S&W Seed Company
(NASDAQ: SANW)

Second Quarter Fiscal Year 2021 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's Second Quarter of the Fiscal Year 2021 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing star (*), then zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) and then one (1) on your touchtone phone. To withdraw your question, please press star (*) and then two (2). Please note that 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
Alright. Thank you, so much, and good morning, everyone. Thank you for joining us today to discuss the financial results for S&W Seed Company for the second quarter of fiscal 2021 for the period ended December 31, 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, 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 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 of S&W Seed Company. Mark, please proceed.

Mark Wong
Thank you so much, Robert, and hello to everyone on the call today. It's always exciting to be able to speak to everybody. The management team, Matt and I included are obviously very excited about what's happening at S&W, and it's always our privilege to continue that story with all of you.

So, just a reminder of a couple of things that are important when understanding what we're doing at S&W as a management team. We continue with the strategy of moving from our history of being a single-crop company in alfalfa to now obviously focusing on alfalfa, but also sorghum, sunflower, wheat, stevia, and the pasture products that we acquired in our acquisition of Pasture Genetics early in the calendar year last year. And I haven't said much about the pasture products, and so I wanted to just spend a minute speaking about those. They're mainly right now our product lines focused in Australia, although we're moving those products to the U.S. also. In Australia, we believe that there is a huge opportunity to improve both the pasture and animal yields per acre in Australia, and we see some very innovative things happening on the pasture side. So, on the animal side, we see people trying to manage the cattle on a much more renewable, regenerative basis. So, there's this term *regenerative agriculture*, where animals really are part of the process to generate uptake of carbon into the pastures and so we see the first deal in Australia, Wilmot Cattle Company in New South Wales, Australia just announced the sale of $500,000 of carbon credits to Microsoft. We think that's the kind of deal that you're going to see more of, and we think our position in pasture products allows us to work with those cattle companies like Wilmot and create these kinds of opportunities.

Also, I'm not sure in my background but that people know this, but I was CEO of Pacific Fruit Company in the U.S., which is -- which was 20 years ago, when I did this -- one of the biggest apple companies in the U.S. up in the Wenatchee, Yakima, Washington area, we had about 15,000 acres of apples and cherries. So, I have a big background in permanent tree crops and as you all know, lots of people are looking at these pasture and cover crops for almonds, avocados, apples, cherries, the crops I was in before. And we just think that there's a real opportunity to basically improve soil management, improve water conservation in those acres. And so, I haven't spoken much about pasture products, but we're really excited about the opportunities that we think those products will give us in the future.

So, continuing on though, again, we're the only company that has an integrated technology and that means in our definition traits, and also germplasm, elite germplasm, that we develop ourselves. So, that combination of putting those traits into our elite products for farmers is what we do, and we're focused, as you've heard before on those crops that are the next largest in acreage, after corn, soybeans, and cotton -- the big crops that the big four are mostly concentrated on. So, we continue to develop those crops.

We're excited about our trait programs that we announced in December. Our first trait introduction is happening as we speak in the Northern Hemisphere's spring planting season. So, we're gearing up to introduce our Double Team Sorghum, which is a broad-spectrum grass herbicide that we -- gene that we have embedded in our elite sorghum products. And then in the fall, we're going to be concentrating on introducing our first alfalfa trait, and that's our improved quality trait where we've basically down regulated the Lignin pathway, and we've created a more digestible alfalfa for dairy and beef calves.

So, we're pretty excited about all those. As you know traits take a long-time to develop somewhere around six-to-eight years. So, when a company like ours has these traits to put into the market, finally, it's been a long process and a long wait, and a lot of hard work on the part of our technical and research people, and it's a great opportunity to show the market what new and innovative products we can develop. So, we're really excited about those traits coming, we're really excited about the five, six crops that we're in, and as I said, we're looking always as in the pasture products for new innovative ways to use the traditional products in new ways that that the ag markets are calling for. So, all exciting things at S&W.

We also find ourselves in a very excellent ag market, and so, the commodity prices continue to be strong. Corn is up about 45%, the commodity price for number two yellow corn is up about 45% over last year at the same time, and sorghum is about up 30% over last year's commodity price. So, farmers are excited to see what planting decisions based on whether they're going to -- an economics they're going to make this year and we're coming up to that season right where in the Northern Hemisphere, especially in the U.S., we start seeing planting in the Southern part of the country in March -- and marching north as the weather warms and soil temperatures increase.

