

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



**Third Quarter Fiscal Year 2022 Financial Results
Conference Call**

**Monday, May 16, 2022
11:00 A.M. Eastern**

CORPORATE PARTICIPANTS

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

Betsy Horton – 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 Third Quarter Fiscal Year 2022 financial results conference call. All participants will be in listen-only mode. Should you need 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 * then 1 on your touch tone phone. 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

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 2022, ended March 31, 2022. With us on the call, representing the company today, are Mr. Mark Wong, President and Chief Executive Officer and Betsy Horton, the company's Chief Financial Officer. At the conclusion of today's prepared remarks, we will open the call for a question-and-answer session.

Please note that management will be referencing a slide presentation during this call that is available on the company's web site. You can visit the website -- www.swseedco.com. Click on the investor tab along the top, green ribbon and you will see the slide presentation available on the front page there, titled Strategic Review Key Centers of Value. Before we begin with prepared remarks, say, a couple of comments here.

First off, 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 27(a) of the Securities Act of 1933, as amended, and Section 21(e) 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.

It includes statements such as the company's revenue guidance for fiscal 2022 and statements regarding the achievement of the company's business objectives and recent strategic review. 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 risk 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, 2021, and other filings made by the company with the Securities and Exchange Commission.

In addition, to supplement S&W's financial results reported in accordance with U.S. generally-accepted accounting principles, or GAAP, the company is reporting non-GAAP measures during this call, including adjusted margins and EBITDA. These non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures, should be read on conjunction with the company's consolidated financial statements prepared in accordance with GAAP, have no standardized meaning prescribed by GAAP, and are not prepared under any comprehensive set of accounting rules or principles.

A description of these non-GAAP measures and reconciliations of non-GAAP, to the nearest-comparable GAAP measures, are included at the end of the company's earnings release issued earlier today, which has been posted on the investor relations page of the company's website. So, with all that said, let me turn the call over to Mark Wong, Chief Executive Officer, for S&W Company. Mark, please proceed.

Mark Wong

Thank you so much, Robert, and welcome on this happy Monday morning to everyone who's on the call today. It's that time of year for S&W, when we book our sales in the third and fourth quarter and that's because in the northern hemisphere, and remember that our offices are in Longmont, Colorado, where I'm calling you from, we are planting like crazy and then, because our business in the Australian market, our other big market is winter planted forage crops. We're also planting forage crops with farmers and so, that's why our third and fourth quarters are always the largest for us.

So, as Robert said, we have a presentation for you today. You can go on the website, please, and get that and I am going to be referencing slides as I go through the presentation today. It's a little bit, or a lot, I hope, of a new way of looking at our business for those of you who are shareholders or follow the company and we're very excited because we think it's a much cleaner way to match our opportunities and our expenditures for the future.



So, I'll go first in the presentation to slide 3, and you'll see in slide 3, that we're trying to break our business down after undergoing a strategic review with senior management here at S&W. We're going to talk to you now, this year and in the future, about our four, key centers of value. And on slide 3 in our presentation, again if you go to the website and pull that down, you'll see that those centers of value are U.S. sorghum and sorghum technology; and then forage products -- international forage products in Australia and the Middle East; our specialty crops, which I'm going to talk a little bit more about, which are stevia and a crop which I've mentioned before I think, but not giving much detail, which is camelina; and then, I'm going to talk about for U.S. forage and alfalfa.

So, if you all stay with me on that presentation and I will reference the slides as we go along. So, on slide 4, you'll see that in focusing on these four major businesses of opportunity, we also think that we are going to be able to reduce our OpEx about \$5 million and you'll be hearing more about that, in terms of details in the future. And so, a lot of you have seen, we've announced a partnering of our wheat program, with a couple of other companies that have formed a JV called Trigall Genetics and we're going to call that Trigall Australia.

They are a worldwide wheat breeding company, with operations in Europe and in South America and they bring to the partnership, also, a gene for drought tolerance, called HB4, and that gene is included in our partnership, and we will develop that gene in Australia, in wheat. We have also made a streamlining of our European sunflower operations. We've talked a little about that before. In the process of selling some of that germ plasm in the form of germ plasm licenses to various companies, but we have basically rationalized our Hungarian operations and saved about \$700,000 a year in operating costs.

And then, because we are still losing a little bit of money, we've raised about \$11.2 million through our ATM through the months of February and March. So, a very busy time for S&W on lots of fronts.

I'm going to give you a little bit of a description of each of those four growth areas. So, on slide 5, the first one is a little bit of discussion about the U.S. sorghum technology and our Double Team trait. You've heard me talk about this trait before.

