

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



**First Quarter Fiscal Year 2021 Financial Results**  
**Conference Call**

**Wednesday, November 11, 2020**  
**11:00 A.M. Eastern**

---

**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 morning, and welcome to the S&W Seed Company First Quarter Fiscal Year 2021 Financial Results conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. 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**

All right. Thank you very much, and thank you all for joining us today to discuss the financial results for S&W Seed Company for the first quarter of fiscal 2021 ended September 30, 2020.

With us on the call representing the Company today are Mr. Mark Wong, President and Chief Executive Officer; and Mr. 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, please note that 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 risks that actual results may differ materially from those projected in the forward-looking statements as a result of various risk factors and other risks identified in the Company's 10-K for the fiscal year ended June 30, 2020 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, Robert. And welcome, everyone, today to the call. I'd like to divide my comments into two distinct pieces. I'll talk a little bit about the first quarter, obviously, with a reminder to everyone that the first and second quarters are our two low sales volume quarters just because of the normal flow of ag business in the Northern Hemisphere, Southern Hemisphere markets that we participate in, and the third and fourth quarter are the large quarters for us.

Matt is going to give you some detail. I just want to remind everybody that our guidance that we gave in our last call for the year 2021 was \$88 million to \$94 million, total sales, including our sales to Pioneer, and then our core business sales between \$73 million and \$79 million. That's a 22% to 32% increase over 2020. We are on schedule still to make those sales numbers, and we feel comfortable that while they are aggressive, that we have the ability and the inventory to complete those sales.

So, markets are giving us some favorable wins. In the US, we have improving commodity prices in corn, soybeans and cotton, because mainly of purchases coming out of China, commodity purchases coming out of China for US produced materials. And those are uplifting sorghum prices and prices that are affecting us in a positive way. Australia, we have some very good news continuing. We not only got the rains of last quarter, but rains during the spring planting season, and protein prices for beef and sheep are very high in Australia, so farmers are very excited. So, it looks like a good planting season there. So I just want to say that we're very optimistic that we can meet our very-high growth rate for the 2021 fiscal year.

A little bit more about that. I've been asked a question by investors, why can you guys grow at 25% per year when the rest of the market is at 2% a year? And I just wanted to give you all a few comments as to what we really sort of do that allows us those high growth rates. And these comments are a summary of points I've made in the past, but I just wanted to sort of tie them all together for everybody.

There's basically three reasons that I see for our high growth rates versus other companies in the industry. One is that we're expanding into new geographic markets that we were not in before. And that is always a positive thing for your sales, when you have new customers in new geographic markets.

Secondly, we have expanded our product line, as I've said before. And basically four of our products, alfalfa, sorghum, sunflower and our pasture crops, we are able to sell those to the same distributors in many of our markets that we have had historically for the history of the Company. And so we have expanding sales, because for the same list of customers, we have an expanding product line and we get more sales from them for those new products. So, we have an existing relationship, and we offer them new products to sell on our behalf.

It's a little bit different in our other two crops. Stevia, obviously, has a special distribution and production system outside of our four other main crops. And wheat is mainly a crop that we deal with in Australia, and we participate in the endpoint royalty system. Remember, we purchased the Dow wheat program in Australia, and we're very positive on that. But you don't really sell wheat seed to distributors. The market distribution network is a little bit different in wheat in Australia. And wheat is a big market worldwide. We don't participate in other wheat markets in the US or Canada, or Europe, where wheat is also a big crop, but in Australia we are focused on wheat and the endpoint royalty system.

The third thing we do is, in the markets that we've been in historically, and it's about 40 markets worldwide, 40 different countries, we do look for new distributors and new distribution. So, depending on the market, that might be farmer dealers, as it is in the US, where we're trying to build our farmer dealer network, both in numbers, quality of farmer dealers and information that we provide to them, both online and in printed materials.

We are always looking for better distribution through distributors. That is easier to do, frankly, as you have more products to sell. The bigger distributors are more interested in you as a seed company when we're selling alfalfa, sorghum, sunflower and the pasture crops. And we are willing to, with big distributors, provide a private label relationship where they may have a philosophy of selling seed in their own brand, and they're looking for a seed company to partner with them in a private label business. So, we do, do that.

So, those are really the three main reasons why our sales, I think, are growing faster than the industry norm. Again, they are expanding into geographic markets, number one; number two, selling existing distributors more sales through our expanded crop offerings of alfalfa, sorghum, sunflower and the pasture crops; and three, looking for new distributors in those markets that we have always sold in, where we know the markets, but we look for expanded distribution or expanded farmer dealer networks.

