

Applied DNA Sciences, Inc.

Fiscal Q1 2019 Financial Results Conference
Call

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CORPORATE PARTICIPANTS

James Hayward – *Chairman and Chief Executive Officer*

Beth Jantzen - *Chief Financial Officer*

Clay Shorrock - *General Counsel*

PRESENTATION

Operator

Hello, and welcome to the Applied DNA Sciences Fiscal First Quarter 2019 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" 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 touchtone 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 Clay Shorrock, General Counsel. Please go ahead, sir.

Clay Shorrock

Thank you, operator. Good afternoon, everyone, and thank you for joining us for our fiscal first quarter 2019 financial results conference call. A copy of the company's earnings press release and accompanying PowerPoint presentation to this call are available for download under the Events and Presentations section to the Investors page of the Applied DNA website. With me on the call today are Dr. James Hayward, Chairman and CEO and Beth Jantzen, Chief Financial Officer.

As a reminder, please note that some of the information you will hear today during our discussion may consist of forward-looking statements, including without limitation, those regarding revenue, gross margins, operating expenses, other income and expenses, stock-based compensation expense, taxes, earnings per share, and future products. Actual results or trends could differ materially. For more information, please refer to the risk factors discussed in Applied DNA Sciences' Form 10-K filed on December 18, 2018 and Form 10-Q filed a short while ago. Applied DNA Sciences assumes no obligation to update any forward-looking statements or information.

Now, it is my pleasure to introduce our first speaker on today's call, Beth Jantzen.

Beth Jantzen

Thank you, Clay. Good afternoon, everyone, and thank you for joining us today. I would like to begin with a review of the financial performance for our fiscal first quarter of 2019, which will include a summary of our financial results, as well as our financial conditions, following the completion of our financing during this past December and the recent deficiency notices received by NASDAQ. Dr. James Hayward, our President and CEO, will then provide you with an update on the company's progress, activities, and strategies for the balance of the fiscal year.

Starting with the statement of operations, total revenues for the first fiscal quarter ended December 31, 2018, were \$884,000. This represents an approximate 37% increase compared to \$648,000 reported in the first quarter of fiscal 2018, and down approximately 26% compared to the \$1.2 million in the fourth quarter of fiscal 2018.

The year-over-year increase in revenues was primarily from an increase in service revenues from pre-commercial projects. The quarter-over-quarter decrease in revenues resulted primarily from decreased sales to the textile industry as well as a result of the implementation of the new revenue recognition accounting standard.

As required, we adopted accounting standards update number 2014-09, revenue from contracts with customers, or topic 606 at the beginning of the first quarter of fiscal 2019, using the modified retrospective method. We applied the new guidance to those contracts that were not completed as of September 30, 2018.

Based on our valuation of the new standards, we identified certain customer contracts, which require different recognition under the new guidance. For example, the shipments to our cotton customers in June 2018 that included extended payment terms and was included in deferred revenue as of September 30, 2018.

We would have continued to recognize revenue of \$383,000 per quarter for our quarters ended December 31st and March 31, 2019, if we were under the old guidance. Under the new guidance, the order would have met the criteria to be recognized in full as revenue upon shipment in June.

I want to emphasize, however, that while revenue and direct recognition of this one cotton order has changed, cash payments are being received in line with the terms of the order, and we expect our third and final payment by March 31st.

Also, revenues under certain of our research and development contracts now are being recognized over time on a cost basis based on the work performed during the period as compared to evenly over the contract term as we did historically. If we had not adopted topic 606, we would have recognized additional revenue of approximately \$391,000 during the first fiscal quarter of 2019, which would have resulted in total revenue for the first quarter of fiscal 2019 of approximately \$1.3 million.

However, because the accounting periods have passed, the impact of adopting the new guidance is recorded to retain the earnings in the period of adoption. The total gross impact to retained earnings during the first fiscal quarter of 2019 was \$494,000.

Products revenues declined approximately 8% for the first fiscal quarter of 2019 to \$322,000 compared to \$350,000 in the same quarter of fiscal 2018 and decreased approximately 46% compared to product revenue of \$597,000 in the fourth quarter of fiscal 2018.

The decrease in quarter-over-quarter product revenue was as a result of the new revenue recognition standards. If we had not adopted the new guidance, our product revenue would have been \$705,000, or an increase of 18% as compared to the fourth quarter of fiscal 2018.