It's basically a trait that we embedded in grain sorghum, which allows the farmer to spray over the top and kill grass/weeds and that's important because sorghum is itself a grass and you would kill the sorghum and all of the grass/weeds without the protection of our gene. And so, that has been a product that farmers have been really signing up to buy. We're basically sold out again in the '22 season, as we were in the '21 season, and we're looking to the '23 season as our first really big year of sales and that's because it takes just that long to grow the hybrids, the mom and dad seeds that you need to produce the hybrids that you're going to sell to a farmer.

So, on that slide 5, you'll see some numbers. Our sorghum business, about \$10 million in sales in 2020, moving to \$11 (million), where we had a little bit of Double Team sales, to \$13 million this year, where we had a few million bucks of Double Team sales, to \$22 million, where we're going to have a significant amount of Double Team sales and, obviously, in future earnings calls we'll be talking about our progress there.



So, we also think that we have additional genes coming. We've talked about that also before. So, it's a robust R&D platform. Basically, the second gene we've talked about is a durain-free gene and the usefulness of that gene, why the farmers want to buy, that durain-free is a precursor to hydrogen cyanide. Obviously, a compound that can either kill or make cows and sheep very sick and so, our hybrids do not have any durain in them. They're durian-free and so, they don't make the cows sick because they don't have the precursors to hydrogen cyanide.

So, we're pretty excited about that crop and that crop continues to be in development. It's still probably three or four years out from the first sales. But, we like to have additional genes coming. We were birthed in the cradle of Monsanto, where stack genes were really important. So, we know the value of additional genes in each of our crops. Going on to slide 6, just a little bit about our international forage business, so really that's our business that we have in Australia.

A lot of these crops are fall-planted crops, so, they're planning in the southern hemisphere now, as we plant in the spring crops in the northern hemisphere, and we're talking about alfalfa and the clovers and vetch and forage cereals and grasses and other pasture species like that. As you guys know, who have followed the company, we're fairly dominant in the market in Australia. We have a relatively large business there, with strong distribution.

And then, we also sell from Australia to 30 other countries, including the Middle East, mainly to the dairy industry, and it's mainly alfalfa varieties that are used in the dairy industry there. Moving on to slide 7, if you're following me in the deck. This is a little bit of a new description for everybody, so I've talked about these crops before, but now we're grouping them in a category that we're calling specialty crops.

So, stevia is the first one on the left there of that slide, number 7, and it is, as you all know, a non-caloric sweetener with a very fast-growing market around the world and we have an agreement with Ingredion to test our materials so that Ingredion can basically grow stevia leaf in the United States, and then process that leaf and sell it to the U.S. stevia market, which is the largest market in the world.

It doesn't take much imagination to look at the 200 ships outside of Shanghai harbor and understand that building supply closer to the market is something that everybody is trying to do right now, and we think producing your stevia in America for the U.S. market is going to be the simplest, easiest, and most profitable opportunity for Stevia leaf in the next decade.

But the crop that I really want to spend a little time talking about, which I've mentioned before, is camelina. So, camelina is in the brassica seed family. It's an oil-seed crop, so it is in the same family as canola seed and mustard seed. It has a very yellow flower like mustard seed and canola. The crop itself is planted as a second crop. So, our parents always told us, they weren't making any more acres of farmland, well, so, farmers around the world are going to take that same acre where they grow food as their major crop, and they're going to plant a second crop, a winter crop, on that same acre, after corn or wheat or soybeans or sorghum, and they're going to plant something like camelina.

And camelina is a cover crop that people have been reading about, but it's a harvestable cover crop. It's a useful cover crop. It produces oil that you can harvest and send to a biodiesel facility



and make into a low-CI, a low-carbon fuel, like diesel. Or you can frac it to jet fuel, but it's a huge opportunity to basically provide vegetable oils as the source of transportation fuels rather than suck petroleum out of the ground, which is going to release a carbon to the air and make a problem of global warming more difficult.

So, we basically use the sunlight to grow these oils in a second crop so we don't compete with the food industry for that acre. The farmer gets the benefit of planting a second crop, which he can sell, and he can make additional revenue on, and that's going to be just a huge opportunity for the world and for U.S. farmers in particular. It's our calculations, actually, because the diesel market is so large in the U.S., that if you planted camelina as a second crop on every acre, so you still have all the food acres, about 360 million acres of food acres in the U.S., but if you planted camelina on every acre of cropland that's farmed in America, you still could not produce enough oil to supply all of the diesel needs in a typical year of America.

So, it's just a huge opportunity and it's catching a lot of interest from lots of companies. So, I'm going to go on to the next slide, where I've just given you a couple of recent industry deals, activities. And these are all from the month of February of this year. So, you now, 60-day-old kind of stuff. Chevron purchased a public company called Renewable Energy Group for about \$3.1 (billion) - \$3.2 billion in February. BP signed a deal with Nuseed to produce these renewable fuels and jet fuel from a company that is a cousin of camelina, called carinata, in Australia, where we also obviously have a big footprint on the farming industry and hope to move our biofuels business not just in America, but to Australia, eventually.

