

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



**Third Quarter Fiscal Year 2020 Financial Results**  
**Conference Call**

**Thursday, May 14, 2020**  
**11:00 A.M. Eastern**

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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

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**PRESENTATION**

**Operator**

Good morning. Welcome to S&W Seed Company's Third Quarter Fiscal Year 2020 Financial Results. 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 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Robert Blum from Lytham Partners. Go ahead.

**Robert Blum**

Thank you so much, operator, and thank all of you for joining us today to discuss the financial results for S&W Seed Company for the third quarter of fiscal 2020 ended March 31, 2020. With us on the call representing the company today are Mr. 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 we begin with prepared remarks, we submit for the record the following statements. 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;” “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 risks 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, 2019, 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, please proceed.

**Mark Wong**

Thank you, Robert, and good morning to everyone on the call this morning. I’m going to divide my talk this morning into three pieces. I’m going to obviously address COVID-19 and sort of the pandemic world that we are all operating in today. I’m going to then talk a little bit about how COVID-19 affects some of the ag markets that we’re in and how we view those effects. And, lastly, obviously, I’m going to focus those thoughts and logics on S&W and tell you a little bit about what we’re doing to deal with that and what we see as the near-term future of the company within what we’re calling a pandemic world.

So, COVID-19, obviously, it’s in the news all the time, maybe more than we even want to hear anymore, and in the U.S., we’re opening up the country after flattening the curve and giving the healthcare professionals in the country a chance to deal with all of the sick people that have caught the disease, caught the virus. And, you know, that seems to be working, but now we’re in the opening-up-the-country phase.

So first, I think, what needs to be said is that, first and foremost, S&W is a science-based company. We use DNA techniques, RNA techniques in our product development. We can build our own markers, genetic markers to look at different traits that we’re searching for within the crops that we operate in. We have big programs, obviously, in our two key crops, alfalfa and sorghum, but also programs in wheat and other crops like that.

So, we realize that, though, as a science-based company, we’re also operating in a market of national politics, and I’m not going to go into, obviously, too many of the national politics in the U.S., but it should be said that you can’t just be a science-based company. You have to think about how science is going to be applied in the countries of major operations and how you’re going to be successful in those mixtures of science-based products and political sort of influences that are making decisions for the population of your operating countries.

So, a little bit on the virus itself. You know, you’ve probably all heard this term—herd immunity—it means that approximately 60 or 70 percent of the population have come in contact with the COVID-19 and now have antibodies. We’re going to—as that happens, we’re going to learn how much protection those antibodies give us. The bad news would be maybe three to six months of protection against COVID-19. The good news would be a couple two years, three years, or longer against COVID-19.

There’s two ways to get antibodies. Basically, you can get the disease, and so that’s what we’re trying to control, how many people get the disease and how quickly they get it. We also can develop vaccines.



There's basically three or four processes that are used traditionally to invent or find vaccines. You can use heat, you can use formalin, or you can attenuate the virus, basically weaken it so that you can put a live virus in a person. And then—so you get a couple of different products. You get inactivated vaccines, like for polio, for hepatitis A, for influenza, for rabies, and you can also put part of the virus in these traditional methods into the actual vaccine. And so vaccines for diseases, viral diseases like hepatitis B and shingles and human papillomavirus, all have that as kind of the product strategy.

We believe, though, that in COVID-19, these traditional methods are not going to be very successful. The virus is a very difficult one to use with these methods, and so when you hear that there's 100 vaccines being tried and hopefully we have ten that go through trials rapidly, these are all genetic DNA or RNA viruses, and they are mainly focused on the binding sites in the spiked protein that you see in all the cartoons of the COVID-19, where it's a kind of circular virus, a sphere with all these like mushroom-like things poking out of the top. And it's pretty clear that COVID-19 is kind of a cousin of viruses that have come before. There's a huge homology between COVID-19 and other viruses, and the binding sites, as I mentioned, that the RNA and DNAs, new vaccines are targeting.

But there has not been—this is all new technology, and there has not been an existing vaccine made from DNA or RNA technology, and so we are hopeful that there will be a successful vaccine, but we're also trying to plan for a situation where that vaccine may be off in the future or may in fact never come, because there are viral diseases where a vaccine has been worked on for many, many years and there has been no success on finding a vaccine. And the biggest example there is the AIDS virus. We've been working on that for 15, 20 years and there's still no vaccine for that.