Service revenues increased 89% to approximately \$562,000 during the fiscal first quarter ended December 31, 2018, compared to approximately \$298,000 for the same period in fiscal 2018 and declined by 6% on a sequential basis with the fiscal fourth quarter of 2018.

The increase in service revenues on a year-over-year basis was due to increases of \$108,000 within our Pharmaceuticals and Nutraceuticals market for pre-commercial projects, as well as an increase this quarter of approximately \$120,000 for our cannabis pre-commercial projects.

Cost of revenue as a percentage of product revenue in our fiscal first quarter of 2019 was 48% as compared to 95% for the year ago period. The decrease in cost of revenues as a percentage of product revenues is due to the product sales mix during the three months period ended December 31, 2018, being primarily comprised of textile sales, which are on a higher margin as compared to the sales in the same period in the prior fiscal year.

Total operating expenses increased in the first fiscal quarter of 2019 to \$3.9 million compared to \$3.5 million in the first fiscal quarter of 2018, and declined as compared to \$4.4 million in the fourth fiscal quarter of 2018. The increase on a year-over-year basis is primarily attributable to an increase in stock-based compensation associated with employee option grant modification. To a lesser extent, the increase also relates to an increase in legal and professional fees, consulting expenses, and advertising and marketing expenses.

These increases were slightly offset by a decrease in R&D and depreciation and amortization expenses. For the first fiscal quarter of 2019, adjusted EBITDA was a negative \$2.6 million compared to a negative \$2.8 million in the first fiscal quarter of 2018. This improvement was due to the increase in revenue.

Turning to the balance sheet. Cash and cash equivalents totaled approximately \$3.1 million at December 31, 2018, compared with approximately \$1.7 million at September 30, 2018. The increased cash balance is primarily from the net proceeds received from a financing.

On December 26th, we closed down a confidentially marketed public offering for gross proceeds of \$2.75 million before underwriting fees and certain other deal-related expenses. The deal is for the issuance and sale of an aggregate of 5.5 million shares of common stock, together with warrants to purchase an aggregate of 5.5 million shares. The public offering price for each share together with the accompanying wire was \$0.50.

Subsequent to the quarter end on January of 25th, we closed on the partial exercise of the underwriters' overallotment options for an additional 500,000 shares of common stock for gross proceeds of \$250,000. The total net proceeds, including the overallotment, were approximately \$2.5 million.

As of December 31st, we had \$1.4 million of deferred revenue as compared to \$1.9 million as of September 30, 2018. The deferred revenue balance as of December 31st was mainly comprised of milestone and/or phased payments on the certain of our research and development pre-commercial projects that are being recognized to revenue over time based on cost incurred.

As of December 31, 2018, our average monthly cash burn rate for fiscal 2019, excluding the proceeds from the financing, was approximately \$528,000, compared to approximately \$879,999 for the same period in the prior fiscal year. This represents a decrease of approximately 40%.

The decrease in monthly burn rate for the first fiscal quarter of 2019 compared to the same period in the prior fiscal year is mainly due to higher cash receipts and slightly lower disbursements during the first quarter of fiscal '19. As of January 31, 2019, our cash position is approximately \$2.3 million.

We continue to closely monitor our spending and intent to remain disciplined and continue to strategically manage costs in line with our current and near future market opportunities. However, based on our historical financial results, we disclosed in our fiscal 2018 10-K and have also disclosed in our fiscal first quarter 10-Q that there is substantial doubt about the company's ability to continue as a going concern for one year from the issuance of the financial statements.

The ability of the company to continue as a going concern is dependent on our ability to further implement our business plan, raise capital and generate revenues. As a result of our stock price and financial results, on January 29th and 30th, we received written notices from the Listing Qualifications Department of the NASDAQ stock market, notifying us that we are not in compliance with the minimum bid price requirements, as well as the market value of listed securities requirements or the alternative standards of the NASDAQ listing rule, which requires us to have minimum stockholders' equity of \$2.5 million, or for us to have had net income from continuing operations of at least \$500,000 in the latest fiscal year or in two of the three last fiscal years.

These notices do not impact the company's listings on the NASDAQ capital market at this time. Both notification letters state that we have 180 calendar days, or until July 29, 2019, to regain compliance. There is the possibility for an additional 180-day compliance period for the bids price compliance violation. However, no additional compliance period is applicable to the market value non-compliance.

