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S&W Seed Company
(NASDAQ: SANW)

Fourth Quarter and Fiscal Year 2020 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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

PRESENTATION

Operator
Good day, and welcome to the S&W Seed Company Reports Fourth Quarter and Fiscal Year 2020 Financial Results Conference Call. All participants will be in a 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 a touchtone phone. To withdraw your question, please press star, then two. Please note this event is being recorded.

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

Robert Blum
Alright. 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 fourth quarter and fiscal year-end, which ended June 30th, 2020. With us on the call representing the company today are Mr. Mark Wong, President and Chief Executive Officer; 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, 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-

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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 factors and other risks identified in the company's 10-K for the fiscal year ended June 30th, 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 of S&W Seed Company. Mark, please proceed.

Mark Wong
Thank you very much, Robert, and welcome everyone to the call today. I'd like to just start out by reminding everyone that the company of three years ago, that we had when I just became CEO, is a lot different today than it was then. Remember that we have three main strategy issues that we laid out three years ago that we're continuing to pursue, because we think that they're working and they're generating huge sales growth numbers for us all around the world.
So, just, again, to review those for everyone's sake, we've expanded from just being an alfalfa company three years ago, to now having five main species, alfalfa, sorghum, sunflower, wheat, pasture products. And so a much broader product line that we're taking to our farmer customers. Secondly, we've diversified our sales channels. We've invested heavily in sales and marketing, both in the U.S. and Australia, to be able to reach farmers. We, in Australia, purchased the Pasture Genetics company, which has very strong and well-known reach in distribution to farmers through, basically, the distributor network in Australia. Remember, it's a one-step distribution in Australia, not necessarily two-step like in the U.S.

And our original acquisition of Chromatin, where we acquired their farmer dealer network, which we put a lot of effort into broadening and strengthening. And also, broadening and strengthening our ability to reach farmers through large distributors in the U.S. Also remember that, on the sales and marketing side, we do acquire companies to move ahead our progress in the markets quicker, but there's always a danger that you don't integrate those companies well. And we've spent special attention to integrating all of those brands and distribution that we've acquired on a worldwide basis.

So, I'm happy to just remind everyone that S&W brand is now the brand we sell under in all of our international markets and all of our U.S. based markets and America's markets. So, there are some sub-brands, but all the sub-brands are sold under S&W brand worldwide, now. Also, the third piece of our strategy was to invest in R&D, create, basically, proprietary products through plant breeding. So, all of our five crops that we're in are supported by a plant breeding effort. I'll give you a little bit more detail on that later on in the call. And it is really the basis of our product performance in the field, right? We do believe that spending money on plant breeding generates higher-performing proprietary products.

And also, where you'll start to see in 2021, traits coming out of our Trade Development Program. As I said previously, we're working on a presentation that we will make public, that talks about the three traits we're currently working on and has a little bit of an assessment of value and timeline. So that you are all more informed on what the expectation should be for our trade pipeline.

So in 2020, we're happy to report that sales growth was very, very strong. Remember, this is in a market where COVID-19 is reading on all companies and ag companies are not excluded from that, even though they're essential industries. It's much, much more difficult for us to get meetings with our customers, to introduce our new products, to talk through why they should be buying more of our proprietary high-yielding product line. But nonetheless, our sales were up 58% in 2020.

Core revenue without acquisitions, and remember, again, the main acquisition was Pasture Genetics in Australia. Core revenue was up 27%. And if you look at the growth rates at the big four, which are Bayer, Syngenta, BASF, Corteva, you will not see those kind of growth rates. So, focusing on the mid-term crops, the middle market crops, we call them, does offer, we believe, significant advantages in growth rates. And so, that's why we focused on those products.

And we're going to talk a little bit about our expectations for next year. Matt will do that in his presentation, but we're also projecting a very strong growth in 2000, fiscal year 2021. Again, you'll be hearing more about traits. So, herbicide resistance is our big trait that we're introducing in 2021. There'll be some small sales there. We have a partnership we've announced with ADAMA, and we will be giving you some more detail on that, as we go forward in the next month or so.