So we're thinking of a world, really, where COVID-19, this pandemic that we're all in, hopefully there's a vaccine, but the—you know, the sort of worse case is that the virus is in the market now, we continue to control it at different levels and different countries around the world, the world population gets exposed to it, and different percentages in different countries of the population of those countries get the antibodies because they've actually had the disease. But to get to the 60 or 70 percent population, we think—exposed to the COVID-19, we think that it's going to take a couple more rounds, unfortunately, of infection before a vaccine is available. So we're sort of saying in our assumptions, a vaccine is available in the summer of 2022, and maybe the COVID-19 comes back in the fall of 2021 and in the spring of 2022, so we're planning for a situation where next planting season in the northern hemisphere and the spring crops—winter crops in the southern hemisphere, excuse me, we have to deal with COVID-19, and we're operating S&W with that assumption.

Hopefully, that's not going to be the case. Hopefully, there'll be a vaccine sooner. There may be a miracle and the COVID-19 sort of disappears like some other viruses, but I don't think we can bet on that as a strategy, but we are operating S&W as if we have to deal through another major market sales season with COVID-19 in the background, and it's affecting everything that we do, and I'll get into some of that here in a few minutes.

So that's enough about viruses. I'm not a virologist, so this is a common man's sort of description of a pandemic world based on COVID-19, but I've been around biotech in plants, DNA, RNA for—since it was invented in plants in the early '80s, and I have a lot of farmer friends, and so, my view of COVID-19 and its potential different effects on the—on our world really comes from that history of a long association with RNA and DNA technologies.



So the ag markets, the second piece of my presentation today. So the ag markets are, we believe, going to be in some turmoil. There's a lot of reasons for that. First, I should say, you've heard me three years ago when I came on as CEO, talk about getting closer to the farmer. I think we're doing that. We purchased Pasture Genetics in Australia, and in the U.S., we've spent a lot of additional money building a large sales and marketing team, building the farmer-dealer network that we purchased when we purchased Chromatin, and building our distributor network, and getting information through social media out to all of our customers. We've spent a lot of money doing that.

But I should back up a step, though, and just say to you when we look at ag markets, we look at a—we want to have a very balanced position around the world. So, if you look at the big ag- producer countries, so these are countries that have the soil and weather and water to produce large amounts of agricultural commodities, and they have relatively small populations so that they can—they don't consume all of that, right? They have a huge surplus that they can sell—ship to other countries around the world with big populations that can't provide all the relevant food. So when we think about those countries, obviously the big producers are the U.S., Canada, Brazil, Argentina, Australia. These are the countries that have huge surpluses of animal products or grains and proteins and oil-feeds. And we see up-and-coming areas like the Ukraine and some parts of Russia for sunflower and some of the wheat varieties and things like that that are grown in those areas. So, those are the focused places where we want to be to sell seed, because that's where most of the farmers that are being successful around the world are.

And a lot of these markets have different crops, like I just mentioned, sunflower and wheat, but the world markets are mainly driven by corn and soybeans. They are incredibly productive crops in grains and carbohydrates. That's corn and soybeans and oil, and they drive the economics of the farmer. So, what I mean by that is the farmer is saying to his or herself, "Hey, how much can I make in my market, whether it's the U.S., Canada, Brazil, Argentina, Australia--how much can I make on corn and soybeans for the most part? And what can I—what else can I plant to give myself some diversity, and how much per acre am I going to make on that crop?" So, in our case, alfalfa and sorghum versus corn and soybeans.

So that's the economic yardstick that S&W sells against because we don't sell corn and soybeans. We sell the crops that compete in some of the markets with corn and soybeans, like sorghum and alfalfa and compete for the acres. So, we're always measuring our economics against those crops. We are in a situation in the U.S., it's the major driver of both those products, where we're going to plant a lot of acres in 2020, and we're having pretty good weather. So, the planting timeline that's what farmers—how fast they can plant the crops is pretty good this year. We're actually planting faster than the five-year average in the U.S.

So we're probably—that means we're probably going to have pretty good yields if we have good weather during the season and we don't have an early frost, so we're going to have a lot of product, and in that background, a lot of commodity corn and soybeans, and in that background, we have an ethanol industry, which consumes 40 to 45 percent of all the corn in the U.S. that's produced every year. That is about 30 to 35 percent shut down because of low gasoline prices. So, ethanol is a proxy for gasoline on a per-price, per-gallon, and when gasoline is low priced, ethanol has to match that. It actually has a lower

amount of energy per pound, per gallon than gasoline, and so ethanol's—the ethanol industry's shut down about a third of its production currently.

