

S&W Seed Company
(NASDAQ: SANW)



Fiscal Year 2019 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Mark Wong – President and Chief Executive Officer, S&W Seed Company
Matthew Szot – Executive Vice President and Chief Financial Officer, S&W Seed Company
Robert Blum – Managing Partner, Lytham Partners, LLC

PRESENTATION

Operator

Good day, and welcome to the S&W Seed Company Fourth Quarter and Fiscal Year 2019 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two (2). Please note this event is being recorded.

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

Robert Blum

Thank you so much and thank all of you for joining us today to discuss the financial results for S&W Seed Company for fiscal year 2019 ended June 30, 2019.

With us on the call representing the company today are Mark Wong, President and Chief Executive Officer, and Matthew Szot, Chief Financial Officer. At the conclusion of today's prepared remarks, we will open the call for a question-and-answer session.

Before I begin with prepared remarks, we submit for the record the following statement. Statements made by the management team of S&W Seed Company during the course of this conference call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended, and such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe future expectations, plans, results or strategies and are generally preceded by words such as may, future, plan or planned, will or should, expected, 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 very much, and welcome everyone today to the call. Matt and I would like to use this opportunity to really recap 2019 and the progress that S&W made, which we think was important and substantial in that fiscal year that has just ended and that we are reporting on today.

As you all know, who follow the company, we did a couple of really important and large transactions in 2019. The first in October of 2018 closing was acquisition of the Chromatin assets. Chromatin was a large, important company in the sorghum market in the U.S. and around the world, in the top five, probably. We were able to acquire the company and all of its production assets, its production plants, its breeding germplasm, its breeding stations, the technology that they had in herbicide resistance in sorghum, and most importantly, sales and marketing organization and products that were ready to go-to-market in the next year, the 2020 S&W fiscal year, and we were able to do all of that at probably a \$0.30 on the \$1 sales price versus what the assets would have cost us, if the company had not been in so much difficulty financially. So, that was a huge opportunity for us, which we were able to complete. It was a competitive process, so we had a big European company that we outbid for the asset. So, we are very pleased to acquire those assets that I just summarized in the Chromatin acquisition.

In addition, I think we showed in 2019 that we were not just the guys who could buy things at the right price, but we were also people who understood how to sell things at a good price, and so our second transaction was a sale of alfalfa assets that we had acquired about five years ago for under \$30 million. We sold those back to the original seller that we bought it from, now reorganized into Corteva. Corteva decided they wanted to be back in the alfalfa business. So, we cut a deal with them where we basically kept the production plant again and the research facilities and all of the germplasm, so that we could restart our alfalfa business in the Americas and in the rest of the world, and what we sold back to them was really the remaining production years on our contract and the profits that would have been earned from that and a couple of research selections out of our existing research program, but there remains in that program plenty of new products for our own customers that will be different from the ones that Corteva is selling, and we basically sold them all of the inventories that they would need for the next three years. So, the sum total value of that transaction was about \$70 million, \$25 million in inventory and \$45 million for the license varieties and the production contract.

It just appears to me that, given the market's valuation of the company that this was a tremendous sale by S&W. It allowed us to really finally get our debt paid off and give us some room in our balance sheet



to make future acquisitions, which has always been our plan, and it left us also with all of the assets that we need to continue our alfalfa business all around the world, and it allowed us to focus our alfalfa business, at least in the Americas, through a much improved sales and marketing organization that was part of the acquisition.

So, we were extremely pleased by both of those transactions, one buying assets, one selling assets. I would just like to mention a third transaction that was not done in the 2019 fiscal year, but we have announced it on August 30, 2019. We purchased an exclusive paid up license, a 15-year license for wheat varieties in Australia from Corteva. It was a program that is seven or eight years old, probably has roughly \$17 million invested in it. We acquired it for \$2.6 million. So, again, I think it shows our ability to recognize assets that have future value to S&W and acquire those at a very reasonable price.

The Australian wheat market is very different than any other wheat market around the world. It is about a 30-million-acre market, so it is really a large market, and there is what is known as endpoint royalty. So the Australian government has organized the industry so that seed companies that do proprietary breeding and create new wheat varieties are paid a royalty by the purchaser of that wheat grain at the elevator before the products are shipped either internally to their final use within Australia or externally to other Asian countries, and about 70% of the wheat that is produced in Australia goes to other Asian countries around the world.