So, it's an exciting time for all seed companies and it's a great time for the seed industry and for other input industries because commodity prices are high, and farmers can make money. So, the net improvement to us, we're pretty, as I said, optimistic about this year. You're going to hear some details from Matt about our sales forecast this year, but I want to tell you all that for 2021, the full fiscal year, we think core revenues were going to increase our guidance. We think core revenues are going to be in the sort of $78 million to $81 million range for our core business. That means not counting our Pioneer business. That's about 30% to 35% above last year.

The growth mainly coming in the U.S. and Australia, our two key markets, the two markets that are the linchpins of our strategy and as we integrate our acquisition, so the Chromatin acquisition in the U.S., where we acquired Sorghum, and we frankly acquired the Double Team Trait and the Pasture Genetics acquisition, about a year ago in Australia, those have really strengthened our operations and our understanding of the market and our ability to deliver products to the market. And so we'd like to tell the market -- tell all of you that we're going to be increasing our guidance.

So, for the full-year counting Pioneer, we're saying sales will be $92.5 to $95.5 million for the full 2021 year. So, that's really exciting for us, all of our management and employees are working hard to make that happen. And Matt will give you some more details on the financial picture for the company, but it's looking like one of those years that we all are in the ag business for good commodity prices, exciting introductions of new products from our breeding programs and our first traits into the market, so, all good things for this year. So, that's and then, that's obviously translating to increasing our guidance for the year.

So, with that, I think I'll turn it over to Matt, and he'll give you some of the details on what's going on from the financial side of the company. Matt, please, up to you.

Matthew Szot
Thank you, Mark, and thanks to everyone joining us on the call this morning. So, now just jumping into the second quarter results. Core revenue, which excludes revenue to Pioneer, was $11 million for the second quarter, an increase of 20% compared to $9.2 million in the second quarter of the prior year. Keep in mind that we also delivered core revenue growth of 59% during our fiscal 2020 period. Total revenue, which includes revenue to Pioneer, was $15.1 million for the second quarter compared to $12.4 million in the second quarter of the prior year.

Now as we look to the remainder of the year, we're increasing our guidance for core revenue and total revenue. We now expect core revenue to be within a range of $78 million to $81 million for fiscal 2021, representing core revenue growth of 30% to 35%. This rapid growth is expected to come primarily from our two key home markets that Mark touched on -- the United States and Australia. And as a reminder, we previously provided guidance that core revenue growth would increase 22% to 32% year-over-year. So, we're pleased with how the second half of the year is looking based on our latest sales forecast process. Also, we expect total revenue which includes contributions from Pioneer for the current year to be within the range of $92.5 million to $95.5 million.

Now quickly turning to gross margins. GAAP gross margins were 13.5% in the second quarter of 2021, compared to GAAP gross margins of 17.7% in the second 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 in order for us to gain market share, and also targeted low margin sales to clear excess inventory. This is also called a net excess inventory specific to alfalfa I'll add. This was coupled with the absence of certain higher margin product sales, which shifted from the second quarter of this year to the third quarter of 2021, and as discussed last quarter, we're expecting gross margins in 2021 to show meaningful improvement over 2020, and this improvement is expected to come primarily from the growth of our higher margin sorghum products, and overall sales mix in the second half of the year.

Our adjusted operating expenses for the second quarter of 2021 were $9.4 million, compared to $8 million in 2020. The increase in operating expenses for the second quarter can be attributed to additional expenses from the acquisition of Pasture Genetics which occurred in February of 2020, and additional investments in our sales and marketing and R&D functions. We expect that operating leverage will continue to improve in the second half of the year as we enter the primary selling season. And as previously mentioned, over the last several quarters, we have made several investments and purposeful spend in sales and marketing and product development functions.

Now we've discussed this during the last two quarterly calls, but I'd like to clarify our guidance for operating expenses including Pasture Genetics for the full year. We expect full year fiscal 2021 operating expenses as follows: SG&A to be approximately $22 million, which excludes non-cash stock-based compensation of approximately $1.59 million, research and development expenses to be approximately $8 million in fiscal 2021, and depreciation and amortization to be approximately $6 million.