And, that deal was also done in February. And the third deal I've listed there is Exxon invested \$125 million in Global Clean Energy, a company that they had an offtake agreement with previously. But that's to use camelina to produce biodiesel in their Bakersfield, California plant. So, lots of deals being done. Lots of oil companies looking around for partners. There's probably fewer partners in the ag space than there are oil companies looking for partners.

We've actually been talking to partners for about a year, but we haven't come to an agreement with anybody because we wanted to choose the right partners. So, that will be news, hopefully, coming here reasonably soon, about who that partner might be.

Now, going on to slide 9. Now I'm the fourth of our four key businesses -- growth areas. The U.S. forage and alfalfa business. This one got a mixed report card.

We're trying to figure out what to, do there. Basically, the problem is that the dairy industry, which used to be a northern U.S. industry, Michigan, Wisconsin, New York state. Think about those places. It's a dormant alfalfa market. That means that the alfalfa can survive the winter because it goes into dormancy. As you guys on the call might remember, I was in the dairy industry previously, milking about 10,000 cows down in Florida.

Love the dairy industry, but the dairy industry has changed over the last few decades and those cows, those dairies, are moving south. And so, the states of Colorado, New Mexico, Arizona, Texas have been the growth areas for the dairy industry and those traditional states of Michigan, Wisconsin, and New York state have been losing dairy cow head count. And the problem for us is the dormant alfalfa people, when you go to those warm states, you don't need dormant alfalfa anymore, you need non-dormant alfalfa.



And so, we're trying to figure out and deal with that. I'll just give you a little bit of a feel, based on my dairy experience. So those northern dairies, if you can get 60 - 75 pounds of milk per cow per day, that's the sort of metric for measurement of your efficiency of feed conversion. You know, that's a pretty good yield on cows. But in the warmer states, because the cows like it. It's, like going on vacation to Florida -- the cows are happier. They yield 100 pounds of milk per cow per day instead of that 65 - 75 and that's why the industry has migrated south because of the higher feed efficiencies and the higher milk yields per cow.

So, the dairy industry is more profitable in those warmer states than it is in the cooler states. And the dairies are bigger. So, that slide shows our sales being kind of flat, around that \$11 million revenue range, and we will be trying to figure out what to do with those assets there. We have a -- the assets include a big germ plasm base that we purchased from Pioneer, so there's many, many, decades of Pioneer plant breeding embedded in that germ plasm base and the germ plasm has the reputation of being the most disease resistant germ plasm around in the country.

So, we're looking at options for that. And we also have a state-of-the-art breeding station that's two, three years old up in Napa, Idaho. And then, we have a production plant that can be used to clean seeds, both alfalfa and then this camelina that I mentioned, as the oil seed second crop that we're looking for biofuels. So, all those are very exciting things and I'd just like to summarize, kind of, where we are and just say that you're going to be hearing more from us about these four areas. These four, key centers of value and that would be, again the U.S. sorghum with genes business, number two, the international forage business that is basically our Australian business and our Australian export business, these two specialty crops that we're so excited about, stevia and camelina, and then the forage -- U.S. forage alfalfa business that has seen cow migration and is challenging us to decide on what opportunity, really, we should make of that.

And so, we are realigning our cost structure to support these four businesses and to reflect what we think is the opportunity in each of those. And in the short run, as you saw from the Double Team slide, we're expecting a big growth in Double Team sales next year. It will be our third year in the market.

Finally, our seed production is catching up to the demand and we can supply more bags of hybrid seed to more customers and we expect a significant amount of market share gain there. And, if you go to slide 5, you can see our sales numbers there. So, with that, I'm just going to end my part of the conversation here and turn the call presentation over to Betsy, our CFO, will go through the numbers and some details with you. Betsy, please.

Betsy Horton

Yeah, great. Thank you, Mark. And thanks to everyone joining us on the call this morning. Let's start on the revenue line. Core revenue, which excludes revenue to Pioneer, was \$23.2 million for the third quarter, a decrease of 2.9% compared to \$23.9 million in the third quarter of the prior year. The decrease in core revenue for the quarter was due to a few factors.

First, a decrease in Australian domestic revenue of approximately \$2.5 million, due to non-recurring discounted stock sales that occurred in Q3 of 2021. Second, timing pushback of



Australian domestic sales, due to the unseasonable, heavy rainfall. And third, \$500,000 lower services revenue, quarter-over-quarter. These three factors were offset by higher U.S. sales this quarter compared to last year, both from DT sorghum sales and alfalfa sales into the Middle East.

