

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



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

**Thursday, May 13, 2021
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 day, and welcome to the S&W Seed Company Reports Third Quarter of 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 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 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 third quarter of fiscal 2021 ended March 31, 2021. With us on the call representing the company today are Mark Wong, President and Chief Executive Officer; and Matthew Szot, Chief Financial Officer. At the conclusion of today's prepared remarks, we'll 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 for 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, 2020 and other filings made by the company with the Securities Exchange Commission.

With that said, let me turn the call over to Mark Wong, Chief Executive Officer for S&W Seed Company. Mark, please proceed.

Mark Wong

Thank you, Robert, and hello to everyone on the call today. Third quarter is a, obviously as everyone knows, a big quarter for S&W and a big quarter for agriculture. Just a couple of comments. So, in the Northern Hemisphere, it's planting time, and so we're very excited to work with our farmer customers, start selling them the seed that we've been basically talking to them about all winter as we build the information that they have on our proprietary products. And the ag markets are very, very strong, so corn, soy, sorghum. Commodity grain prices are very high, highest since 2013, so farmers are very excited. And in Australia, meat prices are very high, so that is driving all of the pasture products in Australia. So our markets are also very good there.

Remember that I've said before, ag has long cycles, and this is obviously a very, very good year in that cycle. Farmers know that they're going to make a profit on every bushel, every incremental bushel that they can produce. And so they are willing to spend their money with us for the best seed, with fertilizer companies for ample amounts of fertilizer, and with pesticide providers to protect their crops against diseases and insects. Because they know every bushel that comes out of the field is a profitable bushel, and they're really ready to invest in that. And they know that these opportunities don't come along that often. And so when we, as a company and as an industry, have good years, it's very, very important that we all take advantage of that.

So, as you might take from my comments, my opening comments, it is a very strong year. Farmer interest is very high in our products, and we are predicting a very strong third quarter. And we're predicting that our increased guidance that we gave you last quarter is still an excellent target for the company. So we're saying the third quarter, and you'll get more detail from Matt, is going to be strong. And we're saying that for the full year, our total revenue of sort of \$92.5 million to \$95.5 million, that's the guidance we gave, increase in guidance we gave last quarter is still a number that we think is a good number.

So, a couple of qualifying insights to that yearly sales number. Our bookings are very, very strong, both in the Americas and International. So, I don't think that sort of the sales book is going to be much of an issue for us. The real issue that you'll also hear from Matt and that you've heard from I think other seed biotech companies, the bigger ones in our industry, and from other industries in general, is all the logistical challenges that the COVID year has put on industries. The changes of demand, the movement of products from China to China to Asia,

from Asia to the U.S. is really creating shortages in shipping, in logistics, trucking, both in the U.S. and as we ship our containers all around the world.

And so, we're doing, I think, an excellent job keeping on top of all that. But as our Head of International said to me yesterday on a call, we have everything arranged. We have all of our containers booked, but if there's a glitch somewhere, and we don't make those bookings because of a problem in logistics, then we have to get to the back of the line. And so, we will have some sales potentially if there are problems that are pushed into next year, rather the 2022 fiscal year for S&W rather than this year, the 2021 year. But as of this point, we think we have those under control as well as they can be in this challenging market. And we are confident that that total revenue number in the \$92.5 million to \$95.5 million is a good target. And Matt's going to give you some more detail on that in his presentation today.

The rest of the business, because as you all know, it's a long product lifecycle in the feed biotechnology business, when you create these proprietary products that we have and you fund breeding programs and you develop new materials for the farmer, and then you have to test them and then you have to go through production and all of that, it can easily be a 6-year timeline. And so, as we announced a couple of quarters ago, these traits that we are coming out with in addition to our proprietary seed products are something that we're obviously very, very excited about.

So, an update on those, on our double team sorghum. As you remember, that is a non-GMO sorghum that has the ability when we spray over the top with an herbicide to control grass weeds. We are introducing that for the first time this spring in the Northern Hemisphere, mainly in the U.S. And those introductions have gone very well. I can tell you that we are sold out for this year already. I will also give a little bit of qualifier there. Seed companies don't have a huge amount of seed in the early years. Next year will be a much more important year for us financially on double team sorghum. But double team is being well accepted by growers. We're being very careful to have the best growers in each of these markets try the product, buy the product, so that we can see performance in lots of different geographic areas in the U.S.