We also have, you know, this unknown of what's going to happen with the trade wars between China and the U.S. And so, right now we have fairly low commodity prices. Our expectation is we're going to have a very, very tough year in terms of farmer profitability in 2020, and we're trying to operate S&W with that expectation. So we're trying to tell our farmer customers. "This is what we think you can make on soybeans. This is what we think you can make on corn on a per-acre basis. This is what you can make on sorghum or alfalfa, and depending on which part of the country you're in." Alfalfa's obviously the more northern customers in the U.S., and sorghum's the more western corn belt customers.

So, for S&W, the third part of my discussion here today, it really means that we're trying to figure out how we balance our production across the northern and southern hemispheres. So, it's more now than reaching out to farmers, more directly closing the distance between us and them in terms of information, not having too many people between us and the farmers. So, we don't like two-step distribution. We like either a distributor, or a farmer dealer between us and our eventual farmer customer who actually is planting the seed on his rented or owned acres.

So, the acquisition, now focusing on S&W, the acquisition of Pasture Genetics is balancing our sales picture. You know, we basically have approximately half our sales in the international division and we have about half our sales in the Americas division. And so, that's kind of a good thing. It allows us to have some more flexibility, we think. It gives us, I think, some protection against the trade war going bad between the U.S. and Canada as, hopefully, we'll still be able to have Australian companies sell agricultural commodities and meat to China and the rest of Asia. And it allows us to begin a more sophisticated process to manage our business, right? So, we are having the opportunity every year to plant in the spring in the northern hemisphere of the U.S. So that's alfalfa and sorghum right now are our two main crops—and we're trying to match that to have off-season production at low-production costs-per-pound of seed, also in Australia, and we're pushing our two — that would be for alfalfa mainly—and we're pushing our two JVs in South Africa for sorghum.

So, in a couple of years, you're going to hear us more talk about a balanced approach, a balanced worldwide approach to production and marketing. Our sales are split up equally, approximately between our two divisions, and our production is going to be northern and southern hemispheres, so that we get two chances every year at having production in alfalfa and sorghum at reasonable costs. So, this geographic balance, I think, is very useful in a company like ours trying to operate in this pandemic world. So, we're very happy to welcome Pasture Genetics into the family of companies that make up S&W. Bob Damin and his—the founder and his family have been doing a great job for us. We really enjoy working with them, and they have a great reputation in the Australian market.

I should take a little bit of time here and just say I was in Australia in the month of March for about ten days, had a chance to meet all of the new Pasture Genetics employees and welcome them to S&W at a couple of functions that we had for everybody, had a chance to meet Rob and spend some time with him and his son and daughter just talking about the business and where we were going. And that was hugely beneficial for me and hopefully for them, just to get to know a little bit about what they were really doing and where our opportunities were and to have them hear from me, you know, sort of a strategic view of what the company is trying to do. So, that was a great, great trip. Thanks, Rob, and



your family for hosting all of the S&W people at these functions, and thanks to David Callachor and all his people for organizing the whole thing.

As I said, I had quite a bit of time in Australia on purpose and got to also meet with our other regional managers around the world for Europe and for the Middle East and for Asia and for Africa. And so, that was really useful too because I—you know, we're building all these markets. Obviously, we're not doing production in too many of those markets yet, but we are building sales in all those markets, and it was great to spend some time with all of our people to understand what it exactly is that we're doing there.

So, it was a great trip. I managed to get back on Friday the 13<sup>th</sup> and escape by, I think, a week the shutdown of all the international air fares coming—air flights coming from Asia back to the U.S. But unfortunately, now we know COVID-19 landed before I did and infected at least LA and then Washington and Oregon a bit, and then came back to New York through Europe. And so, here we sit today with obviously a very, very tragic situation in terms of all the people who have died in the U.S. because of this really dangerous virus.

So, when I say a company that can operate in a pandemic world, you know, sometimes you get lucky in these things, and lucky, based on good planning is always a good thing to have. And so, we had spent—maybe I hadn't mentioned in previous calls about the budget this year in 2020. We spent a couple of million bucks on IT upgrades, on better computers, on security for our information, but we also were one of the few customers before the pandemic that were both a voice and data customer of Zoom. And so, that's where the lucky part comes in. We made that commitment before the pandemic hit, and we have been able to operate our facilities from home in a lot of cases.

Obviously, there are people who can't do that, so in our plants, the people who organized our seed for next year's research planning, our plant breeders, the people who clean up all our seeds in our six production plants—three in Australia and three in the U.S., they have to go to work every day, and we were concerned about their health. But we've been pretty careful to encourage people to social distance, use masks, we've organized restrooms and break rooms and stuff like that. So, that people-to-people contact would be minimized. And the Australians have done a great job controlling, as a country, COVID-19, so they've had less than 100 deaths in the whole of Australia, and so that has not been a worry.