We intend to monitor the closing bid price of our common stock in May, if appropriate, consider implementing available options, including but not limited to, implementing a reverse stock split of our outstanding securities to regain compliance with the minimum bid price requirements. We will also consider available options to resolve the other listing deficiencies and regain compliance with all applicable NASDAQ rules.

Thank you for joining us today. And I would now like to turn it over to Jim for his comments.

James Hayward

Okay. Thank you, Beth and thank you, Clay, and good afternoon, everyone. Thank you for joining us today. As you've just heard Beth state, new revenue rules put in place at the start of the fiscal year don't give you a complete picture of the progress we are making to monetize our DNA Taggant platform technology. We continue to seed the market with customers that can scale their orders as their confidence in our Taggant technology builds.

Over the past several quarters, we've shared with you details of our robust pipeline of pre-commercial studies, each reflective of new interest in our platform and each representative of an opportunity to generate incremental revenues if adopted at a commercial scale.

Today I will focus my prepared remarks on our opportunities in the near-term that offer us the potential for additional growth and diversification. Now we have restructured and improved our global sales organization but with a special focus on textiles with two stellar additions to our team, Wayne Buchen as Vice President of Strategic Sales and Steve Birkhold as the Member of the Strategic Advisory Board and a special consultant to our sales team, but especially with regard to brands.

Now many manufacturers and brands are increasing the transparency of their supply chains to better control their quality and compliance to the criteria for sustainability, the circular economy, and ethical sourcing, and to keep their consumers and advocacy communities better informed. In fact, Wayne Buchen just returned from the outdoor retailer show in Denver last week where we had a great reception we are already in discussions with leading sportswear and lifestyle brands on evaluations of the initial scope of strategic projects. Now cotton would remain integral to our business. And it is being rapidly complemented by other natural fibers and a number of synthetic fibers.

Despite the change in revenue recognized from the adoption of the new guidance, the demand for Taggant has remained consistent as compared to the prior year's ginning season. We continue to move aggressively to open new cotton opportunities, including in the apparel market and in offshore markets.

Stephen Birkhold offers a stellar pedigree to help hone our strategies and network in the apparel market. He is a 30-year veteran of the fashion industry and formally Chief Executive Officer of Bebe Stores, Co-Chief Executive Officer of Diesel U.S.A, and Lacoste, President of Earl Jeans brand at VF Jeanswear. He is ideally qualified to lead the development of the new go-to-market strategy for us in the fashion and luxury apparel and accessory markets, utilizing his industry contacts to facilitate the introduction to and adoption of our technology with key decision-makers across all of these markets.

Our newly organized sales team has already built increased demand for our CertainT platform. And we have been very actively fielding inquiries and preparing for much larger tagging volumes, and executing pre-commercial runs at some of the largest sites in the world.

Now, turning to synthetic fibers, this market represents an addressable market that is a large multiple of the annual cotton market and it's growing aggressively. Moreover, in the sustainability and circular economy, synthetic fibers are more readily recycled than natural fibers, whereas our authentication platform protects cotton brands against counterfeiting and insurers' provenance in synthetic fibers, our platform protects claims of participation in the circular economy, seeking to replace today's disposable textiles culture with one that emphasizes, supports and promotes, a more sustainable fashion apparel and home textile industry.

We continue to execute on our strategy to engage key ecosystem participants, along multiple points in the global synthetic textile value chain to more broadly drive adoption of our authentication technology platform. Now, I just returned from several key meetings with large synthetic fiber manufacturers and recyclers in India, and I'm very encouraged by our commercial progress.

Beginning about two years ago, we first contacted synthetic fiber manufacturers. The length of the sales cycle is such that only recently have we seen a maturation of pre-commercial pilots in our progress toward a next level of revenue generation. We are today on the cusp of generating our initial CertainT licensing revenues, as retailers begin to start GHCL and Loftex products made of recycled PET tags with signature DNA.

GHCL will soon be initiating first shipments to Amazon for recycled PET made into bedding products and sold under its Rekoop brand. Loftex, which manufactures towels made of recycled PET, will soon have product on shelves at several major US retailers. We expect our first royalty income for the use of our CertainT brand this year.

From our recent announcements, you've seen that our business development efforts have focused on partnerships with supply chain companies that are working with textile brands and manufacturers that are based in Taiwan yet serve China, Asia, and supply chains across three continents. Taiwan is known as the hub of textiles innovation in Asia, producing 50% of the world's synthetic fabrics.