All of our sales in double team sorghum is in the U.S. this year. There will be future sales in Australia, and we have moved germplasm to Australia. As some people know, Australia has very tough quarantine rules and so, you have to go through a very careful process to bring your new germplasm into the country and then test it there and produce seed there that you can sell to farmers. And so, we have begun that process in Australia with our double team. And in the U.S., we've planted, or in the process of planting our crop that will supply hybrid seed for the U.S. market in the next coming year, in the 2022 year. And all that has gone according to plan.

Our second trait, improved quality alfalfa, IQA alfalfa, is being introduced this fall in, again, the U.S., in the Americas as the first market. So, we do not, again, have a huge amount of seed. My expectation is that once the (INAUDIBLE) program gets underway here in the fall, because alfalfa's a fall-planted crop, whereas sorghum is a spring-planted crop in the Northern Hemisphere, that we will again be sold out of our improved quality alfalfa. Remember, though, that the development times are long. And so we are also gathering not just sales information about who's buying our product and placing that product carefully with the best growers,

again, as we did with the double team sorghum. But with alfalfa, it's a quality trait, right, hence the name improved quality alfalfa.

And so, the presumption in our research shows that when you use our alfalfa and feed that to your dairy cows, that a ton of alfalfa, because it's more digestible, will yield for the dairy farmer more milk. So, it's more milk per ton, that is the selling point of the product. And so, we are in the process of selling that alfalfa to farmers and then gathering the information. The dairy farmers these will be, of course. And then gathering the information on cow milk yields and things like that to basically be able to get a book of information about the efficiency and proficiency of our improved quality alfalfa.

So, that's starting this fall in the U.S. Again, small sales. We'll be sold out again. More sales next fiscal year in 2022. But we're very excited to have our second trait coming to the market in the same calendar year as our Double Team sorghum trait. Obviously different fiscal years because we have a June 30th fiscal year, but same calendar year. So our sales force has basically been preparing all year in the U.S. to sell these two traits in this calendar year, this planting season.

Our third trait, the dhurrin-free sorghum, remember, that is a sorghum line that removes natural toxic metabolites from alfalfa sorghum. So, this is not grain sorghum, this is sorghum that is fed to animals. So, we think it's going to be a big potential crop in the U.S., but we also are looking at, frankly, a lot more acres in the rest of the world and the U.S. And so, our ability to sell this kind of new product in places like Africa, in Australia, is important to the success of that product. And as with double team sorghum, we have moved germplasm into Australia and are beginning the trialing and see increased functions in dhurrin-free sorghum also. So, that product's probably going to be launched in 2023. Don't see an issue right now with meeting that date. So that would be not the next fiscal year for us, but the year after that.

So it's exciting times, and our three traits are right on schedule. And farmer acceptance has been excellent so far on the double team sorghum. And we are hoping that our fall sales program in improved quality alfalfa, and then a couple of years from now, our spring program, because again, sorghum's a spring-planted crop, the dhurrin-free sorghum will be as successful as double team sorghum looks for us. So, the traits are looking really good. Our product line's really strong. We are doing the things that all good seed companies do to make their businesses more efficient.

So, we're knocking out some older material that's been in the product line for a while that maybe our precursor companies who we acquired felt like they had to keep in the product line, but we're all about new market share in new proprietary products. And so, on purpose, we get rid of those ones that might be a little bit long on the tooth. And we have plenty of new stuff out of our breeding programs and our trait programs to introduce the farmers. So, that's all going very, very well, and that's all the comments that I have. Clearly, after Matt's comments, we'd be happy to take some questions.

But with that, I will turn the presentation over to you Matt, please.

Matthew Szot

Thanks, Mark, and thanks to everyone joining us on the call this morning. I'm going to jump right into the results. So, core revenue, which excludes revenue to Pioneer, was \$23.9 million



for the third quarter, an increase of 34% compared to \$17.9 million in the third quarter of the prior year. Please keep in mind that we also delivered core revenue growth of 59% during fiscal 2020, and our year-to-date core revenue through March 31st is coming in at 30%. We believe core revenue growth in Q3 was somewhat restricted due to logistical challenges widespread across the industry as a whole. We did experience a change in sales mix for the quarter as certain higher-margin products, such as grain sorghum, shifted from Q3 to Q4. We are working really hard to overcome these dynamics.