I just want to say too, though, sometimes when you expand at these high rates, and these are really strong growth rates, I must reiterate for seed companies, there are things that we watch, right? So, we watch receivables to new customers, because we have a significant number of new customers. We watch our inventory levels because we have to grow and produce inventory aggressively to have inventory available for these kinds of sales gains. Remember that the seed business is not like a software business, where you can just print out more information products. We only get one crop season in the Northern Hemisphere and the Southern Hemisphere, we plant in the spring and harvest in the fall in each of those, and so there is a big effort on our part to always match the projection of sales to the inventory that we're producing.

And, I should say that one of the key factors in all of this is our management team. I obviously have been in the business for 40 years. I've pretty much sold every kind of crop species that there is. I've built three companies and sold those to now the big four that dominate the seed biotech business. But we also have an experienced management team, both in the US and in Australia, the two countries that we manage our business out of. And these men and women are experienced in the industry. They also have taken products to market, developed new products. They have experience, the patience that's required to use plant breeding to produce new products, and they have also introduced genes into the market for other companies that they were employed with. So, they understand what it takes to put technology into the marketplace.

So, that's a little bit that I wanted to talk about why our sales gains are so big, and why they are big versus other seed companies in the industry, and how you can feel assured that our management team is capable of managing and dealing with that high-growth and the balance sheet issues that are accompanied by it.

But we are not just interested as a company in additional bags of seeds sold. We believe that technology is really important, and we spend a lot of time developing technology. We have talked before about the three products that are in our portfolio of products right now, and I'll go through those quickly for everybody. There's Double Team Sorghum, we call that DTS. It's Double Team because it's S&W partnered with ADAMA. We put out press releases on that because in a product like herbicide resistance, you have to have a seed company, in our case, to develop the trait, and you also have to have a partner that's an ag-chem company. So, we believe that these products in sorghum will be very beneficial to farmers that plant sorghum seed and want to control grass weeds that they have.

And our second product we call IQA, Improved Quality Alfalfa. We just had a press release that we put out that we are now moving that product forward. Also Calyxt, our technology partner who developed the technology, has also put out a press release.

And we have our third product, dhurrin-free sorghum. Dhurrin is a naturally occurring toxin in sorghum. And we have licensed material from ag land-grant university in the US and we are moving that product forward also.

So, when you look at technology, we have a wide interest in technology. Some, like DTS, we developed ourselves; some, like IQA, we partnered with other technology companies that are specialists in DNA manipulation; and some are very traditional products, like dhurrin-free sorghum, where we actually licensed germplasm on an exclusive basis from a land-grant university in the US.

These products are all non-GMO. We will only sell non-GMO products. All our product pipeline will be non-GMO. The Double Team Sorghum and the Improved Quality Alfalfa, we'll be introducing in the market this year, 2021, so the spring, sort of April, May of this year we'll be selling our first small amounts of seed. And the dhurrin-free sorghum, we're targeting for the first introductions in a few years, around 2023.

Again, we are working on a deck to describe our technology pipeline. And it will not surprise people that it will look something like what other companies have shown before in terms of the value to a farmer and how we do evaluation of these different technologies to determine whether they're beneficial to the farmer and whether they solve a particular problem that the farmer has.

From the standpoint of going to market, we believe that the traits that we are developing have high value to farmers and so we will pursue a broad licensing strategy. We will license our technology to other companies in the seed industry, our competitors in many cases, in most cases, actually, because we want companies to be our partner who have market share in sorghum or alfalfa, the crops that we have traits for currently. We want them to sell the technology because they also believe that the technology has value to farmers. So, we will have a broad licensing strategy. We will license to others in the industry. And obviously, we will put our traits into every bag of seed that we have in sorghum and alfalfa as we introduce that into the market.

So, that's kind of what I wanted to say, both on the sales side and on the technology side. Obviously, these are longer term projects that we have, and we are, though, focused on near-term projects and sales. It's important to us to make our numbers every year. I do want to announce that we have, in our quest to be more efficient, because efficiency is always important to any seed company on the production side. And I think I've made comments before that we're always interested in new relationships with new companies, and I'm pleased to announce that we have established a working relationship with a company in the biofuels industry, and we will be working with them on a different species than the ones that we're currently in to allow them to use the materials for making biofuels.

And so it will give us the ability to be more efficient at our production plants, to have higher plant utilization, and obviously to spread our existing costs over a wider base of crop production. So, that's an excellent sort of example of how we try to gain efficiency. And at the same time, focusing on the short-term year, quarter-to-quarter sort of improvements, while keeping our eyes on the two bigger areas that I've focused on today, which are, number one, continuing to grow our sales at above-industry growth rates; and two, adding technology to the sales that we currently have to be able to offer improved products to the farmer and obviously better margins to S&W.