The MOUs we have signed with Sun Chemical and Tex-Ray give us an instant presence and access to this important market to break impediments in distance, language, culture, and logistics without incurring the costs associated with slowly building a physical presence there.

Sun Chemical, with over 20 salespeople located throughout Asia, will be trained in our platform and as a reseller of textile, chemicals, or related services and will serve as a reseller of our CertainT platform.

Tex-Ray, which has a global footprint, is a textile innovator both of products and processes that gives us entree into established supply chains in service of large, global brands utilizing synthetic fibers.

Turning now to pharmaceuticals and nutraceuticals, let me update you on progress being made in penetrating the excipient market with our taggant technology. Since the completion of product development followed by the filing of our Drug Master File with the FDA, we have worked closely with Colorcon to put the operational infrastructure in place to ultimately be ready to deliver our mutual first order.

We are now readying for our first large-scale manufacturing run with Colorcon Opadry to take place in the coming weeks for process validation. Concurrently, we are working with Colorcon on an early stage study for a multinational biotech company. The time line to our first order is yet to be determined and will be contingent on customer interest and the preparations for regulatory review, including stability and other testing regimes and the approval of the customers' drug candidate.

We believe that pharmaceutical and nutraceutical excipients are a natural home for our taggant technology. And to that end, we are moving to request participation in the emerging technology program at the FDA to seek guidance on the FDA's regulatory requirements and road map for our technology platform with a goal of ensuring readiness for the regulatory approval process when it occurs.

The emerging technology program seeks to promote the adoption of innovative approaches to pharmaceutical product design and manufacturing. Through the program, industry representatives, like us, can meet with the emerging technology program members to discuss, identify, and to resolve potential technical and regulatory issues regarding the development and implementation of a novel technology, such as ours, prior to filing a regulatory submission. Now I will have more to say about this as this initiative progresses.

We have been working very closely with our valuable go-to-market partner, TheraCann International, to develop a robust pipeline of tagging opportunities with growers and processors. As a reminder, our DNA technology platform is the basis of ETCH biotrace, one of four key services offered by TheraCann.

ETCH biotrace is a verification technology that employs molecular tagging methods to ensure the integrity and provenance of ingredients and components in the cannabis supply chain from seed to point of sale, and is supported by cloud and block-chain technology.

We launched our demand generation campaign this past June with an industry webinar that was well attended followed by print, online, and social media programs with industry-leading media properties. Then we launched our first cannabis tagging system this past July at the National Cannabis Industry Association in San Jose, California.

Our patent-pending concept of using a cold micron-sized fog to tag the cannabis plant and then track it through the supply chain to retail shelves was very well received by the large industry players. We then launched the second version of the tagging system at the November MJBiz Trade Show in Las Vegas that also received a great deal of interest. Over 29,000 people attended the event.

We also attended the CannaTech event in Sydney, Australia, in October that is hosted by iCAN. And I will attend the CannaTech event next week in Panama. TheraCann is the sponsor of the CannaTech shows and will also be launching its Cannabis Center of Excellence that same week in Panama that will feature the ETCH biotrace solution powered by our CertainT platform.

Now the 2018 United States Farm Bill, signed in December, makes ETCH biotrace more of an urgent need for the industry. The Farm Bill legalizes the regulated production of hemp, which until now has not been differentiated from other cannabis plants.

The industry needs to be able to track legal cannabis and THC-based products and now legal hemp and CBD-based products, back to their source to prevent the incursion into those supply chains by black market sources of the same materials that are often contaminated with toxins or to mitigate tax avoidance.

As an example of the latter, in 2017, growers in California grew 13 million pounds of cannabis and used 2 million pounds in the state, illegally exporting 11 million pounds. We believe our platform would curb or eliminate interstate transports and allow states to track and verify their cannabis tax revenues. Now our near term opportunities include 12 accounts across the globe. I hope to share news of our progress in cannabis very soon that will likely have a direct impact on our top line.

Yesterday, we shared two announcements from iCAN, or Israel Cannabis, that concerned firstly the approval by the Israeli parliament or Knesset, of the exportation of medical cannabis, and secondly, also concerned an agreement between our partner, TheraCann International, and iCAN.

This bilateral agreement enables iCAN to offer our DNA tagging to control gray market diversion and to secure Israeli intellectual property that protects their cannabis business. Now, as you know, Israel leads the globe in security and in agricultural technology. So we regard this as a very positive pair of related developments.