Total revenue, which includes revenue to Pioneer, was \$32.4 million for the third quarter compared to \$29.1 million for the third quarter of the prior year. And if you look to the remainder of the year, we are maintaining our guidance for core revenue and total revenue for the year. As a reminder, in February, we called up our revenue guidance for the year. We 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% for the full year. This rapid growth is coming primarily from our two key home markets, the U.S. and Australia. And we also expect total revenue, which includes contributions from Pioneer, to be within a range of \$92.5 million to \$95.5 million.

Now, turning to gross margins. GAAP gross margins were 19.1% in the third quarter of 2021 compared to gross margins of 22.1% in the third quarter of the prior year. The decrease in gross margins for the third quarter was primarily driven by compressed gross margins in Australia due to sales mix, as we had a higher concentration of lower-margin forage cereal products. In addition, we experienced numerous logistical challenges that Mark touched on, but this is due to a limited availability of trucks for product deliveries, congestion at the ports and overall rising costs for shipping and transportation. During the quarter, we estimate that these challenges amounted to approximately \$900,000 more on logistical expenses than we otherwise would have incurred.

Considering this impact and the change in sales mix for the quarter, gross margins would have been closer with the expectations for gross margins we shared with you back in February. Now clearly, this is a fluid situation but at this point, we expect these logistical challenges to persist for the remainder of this fiscal year and potentially into next fiscal year. And as we discussed last quarter, we are expecting gross margins in 2021 to show improvement over 2020, and this improvement is expected to come primarily from the growth of our higher-margin sorghum products and on overall sales mix, particularly within the fourth quarter.

Now, quickly turning to operating expenses. Our GAAP operating expenses for the third quarter were \$8.2 million compared to \$9.1 million in 2020. I do want to highlight that the decrease in operating expenses for the third quarter of the current year can be primarily attributed to a \$1.3 million gain on the sale of our five points processing facility, and that was partially offset by additional expenses from our acquisition of Pasture Genetics. We expect that our operating leverage will continue to improve in the fourth quarter as we enter the busiest time of the selling season.

Now, as I've mentioned previously over the last several quarters, we have made several investments and purposeful spend, both in sales and marketing and research and development function. Now, we've discussed this during the last three quarterly calls, but I would like to reaffirm our guidance for operating expenses. We project full year 2021 operating expenses as

follows. SG&A to be approximately \$22 million, which excludes non-cash stock-based compensation of \$1.5 million. R&D should come in right around \$8 million and depreciation and amortization will be approximately \$6 million.

Now, at the adjusted EBITDA line, we had negative EBITDA of \$250,000 for the current quarter compared to negative EBITDA of \$900,000 in the prior year. The third quarter of the current year was impacted by a timing shift to product revenues to the fourth quarter due to the supply chain issues we mentioned and the overrun of costs associated with those logistical challenges. Based on the improved seasonality of our fourth quarter, which includes a higher concentration of our higher-margin products, we believe you'll see a significant improvement in adjusted EBITDA for the fourth quarter of this year. And 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 turning to the balance sheet. I just want to point out that we continue to make lots of progress in reducing our inventory levels and bringing up working capital. Most importantly, I'd like to stress that our alfalfa inventory balances have decreased \$16 million or 30% over the last 12 months. This progress is a reflection of these ongoing efforts, and we're converting this inventory to cash. While more work is ahead of us, we definitely believe we're on track, and we've made significant progress to date.

So to summarize, we're continuing to execute against our plan. The fourth quarter is definitely expected to be our largest quarter of the year with improvements in core revenue, gross margins and certainly further leveraging our infrastructure. So with that, I'm going to turn the call back over to Mark.

Mark Wong

Thank you, Matt. And to everyone on the call, as you heard, fourth quarter is our biggest quarter. It's very important to us. But we are very optimistic that the numbers, as Matt and I have given you today, are still good targets and that we will manage through these logistics problems and be able to book the sales that are in our sales order backlog right now. So, things are very, very exciting at S&W. Please remember that we are unique in the seed biotech business in terms of our crop focus in that we are the only pure play seed company with traits in the biotech business that has a worldwide footprint also. And we think that that's going to lead to a huge amount of tremendous opportunities in the next few years to come, and we're very excited that we can share those improved results with our investors and our potential investors every quarter as we give these calls.