Also, every seed company needs to manage its balance sheet. Inventory is always a difficult thing in the seed business. You tend to either not have enough or have too much. And that's because we only get one chance at crop production in each hemisphere. So, one chance to plant in the spring in the Northern Hemisphere, one chance to plant in the spring in the Southern Hemisphere, basically. A few of our crops can be planted in the fall, but in general, it's one spring planting per year.

And we're doing a good job, mainly working off some legacy alfalfa inventory that we had to generate cash. That's not necessarily a big issue in the sense that all seed companies manage their inventory and manage their production cost, obviously, because that affects gross profit margin. But also, you always get into these situations where you can be short of inventory and miss sales, and you can be long on inventory and you have to go through a process of working that out and selling that to various markets that you have access to all around the world.

But in general, I believe, that the three years of us working on these core strategic principles have generated a powerful and diversified agricultural platform. We believe that we've followed some of the learnings that the bigger companies have shown over the last 20 years in corn and soybeans and cotton, both the plant breeding-wise and traits. And that we have also incorporated some of the learnings from my personal experience in the seed business, which as you all know, is decades long.

My last company, Emergent Genetics, had a very diversified geographic strategy. And we followed that with S&W since we believe that, that allows superior growth, but also mitigate some of the risk of, as an example, this inventory that I've described, because you can go to many, many more markets, because you have access to many, many more markets. So we're very happy with our strategy. We're very happy with our 2020 fiscal year growth rates.

Again, that's going to give you a little bit of guidance on 2021. But we think, we're going to be in that sort of 20% to 30% growth range, low side, high sides, and we're working hard to make sure that happens. Again, three issues or strategies to remember. When you think about S&W, we are a seed biotech company. So, those kind of companies eventually get superior margins as the products flow through their R&D pipelines and reach farmers. That can be a fairly long process, four to six years in some cases, and that's why you buy companies that already have an established pipeline.

So first thing to remember, we've invested in strong R&D and that, that is what it's producing our proprietary products through plant breeding and trait additions. Secondly, you have to know what the farmer wants, and you have to be able to sell your improved products to farmers. And so having a broad and deep sales access to your farmer customers through and being able to show them the performance of your products, through field trials, that is an important part of extending R&D developments into real products that make real money and that people are willing to buy. And so, we have invested heavily in our sales and marketing, really, to go along with our investment in R&D. You cannot do one without the other.

Thirdly, diversified production. I mentioned, you only get one crack at the Northern and Southern Hemisphere, in general, for most of our crops. But we've continued to focus on high seed production rates in these various countries and reducing our cost per pound of the seed that we sell to farmers. That's one way to obviously improve your margins, but it also is very difficult, because you don't get very many chances to do production, so it adds to the risk that you're going to have maybe low inventory or high inventory. So we try to manage all of those issues to have the right amount of inventory that matches our sales forecast.

A little bit of detail maybe, on those kind of issues. So the sales and marketing area, just to give you some specific numbers. In 2020, we spent $7.6 million on sales and marketing. That's about $6 million more than we spent when I arrived three years ago. Remember, we've also made a transition from a company that sold just alfalfa through distributors worldwide to a company that sells six, five or six product lines, if you count Stevia, it's six. And we're selling that through sometimes distributors, but sometimes more direct through farmer dealers to our farmer customers.

And we've done that by really, in the U.S., purchasing through the Chromatin acquisition, their farmer dealer network and also improving the distributor and co-op customer relationships that we've had historically. And we've done that in Australia, by purchasing Pasture Genetics, which is one of the best known sales and marketing companies in Australia and we're obviously very, very pleased with how that integration has gone into S&W.

As I said before, we sell under the S&W brand now in all of our companies. There are some sub-brands in the U.S. We sell Sorghum Partners, Sorghum, we sell Alfalfa Partners, alfalfa, Sunflower Partners around the world. And we sell Gold strike, a seed coating product that we developed on all of our crops. And we are moving forward with simplifying, always, our message to the farmer. Whether that be through our print and media or our much, much enlarged effort in social media. One takes lessons from the past, but one must also integrate new techniques into both the breeding, production, and R&D efforts that we're doing.