But the U.S. certainly was a concern given all the infected cases there are in the U.S., but we, fortunately, have only had one COVID-19 case at our—and it was in our research facility down in Texas in our sorghum research business which is super, super obviously important to us. But we sent the person home—this was now about a month ago—and they had a fairly mild case, and they did not pass on COVID-19 to any of our other employees, and so we've only had one case in all our 100 and 75 people.

And, you know, I've been using Zoom to communicate with all of our people. It is a fantastic tool. We just had a call to all the Americas employees last week, and a few weeks ago, a month ago, we had a call with all of our 175 employees around the world. And it's just—and we can take questions online and stuff, and it was just a fantastic communication tool just to give everybody some background on what S&W is doing and how we were performing in the market and what our worries and concerns were. And

I think everybody—certainly I appreciated it, and I think everybody appreciated it, being able to have that communication.

So, we were off to a very, very good start this year. You're going to hear from Matt next, and our third quarter, January through March, was an excellent quarter, but then COVID-19 hit us, and sort of April was pretty tough. May and June are tougher, and what I mean by tougher is we are still concerned about problems with the supply chain. You're obviously seeing on the news all the—some of these supply chain problems with agriculture, just because either produce or potatoes or onions or whatever, tomatoes, grown in Florida, California, Idaho have a tough time making it to market, and people are waiting in—for assistance, food assistance. And so, getting those products to people is obviously a difficult task. And we're slowly figuring out how to do that, but we were also, and we are also, still concerned about getting our seed to our farmers, basically filling the order book that we had. We're not sure whether we were more worried at the beginning of this process, but we're continually worried about truck drivers getting COVID-19 and the capacity of distribution not being there when we need it.

As you all know, the third quarter is a big quarter for us, and Matt's going to talk about that, but the fourth quarter's always our biggest quarter. And so, we're in that now, and I unfortunately have to say, you know, it's not totally clear how the fourth quarter's going to turn out. We're working hard at it. Because of COVID-19 we're not going to provide any revenue guidance for the quarter. We don't really do that anyway, but it's—we were—it was unfortunate, because we had, as you'll hear from Matt, a very good third quarter and fourth quarter we're working hard to make sure that turns out okay. But we're really still not sure with half the quarter over.

So, that's what my comments are today. I wanted to talk a little bit about COVID-19 and its effects and what our expectations should be. In our case, we are believing that we have to go through not just this year but the 2021 selling season under sort of pressure from this terrible virus, and we're making, obviously, plans to do that, but clearly, when you can't call on some potential customer face to face—and this is one of the problems we're having now, not just the supply chain, but, you know, people don't want to see us and our—and we don't want our people to travel on planes. Our people are traveling in cars. Remember, we organized our salesforce to put them closer to our customers, so most of our customers are within car distance. But people are leery of having a face-to-face meeting, and it is definitely affecting our ability to convert leads to actual sales orders. And so, we're just going to wait and see what happens in the fourth quarter, because this is a new situation for everyone, and we just have to sort of see.

So, we're planning that our next selling season in addition to the 2021—2020 season is going to be under a cloud of COVID-19 still being in the environment. We hope that there's a vaccine in numbers so that we can treat the millions of people who are going to need it. And we can build this [unintelligible] immunity, but we are planning for the worst, and the worst is that we have to go through another spring and summer season in '21 with this hanging over everybody's head in agriculture and obviously ours also.

So with that, I will end my comments for the call today and turn the whole discussion over now to Matt, who'll give you the financial details. Matt, please...

**Matthew Szot**

Thank you, Mark, and thanks to everyone joining us on the call today. Let me add that I hope everyone on this call and their families are safe and healthy during this very unique and unfortunate time.

And now I'll start jumping into the results. Core revenue, which excludes revenue to Pioneer, was \$17.9 million for the third quarter, an increase of 74 percent compared to \$10.3 million in the third quarter of the prior year. As mentioned in the press release, we recognized \$5.5 million in revenue from our partial-period contribution from Pasture Genetics, which we acquired on February 24<sup>th</sup> of this year. Pasture Genetics will be included in core revenue going forward.

Now, if you exclude Pasture Genetics' revenue, core revenue for Q3 was up 20 percent versus the third quarter of the prior year. For the first nine months of the current year, core revenue—and that's including Pasture Genetics—was up 40 percent versus the prior year, and if we exclude Pasture Genetics' partial-period contribution, core revenue for the first nine months is still up 18 percent versus the prior year.