So, with that, I will end my comments today. And I'll turn the discussion over to Matt Szot, our CFO, who will give you some details on our financial performance in the first quarter. Matt, please.

**Matthew Szot**

Thank you, Mark, and thanks to everyone joining us on the call today. So, now, I'm going to jump into the results. Core revenue, which excludes revenue to Pioneer, was \$12.2 million for the first quarter, an increase of 36% compared to \$9 million in the first quarter of the prior year. So, keep in mind, this is on top of the core revenue growth of 59% we posted during 2020. As we mentioned in the press release, we recognized \$2.6 million of revenue during the first quarter from Pasture Genetics, which we acquired in February of 2020.

Now total revenue, which includes revenue to Pioneer, was \$13.9 million for the first quarter compared to \$12.3 million in the first quarter of the prior year. As we look to the remainder of the year, we reiterate our previously issued guidance from September. And as Mark mentioned, we continue to expect core revenue to be within a range of \$73 million to \$75 million for fiscal '21, representing estimated core revenue growth within a range of 22% to 32%. This rapid growth is expected to come primarily from our two key home markets, the US and Australia. And also, consistent with our guidance from September, we expect total revenue, which includes contributions from Pioneer, to be within a range of \$88 million to \$94 million.

Now moving to gross margins. Adjusted gross margins, which excludes the impact of inventory write-downs, were 19.4% in the first quarter compared to adjusted gross margins of 27.9% in the first quarter of the prior year. The decrease in gross margins for the quarter was primarily driven by strategic lower margin alfalfa sales into certain regions to gain market share, and also, targeted lower-margin sales to clear some certain excess inventory balances. As we noted in the press release, we did record an inventory write-down charge of \$900,000 during the quarter.

Now, we are expecting gross margins in fiscal '21 to show meaningful improvement over 2020. We're projecting gross margins to be in the 23% to 24% range, and this improvement is expected to come primarily from growth in our higher margin sorghum products; improvements in alfalfa margins, given that our long inventory situation has now improved; as well as the launch of our hybrid sunflower



program; and our endpoint royalties from wheat in Australia.

Our adjusted operating expenses for the first quarter of 2021 were \$8.1 million compared to \$7.1 million in 2020. The increase could be attributed to additional expenses from the acquisition of Pasture Genetics, and of course, the additional investments in sales and marketing, and research development functions that we've been talking about.

Now, we discussed this during the last call, but I would like to clarify our guidance for operating expenses, including Pasture Genetics for the year. We project full-year fiscal 2021 operating expenses as follows: SG&A to be approximately \$21.5 million, which excludes non-cash stock-based compensation; research and development to be approximately \$8 million; and depreciation and amortization to be approximately \$6 million for the year.

At the adjusted EBITDA line, we had negative EBITDA of \$4.6 million for the first quarter compared to a negative EBITDA of \$2.7 million in the prior year. Now, the first quarter of 2021 was impacted by a timing shift of product revenues to Pioneer, coupled with some purposeful investment in the sales and marketing, and R&D functions.

Now, based on improved seasonality throughout the remainder of the year, which does absolutely include a trend towards higher margin products, we believe you'll see significant improvements in adjusted EBITDA in the quarters to come. As we leverage our infrastructure and deliver core revenue growth, our goal continues to be driving towards positive EBITDA contribution in the coming periods.

Now, I'm going to quickly just move to the balance sheet, and we've talked about this in prior calls. But, we continue to make progress in reducing our inventory levels and freeing up working capital. When we look at our inventory levels from September of 2020 versus September of 2019, our balances are down nearly 10%, and that's even after taking into account the increase of inventory from the Pasture Genetics acquisition.

And I'd also like to stress that our alfalfa inventory balances have decreased approximately \$17 million or 27% over the last 12 months, and we're expecting this trend to continue throughout the remainder of this fiscal year. So, this is a reflection of our ongoing efforts to continue to reduce alfalfa inventory balances and convert this to cash. We've got more work ahead of us, but we're on track, and we've made significant progress to date.

So, to summarize, we're continuing to execute against our plan. Q1 will be the low point in the year in terms of financial performance, as it represents our seasonally lower volume and lower margin business. This will act as a pivot for the remainder of the year, which will look like improvements in core revenue, stronger gross margins and further leveraging of our infrastructure.

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

**Mark Wong**

Thanks very much, Matt. Thanks, everybody for being on the call here today. I just want to conclude by thanking everybody for their interest in S&W. We really believe that our above-industry growth rates in sales can be maintained, and we're also very, very excited as we get into new traits. And we have 2021 as our first year of introducing two traits we've been working on now for many, many years that we are going to have improved production, improved products for farmers, and we're going to have improved

profits through innovation for S&W.