So, I just wanted to, I'll just conclude before I turn it over to Matt, just by saying, again, that I believe our strategy is generating large sales gains. I believe those are bigger than other companies in our industry are generating. And I'm very pleased that our employees basically in this very difficult market, the U.S. is probably a bit more difficult than other countries in the world just because COVID-19 is so seemingly everywhere in the U.S. and obviously affecting the way we deal with our customers.

But also, in the U.S., it's still a pretty tough ag market. Farmers were not making money in most of the major crops recently. China started to buy some soybeans and that's improved the price there. So soybeans looks like a profitable crop right now, at least, but it's a very tough ag market in general. And to show these kind of gains, I'm very thankful to all of our employees, especially our people in sales and marketing and R&D for the progress that we have had.

So with that, maybe I'll turn it, the presentation, Matt, over to you. And you can go through some of the details on the financial numbers for S&W. Thanks so much.

Matthew Szot
Great. Thanks, Mark. Excuse me, and thanks, everyone, for joining us on the call today. So now, just jumping into the financial results. Core revenue, which is total revenue, excluding revenue to Pioneer, was $23.8 million for the fourth quarter, an increase of 120% compared to $10.8 million in the fourth quarter of the prior year.

As we mentioned in the press release, we recognized $6 million in revenue during the fourth quarter from Pasture Genetics, which we acquired in February of this year. Pasture Genetics will be included in our core revenue going forward. Now, if you exclude the Pasture Genetics revenue, core revenue for Q4 was up 64% versus the fourth quarter of the prior year.

And for the full-year, core revenue, including Pasture Genetics, as Mark mentioned, was up 58% versus the prior year. And if we exclude the Pasture Genetics partial period contribution, core revenue for the year was up 27% versus the prior year. Total revenue, which includes revenue to Pioneer, was $25.9 million for the fourth quarter, compared to $46.8 million in the prior year. For the full-year, total revenue was $79.6 million versus $109.7 million in the prior year. The prior year results include non-recurring license revenue of $34 million, so excluding this non-recurring revenue in the prior year, total revenue in fiscal 2019 was $75.5 million.

As a reminder, we entered into a termination agreement, and an alfalfa license agreement with Pioneer, or now called Corteva, in May of 2019. And Corteva paid its $45 million in May of 2019, as well as $20 million over the last year. And we are also entitled to receive an additional $4.6 million in payments in the January and February 2021 time period. Now as a reminder, a year ago, when we first laid out our expectations for core revenue growth for 2020, we thought we would grow between 9% and 16%. So to deliver core revenue growth of 27%, excluding the acquisition, is quite an achievement.

Now as we look to 2021, we expect core revenue to be within a range of $73 million to $79 million, and this represents an anticipated core revenue growth within a range of 22% to 32%. This rapid growth is expected to come primarily from our two key home market, the U.S. and Australia. Now, including the contributions from Pioneer, we expect total revenue for fiscal '21 to be within a range of $88 million to $94 million.

Now moving to gross margins. Adjusted gross margins, excluding the impact of inventory write-downs was 21.7% for 2020, compared to adjusted gross margins of 20.3% in the prior year. The increase in adjusted gross margins for fiscal 2020 is primarily driven by improvements in alfalfa.
We are expecting gross margins in fiscal 2021 to show meaningful improvement over 2020. We're currently projecting gross margins for 2021 to be in the range of 24% to 25%. And this improvement is expected to come primarily from growth in our higher-margin sorghum products and improvements in our alfalfa margins, now that our long inventory situation has improved.

Moving to OpEx. Our adjusted operating expenses for 2020 were $32.9 million, compared to $26.4 million in 2019. The increase in operating expenses for fiscal 2020 can be attributed to additional expenses from the newly acquired acquisition, Pasture Genetics, and as Mark talked about, the additional investments in our sales and marketing and R&D functions.

