

S&W Seed Company
(NASDAQ: SANW)



Fourth Quarter and Fiscal Year 2021 Financial Results Conference Call

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11:00 A.M. Eastern

CORPORATE PARTICIPANTS

Mark Wong – President and Chief Executive Officer, S&W Seed Company

Matthew Szot – Executive Vice President and Chief Financial Officer, S&W Seed Company

Robert Blum – Managing Partner, Lytham Partners, LLC

PRESENTATION

Operator

Good morning and welcome to the S&W Seed Company Fourth Quarter and Fiscal Year 2021, Financial Results Conference Call.

All participants will be in a listen-only mode. Should you need any assistance, please signal a conference specialist by pressing the “*” key, followed by “0”.

After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*”, then “1” on your telephone keypad. To withdraw your question, please press “*”, then “2”.

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

Okay, thank you very much. And thank you all for joining us, today, to discuss the financial results for S&W Seed Company for the fourth quarter, fiscal year 2021, which ended June 30, 2021.

With us on the call representing the company, today, are Mr. Mark Wong, President and Chief Executive Officer and Matthew Szot, Chief Financial Officer. At the conclusion of today’s prepared remarks, we’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 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 for S&W Seed Company. Mark, please proceed.

Mark Wong

Thank you very much, Robert, and welcome, everyone, to the call, today.

I would just like to start out by saying it's hard to believe, after 18 months, that COVID could still have such a difficult, stressful effect on all of our businesses. But we see that continuing, frankly, through the full fiscal, 2022, year. So, that would be the summer, would be June of '22 calendar year.

So, we continue to have logistics issues that we're managing. We continue to, as other companies have had employment shortages and difficulty hiring. And also, we've had to increase wages.

So, again, we are assuming for our 2022 fiscal year that COVID will, unfortunately, be a problem that all businesses, worldwide, are dealing with.

And so, the remarks that Matt and I are going to make, today, please remember that they're all made in the background of COVID continuing to put stress on our business.

With that being said, though, logistics are reasonably under control. We've reorganized the company to have teams that look at the orders, the big orders, especially, going to the Middle East and South America and Asia.

We coordinate those teams from the plants all the way through the paperwork needed to get these shipments to the customers and through booking the ships and dealing with any problems that happened because, as you all know, lots of ship schedules don't hold and are changed at the last minute, and it forces us to change our shipping instruction to our customers.

The net, though, is very good news, so far. We have not had a delay. So, we have had delays, no question about that. But we have not had a delay that forces us with the shipment to miss our customers' planting date.

So, remember that we're in an agriculture business. There's in the Northern and Southern Hemisphere for each of our key crops, dates which the farmers like to plant the seed. And so far, although the seeds



may have been delayed, it has not missed the planting date that the customer wanted to put that seed in the ground.

And in the end, that of course, is a very important fact. So, we, basically, continue to get the sales, but it might be delayed from one fiscal year to the other, or one quarter to the next.

Even with these pressures, though, I'm pleased to report that margins are improving. They are higher than last year, and we are continuing to believe that we will be able to recognize higher margins for the full fiscal year of '22.

We put price increases on most of our products. And we believe that the proprietary products that we sell, we'll be able to hold those price increases and given a market of high commodity prices that farmers are able to afford those price increases and still see higher value, in terms of returns, per acre, on the seeds that we sell them for their planting crops.

In addition, Double Team, our grass herbicide product that's in its really full first year of initiation--so, last year, we did sell some seed and we were sold out. But this year, we have a reasonable amount of seed to sell, and we have seen very, very favorable results in the field.

And what I mean by that is when you look at a sorghum, grain sorghum field that has been sprayed with our Double Team product, over the top of the sorghum, two things you'll notice.

Number one, the weeds are under control. There basically are no weeds, grass weeds in the field. And the sorghum looks excellent, right. There's not browning around the leaves. There are not any dead plants, for sure.

And so, we're very, very optimistic that the product really does perform well in the field.

The last step, of course, is now that we're in harvest in the Western corn belt of the U.S., so, that would be the Mississippi River west to the Rocky Mountains, we're seeing farmers harvest their fields. And we're starting to get back information on yields, right.

