene front, just to touch on that briefly. We're still pursuing our forage quality effort in alfalfa and our herbicide tolerance effort in sorghum that we acquired with the acquisition of Chromatin. Remember that, herbicide resistance is ACCA, which is an herbicide class that we believe will have functional value that we can charge our customers for in grain sorghum. On the stevia side, we have moved the breeding operations to Tifton, Georgia. And have hired a gentleman, Dr. Jeff Clingenburg(SP), who we've known from past experience in the seed industry. He's now running that program and we have a big prowl going on with our beverage partner, looking at stevia and basically working on the different kind of stevianoids(SP) and taste profiles of those products look like.

So, we're pretty happy to move that. We think that the southeast with its humid weather, is a much better production area for stevia than where we were trying to grow it before in California. We have got a big cloning operation going down there with third parties, and we'll be planning a crop here in the next couple of months and harvesting that off in the fall to run our taste trial.

On the international side, again, we're focused really on sunflower. And just remember, in the 2019 budget, we are approximately 78% alfalfa, 17% sorghum, and 2% sunflower. So, that really is a marker for the kind of maturity in each of those crops. So, obviously in the dormant and non-dormant alfalfa business, that's a very mature business. Remember, we bought that breeding program from Pioneer, and it's a decade long breeding program storied in its quality, it's disease resistance, and those kinds of things. That is our most mature crop for all markets around the world. Sorghum is a crop that we're developing. Obviously, we got breeding programs from the Chromatin acquisition approximately six months ago. But those programs have been run by Chromatin for five or six years, so on the verge of putting out products. In sunflower, we're concentrating on Eastern Europe, where most of the acreage is. And our breeding program is there. David Callachor has added a couple of senior business leads, one in Europe and one in Asia. The gentleman who's the European guy will also be overseeing our sunflower breeding and product development operations. He has some sunflower experience, as well as a lot of seed experience.

So, we're pretty happy with how all of that is happening internationally as well as in the U.S. We continue to follow a couple of themes that I have talked about before. One is getting closer to our customers. We always look at distribution, companies that are in the seed industry. We also look at new crops. Sometimes they're forage crops, sometimes their aligned to the forage sector. But we've got a couple of acquisitions that we're considering in the international markets, and one additional acquisition in the U.S that we're looking at.

International had a bit of a setback in two markets in the Sudan, because of a military coupe, and in Zimbabwe because the wrong president got elected. We dropped about $8 to $9 million in sales because we couldn't get dollar denominated contracts to make our sales. So, that was a bit of setback for us. But, we think, in general, as you'll hear from Matt, that we're pretty close to the guidance that we sort of talked to you all about in past calls.

Remember, also that internationally, South Africa is very important to us. We have two JV's there. One was a JV that S&W started with a partner who have known for many, many decades in South Africa. The JV is called Seed Vision. And the other Sorghum Solutions is a JV that was part of the Chromatin acquisition. We weren't sure that we would be able to hold onto both of those relationships, but it looks like everybody sees benefit in working with us. So, we're pretty pleased to have the access of those good partners in Seed Vision and Sorghum Solutions. Africa's a very, very important continent for sorghum. Most of the worldwide acres are actually in Africa. Although, there subsisted acres in the sense that they're low value seed, open pollenated, not hybrid acres. And most of the output from that production is used as a human food supply, not fed to animals or made into ethanol or anything like that like it is in the U.S.

So, we're pleased with how things are going both in the America's and internationally. We're very pleased with how our integration with Chromatin has progressed. And we think that the market should take some confidence that when we look at an acquisition and we project, which is our hurdle rate, sort of mid-teen returns, that we have a chance, obviously to achieve that.
So, with that, I will turn it over the discussion to Matt Szot, who will go through the financial part of our presentation today. And obviously at the conclusion of that we would be happy to take questions. Matt, I'll turn it over to you.

**Matthew Szot**
Thank you, Mark. And thanks to everyone on the call today. As we discussed last quarter, we adopted accounting standard ASC606 on July 1st, 2018. And that impacts the timing of when we recognized revenue from our agreements with Pioneer. But not the total amount recognized during our fiscal year. It's really an acceleration which shifted Pioneer revenues to the first half of our fiscal year. We provided additional disclosure in our press release to further clarify the impact of ASC606, so that there can be better comparability the financial results to prior fiscal periods. I'm going to walk through this with additional details and encourage you to ask questions if there is a need to further clarify.