An important note we've made in the past that I want to reiterate today, core revenue and total revenue will be the same number in fiscal 2022. We will continue to reference core revenue as long as we are comparing against fiscal 2021 numbers. Our prior year, Q3 results include revenues from Pioneer of \$8.5 million, which brought year-ago total revenues to \$32.4 million.

As was discussed during the last few calls, we, like many other companies, are experiencing certain supply chain and logistical challenges, which is resulting in a shift of the revenues to the right. You may recall, we had about \$5 million of revenue slated for Q4 '21, which shifted into Q1. Then, in Q1, the amount shifting forward reduced to \$3 million.

We're now seeing that \$3 million still being delayed into Q4. The limited availability of overseas containers and ongoing congestion at the ports continues to delay shipments and complicate our operations. We have tried to be as transparent about these shifts as we can and expect these dynamics to persist. The annual revenue guidance we have put forth, of \$80 (million) - \$85 million takes into account these dynamics to the extent we can forecast. Therefore, we have already accounted for certain shipments we would have historically made in June, that will likely shift into fiscal 2023.

Now, turning to margins, GAAP gross margins were 11.7% compared to 19.1% in the prior year's third quarter. Adjusted gross margins, which excludes the impact of inventory write downs, were 16.6% in the third quarter, compared to adjusted gross margins of 20% in the third quarter of the prior year. However, if we were to exclude the contributions from Pioneer from last year's results, which again were not repeated this quarter, adjusted gross margins last year would have been only 15%.

So, when you look at the improvements made during the quarter on a relative, apples-to-apples basis, margins improved by 160 basis points. Unfortunately, this margin improvement is disappointing and would have been better by 500 basis points. However, unexpected higher production costs impacted our margins, due to lower than anticipated volumes, inflation, and logistical costs.

We have also implemented a new inventory reserve process in Q3 that added to our inventory write down. Historically, the company has taken write downs at the point at which the requirement, or the lower of cost or market adjustment has been met. Going forward, in consultation with our auditors, we are going to accrue for a reserve each quarter, with the goal of better matching the timing of the cost with benefits.

We believe this will minimize the large, one-time inventory write-down that had been prevalent in our business. Now, we'll transition to operating expenses. Our GAAP operating expenses for the third quarter of fiscal 2022, were \$8.9 million, compared to \$8.2 million in the third quarter of the prior year. Please remember that last year, we had a \$1.3 million gain on disposal of property, plant and equipment that was reflected as a reversal of operating expenses.



When you exclude that gain, we showed a decrease in OpEx by about \$600,00 for the quarter. This is from lower R&D and gene expenses across the company. And the beginning of the work that Mark mentioned, we are aligning our cost structure to support our key centers of value. As such, we have a plan to operate -- to reduce operating expenses by about \$5 million annually, as Mark mentioned.

I'll go into a bit more detail on this momentarily. At the adjusted EBITDA line, we had a negative EBITDA of -\$4.5 million for the current quarter, compared to negative EBITDA of -\$0.2 million in the prior year. Excluding Pioneer margin, the prior year quarter was negative EBITDA of -\$2.6 million. The biggest impact to EBITDA was the decrease in gross profits, discussed a moment ago.

Given the impact of revenues and gross margins I've walked you through, we fell short of our adjusted EBITDA and cash flow targets this quarter. As a result, we have worked with our U.S. lender and have entered into amendments and waivers with them to address the non-compliance with certain financial covenants as of March 31st, 2022. I can tell you as well that we are actively pursuing re-financing of this CIDC debt facility as this time.

I want to bring us back to the slide presentation posted on our website and that Mark went through a moment ago. In the deck, we have begun to break out our revenue by our key crops or regions. This consists of U.S. sorghum, international forage, our U.S. alfalfa, and then our specialty crops area, which at this point, is still in development stage. This is the first time we've done this, and we believe it provides important insight into the business.

We are also trying to provide some insight into what FY 2023 revenue could look like from these three areas. I want to make a very important note here that we have not included revenue from our specialty crops area in the slide presentation or any potential licensing transactions we may enter for various crops, such as Double Team, and therefore, this is not formal guidance for FY 2023. We will introduce guidance in September, in connection with our year-end conference call. It gives us a bit of a view into how we see the various businesses.

So, as I'm sure most of you have done, in adding up the three areas we have provided, today we're estimating around \$90 million in total revenue, but it may not include other revenue that could be generated from specialty crops. Additionally, I want to point out that when you look at fiscal year 2022 expectations, in adding up the three sections, you'll get to \$77 million. The delta between the \$77 million and our guidance is sales in some non-core key centers of value, such as revenue we've recognized so far this year from sunflower, wheat, and others that contributed a few million dollars.