So, thanks so much, everyone, for being on the call today, and thank you for your interest in S&W.

---

## QUESTION AND ANSWERS

---

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. As a reminder, this event is being recorded. At this time we will pause momentarily to assemble our roster.

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

### **Sarkis Sherbetchyan**

Good morning, and thanks for taking my question here.

### **Mark Wong**

You're welcome, Sarkis.

### **Sarkis Sherbetchyan**

Yes. So, I just wanted to touch real quickly on the gross margin. I think it's clear that you've been getting rid of some of the alfalfa inventory, especially the lower margin product. I just want to get a sense for where we are in that point on your balance sheet and your sales cycle. And then, also, if you can maybe comment on the improved margin expectations going forward. I think you mentioned the product mix is shifting. And also, you might have mentioned the hybrid sunflower launch and endpoint royalties in Australia. Maybe if you can just kind of give some flavor on that.

### **Mark Wong**

Sure. Matt can take the first half of your question, which is getting into some of the specifics about the \$900,000 write-off this quarter.

In terms of your general questions about the other crops, yes, one of the reasons we added the crops that we now have, and as I mentioned in my comments, alfalfa, sorghum, sunflower and pasture crops being the ones that we're really selling through distribution. So, this is the efficiency that our sales guys get from making a call, but now having more species to sell to the same customer.

Frankly, one of the reasons to move out of alfalfa is that it is a fairly low-margin crop in terms of, if you took a portfolio of all the crops that seed companies sell, it would be towards the bottom of the list. There are lots of reasons for that. Mainly, it all comes down to how much the genetics that a seed company can present and sell to a farmer, how much yield the farmer can get from that. And in alfalfa, obviously because it's a perennial crop, and so the yield benefit must be spread over five or six years in between when the farmer recedes in some markets, like in the dairy markets in the US. So, we basically have to take what we would charge a farmer and spread that over, say, five years.



Sorghum and sunflower are hybrid crops that are planted every year. Pasture crops have some of the same issues as alfalfa. But, there are new crops for us and high-growth rate crops for us, as indicated by how well Pasture Genetics, which now we call S&W seeds, we've transferred all branding over to S&W, but the S&W pasture crops that previously were Pasture Genetics, are doing very well this year.

So, product mix for sure. Sorghum's almost got twice the margin that alfalfa has. And sunflower is in between the two of them. So hopefully, that answers your question.

And we're optimistic about endpoint royalties in wheat. That was the second part of your question. Our people in Australia just say, after all these years of drought, with the drought breaking rains and then the continued rains this spring, the crops look incredibly good, and especially the wheat crop in some places is twice the yield per acre that is sort of the average yield for Australia. So, there's going to be a lot of wheat in the market, and that, if it's all sold, will translate to a lot of endpoint royalties. So we're optimistic on the endpoint royalties' standpoint.

Matt, maybe you want to try to answer the first part of Sarkis' question.

**Matthew Szot**

Sure. Yes. Sarkis, so with respect to the alfalfa inventory, as we've been discussing the past several quarters, as you're aware, we've made significant progress in reducing the long inventory position, particularly in non-dormant alfalfa. And as we work through this long position, we are selling some higher cost inventory on our balance sheet, which was produced several years ago, certainly not in the current production year, because we've shut the spigot off. So we anticipate continued efforts on reducing this inventory, but not really carrying the same margin drag as we experienced in Q1, which obviously was a very low volume quarter for us, or the margin drag that we experienced last year. We probably have roughly \$15 million worth of inventory that's higher cost, that's going to be thinner margins. And as that sells through over the next 12 months, that will have some level of drag on the margins. But again, the margin guidance we've given of 23% to 24% for the year takes that dynamic into consideration.

Does that answer your question, Sarkis?

**Sarkis Sherbetchyan**

Yes. That's super helpful. And I think that's kind of what I was getting to, was if you have factored that into your assumptions for this coming year and then the guidance you've given us for the margin structure. I guess, if we kind of start to look out and you work through the inventory, especially regarding alfalfa, and the mix is starting to shift to higher margin products, right, does that mean that the level of margin improvement for the following fiscal year should be meaningfully higher than the guidance that you've given for this fiscal year?

**Mark Wong**

Yes, absolutely. Matt can comment, but it will be higher. Meaningful? I don't know what meaningful means to you or meaningful means to us. But, it will be higher.

**Sarkis Sherbetchyan**

Got it. No. Thanks for that. And one more for me, and I'll hop back in the queue. Mark, you've talked about some of the benefits in the US regarding commodity prices, right, and obviously, China is buying



some of the US materials. I just want to also pick your brain about your positioning in Australia and what that means for potential buying activity from China with regards to your Australia position. Just want to get a sense for whether you see favorable tailwinds as well in that market and how you see yourself positioned there. Thank you.