Now at the adjusted EBITDA line, we had negative EBITDA of $5.5 million for the second quarter as compared to negative EBITDA of $4.2 million in the prior year. The second quarter of this year was impacted by a timing shift of product revenues to Pioneer. So, please note that we will recognize the remaining $9 million of Pioneer revenue during the third quarter of this fiscal year. The second quarter results were impacted by lower margin alfalfa sales, as well as our purposeful investment in both sales and marketing and R&D functions.

So, based on the improved seasonality throughout the remainder of the year, which includes 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 over the coming periods.

Now, quickly moving to the balance sheet. I do want to point out that we continue to make progress in reducing our inventory levels and freeing up working capital. We've talked about this for several quarters now, but I'd like to stress that our alfalfa inventory balances have decreased approximately $18 million, or 28% over the last 12 months, and we expect this trend to continue during the remainder of this year and into 2022. And when you look at our total inventory levels for December 2020 versus the same time last year, our balances are down approximately 5%, but this is even after considering an $8 million increase in inventory from the Pasture Genetics acquisition as well as strategically increasing production of our projected increase in sorghum sales. This progress reflects the ongoing efforts to continue to reduce alfalfa inventory balances and convert this inventory to cash. So, more work is ahead of us, but we believe we're on track, and we've made significant progress.

So, to summarize, we're continuing to execute against our plan, the year-to-date results through December represent our seasonally lower volume and lower margin business. This will act as a pivot to what the remainder of this year will look like with improvements in core revenue, gross margins, and of course, further leveraging our infrastructure.

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

Mark Wong
Thank you, Matt and so I just want to conclude by reminding everybody, we're extremely excited about our improved sales outlook. We think that our strategy of expanding our offerings through our six crops, and including traits is starting to show real progress and that, given also the buoyant ag commodity pricing and the expectations of farmers for a good year that 2021,

and frankly, 2022, are going to be really good years for the ag industry in general and for S&W in particular. So, thanks all for being on the call today and we're going to open it up for questions.

So, operator, please.

QUESTION AND ANSWERS

Operator
We'll now begin the question-and-answer session. To ask a question, you may press star (*) and then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star (*) and then two (2). At this time, we will pause momentarily to assemble our roster.

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

Sarkis Sherbetchyan
Hi, good morning, and thanks for taking my question here.

Mark Wong
Good morning, Sarkis.

Sarkis Sherbetchyan
Yes. So, just want to touch on the increase in the guides, clearly a positive stuff as we head to the back half of the year. Just want to understand the cadence of sales and margins for the back half of the year, given what we've seen so far year-to-date. Matt, I think last call you mentioned on the year 23% to 24% gross margin levels. Is that still the target that you plan to achieve? Or should we think about that differently?

Matthew Szot
Yes, Sarkis, I think for the back half of the year, well for the full year, Sarkis, we're still, excluding the inventory write-down we took in Q1, we're still expecting gross margins to be in that 23%, 24% range for the full year. And so as we look to back half of the year, that's we're looking at margins in the mid-20s, mid say 25% to 27% for both Q3 and Q4. And then from a revenue cadence, Sarkis, we're looking at the midpoint of the new guidance we guided to which is -- would be about $94 million. Of that amount, I would say about 45% of that second half of the year is going to be recorded in Q3, and the rest would happen in Q4. Obviously -- that's obviously subject to timing issues and potential timing delays, but overall, we're feeling good about this – the guidance we've given.

Sarkis Sherbetchyan
Got it, thanks for that and in this guide up, have you contemplated the Double Team Sorghum trait that's essentially being commercialized kind of as we speak. Are there any potential license opportunities that are being factored in there, just trying to understand what the trait introduction mean to the business for the second half of the year?

Mark Wong
Yes. So Sarkis as I've said before, the whole product development cycle is a six- to eight-year cycle, so, relatively slow compared to maybe some other industries, but in the first years of a new product introduction, you usually are limited on your seed supply, just because the parent seed that we have can't be multiplied quick enough to satisfy all of the demand in the marketplace. So, the first year, which is this year, the spring, we're coming into, we're really going to -- we know we're going to be sold out. We're going to obviously establish what we think the value is for the trait. So, we know we're going to put a price on it. We haven't announced that price yet, but we will, as we get closer to the sorghum seeds in the U.S., and it's a U.S. introduction, so all the seeds this year will be planted in the U.S.