Because in the end, the crop can look very good, the herbicide performance can be very good, and the weeds are nonexistent, but the farmer must get a good yield. And so, we're in the process of verifying that with real data from the farmers that purchased and planted our seed in the spring of 2021 calendar year.

So, we're very, very optimistic about Double Team and very optimistic that the product, once final data is in, will have performed well in the field and that sells for this fiscal year, 2022, will be excellent.

So, the last thing I wanted to talk a little bit about was Stevia. So, as you all know, we announced a deal with Ingredion, the largest Stevia seller in North America and the world.

Right now, most of the production of Stevia leaf comes from China, though, in China, the leaf is an annual crop. So, they plant in the spring, and the crop is grown for one year and then, harvested by hand.

And then, that leaf is taken to an extraction plant and then a purification plant to get the final Stevia product that is sold in the market.

The markets are growing pretty fast. It's a \$1.3 billion worldwide market, \$600 million to \$800 million in the U.S. And so, the U.S. is the biggest worldwide market.

And we and Ingredion have been working on a program to product the Stevia leaf in the United States.

And so, our breeding program is in the Southeast of the United States, where the here the plants growing are very similar to where the plant was originally discovered in South America In Paraguay, very humid, hot summers, which Stevia plants like.

But our system of production, based on our proprietary germ plasm is a little bit different. And our commercial agreements are a little bit different. So, I just wanted to make sure that I gave enough detail so people would understand that.

So, we, basically, harvest Stevia for three years. Stevia is, by its nature, a perennial crop. So, China does not take full advantage of it being a perennial. But we leave it in the ground for three years. And our farmer customers have developed a machine that strips the Stevia leaves off of the Stevia plant and does not destroy the plant.

So, it does rip the plant out of the ground, so, the plant can produce Stevia leaf again in the next year.

There's, obviously, some advantages on cost basis. You only have to plant every three years. And the farmer also has a cover crop that is on his acre of production for three years. And hopefully, someday, there'll be the ability to get some carbon credits for that part of the Stevia production process.

But right now, the big goal is that we have convinced ourselves and Ingredion that we can produce Stevia leaf in the U.S. at a competitive cost, per pound, that competes with China.

And that's a big if that the industry was always asking, what would be the cost of Stevia leaf, if there wasn't a hand harvest, if it was a mechanical harvest, and who would develop the technology to, mechanically, harvest the Stevia and, also, produce it at a competitive cost.

And we have done that. And that is the basis of our agreement with Ingredion.

On the commercial side, though, what everyone on the call should understand is we buy the leaf from our farmers, and we have a back-to-back supply agreement to sell that leaf to Ingredion.

And so, we're not really a seed company. We've sort of taken one step up the vertical ladder towards the customer. And we now are the leaf seller to Ingredion, who processes that leaf, extracts the Stevanoids and then refines that and sells that to their customers in the beverage and food industries.

So, it's a model that we call a closed loop model where basically we don't really sell our Stevia. We sort of rent it to our farmers, who sell back the Stevia leaf under contract to us, and they have to sell us all the leaf they don't have the ability to sell to a third-party.

So, we maintain control of our genetics and we give the farmer a profitable product to produce at a worldwide competitive cost.

So, we're very excited about that agreement and there'll be more news as we continue to develop the markets in the U.S., but the end result will be that the Stevia will be produced in the U.S. at a competitive cost to China and that as we've all learned with COVID, the supply chains will be shortened, Ingredion will gain a source of production, in addition to China-based in the U.S. and that U.S. production will supply the biggest Stevia market, which in the world, which is the United States market.

So, we're very excited about the agreement. And as I said, there'll be more announcements as we continue to make progress with Ingredion, but that will be a big piece of our business, going forward.

These closed loop contracts where we're buying the raw material and then selling it to the refiner or user and we like that model, it makes for a bigger addressable market for us. So, it's not just the seed market, but in the case of Stevia, it's the leaf market and we have other addressable markets that we're looking at where we think a closed loop system will also increase our business and our ability to earn profits.

So, that's my update for the call, today. Again, COVID is going to be with us for the full 2022-year is our assumption. But even with those stressful wins on our business, margins look good, product performance with Double Team looks good in the field and the Stevia contract has finally been announced.