**Mark Wong**

Yes. In the US, we're kind of really in the middle market in terms of size of a seed company. In Australia, we're by a nose maybe the biggest integrated seed company, so we're pretty important there. The general Australian market is excellent. The rains have really given farmers huge yields that some people have never even ever seen before in their lifetime of farming. It's one time maybe in a farmer's career that you see yields like this.

And protein demand seems very high. So, protein in terms of sheep and beef mainly, chicken is a less important animal crop raised in Australia, those prices are pretty good. A lot of beef and sheep, to a lesser extent, can be sold on the hoof and so live cattle are actually sent to different places in Southeast Asia and stuff. But in general, slaughtered carcasses are sent out also. And prices are very good. So, we're optimistic that the agricultural economy in Australia is very, very positive and all ships should rise in that tide.

**Sarkis Sherbetchyan**

Thanks. I'll hop back in the queue.

**Operator**

The next question is from Ben Klieve with National Securities. Please go ahead.

**Ben Klieve**

Thanks for taking my questions. First, kind of to piggyback off of the conversation you had already on the endpoint royalty business in Australia, can you help me understand kind of what the timing really is of revenue recognition here? I mean, do you guys get the benefit of this market until the final product is sold? Does it happen upon harvest once it goes through processors? When exactly do you really see this business?

**Mark Wong**

Sure. When do we see our revenue, I think, is your specific question. But, let me just give you a little bit of a feel for the industry in total, and why we are so bullish on getting into the wheat business in Australia and why we are not in the wheat business in other places.

So, wheat is a difficult crop for seed companies to make money on. European seed companies do okay. It's very difficult in Canada and the US, even though there's huge acreages, to make a good return in the wheat business, where farmers are flying on their seed from an airplane, and winter wheat has moisture problem issues in America and Canada. And so, if you get good snows, if you get a decent production of little plants, usually, when it snows the wheat is about two inches high, you can get a good crop. If you don't get early moisture and the wheat is too small when it snows, then you might not get the yields later on in sort of July, August when wheat is harvested in most of North America. So, it's just a difficult crop.

But in Australia, the system that the government has put in place for encouraging seed companies to breed better wheat and barleys and canola, they're all included in the endpoint royalty system, you basically, in wheat, we released the improved varieties. They are not hybrids, they are varieties. And we



introduce us to farmers who have trialed the material. There are lots of different regional growing areas in Australia. It's a giant continent. And so, you have to focus in on which of those regional markets you want to address. And then we basically sell the seed once to the first farmer. He grows the seed and continues to sell that to other farmers in his area or people who are interested in our particular variety, because we presented in the Australian national trials. And that's how the wheat is multiplied in volume in the market with no expense to us.

Each time a farmer multiplies, though, he must accompany with that seed purchase a certificate that is part of the Australian regulation that says whose seed he actually has grown and who owns the genetics of that crop. When eventually the seed is going to be sold to an end-use customer, and most of the wheat in Australia, the highest quality wheat, which is the market that we're breeding for, is sold in Asia to noodle companies. So, it is not a bread wheat, like the US hard red winter wheat market. It is not a white soft wheat market, like in the US for cookies. Some of the European wheats tend to be white wheats. It is a pasta noodle market for Asia. And so when that wheat gets to the port and is purchased by a company that is going to use it to make noodles, then the endpoint royalty kicks in, and that's when we get paid.

So, it can be several years after the introduction before you start to see the first money. And then, obviously, if the variety performs well, both in the farmer's field and as wheat that can be made into a high-quality noodle, that's when you see the big endpoint royalty payments. It varies by each variety, but it's a certain cents per bushel of production that is used then to make the noodles.

So, it is delayed by a few years. And it is difficult sometimes for us to know how much wheat is going to be sold because we don't really even know how much inventory there is in the market, and we don't know of that inventory, how much of that's going to be sold. So, it's a difficult forecast for our guys to put together. So, I'm not trying to complicate it.

**Ben Klieve**

Got it. Well, I appreciate that. And I mean candidly, you've talked about this multiple times over the last year or whatever in since that acquisition was made, and I think it's probably going to take me at least two or three years to actually understand that process. So, I appreciate all of the detail there. But, I'm just not smart enough to capture every element of this.

**Mark Wong**

Yes. We'll try to make everybody's job easier, right? Once we start to have a few years of history, we can then present some charts that show the history in terms of sales and endpoint royalties of other wheat varieties owned by competitors of ours over the maybe last five years. I'm not sure what information is available from the Australian government. But, I would hope that we'd be able to show you sort of ramp-up curves, right, historical ramp up curves and where our stuff is.