Let's go into each section a bit more in detail, from a numbers standpoint. As you can see on slide 5, which highlights U.S. sorghum, we have seen steady growth in the last few years, but anticipate a significant uptick in revenue next year, of more than \$9 million, or 69%. Due to the high-margin nature of Double Team, which is the clear driver in this area, we'd like to note that we are also anticipating a significant increase in gross profits.

It is this driver that will largely help us achieve our goals in driving toward profitability. We believe Double Team will continue to grow in the years to come and be a continued growth and profit driver for us. Transitioning to slide 6, we see stable growth in our international forage





business. We believe we will see 8% revenue growth in this division in fiscal year 2023. As Mark mentioned, we benefit from some significant competitive advantage, including a 40-year operating history, and it provides significant value to this area.

I will skip over specialty crops and move to our U.S. alfalfa division. As you may recall, this is largely our dormant alfalfa seed business, which we originally purchased from DuPont in 2014, for about \$42 million, inclusive of a supply agreement, breeding facilities, processing facilities, and germ plasm. There was a ten-year supply agreement from which we profited over the first years of the agreement and then subsequently exited that agreement in May of 2019, receiving \$45 million and the sale of remaining inventory of \$25 million.

We continued to own all of the germ plasm, breeding stations, processing facilities, and a business that is doing about \$11 million per year in revenue. Since that facility is not running in its normal, optimal capacity, margins in this business are not where they could be. That said, this is a high-asset value business, with a strong operating history. Our goal is to leverage the assets, going forward, which may include our camelina biofuel opportunities.

As Mark mentioned, we also plan to monetize assets that don't fall within our key centers of value, such as our wheat program. We know that there is a lot of work ahead of us, but I believe we have a clear focus and a strong set of assets that have significant operational, as well as inherent value. With that, I will turn the call back over to Mark.

Mark Wong

Thanks so much, Betsy. I just want to make a couple of concluding comments. One is just that we absolutely believe that we can concentrate on the first three of our four areas of interest and that would be the sorghum technology in the U.S., the international forages, the specialty crops, and then try to work hard to figure out, as Betsy suggested, what we do with that asset base in the U.S. forage alfalfa business that we have.

We'd like people to remember and use our wheat JV as a real example of the kind of things that we believe our technology and our years of experience in the industry allow us to achieve. In that case, we partnered with people that we've known for many years. We sold part of our wheat business in the form of a JV and kept a piece. We reduced our investment, and we were able to harvest some cash out of that deal and strengthen our germ plasm position on a world-wide basis, and also have our partners contribute their HB4 gene, which we believe is going to be valuable as we see more climate change in each of the decades, going forward.

And it's in a crop that obviously has gotten a lot of press, in wheat, which because of the war in Ukraine, is selling at \$11 - \$12 a bushel, sort of almost double of what it was last year, before the war. And it just points out that supply chain issues, as well as weather conditions, can really affect the amount of grains available on the world market and we just think that these kind of strengthening moves, on our part, where we enter into really a smaller share of a bigger business, of a better business, is the kind of thing that we're looking to do.

So, thanks for joining the call today. We're really excited about the opportunities to increase the profitability in S&W, and at the same time, control our costs or reduce our cost commitments and support our four, focused centers of value. So, thank you so much for being

on the call and we'll be happy to take questions and I'll turn the call over to the operator. Thanks so much.

QUESTION AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press * then 1 on your touch tone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please * then 2. Once again, that was * then 1 to ask a question. And at this time, we will pause momentarily to assemble our roster.

And our first question will come from Ben Klieve of Lake Street Capital Markets. Please go ahead.

Ben Klieve

Hi. Thanks for taking my questions. Plenty to talk about here, but I'd like to start with one on the quarter itself, and Betsy, the comments you made around the inventory write-down issues. This has been a line item that has kind of come up quarter after quarter here for some time, and I appreciate your comments here. I'm wondering if you can address how the changes in calculating this are going to be really affecting the financials, going forward, here?

Betsy Horton

Hi, Ben. Yeah, thank you for the question. So, in the past, we've always followed the lower-coster (sic) market rules and worked with our auditors to measure germ and to look at the value of the inventory each quarter, and then reflect any write-downs that are needed along the way. I think what we recognize in the industry is that best practice is not only do that practice, but also to look at an estimate of what we think a certain portion of inventory will be subject through the cycle of that seed.

So rather than waiting until that germ hits that point in time with crops, especially like sorghum, that you have a life cycle of the product, wanting to put in a reserve to match the cost of that inventory degradation at the end of the life cycle, throughout the entire time that we are selling the product and matching that while we're taking the revenues and margins from the product. At the beginning of the life cycle, we're also building a reserve to have on board for the end of the life cycle, if that makes sense.