We've been working on it for many, many years now, and we're very excited about where Stevia is going to be taking S&W, in terms of new opportunities.

So, with that, I'll turn the call over to Matt, who has got some details on the financials, and then I'll come back and just follow-up with some concluding remarks. Thanks again.

Matthew Szot

Thank you, Mark and thanks to everyone joining us on the call, this morning. Starting with revenues, core revenue, which excludes revenue to Pioneer was \$69.8 million for the year, an increase of 17%, compared to \$59.9 million in the prior year.

Now keep in mind that we also delivered core revenue growth of 59%, during fiscal 2020.

Our financial performance in fiscal 2021 was negatively impacted by the logistical challenges that were experienced widespread across the industry, as a whole. Limited availability of overseas containers and ongoing congestion at the ports have delayed shipments and complicated our ability to precisely forecast the timing of shipments in any quarter. We are certainly working hard to overcome these dynamics.

Now, as Mark mentioned, we had \$5 million of sales orders that were expected to ship in Q4 of fiscal 2021 that shifted into Q1 of fiscal 2022. And as of today, all five million of these delayed orders have been successfully shipped in Q1.

Total revenue, which includes revenue to Pioneer was \$84 million for fiscal '21, compared to \$79.6 million in the prior year. And as we look to fiscal 2022, we expect core revenue and total revenue to be within a range of \$80 million to \$85 million.

This estimate represents core revenue growth of approximately 15% to 20%, year over year.

I just want to stress that we want to be conservative on our revenue guidance, given the ongoing logistical issues that are widespread across the globe. I also want to clarify that core revenue and total revenue will be the same number in fiscal 2022, but we will still reference core revenue, as long as we are comparing against '21 numbers.

And lastly, the anticipated revenue growth in fiscal '22 is coming primarily from our two key home markets, the U. S. and Australia, as well as we're projecting growth in mean, as well.

Now, turning to margins, adjusted gross margins, which excludes the impact of inventory write-downs were 18% in '21, compared to adjusted gross margins of 21.7% in 2020. The decrease in gross margins for 2021 one was primarily compressed--was compressed by gross margins in the Australian market, due to sales mix as we sold a higher concentration of lower margin forage cereal products.

Additionally, as we've talked about over the last four--several quarters, we experienced numerous logistical challenges due to the limited availability of trucks, congestion at the ports and overall rising costs for shipping and transportation.

Clearly, this is a fluid situation, but at this point, we do expect these logistical challenges to persist throughout '22, and although we're working really hard to mitigate the impact to our business.

Now, as we mentioned in our pre-release announcement in August, we are expecting gross margins in '22 to show solid improvement over '21.

This improvement is expected to come primarily from the various initiatives we put in place, including the implementation of price increases on many of our products to address the overall rising costs.

We're also modifying the terms and conditions of sales contracts to address the volatile and increasing cost of freight and transportation and we're focusing on other various operational efficiencies.

I also want to point out that our Q1 results, which are just wrapping up now, will reflect meaningful improvements in gross margins versus '21 and this is further validation of the various initiatives we are putting in place.

Now turning quickly to operating expenses. Our GAAP operating expenses for '21 was \$33.9 million, compared to \$33.7 million in 2020. I do want to highlight that we recorded a non-recurring gain of approximately \$1.9 million on the sale of certain property and equipment, as we sold certain assets in California to consolidate production facilities, increase operational efficiencies and position us for longer term cost savings.

Now, if we exclude the non-recurring gain, operating expenses increased \$2.1 million from the prior year, and this was driven by incremental investments in R&D of \$1.2 million, a \$500,000 increase in

SG&A due to the annualization of our Pasture Genetics acquisition and the remainder of the increase with non-cash depreciation and amortization expense.

We are clearly focused on holding operating expenses and growing the revenue and margin line to demonstrate the operating leverage of our business.

Now, as we move into fiscal '22, I'd like to provide guidance for operating expenses. We project full year '22 operating expenses as follows. SG&A to be approximately \$25.5 million, which includes non-cash stock-based compensation of approximately \$2 million, research and development to be approximately \$8 million, and depreciation and amortization to be approximately \$6 million.

As you can see, we're dedicated to the leverage of the business model in fiscal '22.