Obviously, we have to take that and adjust it for which regional markets that we're in. And it's hard to have a wheat anymore that can grow in all of Australia, just like the US corn market is so segregated now by small regional markets. So it's not quite as easy a task as it might sound. But, we'll segregate that by region and provide the public and obviously the analysts like yourself and Sarkis that follow our company with some better information about what your expectations should be based on sort of historical growth curves.

**Ben Klieve**

Perfect. Thank you. The only other question I have here is, I'm wondering if you can just kind of elaborate a bit on the sunflower business that's ramping up. I haven't heard much about that historically. Can you just kind of talk about kind of what this product is, kind of the geographic distribution that you're looking at, and really where that stands in the commercial ramp?

**Mark Wong**

Yes. So sunflower is an oil seed. That's the main use. Some of sunflowers are used for confection uses, they call them. So, those are people who eat sunflowers or they're shelved and the sunflower hulls are actually sold for human consumption. But most of sunflowers is an oil seed, and it competes with oil seeds like canola, which is another high-quality oil seed, and to a lesser extent, like soybeans, and corn. Corn oil is a smaller percentage of the total yield of corn. But, corn oil and soybean oil are lesser quality oils, and what I mean by that is canola and sunflower have higher smoke points. So, you can use, in your cooking, whether you're cooking at home or in a restaurant or you're in an industry that's using sunflower as a commercial oil, you can have your heat at a higher temperature, which usually translates to a higher quality end product.

So, sunflower by culture is very popular in Eastern Europe and Russia. Yes, there are sunflowers grown in the US, mainly in North Dakota, South Dakota. Yes, there's some sunflower grown in Australia. But the giant markets are in Eastern Europe and the Soviet Union. The Soviet Union can be a difficult place to do business, so we've focused on Eastern Europe, which we think is a bit of a better market to access.

We started a breeding program about six years ago, so it's a fairly new program. Remember, it can take eight years to have your materials come out of your breeding program. In addition, it's a fairly sophisticated product market. So, you do have genes in there, right? You have herbicide genes, you have other genes that need to be part of the package that you're offering, and oil quality is also a consideration. So, you have to have the right oil profile within sunflower.

So, it's a difficult breeding solution, no difficult than other crops we're in, but there is competitors. The big competitors are Syngenta and Corteva, of the Big Four. They have most of the market share over in Eastern Europe. We obviously think there's opportunities, but it's a young program for us. So, we're in the process of testing our first commercial hybrids in the market, producing foundation seed and first generation commercial seed, and testing those with our customer base there.

So, it is a new market, and we don't talk about it much because it's still a couple, three years behind in sort of product life cycle where we are in sorghum and alfalfa in terms of the first real market introductions.

In our long-range plan, we see a couple of million bucks going to \$5 million or \$6 million of sales in sunflower in the next three-year period. That's all out of memory, but it's probably close. And, it will depend on how our materials, our hybrids perform in the market [speaker off-mic].

**Ben Klieve**

Got it. That's very helpful. Yes. No, no, that was very helpful. I appreciate that. I think, I'm in good shape. Thanks for taking my questions. I'll jump back in queue.

**Mark Wong**

You're more than welcome.

**Operator**

Again, if you have a question, please press star then one. The next question is from Gerry Sweeney with Roth Capital. Please go ahead.

**Gerry Sweeney**

Hey, Mark and Matt. Thanks for taking my call. I know you planned on providing a trade update. I thought it was going to be late October, but it sounds like it got pushed back a little bit. But, maybe if you could, or I'm not sure if you would like to do this at this current time, but maybe just talk a little bit about maybe the market size opportunity and the licensing strategy that sort of comes with some of these sorghum traits that may be coming out, just so we can get an idea of how big the potential market is.

**Mark Wong**

Sure. Yes. So, the reason that we've been a few weeks delayed on presenting something is we were pleasantly surprised. We do surveys of our farmer customers who have trialed our materials, our new materials for Double Team Sorghum, right? So, we were very surprised, pleasantly surprised by the response in terms of how well the product performed in the field. We think that, and again, there will be some communication in the deck from us here in the next—this month, for sure. The opportunity is a huge opportunity. We think half of our EBITDA could come from the trait in sorghum, somewhere in the neighborhood of \$10 million to \$15 million EBITDA per year at market penetration.

Now, there's a lot of assumptions for that in terms of what kind of broad licensing success do we have. The big competitors in the sorghum market are Pioneer and DEKALB, and will they take up the gene and put that into their products also? That is a big determination of what final EBITDA values will look like. But, it's a big number. It's in that kind of range. And so it's a meaningful increase in profitability to S&W. It will make us a different company.