So, I think what it's intended to do, like I said, match the cost with the benefits, but also to smooth things over a little bit. I know in the past, we've had some pretty chunky write-offs and wanting to recognize those throughout the life rather than having them hit all at once, once those germ taps happen.

Ben Klieve

Okay. And then, just a quick follow-up question. So, that all makes good sense. Should we consider this, then, something that, the \$2 (million) - \$3 million a year of inventory write-downs



that you've had historically that we're just some level like that we're going to see, but just want a smoother run-rate basis? Or do you think the level is going to be meaningfully above or below that?

Betsy Hogan

I think, probably our historical ones is a good place to start. We are also doing a lot of efforts around our life cycle management to try and reduce that amount over time. But I would say in history is what we're using for our estimates for the reserve, going forward. So, it's a good place to start.

Ben Klieve

Okay. Fair enough. So, a lot of developments here to discuss. I'll try to limit my questions here, but first one, on camelina. Mark, I wholeheartedly agree with your comments around the opportunity provided by this crop. I'm curious, one, if you guys have done any work with this crop, historically. Maybe baked into the broad, forage category that you've discussed that I know contains a number of different species.

So, curious if you've done any work on this crop, historically? And then two, around your thoughts on penetrating this market from a greenfield perspective versus partnering with one of the couple of players that have been working on developing this crop here over the last few years.

Mark Wong

Sure, Ben. So, we have a long history in camelina with Don Panter, who ran a camelina company about a dozen years ago, and we have been breeding the crops for a few years now and we have our own germ plasm base to begin work on. I would say that, for sure, though, we're going to have a partner. It's a big market and we're full of opportunity, but we're a relatively small company.

So, we're trying to figure out whether it makes more sense to work with a big national oil and gas petroleum company or a regional one in the U.S. and so, those are the discussions that we're in right now. And it's an opportunity that we've been talking to people about for a year and like I said in my presentation, February a bunch of deals were announced, so it's pretty clear that everybody's lining up under this whole idea of a second crop for fuels that is not in competition with food production.

That's where the petroleum industry wants to go. They want use use vegetable oils as much as possible because of the low carbon footprint. So, we're trying to figure where the best opportunity for S&W is.

Ben Klieve

Yeah. Right, right. No, I think you're right. That's become increasingly clear here over the last few quarters.

One more from me and then I'll get back in the queue, on HB4. It sounds like you guys are expecting potentially a little bit of near-term cash inflow for your contributions to the JV. I'm wondering if you can outline a couple of things one, in the immediate-term cash flows, either in -flows, or potential out-flows here as this initiative takes off.



And then, longer term, I'm wondering, Mark, if you can talk about the challenges -- maybe not challenges -- but the different business model that Australian wheat has with its end-point royalty system and the degree to which you think that HB4 is something that can be effectively commercialized in that market or if that'll represent a challenge?

Mark Wong

Yeah, so, we did receive some cash up front for selling the 60% of our assets in the JV to our partners. And of course, we'll be receiving some cost savings over the current and future years, just because we're only a 40% shareholder and we're only paying 40% of the ongoing costs. So, we received cash and we reduced our expenses, and we strengthened the germ plasm base of the company because our partners our wheat guys in Europe and South America and they've been working in those markets for many, many decades.

On HB4, the challenge of all genes in food crops is what will the regulatory environment be like and what will be allowed? And HB4 for sure is a GMO and so, how Australia and consuming countries will look at the gene is in strong debate around the world.

Clearly, as supplies of wheat go down and the price goes up, there's more incentive to allow genes that would either reduce cost of production or increase yield and HB4 is a water-stress gene, so it's really a good gene for current global warming situations, where you have parts of the world that are getting dryer and dryer.

So, we're pretty excited that, and we didn't have to do the work developing the gene and everybody on the call knows how much work it is to develop a gene. We have our Double Team gene in sorghum and this is between us and our partners. These are really the only two genes that are being developed by the smaller, middle-market companies that aren't a big four. And so, we're pretty excited that our partners are pretty innovative, and that wheat is a crop that we didn't have to spend the money and the time to develop the trait, but we have the ability to help market the trait and get some of the value from the trait. So, we're pretty excited about that.

Ben Klieve

Very good. Well, thanks for that. I'll appreciate your comments and I'll get back in the queue.

Mark Wong

Sure. Thanks, Ben.

Operator

The next question comes from Kurt Caramandis with Carl M. Henning, Inc. Please go ahead.

Kurt Caramandis

Hi. Thanks for taking my call. Good to see you getting in the camelina business. I've been following that through another company I've got in the renewable diesel market. Seems to be in high gross mode -- biodiesel is probably a bigger market right now. But that seems to be a long runway, so a great opportunity for you.