Total revenue, which includes revenue to Pioneer, was \$29.1 million for the third quarter compared to \$18.2 million for the prior year, and for the nine-month period, total revenue was \$53.7 million versus \$62.9 million in the prior year. As a reminder, we entered into a termination agreement and alfalfa license agreement with Pioneer in May of last year. To date, Pioneer has paid us \$40—well, Pioneer paid us \$45 million in May of 2019 as well as \$16.8 million over the last couple of quarters, and we are entitled to receive an additional \$8.4 million over the next nine months.

At a high level, I can say that we were tracking strongly during the third quarter; however, as COVID-19 hit and continues to play out, we have less visibility towards what the fourth quarter will look like, and, as a reminder, our fourth quarter is the height of our key selling seasons in both the U.S. and the Australian domestic markets. So given the uncertainty, we believe it is prudent to temporarily suspend our previous 2020 revenue guidance. One area we do have further visibility on is that we see a shift of approximately \$4 million of revenue to Pioneer, that we previously expected to be recognized in the current year, and this is now going to shift into fiscal 2021.

Gross profit margins were 22.1 percent for the third quarter compared to 26.3 percent for the third quarter of the prior year. The decrease is primarily due to a change in sales mix, an inventory write-down charge of approximately \$600,000, and certain low-margin sales to clear access to our [unintelligible] alfalfa seed.

Our operating expenses for Q3 increased approximately \$1 million from the second quarter of the current year. And this is largely due to the inclusion of Pasture Genetics for a portion of the quarter as well as additional spend at the R&D level. This is in line with our expectations. As previously mentioned, over the last several quarters, we have made several investments in sales and marketing and product development functions and, given the current environment, we've implemented a hiring freeze and we're going to, of course, continue to closely manage our expenses.

Now, we discussed this during our last call, but I would like to clarify our operating expenses including Pasture Genetics. We project full-year fiscal 2020 operating expenses as follows. SG&A to be approximately \$21 million in fiscal 2020, which includes Pasture Genetics for the sub-period as well as





stock-based compensation; R&D to be approximately \$7.5 million in 2020, including Pasture Genetics; and depreciation and amortization expense will be approximately \$5 million.

At the EBITDA level, we had a loss of \$900,000 for the quarter compared to a loss of \$1.2 million in the third quarter of the prior year. As we leverage our infrastructure and drive growth in core revenue, our goal continues to be to drive towards positive EBITDA contribution over the coming year.

Now, moving to the balance sheet, I just want to point out that we continue to make progress in reducing our inventory levels and freeing up working capital. And as I mentioned over the last two quarters, we planted very minimal acres of alfalfa production as we continued to work through these existing inventory levels, but when you look at our inventory levels from March of 2020 versus March of 2019, our balances are down nearly \$17 million, or 19 percent, and this is even after taking into account the increase in inventory from the Pasture Genetics acquisition, which was nearly \$6 million at the end of March. This decrease in inventory is a reflection of our ongoing efforts to continue to reduce alfalfa balances and convert this inventory to cash in the coming quarters, and we certainly have more work ahead of us, but we are on track and we've made significant progress to reduce our balances to more optimal levels.

So to summarize, we are executing on the various initiatives we set out. We are also very excited about our recent acquisition and how well the integration is going. And while we are concerned and continue to focus on the challenges presented by COVID-19, including the potential destruction to logistics or our currency fluctuations and the various stay-at-home measures, we are hopeful that the impacts and challenges can be resolved quickly and that the progress we've achieved in the last couple of quarters—number of quarters, I should say—will continue into fiscal '21 and beyond.

So with that, I'll turn the call back over to Mark.

**Mark Wong**

Thank you, Matt. Just a couple comments in summary here. You know, we were having a really great year. We were very convinced that our strategy of focusing on more crops than just alfalfa but maintaining alfalfa as one of our main focus crops was working. Our trade development is coming along, and we expect this herbicide trait in sorghum to be very, very good for the market and lucrative for S&W in the next short-term few years. And it was unfortunate that COVID-19 sort of landed on U.S. shores, but we're fighting hard to convert interest in our products to firm orders and shipments of actual seed. And, as Matt mentioned, you know, so far, we are doing okay with our shipments both to foreign countries and foreign ports and in the U.S. to U.S. customers, but there are clearly misallocations in the trucking and the shipping industries overseas. And we're having to work very, very hard to get containers and trucks and get the seed on time to our many customers all around the world.

So, the fourth quarter's a battle, and you'll hear, obviously, how that battle turns out in our next call. And, as Matt said, our thanks to all of our employees for their handling of COVID-19 both mentally—not being able to sometimes work in the same office, working from home, taking care of their kids, and still paying attention to our business. We're always going to be thankful to the effort they've put in. And, as Matt said, we hope all of you on the call and your families are healthy and that you're making it through this new pandemic world with as much ease as is possible.