Now, as previously mentioned, over the last several quarters, we have made several investments and purposeful spend, excuse me, in sales and marketing and product development. So when you look over the past three years, just as a point of reference, we have increased our sales and marketing spend from $1.7 million in 2017 to $7.6 million in 2020, an increase of nearly $6 million. And at the R&D line item, we've increased from $3 million in 2017 to $7.3 million in 2020, an increase of over $4 million.

The aggregate of these investments is greater than our adjusted EBITDA loss for 2020. These are clearly investments that are being made to position S&W for the next stage of our development, and we believe we'll see the positive impact from leveraging both of these investments in '21 and beyond.

Now I wanted to provide some guidance as we look to '21 from an operating expense standpoint, including the Pasture Genetics acquisition. We project full-year fiscal '21 operating expenses as follows: SG&A will be approximately $23 million, which includes Pasture Genetics for the full-year, as well as non-cash stock-based compensation; research and development will be approximately $7.5 million in '21; and depreciation and amortization will be approximately $6 million.

At the adjusted EBITDA line, we had negative EBITDA of $9.7 million for 2020, compared to positive EBITDA of $19.2 million in the prior year. Again, the prior year was impacted by the $34 million of non-recurring licensing revenue to Corteva. As we leverage our infrastructure, deliver core revenue growth, our goal continues to be driving towards positive EBITDA contribution over the coming periods.

Now quickly 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. As I've mentioned over the last three quarters, we planted very minimal acres of alfalfa production as we continue to work through our existing inventory levels.

So when you look at our inventory levels from June of 2020 versus June of '19, our balances are down by $7.4 million, or 10%. But that's even after taking into account the increase in inventory from the recent Pasture Genetics acquisition. So I'd like to stress that our alfalfa inventory balances have decreased approximately $21 million, or 32% over the last 12 months, and we're expecting this trend to continue into 2021. This reduction is a reflection of our ongoing efforts to reduce alfalfa inventory balances and convert this inventory to cash. While more work is definitely ahead of us, we believe we're on track and we've made significant progress to reduce our balances to more optimal levels over the next 12 months.

So in recap, we're executing on the various initiatives we set out. We're very excited about our recent acquisition and how well that integration is going. And we're very hopeful that the progress that we've achieved over the last number of months will continue into '21 and beyond.

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

Mark Wong
Thanks, Matt. And I'd just like to conclude the call by just thanking all of our employees for all of their efforts in 2020. And I'd like to also give my appreciation for all of our customers who allowed us to have a kind of sales growth that Matt and I have delineated in this call. We do believe that we've built an integrated seed biotechnology company that will continue with those kind of growth rates into the future. And we're very happy with our basic strategy of strong R&D marketing spend to reach customers and a diversified worldwide production effort in all of our now five major crops.

So with that, I'll end the call, and we'll be happy to take questions. Operator, turning it over to you.

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 touchtone phone. If you are using a speakerphone, please pick up your handset before pressing keys. If at any time your question has been addressed, and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Sarkis Sherbetchyan from B. Riley. Sarkis, you are live. Please go ahead.

Sarkis Sherbetchyan
Hey, thank you, and good morning. Thanks for taking my question here.

Mark Wong
Good morning.

Sarkis Sherbetchyan
So first off--

Matthew Szot
--good morning, Sarkis.

Sarkis Sherbetchyan
Good morning. So can you maybe provide us with a sales mix by product line for the fourth quarter or for the year, if that's easier, please?

Matthew Szot
Yes, Sarkis, for 2020 on an overall basis, roughly including the Pioneer inventory, Pioneer sales I should say, as well as our other alfalfa sales, that represented about 64% of our revenues. And between forage grain and on sorghum/Sudan, that was another almost 17% of our revenues. And then the rest of the mix really came from other products coming from the Pasture Genetics portfolio that we acquired.

Sarkis Sherbetchyan
Thanks for that. And for the sales guidance for fiscal '21, can you maybe give us some assumptions or growth drivers between the product lines, for example, alfalfa and sorghum, wheat, and Pasture Genetics?