On a reported basis, which includes the impact of ASC606, revenue for the third quarter was $18.2 million compared to $22.9 million in the third quarter of the prior year. Had we reported under the same accounting standard as last year, revenue would have been $22.8 million in the third quarter of 2019. As we mentioned in our press release, we recognized $5.2 million of revenue from the contribution of Chromatin during Q3. If we exclude the impact of the accounting standard change, as well as the contribution from Chromatin, and look at our business on an organic basis, revenue would have been $17.6 million for the third quarter. Now, taking this a step further, if you exclude both the revenue to Pioneer, and the recent acquisition, and look at the remainder of the business, revenues were up approximately 20% over the same period of the prior year, which is encouraging.

As we look to the first nine months of the year, on a reported basis, which includes the impact of ASC606, revenue for the first nine months, was $62,9 million compared to $54.2 million for the first nine months of the prior year. Had we reported under the same accounting standards as last year, revenue for the first nine months of 2019, would have been $56.5 million. Now, when we exclude the impact from the change in accounting standard, as well as the impact from the Chromatin acquisition, and Pioneer revenues, we grew revenue an organic basis by 12% for the first nine month in the year. This improvement is primarily coming from a modest rebound in Saudi, and growth in our business in Australia.

As we discussed during our previous conference call, we closed on our Chromatin acquisition on October 25th, and therefore will have approximately eight months of financial activity in 2019 from this business. We now expect a newly acquired business to generate approximately $15 million of revenue in fiscal 2019, which is at the high of end of our range of the previous guidance given of $14-$15 million. In addition, we expect a newly acquired business to generate positive EBITDA in FY 19, which Is an improvement from our prior expectations of breaking even EBITDA.

Now turning to gross margins, gross margins in the third quarter of 2019, were 26.3% compared to 29% in the third quarter of the prior year. Gross margins during the first nine months of ’19 were 23.8% comparted to 25.2% in the first nine months of 2018. The decrease in gross profit margins was primarily due product sales mix. Now, as we’ve talked about in the past, the sales pricing on our production agreements with Pioneer, which expires later this month, is lower than in 2019 than in the prior year. And once again, as a reminder, we’re expecting gross margins from our newly acquired sorghum operations to be higher than our historic operations. We are currently estimating the newly acquired operations will generate gross margins ranging from 30% to 40%, depending on specific hybrid.

Moving to operating expenses. Adjusted operating expenses were $7.4 million in the third quarter of fiscal 2019, compared to $4.6 million in the third quarter of the prior year. As we mentioned in our press release, the increase in operating expenses for the third quarter of 2019, can be attributed to approximately $1.8 million of additional expenses from the newly acquired operations, coupled with approximately $1 million of investments in our sales and marketing and product development functions.

Now, we went through some of this data last quarter. But I’d like to clarify that including our Chromatin operations, we expect SG&A to be approximately $15.1 million for the full year in fiscal 2019. And $15.3 million in fiscal 2020. This excludes transaction costs but is inclusive of stock-based compensation. Research and development are expected to be approximately $6.5 million in total for FY ’19, and $7.2 million in FY ’20. And lastly, depreciation and amortization are expected to approximately $4.4 million in 2019 and $5.1 million in FY ’20.

Adjusted EBITDA for the third quarter of fiscal 2019 was a $1.2 million loss compared to $3.1 million of positive EBITDA in the third quarter of the prior year. Adjusted EBITDA for the first nine months of fiscal 2019 was $700,000 compared to $3.7 million in the first nine months of fiscal 2018. A complete reconciliation of this is available on our press release. As we discussed last quarter, we are expecting a positive adjusted EBITDA contribution in 2020 from the Chromatin operations. And I am happy to report that now based on the progress to date on integrating the Chromatin acquisition, we now expect positive EBITDA contributions to fiscal 2019 for Chromatin. And as Mark mentioned, please keep in mind, this really substantial progress given the scale of Chromatin losses prior to our acquisition.