My question is, with your financial plan, are you confident, basically, am I thinking about this right -- really getting to next year where Double Team really helps bring the whole boat up and gives you a lot more stability?

Mark Wong

Yeah, thanks for the question. Yes, we are confident and as Betsy said, we're in the process of renegotiating some of our bank agreements and stuff and we've been raising equity money in the market to fund our losses. So, yes, we are confident that next year is going to be a really good year for us and Double Team is going to, as Betsy also said, lead the way to profitability.

As we've said before, it's a 70% margin product and the majority of those sales gains that we showed on slide, I think it is 5, are really Double Team. So, we're very excited about that and we think it's going to make a significant difference in our EBITDA and combined with our efforts now to reduce some of our costs and to do it through some of these JV deals like wheat, where we basically get some cash up front and we save some of the money because we have a partner also paying some of the costs.

And if there's a long time to product sales, like in sunflower, we're not against, frankly, closing something down and re-assessing where our best opportunities look like. We always have a lot of irons in the fire. That's what I've been used to doing over the 40 years and the problem with that is you can get, too many things to do.

And so, we're in the process of cutting some of those back or JVing those with different people so that we can improve the strategic fit that we have in a market, improve the germ plasm base, which always the most important thing in the seed industry. And yet, concentrate on these businesses that we really have the most opportunity.

Kurt Caramandis

Great. And then, would the camelina be calendar year 2023, possibly, as far as what you're working on?

Mark Wong

Yeah, we've grown camelina as a service for other companies, which we're not permitted to disclose, but we have provided some of the camelina seed to the camelina slash bio-diesel industry already. And it's because we're in the perfect place to grow it, up in Idaho, and our plant is in the perfect location to process it and all those things are cost advantages that we think will continue to be part of our plan in camelina.

Kurt Caramandis

Great. Thank you very much.

Mark Wong

You're welcome.

Operator

The next question comes from Jonathan Fite of KMF Investments. Please go ahead.

Jonathan Fite

Hey, good morning, Mark. Good morning, Betsy. Appreciate your time.

Mark Wong

Good morning.

Jonathan Fite

I have a couple questions just on the savings opportunities and the value drivers in these non-core areas. So, when you talk about potentially capturing \$5 million in savings, are those potentially cash savings? Is it divesting of some assets you're just capturing some depreciation savings? I was wondering if you could just characterize the \$5 million savings opportunity.

Mark Wong

Yeah, we have that target as a real cash reduction of our overheads. And so, it's real cash. It's not depreciation or a non-cash item. We think that in realigning for the best opportunities, which all companies should be doing, and we also, for certain, should always be doing, that there is an opportunity to save some cost, there's the opportunity, like in the wheat deal, to improve your strategic position and save some cost and get some cash up front.

And so, we look for deals like that, too. But we're not against closing something down to save money if we think that money is better spent in one of the other core areas. And our view of some of these things continues to change as a couple of questioners have asked on this call.

The camelina thing is just a fascinating opportunity. As you look at global warming and you see the commitment of oil companies -- big-oil and regional-oil companies -- to look at these vegetable-based fuels and you see the deals that are being done. There's just not enough oil. There'll never be enough oil from ag.

And it's going to be real interesting to see how clever the ag industry is about increasing oil yields as a second crop in some of these crops like camelina and how clever the industry is also about making corn oil and soybean oil available and yet still satisfy food demands. It's going to be an interesting next ten years, for sure.

Jonathan Fite

Yeah, it seems like a very interesting opportunity, if we can get there. Can we talk about the value drivers on the non-core area? If someone else were looking at those assets, is it the revenue opportunity? Is there a pretty significant asset base that comes with that that has, maybe some balance sheet value that is maybe hidden behind accumulated depreciation? I am just wondering what of the asset base that comes along with that couple million dollars of revenues that are in that other non-core sales arena?

Mark Wong

Sure. The best opportunity for us, as a joint venture, or seller and an acquirer, is to find somebody who has incremental value in assuming the whole business. And they would be a company that's in that business already and would be able to overlay our sales on top of their current sales force and produce their seeds or plants and do their research in our research facility and get some synergies from a combination.



So, that's the type of partner that we look for first. But then, as you said, the asset base is pretty strong. So, there's germ plasm in these different areas of business that we have. There can be production plants. And so, some people that will be more of interest. But clearly, an overall value base. It's always better to find someone who wants the business as an ongoing business and sees synergy profits in acquiring it.

Jonathan Fite

And do you foresee potential JVs or sales in that space offsetting the cash burn over the next couple of quarters? Or, until we reach this breakeven point, maybe some time in 2023 or later? What's the strategy for alleviating the cash burn? Is it continued, private placements or do you think these asset sales cover that cost?