So, good health to everybody, and I'll turn the call back to the operator and we'll be happy to take questions.

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## QUESTION AND ANSWERS

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### Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, press star, then 2. At this time, we will pause momentarily to assemble our roster.

Our first question is from Sarkis Sherbetchyan from B. Riley. Go ahead.

### Sarkis Sherbetchyan

Hi, good morning, and thanks for taking my question here. You guys clearly mentioned the logistics impact here of— any kind of color you can provide on the order book year-over-year, and also are you shipping product today?

### Mark Wong

Yes, so I'd say, Sarkis, in general, the order book is even stronger than the third quarter results, and we're trying to make sure that we have an early assessment of when the customer actually wants his or her seed, because it does take a lot more effort and a lot more lead time to arrange a container, put it on a ship, get it overseas through a port. Not too many foreign ports are closed, a few, but we've been able to work around that.

And in the U.S., we opened a distribution center in the Midwest this year, and so we've stocked that. And so, that makes it a little bit easier for us to sort of within a 24-hour, 48-hour timeframe, make sure that we can get seed to our farmer customers in the U.S. either directly from our plants or from that new Midwest distribution center.

So, things are going okay, and hopefully as things open up here, you know, the scenario we're afraid of is that we've really kind of opened up, in my mind least, a bit too soon, and the caseload is—the diseased cases are rising still in many states. And our worry is that it is going to have some short-term effects on trucking and stuff like that, and that's going to affect us. But so far, with some good planning and much harder work and longer lead times by two or three to four weeks, we've managed to stay ahead of that problem.

### Sarkis Sherbetchyan

Got it. And I know you've essentially not provided guidance this time around, but we did have a little bit of commentary on how things were going on the last call, which was towards the late end of February. I guess, any help on where you may land in relation to that guide relative to your core sales?



**Mark Wong**

Matt, do you want to answer that?

**Matthew Szot**

Sure, Sarkis. As we communicated in our press release, our core revenues year-to-date are up approximately 20 percent year over year, and the previous revenue guidance that we provided back in February, I believe, was a range of core revenue growth of maybe 9 to 16 percent. So, year-to-date we're on track of being ahead of that on a core revenue standpoint. And, as Mark said, the order book is feeling strong for Q4, but we've just got this logistical uncertainty as to where sales are going to exactly fall, so we'll know a lot more here in the next four-to-six weeks.

**Sarkis Sherbetchyan**

Understood. So, assuming that this pattern continues, if you don't, let's say, ship it here in this quarter, is there a chance you ship it maybe with a little bit of a delay or deferral?

**Mark Wong**

Yes, I think that that's probably—hopefully, the worst outcome is that it ends up in the 2021 year for us, because it missed the push date to get it out in June. And that's always a problem for us, as you know, Sarkis. I mean, we, within the company, talk about maybe having a different fiscal year, a little bit later, but because our business is worldwide now, there's just not a good date. So, we're just going to stay with the date that historically we've had, and some sales always leak over into the next fiscal year, and that may happen this year in a bigger number but just because of COVID-19.

**Sarkis Sherbetchyan**

Got it. And kind of going to the gross margin level here, you talked a little bit about the sales mix change. You had an inventory write-down, and it seems like you sold some excess seed for maybe a lower margin than typical. Can you maybe bifurcate like where the delta would have been if you didn't have an inventory write-down and didn't sell the excess seed for a lower price?

**Mark Wong**

Yes, I'll make one comment and then turn it over to Matt. I mean, seed has a shelf life, as everyone knows on the call, and so we're always managing that shelf life against the market movements. We did sell some alfalfa seed that was getting a bit old in the tooth, at a price so that we could move it. But I'll let Matt answer your question specifically.

**Matthew Szot**

Yes, Sarkis, we did take an inventory write-down in Q3 as we mentioned in our remarks. That write-down—excluding the effects of that write-down, our margins would have been closer to 24 percent for the quarter. And I guess as a reminder, just as we—the fourth quarter is a quarter where we should be—we are fully expecting the margin profile to improve versus the previous quarters this year, and that's really based on sales. And, as a reminder, Q4 is our—is the quarter where we have our highest concentration of sorghum sales, and those sorghum sales carry the highest—by far the highest margin profile in our business. So, margins in Q4, even with the uncertainty that we're dealing with, with COVID-19, I'm fairly confident in saying that we'll see a nice improvement in margins in Q4.



**Sarkis Sherbetchyan**

Thanks. I'll hop back in the queue, ceding the floor for others.

**Mark Wong**

Thanks, Sarkis.

