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APDN - Q2 2019 Applied DNA Sciences Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Craig Pierce *Morgan Stanley - VP of Wealth Advisor*

PRESENTATION

Operator

Good afternoon, and welcome to the Applied DNA Sciences Fiscal Second Quarter 2019 Financial Results Conference Call.

(Operator Instructions)

Please note, this event is being recorded.

I would now like to turn the conference over to Clay Shorrock. Please go ahead.

Clay Shorrock - *Applied DNA Sciences, Inc. - General Counsel*

Thank you, operator, and good afternoon, everyone, and thank you for joining us on our fiscal second quarter 2019 financial results conference call. I am Clay Shorrock of the law firm of Allen, Dyer, Doppelt and Gilchrist, legal counsel for Applied DNA. 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 Investor 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 margin, operating expenses, other income and expense, stock-based compensation expense, taxes, earnings per share and future products. Actual results and trends could differ materially. For more information, please return 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 you to our speaker -- our first speaker on today's call, Beth Jantzen.

Beth M. Jantzen - *Applied DNA Sciences, Inc. - CFO*

Thank you, Clay. Good afternoon, everyone, and thank you for joining us today. Today I will take you through a review of our consolidated financial results for the fiscal second quarter and the first 6 months of 2019. Then Dr. James Hayward, our President and CEO, will provide you with an update on the company's progress, activities and strategies for the balance of the fiscal year.

As we previously announced on March 28, we entered into an exclusive licensing and cooperation agreement with TheraCann International. This agreement was filed as an exhibit to our 10-Q filed earlier this afternoon. I wanted to spend a few minutes -- a few moments providing highlights from this agreement.



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This agreement calls for a \$5-million licensing fee payment, payable to us over 4 months, of which we received the first \$1-million payment during April, and the second payment of \$2 million is due on June 30 and the final \$2-million payment is due mid-August. The agreement also has minimum annual payment requirements to maintain license exclusivity starting at \$7 million in Year 3 and scaling to \$20 million in Year 15.

Starting with the statement of operations. Total revenues for the period were \$778,000. This represents a 25% decrease compared to \$1 million reported in the second quarter of fiscal 2018, and down approximately 12% compared to \$884,000 for the first quarter of fiscal '19. The year-over-year decrease in revenues was primarily from a decline in product revenues of \$315,000, or 65%, offset by a 9%, or \$50,000, increase in service revenues.

For the first 6 months of fiscal '19, we recognized revenue of \$1.66 million, a \$29,000 or 2% decrease from \$1.69 million during the first 6 months of fiscal '18. This decrease was driven by a decrease in product revenue of \$343,000, or 41%. This decrease was offset by an increase in service revenues of 37%, or \$315,000, from the cannabis precommercial feasibility project under the cooperation agreement with TheraCann entered into during January 2018, as well as pharmaceutical and nutraceutical precommercial pilot signed in March 2018 with Colorcon.

As a reminder, we adopted Accounting Standards Update #2014-09, Revenue from Contracts with Customers, or Topic 606, at the beginning of fiscal '19 using the modified retrospective method. We applied the new guidance to those contracts that were not completed as of September 30, 2018.

Had we not adopted Topic 606, we would have recognized additional revenue of approximately \$440,000 and \$830,000 during the 3 and 6 months ended March 31, 2019, which would have resulted in total revenues of \$1.2 million and \$2.5 million for the 3 and 6 months ended March 31, 2019, roughly a 15% and 49% increase compared to the same periods in fiscal 2018. These changes were primarily comprised of the recognition of \$383,000 and \$766,000 during the 3 and 6 months ended March 31, 2019, respectively, from a \$1.15-million cotton order shipped during June 2018 with extended payment terms.

I wanted to emphasize, however, that while revenue recognition of this one cotton order changed, cash payments were received in line with the terms of the order and have been paid in full as of March 31.