Matthew Szot
Well, I would say, Sarkis, that overall, we're projecting growth across all of our product lines on a percentage basis, where certainly forage, forage sorghum and grain sorghums on a percentage basis is probably the biggest driving factor. Overall, collectively, our sorghum product lines are likely going to be up close to 50% year-over-year and it's pretty substantial growth.

And as Mark talked about, we're expecting total core growth, core revenue growth, anywhere between 22% and 32% for the year. But it's really coming across the Board with sorghum being the most prominent.

Sarkis Sherbetchyan
Got it. And sorry, just to clarify, that's 5-0, 50%?

Matthew Szot
That's right.

Sarkis Sherbetchyan
Okay. That's really good.

Matthew Szot
That's right.

Sarkis Sherbetchyan
Good. And just kind of moving to the inventory levels, I know you guys kind of touched on this on the call. So, what products are you maybe short on, currently, that you'd like more of, as you kind of go into the next kind of planting cycle? And then maybe how many quarters do you think you have to get the alfalfa seed inventory down to levels where you can generate some healthy turnover there?

Mark Wong
Yeah. Let me jump in first. So I think, in general, other than alfalfa being still in a bit of surplus, but clearly, less than in the last couple of years, everything is pretty much in balance. If there's one crop

that's a little bit short, I'd say, it's sunflower, and we still have small amounts of sunflower programs just developing there. We're in sort of year five breeding-wise. So, we're just coming out with the best new material. But our sunflower sales are a little bit short. But in general, everything is in balance right now. We have good production years everywhere.

Sarkis Sherbetchyan
That sounds good. And one last one for me, I'll hop back in the queue. Can you maybe provide us with a framework to understand what the herbicide tolerance trait for sorghum, specifically, the agreement that you had with ADAMA could mean for S&W in terms of sales or gross margin or kind of profitability?

Mark Wong
Yeah. So we're working on that deck now, Sarkis. And so in a month, hopefully, I'll be able to answer that question with a well thought through piece that answers those questions. We have clearly had many questions about the value of that trait. We think that it's important to control grasses. Remember that sorghum is a grass itself. And so that's the worst combination, right, is when you try to control grass weeds in a grass.

And early, when the sorghum plants are small, that's when you get the best benefit of being able to spray over the top and basically not affect your crop of choice, which is sorghum, but kill all the weeds. So we're working on that. I don't really want to get ahead of ourselves, sort of, talking about any margin percentages.

But in general, you get an extra kick in the sales price, because you're generating value for the farmers, so they're willing to pay for that. It's a net sum game. So if you generate a dollar, the rule of thumb in the industry is, if you generate a dollar, the farmer keeps about 15% to 20% of that. Distribution gets 10% to 15% of that. And the trade providers, in this case, mostly us, but also on the ag chem side, ADAMA would share the rest. And we have an agreement with ADAMA that's signed that, that we haven't made public the details of that deed that describes exactly what we get and what they get in our partnership in terms of margins.

Sarkis Sherbetchyan
That's fair. Thanks for that.

Mark Wong
Yep.

Operator
Our next question comes from Ben Klieve from National Securities Group. Ben, you're live. Please go ahead.

Ben Klieve
Alright. Thanks for taking my questions this morning. First, one question regarding the fourth quarter specifically. Matt, I'm having a difficult time kind of parsing out gross profit or gross margin, excuse me, in the fourth quarter, given kind of the puts and take between Pioneer and the inventory write-down. Can you talk a bit about kind of what gross profit margins really looked like in the quarter, if you exclude

kind of all the various one-time or non-recurring items, and then talk about maybe any headwinds that you guys faced in the fourth quarter that, that maybe limited the upside there?

Matthew Szot
Yeah. Sure, Ben. I mean, I think, Q4 margins did come in lower-than-expected, but it's really a combination of three main driving factors. One, we did take an inventory write-down of almost $1 million of lower germ or out-of-spec alfalfa inventory during the quarter, so that certainly had an impact. Also, Mark touched on this earlier, but our higher-margin sorghum sales that were slated for the U.S. market were hampered by the various stay-at-home measures and other disruptions due to COVID.