On the inventory front, we are making measured progress in better aligning our seed inventory balances with our sales demand. And as we discussed over the last several quarter, we are carrying higher levels of alfalfa inventory this year. We planted very few new acres for crop year 2019, and plan to take a similar approach for the next production season for alfalfa. Accordingly, we expect the alfalfa seed production volumes for the upcoming harvest to continue to decrease. And we expect our inventory balances to further decrease in the coming periods and become more in line with historical carrying levels. As these inventory levels, this is going to translate to significant improvements in our operating cash flows. But now as we look at or sorghum inventory levels, we are in a different position. So, when we acquired the Chromatin business, we assumed the production decisions made before we took control. And naturally a concern of ours was whether our hybrid supplies would match up with demand. So at this stage we are pleased to report that we are expecting to end the current fiscal year with minimal carry over levels of sorghum, which is a positive sign. And we are going to be increasing production levels of sorghum to meet anticipated growth in the coming months.

I know we went through a bit longer here to due to the change in accounting standards as well as the acquisition. But I wanted to make sure everyone had a clear understanding. As Mark talked about, we're really pleased with the significant progress accomplished with the Chromatin integration. And we believe this business will become progressively acreed(SP) up in the years to come. We're showing organic growth in the segment of our business that we have the most control over. And we're laser focused on driving growth and efficiencies in all segments of our business.

So, I'm going to turn it back over to Mark.

**Mark Wong**
Thank you, Matt. That's a great financial summary for the last quarter and year to date. Thank you very much for that. And as Matt said, and how I will conclude my comments today is just to say, we're very pleased with organic growth that we're seeing. As Matt said, we think that the Chromatin acquisition will be more and more acreed as we're able to build sales and profits on the assets of the acquisition, and we're feeling optimistic that the future going to be very bright for the company. And because of that, we're looking at some acquisitions in addition to the internal growth that Matt is reporting in our base business.

And with that, Matt and I will take questions. Operator, I turn it over to you.

## QUESTION AND ANSWER

**Operator**
Thank you. And we will now begin the question and answer session. To ask a question you may press star then one on your touch tone phone. If you're using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. And at this time we will pause for a moment to assemble or roster.

And todays first questioner will be Sarkis Sherbetchyan with B. Riley. Please go ahead.

**Sarkis Sherbetchyan**
Hey, thanks for taking my question. Good morning, Mark and Matt.

**Matthew Szot**
Good morning, Sarkis.

**Mark Wong**
Good morning, Sarkis.

**Sarkis Sherbetchyan**
So, nice to see the Chromatin acquisition kind of ahead of schedule here, right? From an EBITDA contribution perspective. Would you be at liberty to discuss kind of what you expect the EBITDA contribution to be for fiscal '19 from Chromatin?

**Matthew Szot**
It's still a moving number and we're going to have more clarity as we move through the final portion of the sales season. Which really is quite active at the moment. But that could range anywhere from $200,000 to $800,000 as a positive EBITDA. But, in the coming weeks we'll have more clarity on that and next time we talk, we can provide further clarification of how those numbers are shaking up.

**Sarkis Sherbetchyan**
That's fair. And I think, just to kind of frame it, if you expect to do about $15 million in top line and you're kind of getting positive contribution, I think the number that you had outlined for next fiscal year was between $17 million to $20 million of top line contribution from Chromatin. So, should we assume next year would be materially, kind of profitable from an EBITDA perspective?

**Matthew Szot**
Well, we're certainly expecting FY '20 where we're going to be demonstrating not only top line growth as you just mentioned, Sarkis, but we're certainly expecting growth at the EBITDA contribution level as well. That could be over time. We're thinking that will be in excess of 10% EBITDA margins. But, in FY '20, there's still going to be time for us to take advantage of the efficiencies. So we'll see a ramp and continued improvements to those ratios for several years to come. That's what we're expecting.

**Sarkis Sherbetchyan**

Understood. And if I can move on quickly, I think the production agreement with Pioneer regarding the GM override expires by the end of this month. Any updates on the negotiations or kind of what your expectations are going forward?

**Mark Wong**
Sarkis, I think we're still in the midst of those production discussions and we don't really have an update at this point. But I'll just remind you, it was originally a two-year contract. And the second year was quite a bit smaller in revenue just because that was the natural production cycle for the GMO alfalfas. So, the second year is not as important as the first year was in terms of sales volume.

**Sarkis Sherbetchyan**
I'll turn it over and hop back in the que. Thank you.

**Mark Wong**
You're welcome.

**Operator**
And our next questioner today will be Ben Klieve with National Securities Corporation, please go ahead.

**Ben Klieve**
Alright. Thank you. First question on the Pioneer contributions for this year, $130 million range is in excess of what I think kind of was expected on a full year basis a few quarters ago. Would you mind breaking down what the drivers are behind that number? And really what has been better than maybe your expectations were a few quarters ago?