So, thank you. We'll be now able to take some questions. And we look forward to speaking to you all on the fourth quarter call in the next several months. Thank you very much, everybody, and operator, I'll turn it back 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 the 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 will come from Sarkis Sherbetchyan with B. Riley Securities. Please go ahead.

Sarkis Sherbetchyan

Hey, good morning, and thank you for taking my question here. Matt, I want to start off just the gross profit line item. I know you mentioned here in the prepared remarks that you may see some higher margin shifts from 3Q to 4Q, and it just seems like that might be the mix shift that you talked about, and that you're expecting improved operating leverage here in the fourth quarter. I just want to get some more color and clarity around that. If I look at your gross profit reconciliation, there's a little bit of inventory write-down. You called out about \$900,000 in the logistical challenges. Just want to get a sense for what you think a reasonable gross margin profile or target looks like.

Matthew Szot

Yeah, Sarkis. So, as you saw here, we did in Q3 unfortunately incur about \$900,000 of additional costs, which almost had a 3 percentage point drag on our margins. But I would say that as we move, no doubt, we continue to deal with these logistical issues in Q4. But after taking these into consideration, we're thinking our Q4 margins are going to come in around 25% to 27% for the fourth quarter, and that's very much largely driven, as you touched on, as our sales mix.

Keep in mind that Q3 and Q4, and in particular this year, Q4 in particular, Q4's got a much higher concentration of our proprietary products, which carry higher margins. That's in grain sorghums, as well as other products that we're selling in Q4. So, we're looking at 25% to 27% margins for Q4. This will probably bring us in for the full year at approximately 22% margins, excluding the inventory write-downs we've taken earlier in the year. But we're definitely confident that we're going to be driving meaningful improvement here in Q4 versus our historical results.

Sarkis Sherbetchyan

Okay. Thank you. That's super helpful. And then if I just move down to the non-GAAP operating expense table in the press release, I think it's, let's say, roughly \$8.2 million. Though, does that include the gain on the sale of the Five Points facility? Just trying to understand what we should think about from kind of a normalized Opex run rate going forward.

Matthew Szot

Yeah, Sarkis. So, under GAAP, we do need to include--any sort of gains or losses on the sale of property is included within operations. So, it's netted against our operating expenses and our P&L, as you've noticed. But I would say, that as you think about our go-forward SG&A





expenses and R&D expenses, I think that's pretty much consistent with the guidance that I've laid out in my remarks earlier in this call.

Sarkis Sherbetchyan

Got it. So, just from a, again, coming back to the leverage question. Most of the improvement in operating leverage is largely going to be driven by mix, and that's where we should expect maybe better sequential performance. Is that the right way to think about it?

Matthew Szot

Yeah. I would say, yeah. For Q4 in particular, the operating leverage is going to be most pronounced within gross margins. And as we move into next fiscal year, we'll see that operating leverage both at the margin level as well as within operating expenses.

Sarkis Sherbetchyan

Great. Thanks for that. And Mark, you mentioned kind of an update on the double team trait. Any, I guess, additional color on what it means to be sold out for this year already? It doesn't sound like it may be material kind of from an incremental sales contribution perspective, but just want to get a better sense for what that means.

Mark Wong

Yeah. So, it's very important with any product, whether it's ag or consumer or whatever, to get the product off to a good start with momentum, and so we are very careful. So, we had an order book that was way in excess of the seed we had to sell. So, we were very careful to pick through that order book and sell seed to the farmers who we thought had a following in their local area so that they could, by word of mouth, spread their content with the performance of our double team in their field. And so, we also had some parameters as to the minimum amount of seed they could buy, because we wanted to make sure that they had a big enough trial that they could see the performance of the grain sorghum with the trait.

So, the sales force did a great job. We sort of did all that. We pushed it on social media, which in the last year or two has been a new thing for S&W to use social media so strongly. So, it was a full marketing effort through traditional channels and through new channels. And we're very happy with how it's sort of all turned out in terms of the profile of the portfolio of farmers that we've now going to have our seed, purchased our seed and they're going to plant our seed this year, and we're pretty excited about that.