And at the same time, we have other genes coming, and so the deck is complicated because like Monsanto did before it was purchased by Bayer, we like that model. We're a little bit Monsanto biased. Me, having sold two companies to them, having sat on their Ag Board for a number of years, having two senior Monsanto people on our Board, we tend to—and Monsanto frankly was a company that introduced most of the traits in the market currently to ag farmers all around the world. So, we're very optimistic that we're going to see, as Monsanto did, somewhere around half of our EBITDA, once we get the maximum market penetration coming from these traits. We think it's a giant opportunity.

**Gerry Sweeney**

Just for a point of clarity, \$10 million to \$15 million of EBITDA, would that be from the Double Team Sorghum product?

**Mark Wong**

Yes. At maturity, that would be from Double Team. And this is why it's a little bit unfair to all the people who follow the Company, both investors and analysts, to not have the deck in front of me, because it will be much clearer in the deck. But, you have different products ramping up on different timelines, right? So, the first two out of the chute are it's starting production this year in '21, our DTS and IQA, and then dhurrin-free is a couple of years behind that. And then we have a couple of other traits that we're evaluating that are in preliminary evaluation. And like Monsanto did, we want to sort of outline what is consistent, what does this preliminary evaluation mean, what's the middle stage of evaluation, then when do we make a commercial decision, and then how far out are we from revenue.

We will outline that in the deck that we're preparing. So, it will be clearer.

But even with Double Team, that \$10 million to \$15 million EBITDA contribution to S&W is significant, obviously, given our current profitability. We're very excited. I mean, we're just like crazy. We're sitting here, guys that have been in this business for so long, we have huge growth rates, higher than any other seed company, and we have all these traits coming, we're like giddy with anticipation. You work your whole career to find a situation like this, and we're very happy with how things are turning out.

Sure, it's a tough business to operate in. That's why you need a good management team. There's always pressure on margins. We sell a lot of products, so sometimes there's inventory issues. The inventory issues can be when your forecast of sales and your production get out of whack, it can be when unforeseen shelf life issues come up with your inventory that would, based on history, not have been expected. All of these things can make small changes. But you have to keep your eye on the general trajectory of profitability in the company and where it's coming from, and we're just absolutely—yes, as I said, we're giddy with the anticipation of what the next couple of years is going to bring.

**Gerry Sweeney**

Got it. That's helpful. As those products roll out, and earlier in the conversation or in the call, we spoke about distribution. Do you need anything else, or would you like to enhance distribution, would you like to improve it to maximize that opportunity with these trades coming out, or are you in a good position?

**Mark Wong**

Yes. We're in a good position. Look, you always want to have better distributors. You always want to sell your good distributors more product. You always want to have the product spread between your different species, right? An alfalfa company that buys \$5 million from us, obviously, is better than one that buys \$1 million from us. But, a company that buys \$5 million of mixed product of alfalfa, sorghum, sunflower, pasture products, that's the guy that we want to make sure that we really take care of in terms of service and availability of inventory and stuff like that because that company has the ability to really grow our sales in multiple species, and that's what we look for as the key.

So, obviously, this is not rocket science. The common sense and how you'd look at your markets is what you're applying here, right? But, the execution is difficult. We sell in over 40 countries now. We sell six species. We have to keep with these high-growth rates. We have to keep excellent forecasting of what we should be producing. Mother Nature is not always cooperative. So some years we think, for instance, just as an example, you're going to get the 800 pounds of seed per acre and you get a good yield and you end up with 1,200 pounds of seed per acre, or you don't get rain and you end up with 500 pounds of seed per acre. So, you've got to factor that into your planning.

But in general, we have a lot of very positive things going, both on the sales and marketing side and on the trait side. And we need to continue to meld those together. And I think, we have the team from a management quality standpoint to do that. And I need to make sure that as the leader of the band here that I'm keeping everybody coordinated and that we're focusing on the markets the way that we know how to do and that we don't try to do too much, right? It may seem to some people like we're doing too much. But, we're doing what we can do well, and we're not really willing to do too much more at this point without a significant change in management team or something like that. But for the company that we have now and \$100 million in sales going towards \$200 million, we've got the team to do that.



**Gerry Sweeney**

I appreciate it. Thanks for the insight.

**Mark Wong**

Yes, appreciate your interest.

**Operator**

The next question is from Arvind Mallik with KMS Investments. Please go ahead.

**Arvind Mallik**

Yes. Thanks so much for taking my question. We are a value investment oriented firm and long-term investors, and very grateful to the S&W team on really turning around and transforming the company. It's been great to see the Pioneer transaction and all the benefit of accrued cents to the balance sheet and the diversification strategy.