In a situation like this, where we're in a situation, where there's more demand than supply, we're very careful which farmers we're selling to, we want what we call bell cow farmers, the guys who really are the professional, best farmers in their counties who know how to plant the seed and have a problem with grass and weeds, which is the target for the herbicide, and it's most important to us, frankly, not to have the sales dollars, but to have the following of key customers in the market. So, that next year, which will be significant in terms of sales, the 2022 year, we're off to a really good start. So, from 2022 to 2023, demand and supply will come more in balance, and by 2023, I'd say there'll be a significant contribution from the Double Team trait to our sales, but more importantly, because of the margins to our profitability.

In terms of licensees, we're starting that process now, we're talking to the major shareholders of sorghum share in the U.S., and as we've said before, think of us as following a lot of the strategies we learned at Monsanto, and we're in the process of vetting the technical performance of our gene and our germplasm with those potential licensees. So, more on that, as they and we see the performance of the product in the field this year.

Sarkis Sherbetchyan
Great, thanks for that, and just one more for me, and I'll hop back in the queue. I'm trying to reconcile essentially, when the business begins to generate operating leverage and certainly the back half of the fiscal year seems to be when we'll see more of that, relative to the OpEx line, right. So, Mark or Matt, just help me understand when would we expect sustainable profitability if you can maybe just give us a milestone to expect there from a timeline perspective? Thank you.

Mark Wong
Yes. I mean I've said in past calls that, given the growth rate we have in sales, and are improving margins, both because of mix in the short-term, and what I mean by that is on a relative weighted basis, more grain sorghum sales versus forage sorghum and alfalfa sales. I still expect that 2022 is going to be break-even EBITDA year. Lots can happen good and bad between now and then, but obviously in six months, we prepare the budgets, and we and our board reviews

that and we have the opportunity to convey that information to the investing public. We'll be optimistic that the break-even is definitely a possibility.

So, as Matt said, many, many times on many, many calls, we've spent the money on sales and marketing and R&D to give us the position that we have in products and traits that can -- that spend will continue, because we want this to be a continuous process and for our germplasm to continue to evolve to better products and our traits to continue to be discovered and marketed through our proprietary germplasm and through our licensees. And so, we think that we're going to start seeing in 2022, real contribution to earnings based on the traits and efficiencies of basically having invested in the business for the first three, four years of my being here, and finally, seeing the financial rewards for that.

So, we're already seeing the product rewards for that, right, but it just takes a while to convince our customer base and win new customers. And so, we're optimistic that that's now the point of inflection that we're at and that's why we're increasing our guidance, sales are going well and our two home markets are two strongest markets and we expect that to continue into future years.

Sarkis Sherbetchyan
Thank you. That's all from me.

Mark Wong
You're more than welcome.

Operator
Again, if you have a question, please press star (*) and then one (1) to be joined into the queue.

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

Ben Klieve
All right, thanks for taking my questions. First, Matt, I just have a quick clarification question for something you said around Pioneer revenue. Did you say that you expect the remaining $9 million of Pioneer revenue to all be recognized in the third quarter, did I hear that right?

Matthew Szot
That's right; Ben and that would bring our full-year revenues for Pioneer to just under $15 million.

Ben Klieve
Okay, got it. Perfect. Then Mark, I have a question on your comments at the very beginning of the call when you talked about your perspective on pasture products and grower adoption in the U.S., given sustainability benefits? Do you also think there's any real potential for you to leverage your breeding capabilities within these crops? And integrate more technology into them? Or given that they are relatively small acre, on an individual basis; does it just not make sense for you to invest too heavily in R&D there?

Mark Wong
Yes. So, in the short-term, that's a great question, Ben, and when we wrestle with all the time, because obviously, there's near-term costs because of the long development times of some of these products, but also, there's long-term benefits, and we're such an interesting company, and I'm glad that the public is starting to appreciate that. We're -- we have technology. We're not as technology focused as some of the smaller companies in the ag industry, but we do have technology, but what we also have is, we've got, based on our guidance here, we've got $100 million in sales, and you've got to look long and far to find a company that has both technology and the ability to distribute it in real products.