**Mark Wong**
Yeah, sure, Ben. It's a good question. I mean, everybody has been watching the news and its sort of instant information. Sometimes it's difficult to make sort of mental comparisons of what's happening this year versus what's happening in prior years in the farming sector. But, basically, there's been huge amounts of rain. There's been lots of flooding. There's been lots of crop laying under water. And the part that you don't hear is there was a small week or so of timeframe where there are very cold temperatures in northern corn belt this winter. And that was before there was snow cover. So, what you'd like to see, you know, is snow first. Snow acts as insulation and then when the temperature goes below freezing, the alfalfa is protected. Remember, alfalfa is a perennial crop, so it has to live through the winter. So, we and Pioneer both feel like there was like this week of very cold temperatures. And that there was a lot of what the industry vernacular is called winter kill. So, the crop wasn't protected by snow. A lot, being we're not exactly sure, but a lot more than normal of the alfalfa acreage may have had frost damage or winter kill and need to be replanted. So, Pioneer is gearing up for that, because seed is planted very quickly. You have to have in the hands of the farmers when the demand is there or someone else will get the sale. And so, pioneer has asked us produce and sale to them additional products when they're ready for this potential replanting in the northern corn belt for alfalfa.

That's where its coming from.

**Ben Klieve**

That's very helpful. Thanks, Mark. I want to make sure that I heard you right. Did you say that there was sales slippage from Sudan and Zimbabwe of $8 to $9 million in the quarter, did I hear that right?

**Matthew Szot**
Yeah, that was our expected order level. So we had two firm orders that were, and we had supply, it was just predicated on getting the proper dollar denominated documentation. And those two countries with the political upheaval, we weren't able to get dollar denominated transaction, so we lost a sale. I think, Ben, if you're giving us a half pat on the back, the sales could have been a lot higher. Thank you for the half pat on the back. We believe that $8 to $9 million was a real number. You know, we were obviously distraught not to get it. But I think it shows the power of our international organization and that these kind of sales in the market are out there. And there are people that know how to get those kinds of sales. Yes, they have higher political risks than in some developed markets, and that's what eventually brought the sale down. And that's why we're not booking it. There will be good news and bad news in those markets in the future. But, we think the engines firing on eight cylinders and our guys are other turning over rock, and we're pretty pleased with that. So, thank for the half pat on the back. But we are sorry we didn't' actually book the $8 to $9 million I sales. That obviously would have increased our results significantly.

**Ben Klieve**
And a quick follow up to this, it sounds like the way that you just phrased it, that you don't think that these are sales that are going to push the right by a quarter or even a year. That those have come and gone. And the second follow up on that, the Sudan sales, I am assuming, at the end of the day that's going to be exported to the Saudi markets. Do you have any sense that it's the same for Zimbabwe sales? That's a hell of a long way from Saudi, do you think that is the end market for that product or is there another variable driving that business?

**Mark Wong**
So, they're a little bit situation. The Zimbabwe situation was actually a sunflower sale. And our two joint ventures, one of our joint ventures partner in South Africa was working with us to get that sale. So, that was kind of directly aligned and linked to our two JV's in South Africa. We think that sale is still available for the 2020 spring planting. So obviously, we'll be going after that again. So, that may come to fruition in 2020.

The situation in the Sudan is much more complicated. There was a military coupe. They put have the businessmen in the country in jail. Our distributor was clearly affected all that. The dairy industry in Saudi was hoping to get above production, so this wasn't about the sale. From the Sudan, and now that the Sudan sort of upside down politically, it's not clear whether the Saudi's reaction will be, whether it actually be a government change in policy to allow the dairies to maybe bridge the political gap in the Sudan with production in Saudi, or just what the situation is going to be.

So, we're looking at that again. We think that the markets in the Sudan, because they do have water and the government policy in the north Sudan is to support the dairy industry in Saudi Arabia with alfalfa production. So, we think there's a lot of reasons for those alfalfa sales to maybe happen in 2020. But, given the political situation and the fact that the banks are all jammed up, and there's no hard currency, we're not sure whether that's going to be a real sale in 2020 that we can ship and book in dollars. Or whether they'll be seed companies willing to take more risk and sale to the market than we are willing to take.