Finally, let me briefly update you on our LineaRx subsidiary. Following the introduction of LineaRx to the world, via our webinar in early December, we attended the JP Morgan Healthcare Conference in January, which is the seminal conference for biotech and healthcare companies that seek to draw the attention of Wall Street, potential industry partners, and strategic investors, I believe it's actually attended by over 100,000 people.

The LineaRx platform was very well received and it is clear from our presentations there that there is an urgent need to replace plasmids as a means of manufacturing DNA at volume. Our research activities for LineaRx, adopted for nucleic acid-based therapies, are steadily progressing. Early results are promising. Our ongoing development of anticancer, linear DNA-based vaccines continues to show strong immunogenicity in mice. And a tumor challenge in mice is on the near horizon. We're very excited about that.

Our CRO-funded work projects are performing well and attracting new companies, especially in the field of RNA template design and bulk manufacture. We are beginning to see larger than typical dollar value for new opportunities that are entering our pipeline, particularly as our CRO customers face maturation into longer contract manufacturing relationships. The company recently received a purchase order in excess of \$500,000 for linear DNA and diagnostics to be delivered over the next 12 to 18 months.

Now, in the field of adoptive cell therapy, or CAR-T, our early results are very encouraging and show that transfection of human T-cells with linear DNA at high efficiency is possible and can produce strong and persistent expression in vitro.

Now this microscope image is of human T-cells grown in primary culture. The image was derived only 24 hours after modification by electroporation with a linear DNA amplicon produced, designed, and manufactured by us via LineaRx PCR technology and this amplicon contains the complete gene which encodes the production of green fluorescent protein or GFP.

The microscope image you saw is of that green fluorescence generated from the synthesis of GFP protein in the cell. Each cell that has taken up the linear amplicon in a functional form is converted to a ten micron diameter green cell. And as is striking from this microscopic image, hundreds of such T-cells have taken up the linear GFP amplicon, thus generating a constellation of kinds of green fluorescent cells in the micrograph.

Now to our knowledge, these are the first data to demonstrate the uptake and subsequent gene expression of a PCR generated gene fragment in human T-cells facilitated by commercially scalable high-throughput electroporation.

The GFP system is well known in cell biology to be an excellent surrogate for optimizing human gene expression in cells. Along these same lines, LineaRx has begun taking the lessons learned from the present GFP studies with human T-cells and will now begin corresponding studies with a linear amplicon that LineaRx has designed and already manufactured for the anti-CD19 CAR-T cell therapeutic candidate we recently licensed from iCell. We anticipate these studies will begin in mid-February. We will soon be transecting human T-cells with our anti-CD19 LineaRx CAR-T construct, which if successful, will be proof of our concept of our viral and plasmid-free CAR-T manufacturing platform.

Now during the fourth quarter of fiscal 2018, we had closed on a \$1.65 million round of secured convertible notes with certain members of the management team, the board of directors, including me. During the first quarter of 2019, we closed on an additional \$550,000 of the secured convertible notes with participation by me and another member of management. The participation by management and the board of directors serves to further align our interest with those of our shareholders.

As Beth noted, we also closed on a public offering during December 2018 for total gross proceeds of \$2,750,000. During January, Maxim Group exercised most of their over-allotment for an additional \$250,000 of gross proceeds. And we've also seen a small degree of warrant conversion. We remain committed to maximizing the value of our platform with the benefit of you, our shareholders.

The management team and employees of Applied DNA are singularly focused on bringing the opportunities I have discussed to revenue. Adoption of our platform has taken a long time, but we are starting to see the initial fruit of our many years of labor. Along the way, we have honed

our platforms' value proposition around responsible sourcing, sustainability, compliance to supply chain management, quality assurance, and verification of marketing claims to manufacturers and brands across our select target verticals.

Now, this concludes my prepared remarks. Operator, can you please open the call to questions?

QUESTIONS AND ANSWER

Operator

Yes, certainly. We will now begin the question-and-answer session. To ask a question you may press "*" and then "1" on their 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 the roster.

And the first question comes from Anthony Vendetti with the Maxim Group.

Anthony Vendetti

Thanks. Jim, I was just wondering...congrats on getting the first order for Linear DNA. Can you tell us, what's the revenue recognition for that, how you recognize that?