I want to turn, though, just to more macro, because I think you've done a great job of talking about the operational and all the other activities and engage with investors really well on that. I wanted to really ask about an earlier point, which is the commodity price environment. And I'm just linking what you've said about the alfalfa seed related write-down, I'm just correlating that with alfalfa prices being quite soft for the past year, then you're talking about the strength in sorghum seed. And of course, that's a crop and crop that is doing really well. So, it's clearly, the correlation between how seed prices do and the end crop prices do. So on a macro basis, if we see a strong agricultural price recovery in coming years, what type of pricing power as a seed company do you see S&W having, given that you've been in multiple environments over the years?

**Mark Wong**

Sure. So, a great question, and I'll try to give a succinct answer. I think everyone's kind of learned that Mark likes to talk too much, so I'll try to give as succinct an answer as I can. So, there's two kinds of ag markets really, right? There's depressed ag markets in price, and we've been in those for like the past three or four years, where at the farmer level, that's where you stick the thermometer, right? The farmers having a real hard time making money, right? So, there are big farmers that don't have a lot of bank financing, but most have some bank financing. So, the bank has a lot to say about how much money the farmer has to operate his business that particular crop year.

And when you have low commodity prices, so I'll talk about the US because it's maybe the easiest to understand. So, corn was \$3.40 a bushel sort of early this year, and at that price even if you own your land it's very difficult to make money. And so farmers, on purpose, sort of fall back into hunker down mode and start to cut their expenses and maybe buy a little cheaper, not the best seed they can buy, but the second best genetics, and they put a little less fertilizer on and they maybe don't spray for diseases on their crop unless they actually see something, instead of just automatically spraying three sprays for fungicides, blah, blah, blah. They want to really scout their crop much better and try to save fungicide spray. So, that's kind of the mindset of the farmer. And we've been in that kind of market for the past three, four years in the US.

Now with China buying again, basically, soybeans, cotton and corn, prices have uplifted to the point where a farmer could make money. Once a farmer knows that he can make money, now, his whole philosophy changes, right? These markets where commodity prices at planting time basically tell him, or send the message that, man, you should not be managing your farm to control cost. You should be





managing your farm for the maximum yield, because every incremental bushel you get is profitable, right? And every bushel that you produce is profitable, if you could make a minimum crop. And if you have the irrigation, you know you're going to make a minimum crop. But, if you're also in kind of Ohio, Iowa, the big corn states where you don't even need irrigation, you know you have a very high probability of making a big crop. So, they buy the best seed. They put a little more fertilizer on. They watch diseases and insects like a hawk, because every bushel is worth money, every bushel is money in their pocket.

And so those are the kind of two different markets that seed companies have to try to foresee and manage towards, right? But, with the long breeding cycle of six to eight years, and then a couple of years of seed production, it's hard to be very responsive. And so, that's the magic sort of secret sauce that seed company managements apply, right? They take their experience and they try to make a call and have in their product line and mix of products some the highest yielding, some may be good yielding at a lower price. And that's the kind of product line that we try to offer to our farmer customers.

Just a couple of comments specifically. So all ag markets don't necessarily work in conjunction with each other. So, you may have a weak dairy market which produces weak prices in alfalfa -- dormant alfalfas, which are used in kind of the dairy states in the US, Minnesota, Wisconsin, New York State, the northern tier states, and that may roll over to worldwide demand. So, we had, obviously, the problem, which we've talked about before, of Saudi Arabia making a decision about not having available water to produce alfalfa in country. And so the biggest dairies in the world, which are 100,000, 150,000 cows compared, in many locations, but one company, one operation compared to US, the biggest dairy in the US is about 30,000, 35,000 cows, they're giant dairies.

And so that affected us. That policy change affected us. And so now you get a situation where there is a surplus of seed versus demand and it's kind of a race to the bottom by seed companies because you have a product that has a three, four-year shelf life, and man, you better get rid of it or it's going to be worthless. So, you have to decide if you're going to cut price and when. So, it's a fascinating business, right? Guys like me who have been in it a long time, who know something about the different sectors, you have to have a stiff spine and make your call on what you think is going to happen.

So, I hope that's helpful.

**Arvind Mallik**

Thank you very much. That was very insightful.

---

## 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, operator. And thank you everyone for being on the call today. As I said in my comments, I hope it came across in my presentation that we are, at S&W, very excited about the future, and the next three years look like a real opportunity for the company. And we appreciated the questions from all of our investors and analysts. We will be coming out with some more information on our traits, but as I said, we're sort of giddy with opportunity over here. It's a fun time to be in the seed industry for S&W. Thanks so much, everyone.

**Operator**

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