Sarkis Sherbetchyan

Sounds good. That's all for me. Thank you. I'll hop back in the queue.

Mark Wong

Great. Thanks, Sarkis.

Matthew Szot

Thanks, Sarkis.

Operator

Our next question will come from Ben Klieve with Lake Street Capital.

Ben Klieve

All right. Thanks for taking my questions. First, on the sorghum market overall, the outlook in the U.S. here looks like there's going to be a pretty considerable increase in planting this year. Mark, I'm wondering if you can just kind of comment on a high level about the performance of your sorghum portfolio collectively relative to this really healthy market this year. I mean, do you guys think that you're outpacing the market, do you think you're in line? Where do you think you stand here domestically at this crop?

Mark Wong

Yeah. So, sorghum's an interesting crop because it's the last crop planted. So, the farmer makes his choice about corn and soybeans kind of starting in December. And obviously we don't sell those, but I've sold those crops before. And he's already booked his seed by February, and he knows how many acres he's putting in, pretty much. Although, he can change that number a little bit as he watches the prices of commodities into the spring. But sorghum's kind of the crop that actually has a natural rotation with cotton. So, we're always watching the cotton acres.

And sorghum's going to be strong really because prices are really good, like we've said, for the other commodities. But on a relative basis, sorghum has a small advantage over corn from a price commodity price standpoint on a locally adjusted basis. So, that's a very positive thing. And whether people follow it or not, in much of the Western Corn Belt, which is most of the sorghum area, there's been a sort of partial drought. Rain has not been plentiful. And so, sorghum is probably going to be, acres are going to be up because sorghum will be the preferred crop over corn.

So, we're pretty excited. It's hard to sort of, at this point, figure out how much sales we have relative to others. So, market share gains and stuff like that, we won't have an estimate of that in probably three, four months more. But sorghum acres are, as you said, Ben, are going to be strong. Our sorghum sales and bookings are really strong. And in the last couple of weeks, grain sorghum sales have been blockbuster. So, those are all good things. But I can't tell you exactly how we're competing against others, but I'm pretty darn sure, based on our bookings, we're going to at least hold our share, if not take some share.

Ben Klieve

Got it. Got it. That's helpful. Mark, another high-level question for you. You talked in your opening comments about growth in Australia with your pasture products in the context with grain costs being through the roof. When you made that acquisition a year ago, you talked about the potential of integrating more pasture crops in the U.S. markets. With that same dynamic here domestically, are you seeing increased interest from farmers to have more pasture crops planted? Is that a market you guys have been able to penetrate yet? Any thoughts there on the high level?

Mark Wong

Yeah. So, on a high level, if you listen to the comments of our new ag secretary, Secretary Vilsack, who, this is his second time around as ag Secretary, so he knows the farming community well, and he knows the politics of being ag Secretary very well. He's pushing for a target of a much higher percent of U.S. acres put in this CRP program, which is not really pasture, but a lot of that ends up in pasture. So, CRP is the Conservation Reserve Program, and



it's kind of a government program where farmers are paid a small government subsidy to basically rest their lands, right, to put acres aside for the future.

And combined that push by the current Administration with this general sort of, we need to help the environment. What can ag do to help with sequestering carbon? Can ag establish methodologies that allow carbon credits to be sold on a farmer's acre? All those pushes are going to basically transform the ag markets in the U.S. to one in which you never sort of see any dirt. There's either an interim crop, a cover crop, a CRP crop or the major crops, corn, soybean, sorghum, cotton planted on every acre almost 365 days a year. Because everyone realizes now, even if you're not getting a crop that you can sell, like a grain crop like sorghum, you are getting sequestering of carbon. Someone may pay you for that. You'll plow the cover crop down into your soil or if you're in some kind of no-till program, you'll allow that crop to basically be degraded by the soil to build soil quality.

So, there's a real push on soil quality, on cover crops, on pasture crops. Basically, these are perennials. These are not annual crops. So, corn sorghum, cotton, soybeans are all annual crops, we plant them once a year. They do not survive the winter. And pasture crops are perennial crops and they survive the winter. And S&W, as a company, has a lot of historical experience in perennial crops. Alfalfa is one of the big perennial crops, so it's not a major crop, but it's a middle market crop, as we describe it. But it is probably the largest perennial crop. And the other interesting perennial crop is stevia. So, in our stevia productions, we harvest stevia for three years before we replant. And so, we have a lot of experience in perennial crops, which should give us an advantage to creating better products for the farmer that really work better for him, that are something maybe that he's not very familiar with because they're perennial and not annual.