Now moving to EBITDA. We had negative EBITDA of \$13.1 million for the current year, compared to negative EBITDA of \$9.7 million in the prior year.

2021 was impacted by a timing shift of product revenues to the '22, due to the supply chain issues we mentioned and overruns on costs associated with the logistical challenges we've been facing.

As we leverage our infrastructure and deliver core revenue growth, our goal continues to be driving towards positive EBITDA contribution, over the coming periods.

So, given the impact to revenues and gross margins primarily from the logistical challenges in 2021, we did fall short of our adjusted EBITDA and cash flow targets for '21. And as a result, we worked with our lenders and entered into various amendments and waivers with them, to address the non-compliance with covenants on June 30th, and also more importantly, provide us with further flexibility in the coming periods.

We are also in the process of renewing our facility with our bank in Australia and pleased to report that we expect to expand the size of our credit facility there and extend the maturity date to September of '23.

We are certainly grateful that our banking partners in both the U.S. and Australia have worked with us and have been flexible, as we navigate through these COVID-related logistical challenges. But this is clearly going to continue to be an area of focus for us in the coming periods.

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

Mark Wong

Thanks, Matt. And just reminding everybody, one or two key points. We're very excited about our Stevia agreement with Ingredion. That's number one. Number two, the story we are seeing for 2022 has improved gross profit margins, over what we saw in 2021. That's because we put in price increases that we think are fair to the farmer and we're doing cost control on our cost of goods.

In addition, of course, the success of Double Team, this first big selling season plus the next few years in the future is adding to our gross profit margin as a percent because the traits are very profitable and add to our gross profit dollars.

So, we're looking for a good year in 2022, even with COVID sort of casting difficult operating conditions on our business and other businesses around the world. And we appreciate everyone joining the call today. So, thank you very much and everybody have a good day. Bye-bye now.

QUESTION AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2."

At this time, we will pause, momentarily, to assemble our roster.

The first question comes from Sarkis Sherbetchyan from B. Riley Securities. You may go ahead.

Sarkis Sherbetchyan

Hi. Good morning and thank for taking my question here. I just wanted to start off with the annual guidance, right? If I look at the core \$80 million to \$85 million revenue guidance range, that includes \$5 million that slipped from the prior fiscal year into this year.

So, I guess, if I subtract that the real kind of sales number that you're expecting is between \$75 million and \$80 million. Maybe if you can break down how that guidance range for the top line relates to your prior to the pre-announcement guidance range of \$78 million to \$81 million for core sales? And I have a follow-up.

Mark Wong

Yeah. So Sarkis, that is correct, what you state. But I think it's important for everyone to remember that on the other end of the fiscal year for '22, so that would be the fourth quarter, we are basically not projecting those sales that swaps over from '21 into '22. We are not projecting those sales to be in '22. We are projecting those sales to be in '23, okay.

So, the amount of seed that we feel, especially in alfalfa, that we can ship at the end of the '22 fiscal year, we're being very conservative and we're saying that, that those sales are going to be in the '23 fiscal year. And that's why the '22 number is a bit lower than, I think some people expected.

There's a couple of reasons for that. One is obviously COVID, and the difficulty we're having with shipping schedules, that's mainly containerized shipments to the Middle East, because most of that seed that we are not counting in '22 that we move to '23 is in fact alfalfa, non-dormant alfalfa. But the other reason is, we've been pulling non-dormant alfalfa inventories down.

And we basically on the non-dormant side, we still have dormant alfalfa inventories. But on the non-dormant side, we don't have any inventory left, and we're going to be shipping out of new crop production, mainly from Australia, right?

Remember, as Matt said, we had some gains on sale of assets and that was one of our plants in California. And so, we're shipping our alfalfa out of our Nampa, Idaho, plant, but we are--excuse me, our Boise, Idaho, plant, Boise, Nampa its right between them.

But we are not expecting that the new crop that comes off in Australia in sort of April, May is going to be able to be cleaned on time and prepared on time, in terms of coatings and blending and bagging to make with these additional shipping problems because again, we're assuming COVID for the full 2022-year that we will not be able to ship those shipments that for the last three or four years were in sort of the current fiscal year that those will be pushed back one fiscal year into 2023.