So I mean, as a reminder, Ben, Q4 is the key sales season for us. And although, we met our top line revenue objectives for the year, we were certainly planning on additional market share gains in sorghum during Q4. And so this growth is now being pushed off to the next sale season. But those higher-margin sales that didn't materialize in Q4 did have an overall impact, adverse impact, on margins.

And then also, we're really happy with the progress we're making in reducing our long alfalfa inventory situation. But as we work through that long position, we did end up selling some higher-cost alfalfa, which was produced in prior years, and we sold that through lower value markets. And while we anticipate continuing to work through this inventory over the next 12 months, we certainly don't expect that that's going to have the same margin drag, as it did in Q4.

Ben Klieve
Got it. Got it. Thanks. That's very helpful. Turning over to kind of the outlook for '21, I appreciated your comments regarding the outlook, kind of by crop. But I'm wondering if you can elaborate a bit on geography. And specifically, it looks like Saudi Arabia had posted a nice improvement year-over-year in 2020? What assumptions do you have baked in for Saudi Arabian growth and also for growth in ancillary markets that are effectively just exporting their sales to Saudi Arabia for next year?
Matthew Szot
Mark, do you want me to take that one?

Mark Wong
Yeah, sure.

Matthew Szot
So, Ben, we, yeah, we did see a pickup in business in Saudi Arabia over the last 12 months. We are cautiously optimistic that we're going to continue to see a rebound in Saudi Arabia. But I would say from a geographic standpoint, the most significant amount of our growth that we're projecting over the next 12 months is coming back from our own markets, both in Australia, as we capitalize on the Pasture Genetics acquisition. And, of course, as we leverage the investments we've made in the U.S. and our sales and marketing function. So those are the two regions that are going to be driving the biggest amount of growth over the next 12 months or so.

Ben Klieve
Okay, got it. And then last question for me and I'll get back in queue. Can you elaborate a bit on the amendments to the credit agreement and kind of what the outlook could be for future M&A as a function of any adjustments to the credit agreement?

Matthew Szot
Well, our credit agreement currently, we need to get consent from our lenders to pursue any material acquisitions. So I would say that our existing credit agreements do not allow for M&A growth. It's certainly there. Our banks have been good partners. And if we identify an opportunity that we think is going to be very accretive, then we think our banks will be supportive in those initiatives. But without a specific example, I don't know if I can give you much more details on that, Ben.

Ben Klieve
Okay. No, fair enough. Okay, I think that does it for me. Thanks for taking my questions, and I'll get back in queue here.

Mark Wong
Thanks, Ben.

Operator
As a reminder, if you'd like to be added to the question queue, please press star, then one on your touchtone phone.

Our next question comes from Gerry Sweeney from ROTH Capital. Gerry, you are live. Please go ahead.

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

Mark Wong
Hey, Gerry.

Gerry Sweeney
Just want to poke around a little bit on the sorghum herbicide resistance product as much as you can talk about a little bit more. But obviously, I think, you got some high expectations developing for the product in this upcoming fiscal year and going forward. Any key milestones that we should keep in mind or keep an eye out for broad brush wise in the next 12, 18 months that--

Matthew Szot
Yeah. I mean, we're still early on the process, right? So--

Gerry Sweeney
--yeah--

Matthew Szot
We have many field trials out where we have sprayed a product on real sorghum crops. So we choose and plant a broad variety of different hybrid sorghums. These are mostly grain sorghum, so that we can see if there's any genetic difference between how the sorghums are reacting to the herbicide. Remember, in a normal state without the gene, the herbicide would kill the sorghum. And obviously, that's not good.

Gerry Sweeney
Yep.

Matthew Szot
But we have a higher standard than that, right? You can't even sort of make the sorghum look wilty, because farmers don't like that, right? They start to think that their yields are depressed. And so sorghum is an easy crop to measure yield, because you use a grain harvester and all the grain goes over a weigh scale as you're harvesting the field.