**Operator**

The next question is from Ben Klieve from National Securities Corporation. Go ahead.

**Ben Klieve**

All right. Thanks for taking my questions. Just a couple quick ones for me. Mark, you commented towards the end of your prepared remarks on the R&D portfolio and the herbicide-resistant sorghum, but I'm wondering if you can elaborate a bit more on kind of the status of that product in the context of the COVID-19 era. Are there delays that you're expecting, either with field trials or the launch of commercialization? You know, really, how does the current era impact that product specifically?

**Mark Wong**

Yes, so there were definitely some operational problems caused by not being able to fly because of COVID-19. So, we were obviously, and are, very excited about herbicide resistance in sorghum ACCase, and so we did do a winter production in—down in the Caribbean, and we were supposed to—we had people down there for planting and there's this thing, you have to match the mix, you know, you have to plant your male lines so they have pollen when the female line is ready to receive it, and that's the only way you get seed, obviously. So, we had people down there to do that, and then we were supposed to have our own people down there to harvest, which was— which is almost finished now. And they couldn't go because they had to be in 14-dayaway from anybody else. And so, we had a very well supervised local crew, but we did not have an S&W person onsite. So, we don't think any problems arose from that, and the seed will be coming back by airplane to our Texas facility for cleaning here shortly, and we'll be putting that out in trial.

So at this point, there was a few more difficult steps but no nothing that would knock us off of our timeline expectation for introduction of that trait, and, as you know, we're moving down the line with our partner, ADAMA, who's our chemical partner, and working through just how and what the best education process is to our now joint farmer customers and so all that seems to be going according to plan and you never know how good the product's going to be till you see it in trial. That trial's for our farmers but also for us, and we'll be getting that planted in the spring on schedule and hopefully we'll have a good result here after we see the season over in September/October.

**Matthew Szot**

So all on schedule? That's the bottom line.

**Brian Klieve**

Okay. Got it. And so is I guess as a follow-up to that, I mean, it sounds like there's obviously some logistical challenges that have arisen with the crop, but do you anticipate being able to provide more detail around the progress of this crop, then, as that—as the Caribbean harvest gets analyzed this summer, or do you think kind of updates on the commercialization timeline are going to be not able to really be provided until maybe your Q4 call in September?

**Mark Wong**

Yes, I think September would probably be the best time to do it. There's a lot always going on, but it's a slow timeline for product development. It takes many, many years, and we'll have some seed for early sales in '22-ish, but—and we'll have to do another off-season production cycle. But the real question is seeing what the herbicide resistance really looks like in the field in large numbers and what kind of yields we get for, you know, hybrids that have the trait versus hybrids that don't have the trait, so we always plant those kind of trials to measure against standard lines without the trait, so that's really the big question, is how will the herbicide resistance really hold up in Mother Nature's conditions in the field in large acres? And that's what the purpose of these trials are in 2021, is to have a real view of that—excuse me—2020, this year. I get my years mixed up, and I did make that mistake in the call. So it's 2020 calendar year, 2021 S&W fiscal year. So that's this planting season.

**Brian Klieve**

Got it. Got it. Okay. Very good. Well, I think that does it for me. I'll get back in queue. Best of luck navigating here the balance of this fiscal year and staying safe out there.

**Mark Wong**

Thank you. Appreciate your kind thoughts.

**Operator**

Again, if you have a question, press star, then 1. Our next question is from Gerry Sweeney from Roth Capital. Go ahead.

**Gerry Sweeney**

Hi, good morning, Matt and Mark, thanks for taking my call.

**Mark Wong**

Good morning, Gerry.

**Matthew Szot**

Good morning, Gerry.

**Gerry Sweeney**

A couple different questions, maybe on different parts of the field, but I wanted to talk about maybe the international markets. Obviously, in years past, alfalfa's had some issues with Saudi Arabia and things like that. Does this COVID situation change that market for some of the demand in planting alfalfa in Saudi Arabia or change any demand positively or negatively across the board?

**Mark Wong**

Yes. I think—that's a great question—I think it's a little too early to give you an answer to that. I mean, in the short run, it probably doesn't change everything very much. The Saudis are still—they've got a water ban on to use water for large acres of alfalfa production in country, but the Saudi customers prefer fresh milk. They don't like a long-shelf-life milk as the Europeans drink or dry powdered milk. They like fresh milk. So, I don't think in the short run that the main curve is going to change much and so I wouldn't expect COVID-19 has too much of an effect.