Right, other technology companies are really dependent on doing deals with companies like us, or the big guys to introduce their traits in the market; they really don't have the basic seed position and breeding programs to have the products to put in the market. So, we're always wrestling with this question about what technologies should we be investing in, because frankly, the technology toolbox is getting easier to use, and cheaper to use. Therefore, then when I first got in the market, obviously now a long, long time ago, 40 years ago, and we were doing GMO products with the bacteria vectors, and now you can just use CRISPR.

So, we're looking at it all the time. I can say, though that in the near-term, we think it's really important to cross over into profitability, and that is our focus now to take advantage of those scale opportunities that Matt has talked about before, where we're really building sales based on our investments that we've made in sales and marketing and R&D in the last four years. We want to see that come to fruition, right. We want to be in a position where we're cash flow break-even or generating cash and we get the benefit of that in terms of longevity and the ability to raise new capital for acquisitions and all the things that come with that.

So, it's a great question. It's one that we wrestle with all the time. There's not a clear answer, but hopefully, I've given you a little bit of sort of the plus and the minus on how we're walking the balance beam of technology to both have proprietary products in the market, real sales, and the ability to generate our own technology-based products.

Ben Klieve
Yes, that is helpful. I appreciate those comments. I think, last one for me around the ramp of the inventory levels in your Double Team Sorghum. Can you just talk about how that inventory ramp has developed over the last year and what your approach is, is going to be over the next couple years from the perspective of, are you looking to build inventory offseason in South America, are you -- are you -- and what are the limiting factors that are keeping that inventory build to the level that you expect, reasonably that there could be a dramatic increase in inventory levels in the next couple of years beyond what you are internally targeting?

Mark Wong
Sure. So, as I said, the traits are fairly long-term to develop six-to-eight years. So, the original work was done by Chromatin. So, when we purchased the company, they had done many years of work and we were in a position to evaluate basically the gene that they had. Nobody knew at that time whether the gene was really functional right. And you need to have an herbicide resistant gene that's basically a 100% functional. The farmer does not want to spray over the top of his sorghum field for his grass weeds, and remember sorghum is also a grass, and have some of the sorghum plants die, right? Even if you control the weeds, he doesn't like it, when

his target crop sorghum is also -- has a few plants that die, and so even a couple of percent of plants in your bag of seeds that do not have the gene can be problematic.
And so we had to evaluate the performance of the product for two years in the field, and we made the decision this year that it was really the gene was really functioning well, and remember, we developed this gene in our own technology through our tissue culture process that we have, and we always are working on other herbicide genes using that tissue culture process also. But we decided that the gene was ready to go basically, and that it would -- it would perform well in the farmer's field and farmers would be happy with it. So, we went to offseason production in Puerto Rico. Remember that sorghum, grain sorghum. So, the genes in grain sorghum, that's our first product launch. The grain sorghum is a three what – is a hybrid, and it's a three-line system. So, it has a male, a female and a restorer gene. So, we have to increase the seed of all the parents, and then we can produce the seeds that we sell to farmers by planting the male and female seed in a contract farmer's field that we -- and that's how we grow our seed.

So, we went to Puerto Rico. We had some problems, frankly, with COVID. We couldn't get our people into Puerto Rico. It was just sort of one nightmare against another. So, I'm very -- I'd say we're excited about the product. Now we do have a smile on our faces, because a lot of our employees did some really hard work to sort of get these productions off season that you mentioned to be successful, a lot more work than we normally would have to do, if COVID was not a problem and International travel was not a problem.

We also did some seed increase in Mexico, and so that was another place where we felt there was an opportunity to get basically two crops in one calendar year. And we'll -- we're still thinking about what our plan is going to be for 2021 to 2022, that sort of offseason year, we'll probably do some offseason production, but we also have technical improvements in the hybrids, and the genes that we're working on. And so, it's always an improved product that -- for the farmer that we're trying to produce and there's always continued work doing that in the first couple of years of any product launch.

So, we've done this before. We've introduced herbicide resistance, in other crops, cotton being the main one in previous -- in previous iterations of a management team, and me as the CEO. In my last company, when we sold that to Monsanto, there was about $75 million of embedded profits, Monsanto gene profits, in the products and that's why they obviously bought the company. They wanted those embedded gene profits, and so, we've been there before, that doesn't mean it's any easier. But it does mean, we've made our share of mistakes in the past and we've learned from that and we're not going to do that again.