So, we think it is a great opportunity. We acquired the rights to the three major varieties that Corteva has in the market, and so those royalties will be coming to us, and in the seed business, you have to be patient. So, this deal took more than a year to finish.

We hired the wheat breeder, a guy who we really think highly of, Nick Willey, in 2018. He had been the wheat breeder in the program, and under S&W, he is supervising that wheat breeding program, plus other research operations in Australia, but it took over a year, and we are super-pleased with how it all turned out, and we are happy with the deal we got and we are happy with the opportunity in the future that we think that wheat represents in Australia.

Given that the current political environment between the U.S. and China and these tariff wars that we all read about, which is very, very difficult on the ag sector in the Americas, especially in the USA proper, we think that having assets outside of the U.S. and Australia with access to other Asian markets is a really good way for us to hedge against the future U.S.-China tariff issues that have not all been figured out yet between the U.S. and China. So that is what I wanted to say on the three acquisitions – well, two acquisitions and the sale that we made in 2019.

Again, I think it was a very, very important year for S&W, but acquisitions and buying or selling at the right price are one thing, but the important thing for any company is integration into the existing company of all of those new operations so that the company is profitable, self-funding and can fund its own acquisitions in the future. So, that is really the focus for the 2020 year is integration.

We really think that our new focus on geographic markets, like I have talked about in the last couple of calls, where we have Don Panter running all the Americas, that is Canada, the U.S., Mexico, and then South America, Brazil, Argentina, the other important countries there, and David Callachor, running our international operations, as far the Australian markets and our assets there and then our operations in



South Africa with our JV partners and our operations in Asia, in Europe, and the Middle East, where we have separate salespeople responsible for all of those that report to David. We think that that is just the right way to go. We continue to believe that it focuses on the customer, on the customers' needs, and it allows us to really fine tune our sales force and rebuild some of the investment that was not made by Chromatin in that sales force and we basically are doing that, and if you look at our expenditure numbers, you will see that investing in sales and marketing is a big expense for 2020 for us and on purpose.

So, we are supplying more information to customers all around the world, especially in the U.S. We are looking at our trialing program. We are communicating with thousands of farmers and people in the dealer networks with eblast and through social media on our product offerings, our new products and our tried and true important products from the past. That is something that the company has not done before.

Remember, the company mainly sold through distributors before, and while we still sell through distributors internationally, now we have a couple of JVs internationally, where we are able to reach down into the organization and distribution a little bit towards the farmer, and then in the U.S. for sure, we are trying to build our farmer dealer network and our network to other distributors so that we can have more market power, more influence over what our customers are actually buying, because they understand the quality of S&W products and they understand how S&W products perform in the farmer's field against the products of our competitors.

So, that is really important. We think that that is going well. We are looking for roughly from our existing businesses, plus Chromatin, which now we consider an existing business after this year of integration, about a 10% double-digit unit growth rate, and we are pretty happy that things are going well, especially given how tight and difficult the ag markets are around the world. Taking share from other people, because these markets are not really growing that much, is not an easy task; it is a difficult thing to do.

I just like to talk a couple of minutes just about traits. So, traits are hugely profitable for seed companies. In looking at the two traits that we are developing, which is the digestibility trait in alfalfa with our partners Calyxt. Those product development processes are going very well. We have developed markers, so that we can sort through all the alleles in our germplasm. We are in the process of putting out field testing to evaluate how more digestible our alfalfa varieties with this gene knockout are and we are pretty happy with what we have seen so far.

In addition, we have a second trait, which I had mentioned, I think, on our last call, which is a trait that we acquired in the Chromatin acquisition. It is herbicide resistant in sorghum to herbicide ACCAs. This herbicide is a grass herbicide, so how it is used is -- sorghum is a grass also, corn is a grass also, and in the case of sorghum, the problem is, wheats that are grasses growing when the sorghum plants are just emerging from the soil and the sorghum plants are very small and can't compete really with some of the wheat population, so farmers want to spray over the top, which it is called in farmer lingo, of the sorghum crop and have the herbicide kill all of these weedy grasses but not affect the sorghum, and so that is what our herbicide tolerance does, our ACCAs tolerance. It's a product that allows the farmer to spray over the top of our sorghum varieties with ACCAs herbicides to kill emerging grasses but not affect the sorghum plant.