Product revenues declined 65% for the second fiscal quarter of 2019 to \$171,000, compared to \$486,000 in the same quarter of fiscal '18, and decreased 47% compared to product revenue of \$322,000 in the first quarter of fiscal '19. The year-over-year decrease in product revenue was primarily from a decrease in biopharmaceutical revenues of \$157,000. This decrease is mainly due to a customer having decreased demand and therefore delaying the issuance of its annual purchase order. However, the purchase order for the current fiscal year was received during this past quarter and shipments are expected to commence in the second half of fiscal '19. The remaining decrease in product revenue was primarily from declined revenue in our consumer asset marketing vertical. The quarter-over-quarter decrease in revenues reflects the fulfillment of a second cotton order shipped during the first quarter of fiscal 2019.

Second quarter service revenues increased 9% to \$607,000, compared to \$558,000 for the same period in fiscal 2018, and increased by 8% on a sequential basis for the first quarter of fiscal 2019.

Cost of revenue as a percentage of product revenue in our fiscal second quarter was 78%, as compared to 77% for the year-ago period. For the 6-month period ended March 31, 2019, and 2018, cost of revenues improved as a percentage of product revenues to 58%, as compared -- to 58% from 84%. The decrease in cost of revenues as a percentage of product revenues for the first half of the fiscal '19 is due to the product sales mix, as sales during the first half of the current fiscal year were primarily comprised of textile sales, as compared to biopharmaceutical and consumer asset marketing sales during the first half of the prior fiscal year, which are at a lower margin.

Total operating expenses decreased in the second fiscal quarter of 2019 to \$3.3 million, compared to \$3.9 million in the first fiscal quarter of 2019, an increase compared to \$2.8 million in the second quarter of fiscal 2018. The decrease in operating expenses on a quarter-over-quarter basis is due to a decrease in payroll expense of approximately \$200,000, as well as decreases in stock-based compensation of \$118,000 and decreased R&D expenses of \$70,000. The decrease in payroll was the result of certain realigning and cost-saving measures implemented by management during the first half of fiscal '19. The increase on a year-over-year basis is attributable to an increase in stock-based compensation expense related to certain performance-based stock options being canceled during the quarter ended March 31, 2018, and therefore, the related expense of



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\$415,000 was reversed. The remaining increase in stock compensation relates to grants to employees during the 3-month period ended March 31, 2019, that vested immediately.

Fiscal year-to-date, total operating expenses have increased by \$900,000, or 14%, as compared to the first 6 months of fiscal 2018. This increase is primarily due to an increase in stock-based compensation as a result of the credit for the canceled options during the prior fiscal year, as well as expense for stock option modifications during the current fiscal year to date. The increase also relates to increased legal and professional fees of \$315,000 and increased filing fees of \$53,000. To a lesser extent, these increases were offset by decreases in payroll of \$178,000, as well as decreases in both R&D and depreciation expenses. Excluding noncash expenses, adjusted EBITDA was flat at a negative \$2.3 million for the quarters ended March 31, 2019, and 2018, and decreased to a negative \$4.9 million from a negative \$5.1 million for the 6 months ended March 31, 2019, and 2018, respectively.

Turning to the balance sheet. Cash and cash equivalents totaled approximately \$1.5 million at March 31, 2019. During the quarter, we received proceeds of \$714,000 from the exercise of warrants, as well as approximately \$200,000 in net proceeds from the partial exercise of the underwriter's over-allotment option associated with the financing completed during December 2018. We also received the last payment of \$383,000 from the June 2018 cotton order.

As of March 31, we had \$1.2 million of deferred revenue, as compared to \$1.9 million as of September 30, 2018. The deferred revenue balance at March 31 was comprised primarily of milestone and/or phased payments under certain of our research and development precommercial projects that are being recognized to revenue over time on a cost-to-cost basis.