Mark Wong

There is potential that the asset sales could cover the majority of those costs. The timing is the question. Because these deals have a little bit of a life of their own. You can't always get them done on a timeline that meets all of your own requirements. And it's also the cash burn is pretty well understood by us.

So, that's why we're trying to cut real expenses to cut into that cash burn. That's why we're pointing towards Double Team, with its high margins, and going in our sorghum business from \$13 (million) to \$22 million. That's a lot of EBITDA. So, all of those things together we think are going to contribute to cutting that EBITDA loss and getting much closer to break even or profitability here in the next couple of years.

Jonathan Fite

And then, one final question. Are the assets on the Australian forage crop business portable to the U.S.? If our U.S. business is probably dormant, I'm assuming that the Australian forage crop business is largely non-dormant. Is that portable into this market, so that we can take advantage of the dairy shift to the south, or not really?

Mark Wong

It's really not portable, but you're right in asking the question. It's an excellent question. We are in the non-dormant, alfalfa business in Australia selling those seeds to the Middle East. It's very interesting. We account for about half of the production in dormant alfalfa seed in Australia.

So, we're a huge market share controller in Australia. And there really isn't the capacity, even if the costs were okay, and with the transportation costs being what they are, it really doesn't make much sense to send Australia non-dormant to the U.S. for sale. And we're supply limited, frankly, in Australia. All the seed we can grow is going to the Middle East.

Jonathan Fite

Okay.

Mark Wong

So, we have no more capacity.



Jonathan Fite

All right. Well, good luck. And I think the transition to at least eliminating the cash burn is pretty critical to then make it to the other side to benefit from these opportunities that are in the pipeline. I appreciate your efforts.

Mark Wong

Thank you. I appreciate that.

Operator

Once again, if you would like to ask a question, please press * then 1.

And our next question comes from Brett Reiss of Janney Montgomery Scott. Please go ahead.

Brett Reiss

Hi, Mark. Hi, Betsy.

Mark Wong

Good morning.

Brett Reiss

I'm just curious, with the camelina initiative, is that going to produce carbon credits that could possibly be sold on these nascent carbon credit exchanges, and is that a potential, incremental source of revenue to the company?

Mark Wong

Sure. So, right now, I think it's good to focus on the near-term -- next couple of years. And the real benefit in the next couple of years, is having a source of biodiesel that basically has high CI, has high carbon intensity -- or low carbon intensity -- sorry -- is beneficial, in terms of carbon that's released into the atmosphere.

But, the biodiesel market is pretty on fire right now, just because everyone's looking for these fuels that really are environmentally more friendly than regular diesel that's made from petroleum extraction. In the longer-term, maybe after three. And so, there are government programs in some of those crops. There's a blending credit, there's a C4 credit that is given, based on what kind of production you have converting the oils to biodiesel.

And eventually, there will be carbon credits, but the industry is trying to figure out how to measure the carbon that actually is sequestered in the soil each year. And as those technologies get better, those carbon credits will become available and they'll become more robust in the sense will really believe that that amount of carbon has actually been sequestered and those carbon credits will sell on a carbon exchange and the farmer will get the benefit of that and potentially we could also participate in that market in some way, which frankly we have not decided yet.

But, yes, the farmer for sure will generate a carbon credit and he will get benefit from that, in addition to having on every acre, a food crop, a second crop, like camelina or carinata, that is an oil-seed crop, and he will get a carbon credit. That is the future of agriculture.



Brett Reiss

Oh, interesting things happening. So, carry on, sir.

Mark Wong

Well, you're very generous, but yes, we're very excited. Some of the callers have pointed our losses and we take those seriously and we're trying to figure out, now that we've spent all the money in developing all these new products like Double Team, we definitely need to cut our cash burn and our EBITDA loss. But, we have so many opportunities. It's just a fascinating time to be in agriculture. I've been in agriculture, as everyone knows, many, many years, many decades. But this is really fantastic and a lot of fun.

Brett Reiss

Well, thanks for taking my question.

Mark Wong

Certainly.

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

No, I just want to thank everyone for attending the call today. Hopefully, we presented some information with a little bit more detail that gives all our investors, and all our prospective investors a bigger insight into what's happening in our traded U.S. sorghum business in our international forage business and specialty crop business, which as you've heard, we're very, very excited about.

And we're trying to do deals, like in our U.S. forage and alfalfa business that mimic what we did in wheat, where we basically get some cash up front, we minimize our burn because we have partner participation, and we strengthen our germ plasm positions so we're more competitive around the world. Those are win-win-win situations for S&W. So, thanks everyone for being on the call, and we look forward to talking to you all next quarter. Thanks again.

Operator

The conference is now concluded. Thank you for attending today's presentation and you may now disconnect.