So, ACCAs is a class of herbicides, is an old class of herbicides and that is actually a good thing, because they are relatively cheap versus some of the new herbicides, and the decision for the farmer is always what is the cost of the gene in the sorghum, plus what he is going to have to spend for his ACCA's herbicide, and is that cost reasonable, given what yield enhancement he can make by controlling the weeds and getting more sorghum grain for every acre that he plants, and so we think, in our research trials that we have evaluated that and that it looks like a very positive economic benefit to the farmer that will allow us, obviously, to make a profit on our ACCAs tolerance gene, but it will also allow the farmers to make the profit on their increased yields of sorghum in the acres that they plant with our proprietary sorghum hybrids.

The level of resistance looks very good. We have done this before in prior companies that I have run, and we are pretty happy with that, and our field trials are going well. We are planning a fairly large field trial in many locations for spring of 2020. So we will keep everybody aware in the next six or nine months of how those look, as they come out of the ground, and as we spray them with ACCAs herbicide and see how they react in the farmer's field, so we are pretty happy with all that. So, our two genes are really progressing well. We are starting to talk to our partners, potential partners. Obviously with ACCAs, we need a herbicide partner, someone we are going to partner with that is going to supply the herbicides. So those discussions are ongoing, and we are pretty excited about both of those gene opportunities, digestibility in alfalfa and herbicide resistance or tolerance in sorghum.

On the stevia front, we continue with our program. We, as you all know, we have transferred really the breeding part of the program to the southeast, where we think things are better under a new R&D head, Jeff Klingenberg, who we knew from prior relationships in other companies and who is a tried and experienced breeder, and he is moving the program forward. Our beverage partner continues to be supporting the program and investing with us in moving these products forward, and we are in discussions with several other partners for the 2020 production season to see if there will be a crop we can put in the ground for them, and so that is going well.

Basically, what our breeding program does, just to remind everybody, is there are lots of different steviaanoids within stevia that provide the sweetness, and so we are taking those apart a little bit. There are 15 or so important ones and trying to figure out which ones we can amplify in our breeding lines so that the ones that taste good, basically more of those are produced, and the ones that maybe have a bitter taste or do not combine as well in beverages or food products, we can minimize those. So, it is a very efficient but scientifically complicated program. Not everyone could do it, and we are very happy that Jeff Klingenberg has joined us and that he has the breeding expertise to really bring this program to successful completion.

So, that is really what I wanted to say from operating standpoint. I wanted to remind everybody, what acquisitions and sales we sort of did in 2019. I wanted to remind everybody that traits are still important, that stevia is still important to us, but it is the integration of those acquisitions and the opportunity that they offer to S&W that is really the focus of S&W for 2020.

So, we expect, as I said, a 10%-unit growth in alfalfa and sorghum from our existing business. We have enough inventory to supply that kind of growth rate. We were pretty sure when we put the last crop out in the spring of 2019 that we would be producing enough to satisfy that demand. We believe that our new traits are coming along well - digestibility in alfalfa and herbicide tolerance in sorghum. We think



that our strength in balance sheet takes some pressure off of us to be quarter-to-quarter, but we still are trying to look at acquisitions. That is a big part of what – of the company we want to build. So, buying things at a good price, getting us into new species, new geographic areas and doing it so that we can integrate it into our existing operations is what our strategy is all about, and that is what we continue to concentrate on.

So, we are hoping that 2010 will be another really good year for us – excuse me, 2020 will be a really good year for us like 2019 was, and we have strengthened our management team, we have added quite a few new sales and marketing people, so we are looking forward to a really excellent year in 2020 also.

So, with that, I will turn the discussion over to Matt, who will go through the financial picture of S&W for 2019 and looking forward a bit. Matt, please.

Matthew Szot

Thank you, Mark, and thanks to everyone on the call today. We do have a quite a bit to cover given the new licensing agreement with Pioneer and its impact on not only the historical financials, but our go-forward expectations and guidance for 2020. I am assuming everyone has access to the various financial statements that we put in our press release, so I will provide further color on some key topics.