So, we're pretty excited about all of that. And in general, we're excited about opportunities in the business. But that and our traits because, remember, traits help you drive market share. So in double team, as we have more seed available and we take more market share in next year, we'll be able to drive more sorghum sales towards the S&W proprietary varieties and hybrids. And that's always a good thing for sales and a good thing for margins.

Ben Klieve

Got it. Very interesting color. I appreciate that. I think that's a good place for me. I appreciate you guys taking my questions, and I'll get back in queue.

Mark Wong

Thanks very much, Ben.

Operator

As a reminder, if you have a question, please press star, then one. Our next question will come from Gerry Sweeney with ROTH Capital.

Gerry Sweeney

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

Mark Wong

Yeah, good morning, Gerry.



Matthew Szot

Good morning, Gerry.

Mark, you touched upon the strategy behind sort of the allocation of what limited seed you had on the double team sorghum. But I thought it may be helpful to maybe touch upon how that inventory or the sellable inventory increases over the next couple years. Would you be able to talk about that?

Mark Wong

Yeah. So, sorghum has a different multiplication rate than does corn and does alfalfa. And what I mean by multiplication rate is, for every pound of mother seeds that you plant, this would be the mommy and the daddy seeds that produce the offspring that is actually the seed that we sell to a farmer, there are different multiplication rates. The multiplication rate on sorghum is relatively high. Corn is relatively high. Wheat is relatively low. Alfalfa is sort of in the middle. So there will be a lot more seed next year.

And we don't plan on having to have a riskier production strategy like we did this year where we had to do an off-season production in Puerto Rico, remember. And COVID was here. We couldn't get our people down there. We couldn't get a dang flight down there. It was just terrible. And we won't have to do that again because we've multiplied in this spring all of our mother and father seeds also for our double team hybrid, and we've taken the risk out because now we'll be growing it in the U.S. And we'll still be seed limited in 2022, but it'll be financially much more meaningful. We're predicting some number around at least \$1 million in EBITDA from double team.

And more importantly, as I mentioned, is this ability to get farmers interested in your product line because you have a new trait that nobody else has. And so there's a kind of magnetic effect on your other products to the guys. The farmers say, well, yes, I'll take x number of bags of double team, but while you're at it, I'd like to try your other 2 new hybrids for my area which don't have double team in them, but which I would like to plant on acres that don't have a grass weed problem for me. And so, I have acres with grass problems and acres without grass problems, and I'd like to try some of your other products on those other acres without the grass problems.

So, history has shown that when you come out with traits, when I was running my other companies and stuff, you just get a lot of carry-on effect that lifts your whole product line from having something that really farmers are taking notice for because it's just so interesting, different and differentiable from other people's products. So, we're pretty excited. Like I said, it's a six year at least timeline. Chromatin, the company we acquired, put in the beginning years of that. And we're just fortunate to have acquired the company and now be able to market a product that they originally envisioned, to real farmers in real time.

Gerry Sweeney

In the past. Yeah, sorry. Go ahead. In the past, you've spoken about part of the strategy is eventually licensing the seed to some of the other larger seed companies out there. And that sounds like that's probably a 2023 type number because we sort of get this step-up next year, then a bigger step-up in 2023. One, is that an accurate assumption? And two, are there any discussions ongoing on that front?





Mark Wong

Yeah. So, just to back up for everybody who's not as knowledgeable as you are, Gerry, and maybe don't follow the company as closely. So, our strategy that's embedded in this three, five and 10 year technology products plan that we put out a few months ago, envisions that we will license our traits to our competitors. And the reason we license our traits to competitors is because the traits are very profitable, and we want to sell on as many acres as we can. So, those are the acres that our bags of seed get planted on, but they might be the acres that some of the big companies' bags of sorghum are planned on.