And in fact, that's why the number's a little bit lower, I think, than most people are expecting from us.

Sarkis Sherbetchyan

Got it. And I guess is there any type of product line that maybe is underperforming relative to your prior expectations? I think in the pre-announcement, you mentioned a few potential delays on certifications for some products, et cetera.

Care to kind of delineate that. And then as a kind of follow on or add on to that, what are you expecting Double Team sorghum has or contributes to fiscal '22 sales? Can you maybe provide some numbers to the statements of it being essentially robust?

Mark Wong

Sure. So, the Double Team sales, we are still, as I said in the pre-record, we're still waiting for final yield data on each crop, on the crops that the key farmers that we chose to buy our seed this year since we were sold out. We were very judicious on making sure good farmers who are what we call bell cow farmers.

They're the ones that other farmers look to in their particular region, that those good farmers or best farmers had access to the seed, purchase the seed from us, so that they could get a real feel for the performance of the product.

So, it's hard right now to give you too much guidance. I think, in maybe the second quarter we will know more, although, in the U.S., we don't really start us our sales booking season until December.

And so, that will be a tight sort of forecast. But by the third quarter, we should really have a pretty strong view of what the Double Team sales are going to be for fiscal year '22.

So, I don't mean to kick the can down the road, but the farmers have to--they're sort of show me kind of guys and you've got to have yields on top of how good the crop looks in the field in terms of no weeds and no damage to the sorghum. You still got to have yield, and until we get that data in, which is coming in now through sort of October, it's hard to sort of forecast it.

So, sorry about that.

And your first question again, Sarkis?

Sarkis Sherbetchyan

It's aside from the Double Team sorghum, I was wondering if there are any other crop lines, which are potentially under performance--

Mark Wong

--Oh, yeah, yeah, yeah, you said registration.

Sarkis Sherbetchyan

--(INAUDIBLE) to be a little bit lighter.

Mark Wong

Yeah. The registrations are a problem as we've said before because Saudi has sort of changed the rules and what used to take was kind of a desktop operation or a submission where you gathered data from other customers experience and then submitted them to the Saudi's or from our own R&D plots. It's a bit more complicated process, now.

So, that's moving ahead. But this is all in the spirit of trying to create a much more proprietary product line, especially in alfalfa. And that is a goal because margins, we believe, in alfalfa are too thin, and we need to have more proprietary stickiness with the customer, so that we can hold prices in all markets and that our average gross profit margins will go up.

So that's really, I said in my comments, and I think Matt also echoed the comments, gross profit margins look in the first quarter pretty good. And we're still--the price increases that we put through and announced to our customer base won't really start hitting for another quarter or two.

Remember, those price increases are on new orders that are the bulk of the 2022 fiscal year. The old orders that we're still shipping out of '21 bookings, those are at reduced prices.

So, margins in the first quarter have rebounded--that's a good thing, and--but they will even get better as we go through the rest of '22 because we've got price increases coming in both the U.S. and Australian markets.

And as Matt said, those are the two places that we expect, in addition to the Middle East, to have the most positive sales gains.

I hope that answered your question.

Sarkis Sherbetchyan

Okay. I'm going to hop back into the queue to allow others to ask questions. Thanks.

Mark Wong

Sure thing. Thanks.

Operator

Our next question comes from Ben Klieve from Lake Street Capital Markets. You may go ahead.

Ben Klieve

All right. Thanks for taking my questions. First one regarding to the near-term outlook and the logistical headwinds that you're facing. Can you help us understand the degree to which these logistical issues are impacting your ability to ramp inventory across your big products coming out of R&D, so the clones out of Stevia, herbicide tolerance sorghum and IQ alfalfa, are those plans on track or are the logistical issues impacting that?

Mark Wong

Yeah, so great question, Ben. So, one thing that's nice about our business is, while the seed is in development and testing. So that process that you describe where we're sorting through the genetic variation in a crop. We do that with standard breeding techniques, but also, we use molecular techniques to look at the DNA inside the breeding lines.

All of that stuff is actually under our control, right? And it's small volumes. So, there's never a truckload quantity, until much later down the process when we're actually selling seed to our seed production growers.