As of March 31, 2019, our average monthly cash burn rate for fiscal '19, excluding the proceeds from the financing, was approximately \$393,000, compared to approximately \$606,000 for the same period in the prior fiscal year. This represents a decrease of approximately 34%. The decrease in monthly burn rate for the first half of fiscal '19 compared to the same period in the prior fiscal year is mainly due to higher cash receipts and slightly lower disbursements.

As of April 30, our cash position is approximately \$1.8 million. We continue to closely monitor our spending and intend 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 and second quarter 10-Qs, that there is substantial doubt about the company's ability to continue as a going concern for 1 year from the issuance of the financial statement. 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 noted during last quarter's call, as a result of our stock price and financial results, on January 29 and January 30 of 2019, we received written notices from NASDAQ notifying us that the company is not in compliance with the minimum bid price requirements, as well as the market value of listed security 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 2 of the 3 last fiscal years.

These notices do not impact the company's listing 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 a possibility for an additional 180-day compliance period for the bid price compliance violations. However, no additional compliance period is applicable to the market value noncompliance.

We are exploring every option available to maintain our NASDAQ listing and may, if necessary, 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 requirement. We are also considering available options to resolve other listing -- the other listing deficiency to 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.



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James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Okay, thank you, Beth, and good afternoon, everyone. Thank you for joining us today. Although it was not represented in our quarterly results, this is a very exciting and a pivotal time for Applied DNA and the adoption of our DNA technology platform. Today, I will give you updates on our activities in key verticals, as well as describe a new approach to sales management that we have implemented in textiles, before we open the call to your questions.

I'm going to start today's call with a review of our opportunities in cannabis; more specifically, our exclusive licensing and collaboration agreement with TheraCann International that positions fiscal 2019 to be a transitional revenue year for us -- TheraCann and cannabis industry's uptake of our DNA technology platform with the potential for additional revenue this year as well.

The establishment of our cotton practice in 2014 provided our first experience in tagging and authenticating agricultural product flows, with much of the experience proving beneficial in learning about the rapidly emerging businesses that represent legal cannabis. Unlike cotton, cannabis gets to the market after a variety of physical and chemical transformations. We've already demonstrated that despite these transformations, our molecular tags are the perfect means to track the complex cannabis supply chains, excluding the entry of sometimes dangerous black-market product and ensuring traceability to origin and improving safety.

As Beth has already described in detail, our agreement with TheraCann calls for \$5 million in fees payable to us through the end of August, which will benefit our balance sheet and our revenue. Additionally, there are significant annual minima that begin with \$7 million in Year 3, scaling to \$20 million by Year 15.

We have already established an aggressive sales and deployment strategy with TheraCann. Our pipeline ETCH cannabis opportunities with TheraCann continue to grow across the globe. Our demand funnel has a mix of opportunities at various maturity levels, with short-, medium- and long-term horizons. The potential opportunities in front of us are significant in size and scope with large global entities. The interest level is coming from cultivators, processors, government entities and label and packaging companies. Potential customers are seeing the benefits from multiple angles -- to protect their brand and IP, to verify the origin of source biomass for purified cannabinoids such as cannabidiol isolate.

The absence of this capability is now becoming a barrier to CBD commerce, and so it needs our technology. Counterfeit packaging is a big concern within the industry. Applying a molecular tag to labels and packaging will help to combat this issue and can also help with potential product diversion.

The addition of cannabis tagging to our portfolio adds to the critical mass we already have of molecular tagging around the highly related markets of cannabis, pharma, dietary supplements and food. They all leverage the same product development in packaging, must fit similar manufacturing processes and environmental constraints at our customers', and must comply with a range of related regulatory rulings, which tend to gate market adoption. All of these industries are regulated by FDA, and our team has a history of solid FDA interactions. And cannabis, specifically, finds its way into all of those categories -- drugs, dietary supplements, food and cosmetics.

An update on this category beyond cannabis begins with our work with Colorcon, who is planning a market launch this year following last year's operational focus. With regulatory approval remaining a gating factor for accelerated market adoption, we are now working with a well-regarded regulatory consulting agency to sharpen our execution with FDA. In parallel, we are working closely with Colorcon to formulate tags for a broader product line in anticipation of the interests they maintain from large pharma companies.