So, I am going to get right to it. Revenue for fiscal 2019 was approximately \$110 million, compared to \$64 million in fiscal 2018. Now, to break this down further, we recognized \$34.2 million from the new Pioneer licensing agreement in fiscal 2019, \$37.6 million from the sale of seed to Pioneer under the legacy distribution and production agreements, and the remaining \$38 million coming from our non-Pioneer, alfalfa, sorghum and sunflower operations.

As this last portion is really our core business going forward, we are referring to this as core revenue to help provide clarity of the business on a go-forward comparable basis. Core revenue of \$38 million in fiscal 2019 increased nearly \$13.3 million from fiscal 2018, which was primarily driven by the increases from the acquired Chromatin operation, as well as single-digit organic growth and the other aspect of our business.

Now, given the trend of decreasing revenue from our organic operations during the last few years, we are certainly pleased with the transition we have made to once again delivering growth in our core business. More exciting, however, are the expectations we have for 2020. We are currently expecting growth in core revenues of 9% to 16%, and I am going to dive into this further in a moment. Now as we discussed during our May 23rd conference call dedicated to discussing the revised Pioneer agreement, Pioneer paid us \$45 million in cash up front and will make additional cash payments totaling \$25 million between September 2019 and February 2021. So, the total consideration from this transaction is \$70 million.

The exact payment details will be highlighted in our Form 10-K, and as I just mentioned, \$34.2 million of the foregoing amounts were reported as licensing revenue for fiscal 2019, with the remaining amounts of approximately \$34 million will be recognized as revenue through February of 2021 as alfalfa seed is delivered to Pioneer.



Now of this \$34 million of future revenue, we are expecting approximately \$22 million in fiscal 2020 and \$12 million in revenue in fiscal 2021. These future sales to Pioneer will contribute approximately \$11 million worth of gross profits over the combined fiscal years of 2020 and 2021. So, as we look to fiscal 2020, excluding any acquisitions that we are pursuing, we are looking at core revenues of approximately \$41 [million] to \$44 million, which would represent organic growth of approximately 9% to 16% compared to the prior year. Including revenue contributions from Pioneer, we expect total revenue for fiscal 2020 to be in a range of \$64 [million] to \$67 million.

Now, turning to gross margins. Total gross profit margins for fiscal 2019 were 37.1%, compared to 23% in fiscal 2018. The increase in gross profit margins was primarily due to the license agreement with Pioneer, partially offset by a lower cost for market adjustment made to inventory, whereby we wrote down \$8.8 million of inventory. Now, approximately \$5 million of this inventory write-down is directly attributed to the Pioneer agreement. When you exclude the benefit of a license revenue and the write-down of inventory, gross margins would have been 20% for fiscal 2019.

Now, as we look to 2020, we are expecting gross margins of approximately 25%. We are seeing strong pricing in our proprietary sorghum and sunflower programs and some continued softness in certain alfalfa seed markets. This dynamic can certainly reinforce the proactive moves we have taken to diversify our crop portfolio and transition towards higher-value traits, which command a much richer margin profile.

Now, quickly on the operating expense line item, the \$5.7 million increase in adjusted SG&A expense compared to 2018 was due to \$2.1 million of additional expenses pertaining to Chromatin, which was acquired in October, coupled with additional investments in our sales and marketing and product development functions, both of which we have discussed during the last few calls.

Now, on R&D, consistent with what we have discussed over the last few quarters, we increased our investment in hybrid sorghum and sunflower R&D programs, and we expect our research and development spend for 2020 to increase as we continue to invest in these growth programs.

Now, given these recent events, I would like to provide some more specific guidance for 2020 related to operating expenses. In summary, we expect SG&A to be approximately \$19 million in fiscal 2020, which includes stock-based compensation of approximately \$1 million.

We expect research and development to be approximately \$8.2 million in 2020, and we expect depreciation and amortization to be approximately \$5 million in 2020. Again, this excludes any potential acquisitions that we may enter into.

Now, as we anticipated, as a result of the changes in our agreement with Pioneer, we did record an \$11.9 million goodwill impairment charge and a \$6 million intangible asset impairment charge during the fourth quarter. As of June 30, 2019, and as of today, we do not have any remaining goodwill recorded on the balance sheet.