James Hayward

Sure. Well, first of all, what's exciting about this order is the fact that it speaks to a clinical bench top platform that is being promulgated around the world. And its testing resource really amounts at this time to...but a single assay. And as this instrument becomes entrenched as a tool within the clinical lab setting, we are expecting further development of DNA-based assays.

And I will let Beth speak to the issue of recognition of the revenue as the order came-in in a single tranche, but will be tranche what will be shipped over the course of several quarters.

Beth Jantzen

Okay. So the purchase order has four scheduled shipments within it, and since it's the supply of a DNA product, we would recognize revenue upon their receipt of the product.

Anthony Vendetti

Over what time period do you think that would be approximately?

Beth Jantzen

Between...I believe 12 to 16 months.

Anthony Vendetti

12 to 16 months, okay. And in terms of the relationship with TheraCann, how do you share in that revenue?

Beth Jantzen

Well, currently right now we have a pre-commercial development contract with them that was funded by them in January of last year. So right now, we are recognizing that as one of our research and development contracts over a period of time, based on the costs incurred, similar to what the old accounting guidance's called percentage-of-completion model.

Anthony Vendetti

Right.

Beth Jantzen

The new commercial revenue that's out of it is in development and hasn't currently happened yet, so I can't really speak to the recognition of it.

Anthony Vendetti

Okay, and then maybe, Jim, you could speak about this a little bit. Obviously, you know, anything cannabis right now, whether its CBD infused or the cannabis industry in general, attracts a lot of investor attention. Can you try to quantify the revenue opportunity for Applied DNA in the cannabis industry, maybe qualify what you think the opportunity is over the next 12-to-18 months and what you think that opportunity is three-to-five years from now?

James Hayward

Sure. Well, TheraCann has been very active in obtaining the voice of the customer in this rapidly changing marketplace, and we have received from them their estimates of revenue over the short and medium term that are really very, very encouraging for us. We personally feel our platform is relevant to all sources of cannabis, where growers, the chemical derivative, producers, and the dispensaries want to be able to assure their client of the original source. So we think we are relevant really to virtually all cannabis supply chains. It would be premature for me to attempt to put any guidance on our opportunities there. Suffice to say we feel there compellingly large.

Anthony Vendetti

Okay. And then, can you just...as a last question, talk about the increase in gross margin with it...was that due to one specific contract for the quarter, because there was a pretty sizable increase from prior quarters?

Beth Jantzen

It really had to do with the mix of products, so our product revenue during the first fiscal quarter of 2019. It was primarily made of textile and cotton revenues which is at a high gross margin versus the product revenue mix, sales mix that was in this quarter of last year.

Anthony Vendetti

Okay, great. I will hop back into the queue. Thank you.

Operator

Thank you. And once again, please press "*" then "1", if you would like to ask a question. And the next question comes from Jon Salmanson from Cantella and Company.

Jon Salmanson

Hi, Jim and Beth. Two questions for you. One as far as the TheraCann goes, and I know we can't estimate anything there, but will the margins on that type of business be traditionally what we've seen along the cotton lines and so our other businesses? Or do we expect it to be, if and when it comes, a little higher?

James Hayward

We expect those margins will be at least equal to our cotton business, likely a little higher.

Jon Salmanson

Okay. If nobody else has any questions, I'll ask one more. I'm not sure you can answer it. You have acquired a new shareholder. And I was just wondering if he just had any contact with the company at all, or do you know what his intentions are at this point?

James Hayward

Yes, I think actually we have a statement from that shareholder who I have spoken to. And he has authorized me to read it if the question arose, so I'd be happy to, actually.

Jon Salmanson

Okay.

James Hayward

It reads, "I am a private investor with nearly four decades of experience. I first learned about Applied DNA sciences in late 2016, and gradually accumulated about 1 million shares, mostly in 2017. In December of 2018 and January 2019, I bought another approximately 4 million shares and became a 10% beneficial owner. While I understand and share the pain of my fellow shareholders regarding Applied DNA's dilutive just-in-time capital raise and the negative effect it's had on the stock price, I also appreciate that APDN management runs a very lean cost-conscious operation, including relatively low executive compensation, while still making significant and worthwhile R&D investments with enormous long-term potential.