So farmers gather very, very good information. We gather the same information on our trials. Obviously, there's smaller acreages than a real production sorghum grain field, but nonetheless it's statistically valid data. And we like to see a safety margin, right? So we like to see that when we spray on multiple doses of multiple concentrations of the herbicide, that the herbicide resistance shows no effect in the sorghum.

So you want a lot of protection. And so that's where we think we are on the product. We're evaluating that now. There's always some fine tuning on when you can spray and what's true leaf stage the crop has to be at. And all these things that we and farmers understand, and that's what makes the introduction so technical. But those are all coming along well.

And we went to Puerto Rico with a special seed increase this year, so we would have more material to trial. So we're trying to gain time over what would be a normal timeline to introduce a trait like this. And that's why we have enough seed to put out the trials that we planted this spring, in 2020. And we're harvesting those and gathering data right now, because it's sort of the harvest time in sorghum in the Northern Hemisphere.

So we're very happy with the results so far, we don't see any problems. And we'll go forward with selling in the spring of 2021, the inventory that we have. But understand, it's a limited amount of inventory at this point. And what we really want to do is get some seed into the hands of many farmers, right? We want the farmers who are what we call bell cattle farmers. They're the farmers that in a regional area other farmers listen to. We want those farmers to have our herbicide resistant sorghum in their fields and make a personal evaluation on its effectiveness and make a personal evaluation on what yield they get out of those fields. And that's useful information for them and, obviously, for us also.

So that's why we're working on this deck, right, because--

Gerry Sweeney
--yep--

Matthew Szot
--the economics in the farmers' field still are not totally known, right? So what we can really charge for the trade, that's a fair price to farmers that allows them to make money and allows us as the developer and our partner, ADAMA, as the chemical supplier to all make our fair share of the money, that's still a calculation that we're working on and that we will be working on for the next couple of years. Because as you see larger amounts of acres go in, obviously, you'll get basically better and better numbers.

So that's a normal thing. That's what everybody's done. That's what the big guys do. And they put a new trade in. We've been in the business a long time. We put traits in when we were at other companies. We know the rigor, but it doesn't happen overnight. It takes some effort.

Gerry Sweeney
Got it.

Matthew Szot
And I know that everybody keeps asking what are the benefits, and we're not trying to keep it a secret. But we are gathering information and that does take some time and multiple years. But numbers will get better over the next year or two.

Gerry Sweeney
Got it. And that goes back to that dollar you mentioned earlier, just trying to figure out how much improvement to the farmer and how much you can sort of collect off of that improvement?

Matthew Szot
Yeah. So, we will, in this presentation we're working on, we will step out on the diving board and make some projections for margin and timing and all that kind of stuff. So I just asked everyone to be a little bit patient, and I know I've asked that before. But we like to have all of these different analyses well thought through. And we have teams working on this, and it's important that internal to the company, we vet what we're doing, so that we get the best results.

Gerry Sweeney
Got it. Switching gears, obviously, growth was very good on the core business.

Matthew Szot
Yep.

Gerry Sweeney
You have the farmer dealer network that you got from Chromatin. You discussed the integration with brands. You have Pasture Genetics. Could you maybe give us a little bit of detail, maybe what's going really well? And what maybe needs some more work? Or all items really kind of firing on all cylinders? I'm just trying to get a sense of maybe peeling back the onion--

Matthew Szot
--yeah--
Gerry Sweeney
--getting an idea and maybe there's even more. So--

Mark Wong
--yeah. As Matt said, our growth in '21 is going to be in our two major home markets, right, Australia and the U.S. I think I saw a new farm, which is the big Australian company that sells both seed and ag chem products, just came out with their 2020 results, and they had a 7% growth rate.

So, our growth rates are 4x, 5x other people. Obviously, we're a smaller company. So I'm not saying that over time, when we're hundreds of millions in sales, we'll be able to make those kind of percentage growth rates. But we have super high growth rates compared to the industry, and it's a broad category of gains, right? It's some of the, as Matt said, it's some of the alfalfa markets may be coming back in Africa and the Middle East. It's sorghum sales around the world. It's a few places like Asia, Pakistan, where we're selling sunflower at a pretty heavy clip.