Now, adjusted EBITDA for fiscal 2019 was \$19.2 million, compared to \$1 million in fiscal 2018. Again, the key driver here was the Pioneer licensing agreement. As we have talked about in some length, the new licensing agreement with Pioneer essentially accelerated the cash flow of our next five years minimal



contractual obligations and further compensates S&W for the upfront licensing of certain varieties. The acceleration of this cash flow significantly improved our financial position, including fully paying down our U.S. revolving line of credit, giving us significant flexibility. Now, the recent transaction does create a near-term disconnect between our operating infrastructure and our revenue base, which we expect to result in negative EBITDA as we move into fiscal 2020. Without going into too many details, we are expecting a return to positive EBITDA in 2021, simply from our organic operations, and that should give you a sense of the opportunities we believe are present in our core organic operations. If we complete the strategic acquisitions available to us and leverage off of our existing platforms, we believe there is significant opportunity in the coming periods.

Now, a couple of quick items before I turn the call back over to Mark. As you can see from the balance sheet and in line with what we communicated on our May 23rd call, we utilized the initial proceeds from the Pioneer agreement towards the pay down of our lines of credit. As of today, we had zero drawn on the U.S. line and \$9 million drawn on our Australian line. These lines of credit remain in place with a significant amount of unused borrowing capacity, which will help fund our future growth initiatives.

Now, I know I went through a lot of detail here. So, please feel free to ask any questions if there is a need to clarify anything discussed.

With that being said, let me turn it back over to Mark.

Mark Wong

Thank you, Matt. So, let me just summarize the call today. We are looking for 2020 to be another spectacular year for S&W. We think that, as Matt has described, we have strengthened our balance sheet significantly and we have removed some of the inventory risk in the sense that all of the dormant inventory has been sold as part of the transaction with Corteva. We think that integration is going well. We are expecting, like I said, double-digit growth in alfalfa and sorghum for 2020. We think that our new organization, which focuses on local markets, so in the Americas, sorghum and alfalfa are the two most important crops, but internationally, David's team is selling not only alfalfa and sorghum, but also sunflower and wheat, and so we have one sales force selling all of those different species in each of the appropriate markets. We do not have two sales forces out there. We have one sales force, one S&W sales force, selling all of our products now, and we are reaching out to our farmer and distribution customers to tell them that that is what we are doing and to show them what our breeding programs have produced in terms of performance in the farmers' field of new hybrids and varieties for all of those crops.

We expect that there will be continued acquisition opportunity. The ag markets are difficult, and many companies are struggling. We are one of the few that are in acquisition mode, and we have more deal flow than we could ever close, and we have a pretty good process to go through the companies who call us and throw out the ones that are obvious not matches, and then put in the time with the ones that may be potential matches to see if there is a deal to do there, if there is value for S&W that can be had at the price that the seller wants to sell at.

Again, most of our acquisitions, when we model them, we are looking at mid-teens kind of returns, internal rate of returns for our investment, and we think that, that kind of opportunity continues to be available given the difficulties in the ag markets. So, we are looking for 2020 to be another very good



year for S&W. We thank all of our employees for the effort that they made in 2019. It was a really big effort on everyone's part, and we are looking forward to everyone working hard and smart again in 2020 and the rewards that will generate for us.

So, with that, I will complete the call, and we will be happy to answer questions, and I will turn it over to the operator. Thank you so much.

QUESTION AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your headset before pressing the keys. To withdraw your question, please press star (*) then two (2).

Our first question comes from Sarkis Sherbetchyan of B. Riley FBR. Please go ahead.

Sarkis Sherbetchyan

Good morning, and thanks for taking my question here.

Mark Wong

Hey, Sarkis, good morning.

Sarkis Sherbetchyan

So, first I just wanted to understand for the current year, for Chromatin, I think, the press release said \$12.4 million of sales was realized, and I wanted to understand how that compared to the previous guidance the management team provided for \$14 [million] to \$15 million. Were there some sales that are may be slipping into next year? Any missed opportunity, just help us understand the delta there.

Mark Wong

Matt, do you want to take that?

Matthew Szot

Yes, sure. Mark. Sarkis, yes, so the top line at Chromatin did come in a bit lower than we had expected, but that was really related to timing of sales. Some of those sales actually shifted to July of 2019, and I do want to point out that although the top line was a bit softer, our gross margins did come in better than expected, so we were still able to generate positive EBITDA on that \$12 million of revenue for Chromatin, which we think is something to be proud of considering the historical losses that the business generated, and it really just, I think, demonstrates how powerful this business can be as we start driving top line revenue growth, particularly with the margin profile that these hybrid sorghums are delivering.