So, those things are not really very effected, by COVID. So, the fact that we have a product that when you plant it, it grows into the product you're going to sell, so we don't have any real issues with people supplying parts or chips or anything that we need, like automobiles to keep our production line going.

We're in charge of our own production line, and we have the product that grows into the product that we're going to sell to a farmer. So, that's actually not a problem during COVID, the question you asked.

The problem is later, when we have large amounts of seed, and I should know how many containers per year that we sell, but it's hundreds. It's at that point that we're sort of at the mercy of changing shipping schedules and stuff like that and port closures and reinfections of different populations around the world. Two of the ports in Australia are semi-closed, right now.

So, it's later on in the sales process, as we bulk up to larger amounts of seed. That's when it's a problem. But at the beginning, when we're in control of the seed and making decisions about breeding and development, that's pretty much not affected by COVID.

Ben Klieve

Got it. Okay. That's helpful. And I think you already answered this question, but I'm going to re-ask, or I'm going to ask, anyways.

When you look at the kind of geographic on products, challenges that you're facing--which everybody is facing--I totally get it--is it fair to say that the biggest challenges you're facing here are on the international side and, specifically, with alfalfa and that the maybe the domestic business, particularly sorghum, is not facing as big of a challenge?

Mark Wong

I think that's fair. I mean, I'd say it a little bit differently. The international shipments, especially to the Middle East that are coming out of mainly Australia and some out of the U.S., are the major problem. Trucking in the U.S. is a bit of a problem. It's not like normal.

So, we opened in '21 a couple more warehouse sales depots, so that we could move product back towards the Mississippi River, basically, and have that available for farmers. That's one place where we had some additional expenses that--that we didn't budget for in '21.

So, but it's a trucking issue, right? It's not a container unloading issue. Those pictures that people see of the ships in LA, waiting or San Diego waiting to come into port. And the crane operators running at half capacity because crane operators are sick or went to other jobs. I mean, that problem obviously doesn't exist if you're working with trucking.

But we do have some U.S. product that comes from overseas, and that product is coming by ship, and so that can be delayed.

But in general, yes, you're correct. It's mostly the container based international shipping. In Australia, there's trucking issues, also, and we're moving distribution of our products, both the production of them and the distribution of them, storage of them back to the eastern part of Australia, which are where the markets are.

So, it's kind of the same philosophy that we've taken in the U.S. as we--in the U.S., we want to be close as we can to the Western corn belt, in terms of plants and office operations and sales operations, and we're following the same thing in Australia.

So, we're moving a bit from the Adelaide area back east in Australia because Adelaide's really been the traditional alfalfa production area, and we're moving back on a production basis.

We leased the new plant back in the Eastern part of Australia, and we think that that's going to allow us to be able to control our cost and cut our delivery times to Australian customers.

Ben Klieve

Got it. That's all helpful context. I'll ask one more big picture question for the longer term, and then I'll get back in queue. All these challenges that you're facing, I mean, I get it, I think everybody gets it; everybody's facing it.

But curious the degree to which you see kind of these issues unfolding here in the context of your fiscal--the kind of longer-term outlook that you laid out for--into fiscal '24, and beyond, that you laid out last, I guess December, when you provided the tech update.

Is that kind of trajectory still in line through '24, is these headwinds that you're facing caused you to revisit that at all?

Mark Wong

No, we think that trajectory is still in line. Obviously, it was a high growth, high profitability trajectory, but we still think those numbers are achievable, both on a sales and margin basis. As I said, Double Team is performing super well, so that's a plus.

And the Stevia deal with Ingredion, at the time that we did those forecasts, we obviously were already talking to Ingredion, but now we have a much better feel for what the sales growth might be in our leaf sales, because remember we're selling leaf, not seed in that case because it's a closed loop deal.

We're thinking that, certainly, by the end of that timeframe that Stevia will have a significant financial effect on the performance of S&W.

Ben Klieve

That does it for me. Best of luck. And based on all these logistical issues, I'll get back in queue.

Mark Wong

Thank you, Ben.

Operator

Again, if you have a question, please press “*”, then “1”. Our next question comes from Gerry Sweeney. You may go ahead.

Gerry Sweeney

Hey. Good morning, Mark, and Matt. Thanks for taking my call.