We expect better royalties from our wheat program in Australia, that's looking pretty good. And it's raining in Australia now and the wheat crop is making. And so we'll know in the next month or so what the harvest really look like. So, you don't make those kind of gains without sort of every crop contributing. And that's kind of where we are. And, of course, it varies around the world in which geography you're talking about. But the main growth is in, like Matt said, Australia and the U.S., but we're getting good worldwide growth everywhere and we're starting to open up South America. So it's a pretty broad sales gain in most markets and in most crops.

Gerry Sweeney
Got it. And then--

Mark Wong
--I would focus on it. I would focus, if I could, if I had one place where I thought we would have more significant breakthroughs in other places. But to get that kind of sales gain, you're sort of firing on all cylinders, on all crops, in all markets, frankly.

Gerry Sweeney
Got it. That's helpful. And then just the impact of inventory at, either for you or Matt--

Mark Wong
--yeah.

Gerry Sweeney
What would be, how much excess inventory of alfalfa remains? I'm not sure if you want to throw a dollar amount on it? And I think total inventory is down to almost $64 million from $71 million and change. Just curious, maybe, if you could bracket, or as much detail as you want to provide on that front?

Mark Wong
Matt, do you want to try to answer that one?

Matthew Szot
Yeah. I mean, Gerry, I don't know if there's a specific dollar amount of inventory, because as Mark talked about the growth rates that we're achieving, that is going to require us to carry a higher level of inventory. Now with that being said, we've talked about for quite some time, that we've been long in an alfalfa inventory--

Gerry Sweeney
--yep--

Matthew Szot
--we made a significant amount of progress there. And I would say that probably 12 months from now, we think we're going to be pretty darn close to optimal levels there. And Mark alluded to before, was the pendulum can swing the other way, so we're really careful about that as well. And it's hard to find that perfect mix, that perfect balance.

Gerry Sweeney
Obviously, that sucks up some working capital, but it is a fair way to say, maybe alfalfa comes down, and maybe that just frees up cash for some other inventories and some higher margin, higher growth fees as well? So maybe we see adjustments, but it also could be shifting around to some different areas as well?

Mark Wong
Yeah. I think that's totally fair, Gerry. I mean, look, we're biased towards our higher-margin crops, right? And grain sorghum to the highest margin crop. And if there's an old seed added you can't sell out of an empty wheelbarrow.

So frankly, as we pull down 25% to 28% margin alfalfa, we're going to reinvest those dollars in 45% margin grain sorghum, especially grain sorghum with a trait, which is going to have higher margin than that. Like, you'll get my projections for that in the next hopefully 30 to 45 days. But clearly, they'll be much higher than even the 45% on grain sorghum today. So every seed company is always making those trade-offs, right?

Gerry Sweeney
Yep.

Mark Wong
When we release a crop, for production, this is a seed crop now, we look at the margin, right? We're always more willing to run out of something that has relatively low margin than something that has relatively high margin. And we're always trying to bias our product line to the newer material, right?

So, if we have something that's five years old and something that's brand-new, we will grow 100% or 200% of the new product and we'll grow 80% of the old one, trying to always move the product line towards newer material with better performance and better margins. That's what seed companies do. That's what we've learned to do over all the decades we've been in the business.

Gerry Sweeney
Got it. Okay. Hey, guys, I appreciate it. Thanks for taking my questions.

Mark Wong
Yeah. Good questions, Gerry, as usual.

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

CONCLUSION

Mark Wong
Thank you, Matt. So, again, everyone on the call, thanks so much for following S&W. We think it's a great story, building every year, momentum, both on a sales basis, which we've proven, but on a margin basis, too. We are closing our losses and we will be profitable in the next year or two.

And so, for that, we appreciate everyone's interest in S&W, and we look forward to talking to you about our results in the future. So thanks, everybody, very much for being on the call today.

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