Sarkis Sherbetchyan

Thanks for that, and then with regard to that, I think, in the past you mentioned, call it 30% gross margin, maybe a little bit better. Can you give us a flavor on what you did generate?

Matthew Szot

Yes, Sarkis. The margins for our sorghum business came in around low-40% range, and we are expecting that margin profile to continue into 2020, and as we look to the outer years, it probably increasing and improving from there.

Sarkis Sherbetchyan

Great. That is good to learn, and then I think in prior calls you mentioned for fiscal 2020 that you would expect the business for Chromatin the sorghum assets, to do \$17 [million] to \$20 million in annual sales. Is that still the expectation, or would there be a range that is a little bit lower?

Matthew Szot

Yes, Sarkis, based on the revenue guidance we gave of \$64 [million] to \$67 million, we are assuming that the Chromatin business would generate roughly \$15 million of that. So certainly, if we get back to that \$15 [million] or \$20 million range, that would be upside to the revenue guidance we provided to date.

Sarkis Sherbetchyan

Got it. Good, and then with regards to the guidance given for the Pioneer licensing sales, can you maybe give us the cadence we should expect for fiscal 2020? And then also how would that impact gross margin? Would it be calling in the low 30% range, or would it be 100% gross margin? Just help us understand how we should think about the license as it flows through the P&L.

Matthew Szot

Yes. So, Sarkis, the license revenue was all recorded in 2019. We will be generating revenues for sale of seed to Pioneer in the 2020 and 2021 range. We are thinking that revenue will be roughly \$22 million in 2020, with high, say 27% to 28% gross margins. So, as we deliver seed to them, basically from now through February of 2021, we will be generating revenues pretty much consistent with our historical margin profile to Pioneer.

Sarkis Sherbetchyan

Okay.

Matthew Szot

Does that address your question?

Sarkis Sherbetchyan

Yes. So, the balance would be treated more like a product sale, and what we just saw was a license sale, is that correct?

Matthew Szot

That's correct. That's correct.



Sarkis Sherbetchyan

Okay, and that is going to be in line with the inventory to cash schedule that was previously disclosed in an 8-K?

Matthew Szot

That is right, Sarkis.

Sarkis Sherbetchyan

Good, and then just finally, here, I know in the prepared remarks you mentioned that some of the transactions create a disconnect between the businesses operating expenses and revenues. And so, even with the product sales that flow in for fiscal 2020 to Pioneer, you are guiding to negative EBITDA here. What is the magnitude of the EBITDA loss? Is it a low single-digit EBITDA loss? Just help us understand what we should be thinking.

Matthew Szot

Yes. Without any acquisitions, Sarkis, and this certainly is a short-term tremble, but we are thinking that our EBITDA loss will probably be in the \$6 [million] to \$8 million range based on the revenue guidance we have given, and obviously, we are working hard to close that gap quickly. Acquisitions will help, and as I mentioned in our prepared remarks, the 2021 period, just from an organic base, is a period of time where we think that these operations will flip back to positive EBITDA.

Sarkis Sherbetchyan

Great. That is all for me. I will hop back in the queue.

Mark Wong

Yes, Sarkis, let me add something to what Matt said about the relatives. Really, I think your question is the relative weight of expenses versus sales. We moved all of those sales to Pioneer basically into 2019 with then, as Matt described, the remaining inventory sales in 2021. As a seed company, you always are looking to cut expenses when you lose sales like that, but breeding programs are very difficult to start, stop and then restart, and so to maintain consistency and to have a product pipeline that is going to generate really competitive products in the marketplace that we can win share with, you have got to grit your teeth and buckle it up and keep spending that money in the short-term to have products in the intermediate term, and we understand that can be a bit distressing to some investors if they are not looking far enough ahead, but that is how the seed business works. I've had 40 years of experience. I've tried cutting expenses too deep and suffered the consequences.

So, we are cognizant of the fact that for 2020 we have negative EBITDA and we are doing everything we can from integration standpoint through 2020 and 2021 to get back to a positive territory, and obviously, an acquisition will help, but we are trying to inform the market about what our legacy business will do, because that is really important that people understand what our performance looks like without an acquisition, but we are looking at a couple of significant acquisitions. They will go add earnings to the company, they are accretive, and they have IRRs that look incredibly attractive in this market.