**Ben Klieve**
Perfect. That's very helpful. Thank you. One for me and I'll get back in que here. I am wondering if you could comment a bit on the overall state of domestic dairy market. Its been a couple of months for milk prices. I seen some reports that the heard is coming down a bit. How do you view the state of the market right now, at least as having some signs of stability and kind of what your outlook over the next 12 months for the supply demand balance for alfalfa within the dairy market?

**Mark Wong**
That's an excellent question. And if I probably knew the answer to that, I'd be doing something the futures market, Ben. But, then I'm only the CEO and I'm proud to be of a very energetic and hopefully appealing middle market seed company. But I've been in the dairy business. So I am playing with you a little bit. I don't know what the heck is going to happen. Lots of dairies are going broke. Capacity is coming out in terms of numbers of cows. But, it's a very interesting business. Like a lot of U.S businesses, once the small guys go out and the big guys have a higher percentage of the market, usually the amount of milk per cow per day, which is the common measure of how the cow can jump. The amount of milk per cow per day starts going up for the big dairies, right? And they get more efficient and so the actual volume of milk produced does not go down as much as the number of cows taken out of the herd. It's hard to know. It's a worldwide market. And the New Zealand milk producers have a lot to say with that. The Australian milk industry also has had some problems over the last three or four years. It's not the U.S problem. The worldwide milk markets are under some pressure. We watch it, obviously, because its incredibly important to us. But I got to graduate school or something to get smart enough to answer your question. It was an excellent on. That's my opinion, but I can't tell you when its going to turn or if it's going to turn.

The problem is on the demand side. Demand is going down 2% to 4% a year, just because milk from cows is less popular. And some of the market is being taken by vegetable milks. So, it's difficult to really figure out where that trend is going and when its going to turn to the point where the dairy industry is profitable again. And cheese, for a while made up the surplus of liquid milk, is also sort of maxing out. There's a lot of cheese in government storage. We don't really think that's much of a place where a lot milk can go in the short term, at least.

**Ben Klieve**
Got it. Very good. I appreciate your commentary here. Thanks for the time. I'll get back in line.

**Mark Wong**
Thank you, Ben.

**Operator**
And as a reminder, it is star then one if you would like to ask a question today. And our next questioner will be Gerry Sweeney with Roth Capital. Please go ahead.

**Gerry Sweeney**
Hey, good morning Mark and Matt. Thanks for taking my call.

**Matthew Szot**
Good morning Gerry.

**Gerry Sweeney**
Just a little bit of a follow up on Sudan and Zimbabwe. You said that the $8 to $9 million that you didn't get. Was that factored into your projections for this year and how does this sort of low through into the fourth quarter?

**Mark Wong**
I mean, so, we risk weight of our sales projections. So, it was clearly in our sales projections, but weighted at a fairly low percentage success rate. Which is accumulation on our part of, the sale was booked. It was a contract. We also rank the sales for the probability of hard terms and all of those kinds of things. Because in some of these markets, they're really difficult to get. I mean it was in our sales projection, but a low number. So, the full effect of the $8 or $9 million did not hit the sales projection numbers. But we were hoping that we would have some happy news for the market that was even better than what we reported. Even without those sales, we're saying sales are good this year.

As I explained, the alfalfa situation in the U.S, with the freeze and the replant is a big reason for that. Remember I said in the last call, that we have to have more shock stun goals, right? That means lots of different markets and a few different crops. Because you can't be good in 10 crops. We're not that big of a company. But, three or four crops like alfalfa, sorghum, sunflower, and stevia is kind of a special situation because we're not marketing that as a product yet. We have to be in those places because stuff happens in agriculture. The weather is out there, and there's political risk in these markets. And sometimes you get lucky and you have a good year, and everything works, your horse finishes first and then doesn't get disqualified. And sometimes, its not so good. You know, we were way too narrow a company before, in the sense that we had one crop and it was alfalfa and it was focused on a couple of markets that were important to us. And so as you painfully know, and as we painfully know, in the Saudi situation, it was a terrible result for us. The government making a change of policy on water use. We just can't afford that many eggs in one basket anymore. That's the reason we're trying to derisk the company by adding crops and going to multiple markets. You don't have control over all these things. Sometimes you get lucky, sometimes you don't. Obviously, you have to work hard and do all the work and have people who are qualified to get the sales. Part of your sales are always weather related or political risk related when you're in some of the markets that we're in.