I trust that management has gotten the message of the slumping stock price, as an aside we have, and will improve on their financing strategy. I have become a 10% investor in APDN, because I strongly believe in the enormous long-term growth potential of both DNA tagging and LineaRx, both with vast scale and profit margin potential. And relative to this potential, this is by far the most undervalued and underappreciated company I've ever invested in. I have no intention whatsoever of being an activist investor. On the contrary, I intend to continue to be supportive of management by being a patient investor with a very long-term horizon."

Jon Salmanson

Okay. Thank you for that.

James Hayward

Thank you, Jon.

Operator

Thank you. And once again, please press "*", then "1", if you would like to ask a question. And the next question comes from Brian Kinstlinger with Alliance Global Partners.

Brian Kinstlinger

Hi, good evening.

James Hayward

Hi.

Brian Kinstlinger

How are you? So about a year ago, you had at a conference said you had \$6.5 million of recurring revenue, I think it was in your K as well and 4.5 or so, maybe a little bit less for some cotton. So in fiscal '18, you are a bit away from that. In the first quarter, you've been adjusting for the accounting changes. You're still a bit off that pace. What's changing your business that

that \$6.5 million recurring hasn't been able to be achieved for the year or on an annual basis right now?

James Hayward

Yes, I understand your issue completely. So our business foundation in cotton remains very consistent. However, the nature of the cotton business and its seasonality means that there is only one time in the course of the year or one period, during which a manufacturer can effectively order cotton. And they either under-order and risk not being able to service new customers as they appear in the course of the year or they over-order it, and wisely I think, establish a buffer for the period before the next harvest and ginning season. And over the last couple of years, we have been caught in two complexities. One is our prior customer was Louis Dreyfus and we switched to Himatsingka becoming our customer.

And the second is an approach to equilibrium in the amount of cotton that's tagged and remains behind in inventory after the tagging season is complete. And remember that after the tagging season is complete, the supply of cotton to the manufacturers is pretty much JIT. And that demand ebbs and flows over time. But generally speaking, our cotton business has really not diminished over time. Its impact on our revenue has been variable. But our ultimate users of tagged cotton have remained at fairly constant levels. Now we are working hard to increase those levels by approaching global markets and by focusing very much on apparel.

Brian Kinstlinger

But given you've had some really large big box retailers behind your product, I mean Bed Bath & Beyond has been pretty public about it. What has been the biggest inhibitor to growth in expanding this business, even if you said you were flattish? I'm wondering why there's so many other retailers you can contract with and procure...they would procure it as well. So what has been their biggest inhibitor to moving forward with your products as well?

James Hayward

I wouldn't say there has been an inhibitor. We have reached the tipping point with several customers who are interested in using our platform. And I think the fact that we've been able to parlay our initial cotton business into business with synthetic fibers of many types and across many countries, is kind of indicative of the effect of the impact, positive impact that cotton has had on that. And, when it comes to manufacturers and brands that have established supply chains, it takes a fair amount of time and work in order to penetrate into new customers. And we are very actively doing that. So we're still optimistic about our cotton business. Our partner is working hard to develop the business for us. And as I say, we are looking forward to emerging into apparel, which is a very important aspect of cotton all the way around.

Brian Kinstlinger

Great. I have one more question, and I've asked it many times I think over the years. We've seen many press releases over time about the variety of pilots, a lot of them; if not all of them, make a ton of sense in terms of counterfeits and protection. We've talked about synthetics for a while now, I'm not sure I've seen that in the evidence of revenue growth. So I'm wondering what is the next leg of growth, is it synthetics, is it cannabis, fertilizer, the capsules for the pharmaceuticals? There are so many. But which one are you most confident in fiscal 2019, might be the next leg of growth of the company? Thank you.

James Hayward

Sure. Thank you. We're very confident in the growth of our textiles business, in particular in the synthetic fiber category. We're also excited by our entry into new geographies. Our

relationships reflected in the recent MOUs. With CertainT, our entry into cannabis is bound to affect our top line. And precisely when, I can't say, but we're hoping that sooner rather than later. We're very optimistic about our pharma business as well. So I would say those are three primary industry verticals that we expect to have the most dramatic change on short-term.

Brian Kinstlinger

Great. Thank you.

James Hayward

You are welcome.

Operator

Thank you. And as there are no more questions at the present time, I would like to turn the floor over to Dr. Hayward for any closing comments.

CONCLUSION

James Hayward

Okay, well thank you all for participating and thank you for your interest and loyalty. I hope you're as excited as we are about our prospects. And we look forward to interacting with you over the coming quarter. Thanks very much.

Operator

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