In the longer term, you know, the government of Saudi has a financial issue with low oil prices and—which you read is that they need a low-\$70 oil price to break even cash flow-wise in their economy to be able to afford all the subsidy programs that they have for Saudi citizens. And obviously, we're nowhere near that price, so what that means in the longer term, consumer demand for fresh milk, and therefore, alfalfa in the region—it's a good question, but I really don't have a view of what the answer to that question might be. So, there are some longer-term effects, but in the short term, in the next year or two, there won't be. There won't be much.

**Gerry Sweeney**

Okay, got it. And then obviously the supply chain has more friction, right, longer lead times, a little bit more effort.

**Mark Wong**

Yes.

**Gerry Sweeney**

You did give us a little bit of a view into margins into the fourth quarter, but does that friction impact margins to any degree in the fourth quarter or going forward?

**Mark Wong**

Yes, I'll make one comment and then turn it over to Matt for the actual statement on margin expectation. But world trade is different, right? You're going to see a lot more production in the U.S. You know, the sort of global economy, where the cheapest mask or the cheapest bag of seed was the goal, is not going to be the goal for all products now, because we all realize that there's almost like an insurance payment that needs to be made so that you can make masks in the U.S. And so if that mask costs you \$0.15 cents in China and you might be willing to pay \$0.20 cents in the U.S. just to have your own source of supply that's under your own control, and the public will see higher prices, but I think the public's willing to accept that.

So there's going to be some changes like that. And because of that, there used to be a lot of containers that came from China with products, cellphones and other things, to the U.S. You know the trade deficit was in China's favor and those containers would pile up on the West Coast, and from our Five Points Plant and from our Idaho plants, a lot of times it was pretty cheap and easy to get containers going back to Asia. That is more difficult now, and our business has changed too, right? As I said in my remarks, we're doing more seed shipments directly from Australia for some of those customers, and so, now we don't need containers—cheap containers piled up on the West Coast of the U.S. In fact, they're of no value to us.

So, things are changing and it's our job to keep up with those changes and try to stay ahead of them a little bit and match our business to the best economics of how the world order of trade is changing. And, Matt, I'll let you answer the question on margin for Gerry.

**Matthew Szot**

Yes, I mean, sure, it's really—I mean, given the uncertainty of this pandemic, it really is hard to put an exact set of fenceposts around the impact to margins, but I will say in the short term, we're still feeling good, based on our sales mix that Q4 is a higher concentration of sorghum sales, which carry a much

higher margin profile. And then, more broadly speaking, as we look to next year, as the global accessed supply of alfalfa seeds continues to work its way through and our inventory balances has come much more in line with optimal levels, we should be seeing improvements in margins there in future periods, coupled with the fact that sorghum should represent a larger portion of our business in the future. So at this stage, we're not seeing discounting due to COVID, but certainly that could change at any time.

**Gerry Sweeney**

Speaking of inventories, I'm not sure if you have broken it out or can or desire to, but how much of the inventory is alfalfa, and what would be the sort of ideal carrying amount when you—at the end of the day?

**Mark Wong**

Yes, Gerry, so we ended the March quarter with just over \$70 million in inventory and of that amount, \$56 million was alfalfa, and I think that as we look at that \$56 million worth of alfalfa, that will come down probably another \$10 million just in Q4 alone. And as we look to what our inventory balances will most likely be 12-to-15 months from now, sort of June of next year, those alfalfa balances will be down another \$20 million, approximately, based on our rough estimates of projected demand and what we know is placed from a production standpoint. So, we are—we've made a lot of progress, we've got a long way to go, but there's a pretty clear path for these probably \$20 million moving off the moving out of inventory and into operating cash flows here within 12-to-15 months.

**Gerry Sweeney**

Yeah. That's a big chunk of change, yeah, that's great to know. So, okay. Guys, I appreciate it. Thanks for all the detail.

**Mark Wong**

You're welcome.

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**CONCLUSION**

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**Operator**

At this time, we have no more questions. This concludes the question-and-answer session. I would now like to turn the conference back over to Mark Wong for closing remarks.

**Mark Wong**

Thank you, Operator, and thanks for all of you who are on the call today. Obviously, it's a difficult operating environment with COVID-19, but we are expecting good results for the fourth quarter, and our third quarter results, in our view, were very, very strong. So I'll just end with wishing everyone good health, good fortune, take care of yourselves, take care of your families, take care of all your coworkers, and we'll look forward to giving you an update really on our most important call of the year, which is our fourth quarter call, where we'll go through our 2020 financial results and talk to you a little

bit about the next three years and what the future looks like going forward, cause that's what— when we do our three-year budgeting cycle also.

So thanks again, everybody. We look forward to talking to you on the next call. Bye, bye.

**Operator**

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