**Gerry Sweeney**
Got it. Ok. Just on the acquisition front, can you give us any ideas of what you're looking at, even if its sort of broad strokes.

**Mark Wong**
So, the first thing to say is that we're very cognizant of the fact that we need to earn a return with assets that we have. And that our shareholders are concerned with our level of EBITDA. The dilution that going to the market would bring if we raised new equity. So, while we're looking for acquisitions, we're being very careful. They really have to have a potentially high return, in terms of return on investment. And they have to strategically fulfill a significant need. We are looking at some distribution companies around the world. We do think that getting better market information, because we're closer to the farmer is a weakness at S&W that are hell bent to improve and correct. And we are looking at alive

species and crops. So that crops are basically our current sales force can sale with small additions of costs. Those are important to us. It's sort of been like if a parallel to the pharmaceutical industry, it costs you so much to send a sales rep into see a bunch of doctors, and if you have one product you divide that cost by one. But if you have three or four products, you divide that by three or four. That's exactly the same kind of philosophy that we have. That's what's forced in the foundation of the pharma business and in the ag business, there's consolidation also. And we think that is one of the reasons is that the efficiency of sales and distribution is really improved when you can sell multiple products to the same customer.

**Gerry Sweeney**
Got it. That makes sense. This is more for Matt. SG&A, you said $15.1 million for FY '19, I missed FY '20.

**Matthew Szot**
Yeah, Gerry, we're expecting a small pick up from the $15.1. We're vying for the $15.3 million for SG&A. Thanks.

**Gerry Sweeney**
That's it for me. So I really appreciate it, again, thank you.

**Matthew Szot**
You're welcome Gerry.

**Operator**
And the next question today will be a follow up from Sarkis Sherbetchyan with B. Riley. Please go ahead.

**Sarkis Sherbetchyan**
Yeah, thanks for taking my follow up here. Just wanted to touch on the political landscape, specifically tariffs and the talk going on with the U.S-China relationship. How does that hurt or help the company going forward? Thank you.

**Mark Wong**
I mean, that's a real problem for U.S agriculture, Sarkis. Its not just S&W, or not even just the seed industry. China is a giant importer and user of commodities from the U.S. Clearly, the larger crops like corn and soybeans, but also cotton. And a lot of sorghum goes to China. It's a problem. Our farmer customers say Trump needs to get this figured out. The amount of payments that the government through the Farm Bill is making to farmers, are not a significant part of the losses that these non-sales of commodities to China are. It's a significant problem. The only, sort of our thinking on that Sarkis, is that if we have two equal opportunities, one sort of in Australia and one in the U.S, our two home markets. Right now, we're a little bit bending towards the Australian opportunity, just because we think it gets us out of the reach of this China-U.S sort of punch in the nose export issue in ag. We are sort of trying to give political weight to a non-U.S opportunity, Australia is our second home market. Its not obviously a big market, as the U.S by multiples. And it does have different weather and soil that we try to understand so it has different crops that it tries to use and different production methods. Australia has historically been a feed animal market. So, in the early days of Australia it was sheep, well now there's a

lot of beef being raised in the northern part of the country, which is really a continent. We think there's real opportunity in Australia, also, in addition to the U.S. We tend to give, in this political environment between the U.S and China, a little bit heavier favoritism towards opportunities outside the U.S. And if they're in Australia, that's a real benefit.

**Sarkis Sherbetchyan**
Thank you.

**Mark Wong**
I mean you raised the question. It's a tough problem. Trump, I don't know what the solution is, but Trump needs to get this done. It's hurting agriculture.

**Sarkis Sherbetchyan**
Thanks for that.

**Operator**
And this will conclude our question and answer session. I would like to turn the conference back over to Mark Wong for any closing remarks.

## CONCLUSION

**Mark Wong**
Thanks very much, Operator. Thank you all for being on the call today. We're very pleased with the progress that (INAUDIBLE) has made in the 2019 fiscal year. I am not going to repeat, sort of, my high points. But we have now a much bigger organization with a lot of different markets and crops. We think we're on the verge of showing real organic growth, as Matt pointed out. Sort of, in this past year, in the sort of 12% range. But hopefully we can keep that going in the next couple years. And we're pretty happy guys with how the company's performing, how our employees are doing, and the quality of our management team, and we think the best news is ahead for the company. And we're excited to come to work every day and make that happen. So thanks everybody for being on the call today. Appreciate your interest in S&W.