Mark Wong

Good morning, Gerry.

Gerry Sweeney

Mark, we've talked a little bit about the strategy in Double Team sorghum and part of that is licensing it to other larger players and distributors because, obviously, their access to the market.

How is that strategy playing out, right now, or is that still sort of linked to waiting to see how this- the yields come back on this harvest for the Double Team sorghum?

Mark Wong

Yeah, it's a little too early to give you anything definitive but an excellent question. We're following, as I've said before, and of the Monsanto strategy that carried them to super high profits in the 2000s.

We basically put these genes in our own seeds and sell those to farmers because they're so profitable and it drives proprietariness of our product line and share shift to us. It differentiates us, certainly, from the sorghum companies that are of our size. But also, we license those traits to other companies.

And the two target companies are Bayer, and Corteva, who have, respectively, the cow and Pioneer brands. They're probably between them 45% of the sorghum, grain sorghum sales market, which is our main target for Double Team.

So, they are significant, and that's why your question is an excellent one and so on point.

And we're waiting for yield data. We're obviously speaking to both of those companies. We know them well. They know us well, but they want to see, also, what the farmers experience is and then yield data is kind of the last hurdle to move through, in terms of having people really understand that your traits give protection and that the farmer has significant positive results.

And of course, as we see more years of results in the field and we get more acres of Double Team in the market, we'll begin to understand the benefits of the trait, and we will have discussions about what is

fair pricing and all of those kind of things for the farmer. And we've been conservative on estimating what the benefits to the farmer are.

So, we're hoping that as we learn more, we'll find out that the product actually performs better than what our forecast and estimates, internally, show.

Gerry Sweeney

Got it. Then switching gears to the Ingredion agreement. What are the steps from say, the agreement, today, to harvesting some leaves?

Mark Wong

Sure. So, a little bit of background on the industry is probably appropriate. So, the leaves production basically that supplies most of the world market is done in China and other countries in Asia, but mainly China for cost reasons.

And Ingredion purchased a company a year, year, and a half ago, that basically the company is called Pure Circle and they basically were in the leaf production and extraction business.

And so, the only large extraction plant for taking Stevia out of leaves is in China and the only purification plant for then, taking that material and processing it into the white powders that are sold to the food industry is, I think it's in Singapore or Malaysia.

And those are historical issues, right now. If you built new plants, you'd build them next to each other for logistics and cost reasons. That's what's going to happen in the future. But right now, the only big extraction plant is in China.

It's hard to believe that, given the sort of \$1 billion market size plus, worldwide, that that's the case, but that is in fact the case.

And so, our agreement is, basically, we grow into this very unique three-year system that uses our proprietary germ plasm and establishes cost that's competitive with China.

But the only way to get real production information in terms of yields of final amounts of Stevia is by taking your leaf to China and having the leaf go through that production plant, because there is no other production plant anywhere in the world.

And so, that's what the first step of our agreement with Ingredion is, is to basically take our unique germ plasm that's been produced with this clever three-year production system and see what the real yields are.

We expect that deals are going to be as we have predicted because we have good science, and we know how to analyze Stevia leaf and we break down our production and yields into about fifteen different rebaudiosides or Stevianoids.

And we follow each of them in all of our breeding lines, and we have every expectation that out of the plant, you're going to see the kind of yields that we're projecting from our breeding materials.

But it's like everything else—you're not going to commit to \$250 million to \$350 million to build a new extraction and purification plant side by side. And those would be built in the U.S., so that's where the new plants would be built. Until you get this verifying data of our leaf--of our production--research production data, it's scale up, right?

It's what ag always goes through. There are these scale up steps and this is the next one, and that's what this deal with Ingredion will get us through, and then we're in discussions about where our plant would be built and how big it will be and all of those kinds of things.

So, that's in the future. But yes, we're partners with the unique production in germ plasm with the biggest Stevia seller, and there will be production in the U.S. And the only question is how long and how big will that production be?

Gerry Sweeney

Got it. I appreciate it. That's it for me. Thanks.

Mark Wong

Yeah. Thanks, Gerry.

Operator

Our next question comes from Jonathan Fite of KMF Investments. You may go ahead.