So, more on that when we close something, but these transactions take a long time, some of these things we have been working on for quite a while. So, stay tuned for more input on the acquisition



story. But really, 2020 is the year of integration. We have got to take the businesses that we have already purchased and integrate those into the traditional S&W platform, and we have got to move the whole company forward. Without an acquisition, we have got to show the market that we can make money in the businesses that we have.

Operator

Once again, if you have a question, please press star (*) then one (1).

Our next question comes from Ben Klieve of National Securities Corporation. Please go ahead.

Mark Wong

Hey, Ben.

Ben Klieve

All right. Thanks for taking my questions. Good morning, guys. A few questions here. First of all, building off of Sarkis' questions on Chromatin. Can you just elaborate a bit on really where the business stands today versus where you have thought it would be on prior earnings calls? It sounds like it certainly is still very much a positive acquisition for you, but the numbers are shifting around a bit. So, can you just elaborate on where you think that delta is coming from? And why that delta is coming to be here?

Mark Wong

Yes, sure. Ben, a couple of million dollars is obviously important. We are saying \$15 [million] versus \$17 [million] that we thought before. The acreage has changed, the market has changed, the competitiveness of sorghum versus corn changes. I think, when every quarter that goes by, we have better information from our sales force as to what is really happening out there in the market.

So, I wouldn't read too much into being on the low-end of that estimate that we made previously. Like Matt said, the margins are much better. We are basically asking the market to pay for our improved varieties. We are not trying to give them away. We are not trying to buy share by cutting price, and it is important to teach the market that we believe we deserve the margin that we make, because our hybrids produce seed in the field compared with our competitors, and they are the best thing for them to buy. So, we are trying to set that mark in the market, and if sales are up and down a million or two, frankly, I do not get too concerned about that.

Ben Klieve

Okay, fair enough. Thank you. Also, here, so looking at the outlook for 2020 and 2021, if I look at the organic catalyst that could take you from the EBITDA loss you described next year, all the way in a positive territory in 2021, my assumption here is that you believe that the lead products in your development pipeline may be able to transition to commercialization in 2021. Is that a fair timeline, or do you think those lead varieties are going to potentially be further out than that?

Mark Wong

No. With the Chromatin acquisition and with our own alfalfa breeding program that was originally the Pioneer program, it's a continuous program. As is the wheat program in Australia, as is the five years that we have got into sunflower, six years we have got into sunflower breeding. So, when you are able

to maintain a stable funding of these programs, I think, we are generating something like 15 – across all of those species 15 new products that are coming into the market on a worldwide basis.

So, we are optimistic that we have had trials of those. They look pretty good in the farmer's field, and we are optimistic that they are going to take some share. So, this is hopefully the beginning of a steady market penetration gain on our part in these crops. That will not be true in all markets, but in the important markets that we are focused on, hopefully, that is true.

So, the product development life cycle is very long. You make your crosses in the breeding blocks, you sort through the best material there. A lot of times, it is fairly complicated genetics, and so having a marker, so that you can look for what you want in performance is important, and we use marker-assisted breeding in all of our crops, and then you have got to test in the field. You have got to increase seed amounts, so that you have something to sell, all that takes some time, and so, from probably the time you make the first cross, even with the improvements in speed and breeding programs, it is probably a seven-year timeline to get new products, bread trials and then seed increase. So, when you see the 15 new products coming out from our operations, this is the culmination of lots and lots of years of work and the beginning of our field pipeline. So, I think people should be optimistic about what our future results are going to be for the next intermediate term.

Ben Klieve

Okay, perfect. Thanks, Mark, and last one for me. Regarding the potential scale of future acquisitions, with the company as it is today, can you comment at all the level of debt you guys feel comfortable with, any potential restrictions that you have from your debt facilities that would limit the size of any acquisitions? You have averaged roughly \$40 million in debt over the last couple of years. Would you feel comfortable getting back to that, or we are looking at a bit lower? Help us understand what you are thinking about now, in light of all the changes that have taken place in your company over the last couple of quarters?

Mark Wong

Matt, do you want to do that, or do you want me to try that?