So, there is some benefit to experience. So, it's exciting time and as you say, we will have to go to do some offseason production to keep the amount of seed available to farmers, the supply-and-demand equation that I sort of talked about previously, for 2022 and 2023. We're keeping a sharp eye on that.

Ben Klieve
Got it, very helpful. Perfect, all right. Well, thanks for taking my questions. I think that does it for me. I'll jump back in queue.

Mark Wong
Thank you, Ben.

Operator
The next question comes from Gerry Sweeney with ROTH Capital. Please go ahead.

Gerry Sweeney
Good morning Mark and Matt and thanks for taking my call.

Mark Wong
Good morning Gerry.

Matthew Szot
Good morning, Gerry.

Gerry Sweeney
Mark, you touched upon this a little bit, and this was a question I did want to ask even prior, obviously, you're building out your trait, trait development, all the technology around that you do have some distribution here in U.S., Australia, in Pasture Genetics. At what point does S&W become an attractive company for other – of these technology companies that you mentioned to sell to you? I'm not looking for you to sell, but may -- at some point, do companies start coming to you and say, hey, you got a lot of attributes, middle market, a lot of distribution? Is that an opportunity in the mid-term?

Mark Wong
Sure, Gerry. Great question also. Yes, definitely it's an opportunity, and definitely, we're in those discussions with companies all the time. We're always focused on our six crops, right. So, how these discussions are usually generated is, we know all the technology companies, they know us. I've been in the business 40 years; I know all these guys. And it's always a good discussion, because with that, common history comes, the ability to just get to the point and talk about what the opportunities really are, we're under CA with most of those companies continuously.

So, it allows us to interact with them and basically, they and we're focused on our six crops, right. So, they -- when they have a trait, or a product improvement, that they think has a market opportunity in one of our six crops, they usually or we usually call them once they make an announcement, but they usually call us, because that's our specialty. The big guys are focused on the big four, are focused on corn and soybeans and cotton. Yes, some of them sell sorghum. Yes, some of them sell sunflower, but it's different for a big company, as efficient as they are and profitable as they are, it's different with them, because they know where they make their money, and it's in corn, soybeans and cotton. And if a small technology company wants to introduce something new, sometimes it's better to be partners with us, because they know we're going to pay attention, because it's important to us also.

So, we tend to get opportunities and discussions in our six crops and that suits us just fine, because it goes along with our own internal technology capabilities and it allows us to see what other people think of the opportunities in our six crops. And so, it's a great opportunity for us to have some pretty interesting discussions about where the six crops are going, what industry improvements are sort of coming. And people are talking about how to use these crops in biofuels, how to use these crops in renewable plastics.

These are all discussions that we have many times a month with different technology partners. So, it's a really fun time to be a seed, integrated seed company with the ability to carry traits through distribution and have your own production. It's a great time to be in these six crops, and we think there's only going to be more an interesting news in the future, because the people are starting to focus on the crops that we focus on, and we think it's a natural evolution of both technology and the seed industry in general.

Gerry Sweeney
Got it, and the question is probably inverted. These two questions are probably inverted, but the first one was a natural progression, but -- and I may have asked this in the past, but middle markets maybe underinvested by the big guys just from -- maybe pure business or economic reason. Is there anything you would like to have improved invest and acquire to broaden out or better position the market? I know it's a pretty-wide open question.

Mark Wong
Yes, I'm smiling only because you're such a smart guy and I'm trying to figure out what how much I want to say about that, right.

Gerry Sweeney
That's why I ask a question -- I just ask broad questions.

Mark Wong
Yes. So, do I really want to sort of stake out ground here? Or do I want to sort of keep some things a little bit under the vest?

Gerry Sweeney
You can defer for another quarter, and I'll just ask it at later.

Mark Wong
No, no, no you're a smart guy. All the analysts that follow us are really smart guys, and we appreciate that you pay attention to us and are interested enough in ag and in the seed industry to put the time into understanding S&W.

I'll just say, we really like the pasture area. Obviously, we're moving those products from Australia to the U.S. And so, U.S. acquisition to bolster our product line in pastures, sort of North American acquisition, that would be something we would -- we would consider.