So, that would be the DeKalb brand, which belongs to Bayer through their Monsanto acquisition, and then the Pioneer brand, which is part of Corteva. So, we're in discussions with both of those companies. They're watching the performance of the product in the field this year. This is the planting time. And that's why it's so important to have those good farmers, as I said 10, 15 minutes ago, as our customers this year, having purchased the seed, paid their good money to plant it, paying attention to what the performance is on those products, because our competitors are watching because they are in line to get a license. I'm not sure, I think 2023 is a good sort of date to remember, but I will keep people aware of kind of the status of that date and our competitors licensing discussions as we go through this because I think it'll be informative to people who follow the stock or own the stock.

But remember, that once our competitors sign up, they have to go through the same process that we went through to increase the amount of seed that they have to be able to sell. So, they're not going to sell our hybrids with the gene, the double trait gene in it. They're going to license the double trait gene and put it in their hybrids and sell their material with a double trait gene in it. And that's going to take them the same number of years that it takes us because sorghum is sorghum, it has the same multiplication rate, doesn't matter which seed company is handling it. And I'm presuming we all are reasonably efficient, and we know what we're doing, so the multiplication rate should be close for all of us. But it will take them a couple of years to have enough seed to be entering the market. So, 2023 would be early for them to be in. I think probably 2024 would be the first year they'd probably have seed available, if they signed up for a license in 2022 fiscal year of S&W, which is this coming year.

Gerry Sweeney

Got it. Then one final question, just on--No, that was helpful. IQA, you're doing some plantings this fall, but just curious if you have any sort of preliminary data on the milk production enhancement to the milk?

Mark Wong

So, quality traits are much more difficult to evaluate the performance of than a grain trait that helps the farmer get more yield because you control weeds or insects or diseases. So, in the sorghum field with double team, when the farmer's going through his field in Kansas or Texas or wherever, Nebraska, and he's harvesting his sorghum, he has a weigh scale on his harvester, and he is keeping data now. His harvester keeps data based on the GPS position of that harvester.

So, he kind of pretty well knows what yields he got in terms of pounds of grade per acre throughout his whole field. With these quality traits like IQA, like I said, it's not that he may get more tons of alfalfa per acre. He needs to get a competitive yield of alfalfa tons per acre

for sure. But what's really important is how he seeds the alfalfa and what he sees as his milk gain. And that has a lot to do, unfortunately, it adds to the number of variables. That has a lot to do with what kind of cow herd he has.

So, cows, in general, in the dairy industry are kept for three or four years, and then they're sent, frankly, to the hamburger plant because the industry is so efficient that once the cow gets that old, and a cow can have calves for 10 years, but once the cow gets kind of to the fourth year, its efficiency of digestion goes down, and it's not really a profitable cow anymore at some milk prices. So, the farmer's always changing over the cows in his herd. And younger cows, first-time mothers for instance, will show a higher efficiency of IQA alfalfa than will fourth year cows. So, we have to be very careful. We have to make sure that the farmer is not only a good dairy farmer, but he has a relatively young herd to see the biggest performance gain of IQA.

And so, that's what we try to manage for. But it's another variable that you don't face when you can evaluate just yield across the combine. So, that's kind of a long explanation. But remember, I was in the dairy business. I did own, with my partners, a 10,000 cow dairy, one of the largest in Florida, and I've lived the dairy business, know the dairy business probably better than any human deserves to. So, any other questions that anybody has at any time about the dairy industry or our alfalfa performance in the dairy industry, I'm always happy to talk about.

Gerry Sweeney

Got it. That's it for me. I appreciate it. Really helpful.

Mark Wong

Yeah. Thank you, Gerry. Good questions, as usual.

Operator

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

CONCLUSION

Mark Wong

Thank you, operator. So, we're very optimistic at the company, as you probably heard from Matt's and my explanations. Got lots of things going, most of which I think will bear fruit. Everything that you try, of course, isn't a success, but we've been around a long time, so hopefully our success rate's a little higher than the average company. But it's a great ag market, it's the kind of ag market with these kind of prices that ag input companies live for. And so, we're hoping for a good year this year and a good year clearly in fiscal year 2022.



I would just like to note that we are having a conference on sort of June 14th through 16th, and we're happy to have people sign up if they want a more detailed description of what's going on at S&W. And if they have some specific questions, we'd be happy to answer them in one-on-one meetings with potential interested investors. So on that note, I'll just thank everyone for being on the call. And again, it's a wonderful year to be an input company in agriculture. Thanks again.

Operator

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