Matthew Szot

Yes. No, Mark, I will take that and then maybe you can chime in.

Mark Wong

Okay, sure.

Matthew Szot

So, Ben, each acquisition is going to have its own unique characteristics and depending on the asset profile that comes along with each of those acquisitions is going to be a driving factor to how much balance sheet leverage we have. I will say at this point in time we do not have anything drawn on our U.S. lines of credit. We have roughly \$30 million of unused availability on our lines. So how much we use? We certainly want to use our balance sheet to the extent possible to pursue these future acquisitions, but again, it is going to really be dependent on each individual acquisition that we target.



Ben Klieve

Got it.

Matthew Szot

Does that answer your question?

Ben Klieve

Yes, absolutely. I think that does it for me. Thank to you both. I will get back in queue.

Mark Wong

Thank you, Ben.

Operator

Once again, if you have a question, please press star (*) then one (1).

Our next question comes from Roger Miller of Frontier Investments. Please go ahead.

Mark Wong

Hey, Roger.

Roger Miller

Good morning. I am glad to be here. I am a longtime investor in the company, and obviously, I have seen it change quite rapidly. What are the possibilities for hemp? [unintelligible]

Mark Wong

Yes. Hemp is a very interesting crop in that it is federally legal in the U.S. and so there is a big push to look at the crop and its possibilities. CBDs, which are the main chemical components that people think are good for pain, for sleep, and so there is a lot of people putting CBDs into lots of different products. Hemp is also a fairly high yielder in terms of tons of cellulose per acre, and so people think maybe it is a substitute for the paper industry and other things can be made out of hemp fiber. So right now, the hemp industry is really one that is planting clones, not seed. So, you clone little plants and then growers buy those and plant those, and there has not been much work done on the seed part of hemp. So, we have got one or two small trials going on where our breeders are looking at the possibilities for hemp.

One thing that is very similar is our stevia operations. In stevia, you also plant small plants. You do not plant from seed, and so we have a lot of experience cloning small plants, and so, the stevia guys are also looking at hemp, but to be fair, Roger, we do not really have a strategy or we would have said something to the markets, to you all, that we are interested in hemp. I personally have been involved in hemp with other investments, but I do not see right now an opportunity that I want to commit S&W to. It is an interesting market, lots of people are getting into it, but right now, we have so many opportunities in the more traditional agricultural crops, that on paper, very, very interesting returns, like I said, mid-teens or higher, that we just do not want to lay on the risk of a new market like hemp, where nobody really knows how big it is going to get where the acres grow a lot and shrink a lot.

If you follow marijuana as sort of a crop that maybe hemp will emulate, when the first – when Colorado where first legalized marijuana, I think, about six years ago, there was a lot of money made early on in



the first couple of three years, but marijuana has proven to be a crop like any other ag crop. Its price varies with demand and supply, and right now there is more supply in marijuana, both legal and illegal, than there is demand, and prices have fallen over the last three or four years and not many people are making money. It is difficult to understand that given mostly the Canadian companies that are public and the huge valuations they get, multiples of sales, right, not multiples of earnings, because a lot of them do not have earnings, but it is a risky market. We're watching them, for sure. We watch both of those markets. We understand what is going on in them, but we think the opportunities for S&W are really more focused on the four crops that we have: alfalfa, sorghum, wheat and sunflower and then our stevia operations.

Roger Miller

Okay. Well, I appreciate you answering my question.

Mark Wong

Yep. You are welcome.

CONCLUSION

Operator

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

Mark Wong

Thank you very much, operator, and thank you, everyone, for being on the call today. I think it has come across that we are pretty darn excited about S&W's prospects, what we have achieved in 2019, where the company is going in 2020. We are calling 2020 the year of integration. I mean, we have got to show that we can take market share in our crops. We have got to show that the investments we are making in breeding and in sales and marketing can get us the additional bags of seed to the top line and to the bottom line.

So, stay tuned. We are going to probably do one big acquisition in the year. We have got a couple of candidates for that. So, it is a busy time. It is a wonderfully interesting time for S&W and for U.S. agriculture and worldwide agriculture in general, and we are very, very excited about the opportunities that we have. So, thanks, everyone, on the call, and we will look forward to talking to you in the quarter again. Thanks so much.

Operator

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