Jonathan Fite

Good morning, Mark. Good morning, Matt. Thanks for your time, today. I appreciate the updates.

Mark Wong

Yeah. Sure, Jonathan.

Jonathan Fite

I had a couple of follow-up questions. It's good to hear the discussions with both the U.S. and Australian banks are going well.

But given your prognosis for some degree of cash burn over the next couple of quarters as you guys kind of get to EBITDA breakeven and just looking at the June balance sheet with a couple of million dollars on hand, just wondering about the progression of accounts receivable collection, inventory conversion and kind of where kind of cash stands today and how you're looking at cash management over the next couple of quarters?

Mark Wong

Yeah, sure. Great question. And when a company has EBITDA losses like S&W has, it's always a fair question and it's one that the investors should ask.

So, we obviously understand that the balance sheet is what powers the income statement. And that's kind of what entrepreneurs do understand that maybe when you're in a bigger company and you can just call treasury to come up with more funds, you don't understand that. But in a small company, you do understand that.

So, we've been pretty good at creating opportunities, whether they be through sales of assets or new deals that generate cash that is non-dilutive, so we don't sell shares to the other party to generate that cash.

And obviously, we are working on some of those things. And if we can't raise enough cash through those means, we expect more towards the end of the year that, potentially, there'll be small sales of equity to make sure that we do have enough working capital to continue the operations of the company.

Jonathan Fite

Okay. We'll look forward to those updates. I appreciate that.

Mark Wong

Thanks.

Jonathan Fite

Thank you.

Operator

Our next question is a follow-up from Sarkis Sherbetchyan from B. Riley Securities. You may go ahead.

Sarkis Sherbetchyan

Hey. Thank you for taking the follow-up. Just a real quick one, I think we talked about gross margin in the prepared remarks and the Q&A session. I suppose qualitatively, it's going to be good.

Can you frame a number around that? It sounds like 1Q is going to benefit from the \$5 million incremental that slipped in from the prior quarter. But I guess either for the annual period or the cadence of margins, can you guys just kind of frame a number to those?

Mark Wong

Yeah. So Matt, maybe you want to try to answer Sarkis question, please?

Matthew Szot

Yeah. Sarkis, as Mark mentioned, we certainly are seeing a nice improvement in Q1 gross margins.

And as a reminder to all, Q1 is, primarily, a non-dormant alfalfa quarter which, historically, has carried thinner margins. But we're really encouraged for--results are still fine, are not preliminary, and we have shipments coming down to the line here, over the next couple of days. But margins in Q1 will probably be up eight percentage points, year over year, for Q1, which is obviously a nice improvement and we're really encouraged by that.

And Mark talked about we're still sort of in the early innings of the various initiatives that we're putting in place to expand gross margins in '22 and future periods.

But as we look out for the full year, I mean I think it's mid twenty, 25% range gross margins, which again is probably close to eight percentage point improvement, year over year, is what we're expecting.

And we're excited about the launching Double Team and as we move more and more products to a proprietary nature, that certainly is providing the runway to expand margins and get to those gross margin targets that we talked about in our three and five- and ten-year plans.

Sarkis Sherbetchyan

Okay. That's all for me. Thank you.

Operator

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

CONCLUSION

Mark Wong

Thanks very much. And I want to just thank everyone for being on the call, today. The message I'd just like to leave everybody with is that '22 is also going to be another good year in terms of growth, but a better year in terms of margins.

As Matt's laid out, potentially, 8% improvement in actual margins, gross profit margins for the 2022 year, over 2021. Double Team is looking really, good, and as we gather more yield information, we'll be updating investors on our view of how those sales and margins are looking.

And again, Stevia to remember, it's a bigger addressable market for us. It's moving up towards the customer and supplying a raw material to people who then, like Ingredion, make it into a product that they sell to consumers and to manufacturers.

So, we're excited about all those changes. It's been hard earned over the four years that I've been here.

Teams really done a great job. And yes, we had a little hiccup in 2021. And I think COVID has sort of kicked us and we've learned how to manage the business a little bit better as we should when the business is under stress.

And so, we're looking forward to a good 2022. So, thanks again, everybody, and thanks for being on the call. Bye bye.

Operator

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