We have built up our distribution in the U.S. and Australia through Chromatin, and through the Pasture Genetics acquisition. So, we're pretty comfortable that we can reach farmers, that we can reach bigger customers that we haven't sold before, like distributors and co-ops and people like that. So, that's all I want to say. Obviously, there's some other things that we're working on all the time, but sometimes it takes it's like a fine scotch, right, it takes a few years for these ideas to kind of blossom and age a little bit, so that they really look like an opportunity and are worth putting time and money into because nothing in this industry is free.

As I said, there are pretty long product timelines, and so, once your research and product development pipeline is full, like ours is now, that's when management's happy, not when you're spending all the money and all the years to develop these things. So, that's why we're so excited, and that's why it's such a fun thing to be part of the management team at S&W right now.

Gerry Sweeney
Got it, that's it for me, Ben and Sarkis got my other 10 questions above there, so I'll make [unintelligible]. Thank you.

Mark Wong
Great, great. You're welcome.

Operator
The next question comes from Sarkis Sherbetchyan with B. Riley Securities. Please go ahead.

Sarkis Sherbetchyan
Hi, thanks for taking my follow-up here. Just a quick one on the recent announcement for the Five Points California facility sale. Maybe help me understand if the million dollars in annualized cost synergies from consolidating the plant ops from California to, I believe it was Nampa in the New Deal Texas facility. Is that contemplated in the go-forward gross margins? Or is there a potential benefit there to think about?

Mark Wong
Maybe, Matt, will answer, Sarkis.

Matthew Szot
Yes, sure, Sarkis. So those -- those costs basically the reduction in those operating expenses are in a [unintelligible] now, but keep in mind that those reductions in planned production costs are in essence reducing our cost of inventory. So, for the next six months it’s really just going to be reducing the cost, the carrying cost of our inventory on our balance sheet, and as that production sold through, in the next fiscal year, that's when we'll see that's flowing through the gross margin and obviously EBITDA line item. So, it's really more of an upside to next year as opposed to a P&L contributor for the next six months.

Sarkis Sherbetchyan
Right and that's predominantly alfalfa, right? That's the way to think about it.

Matthew Szot
That's right. The Five Points facility was primary -- was all a non-dormant alfalfa region. So, by consolidating those operations in Napa, we're really increasing our throughput and reducing our overall cost per unit in alfalfa production.

Sarkis Sherbetchyan
Okay and so as we go back and think about the inventory write-downs in alfalfa, the strategic selling into perhaps lower margin regions to gain share, I guess and your inventory reduction in alfalfa, like, do you think next fiscal year is shaping up to be better for your alfalfa line as well?

I know we spend a lot of time clearly on sorghum end growth and the nice margins you'd expect there, but I just want to also touch on alfalfa and what you think the business is shaping up for next year? And whether there's an opportunity for potentially realizing improved margins and pricing in that crop?

Matthew Szot
Yes. I mean, sure. So, I guess one just to clarify, so we've, the U.S. is the most expensive place to produce non-dormant alfalfa. So, we've made a concerted effort to reduce production in the U.S. and move that production to lower cost regions, particularly Australia, the cost of goods in Australia is significantly less than doing that in California. So, taking that step, as well as working through our existing inventory levels is certainly lining-up for a nice year-over-year improvement in alfalfa margins. We still have a bit of work to do, but with that being said, the market is turning for us. I'll say that in the San Joaquin Valley and Imperial Valley of California, which are the two primary regions for you to produce non-dormant alfalfa in the United States, those production levels not for us, but just the overall industry is down to 10-year lows. So, this is all lining-up for some positive price movements here in the coming periods.

Sarkis Sherbetchyan
Great [unintelligible].

Matthew Szot
[unintelligible].

Sarkis Sherbetchyan
Yes. Thank you.

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

CONCLUSION

Mark Wong
So, this is Mark Wong, and thanks to everybody for being on the call today. As I and Matt have said, we're very excited about the current situation at S&W, the remainder of this fiscal year, and then looking to 2022. And we have increased our guidance, because we think that our sales are really starting to go pretty well and the investments that we've made in sales and marketing and new sales teams, sales training, all of those things are starting to pay-off. So, as I said, it's a great time with the commodity prices being what they’re to be in the seed industry and to be part of S&W, and we're very thankful for that opportunity.

So, thanks again to everybody who was on the call today. We appreciate your interest in S&W.

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