In other business in this industry, we have completed a feasibility study with an ingredient supplier for dietary supplements and nutritionals. Their intent is to protect their patented product against adulteration or copying in the supply chain as it moves onto retail shelves. The next step is a pilot test at their contract manufacturer this month.

More broadly, towards the end of the last fiscal year and into the beginning of this fiscal year, we took a step back and restructured our approach to sales. Now, this was a difficult decision. We knew what had gotten us here would not continue to serve our future needs. Walking the fine balance to avoid disrupting sales already in place, but at the same time, setting ourselves up to grab more of what we can see is a large untapped potential for our future.



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Now, that transformation, now nearly complete in textiles, is dramatic. We brought on stellar talent with firsthand experience in the industries we identified for growth and who could help us transform and accelerate our go-to-market approach. In textiles, teaming with MeiLin Wan in the U.S. and Tony Benson in the U.K., we have hired Wayne Buchen, who led supply-chain operations at Lacoste, Nautica, VF Corp and Under Armor, and we have retained Steve Birkhold as the newest member of our strategic advisory board and a close working consultant in our transformation. Steve has been the CEO of Lacoste, Bebe and VF Corporate brands, and he's worked closely with Wayne. They share tenures and a passion for improving supply chains to improve product quality and integrity.

Collectively, our redefined sales team has taken steps to accelerate our product readiness for market and to scale more quickly after the required precommercial pilots. In fact, Dr. Mike Hogan, who leads our technical team, is now just completing a 3-week tour, essentially completing pilots daily in Taiwan, India and China with some of the world's largest manufacturers, who are implementing our CertainT platform.

Most importantly, these developments are moving us from working one supply chain at a time in a silo, a kind of point-to-point model, to working a hub-and-spoke model, where we certify upstream suppliers on our CertainT platform who, in turn, can service downstream manufacturers more efficiently. The hub-and-spoke model allows us to both use the multiplexing our partners' sales and distribution channels and to maximize a one-to-many molecular tagging network.

Let's look back at our recent accomplishments and then forward to describing the benefits we expect. The partners we've announced in recycled polyester -- Loftex, GHCL, Reliance, Techmer, Tex-Ray and the Sun Chemical group -- have together taken our CertainT product from raw materials onto shelves over the last 2 years. Together, we sold CertainT to the brands and retailers; with their help, recruited and trained their supply chains to become certified on handling CertainT tagging, testing and tracking, but the result, we taught one factory at a time, realizing the revenue from each manufacturer's supply chain one after the other. We learned to do business in one country at a time. While these experiences have provided us access to large retailers, the ramp-up to the revenue levels we would have liked is too slow and far too labor-intensive.

The good news here is that over 2 years, our customers have tagged over 20 million pounds of a variety of synthetic fibers. These CertainT branded products have just started to appear now at Amazon and 3 big-box and online retailers, with 2 more on the way this fiscal year. In fact, over the last 2 years, the retail channels into which our product is now flowing have grown from 1,800 U.S. doors to nearly 4,500 doors doing business globally.

But we can do much more, much faster and at less cost. We're now working to implement the integrated supply chain, acting in a hub-and-spoke model, recruiting and training raw material providers to feed many manufacturers. Since Wayne Buchen joined in October, he and Meilin have been relentlessly knitting together the best supply chain we can do for customers with a go-big mentality. This is empowered by the enormous DNA manufacturing capacity in systems we have carefully established under the guidance of Judy Murrah, our intrepid CIO.

Sun Chemical group, announced in January, is our logistics and implementation partner providing infrastructure in Taiwan, China and Vietnam to enhance our integrated supply chain model. In addition to being trained in our portable SigNify onsite authentication system, they are currently holding inventory as SigNature T coded pellets and are holding commercial DNA locally in countries to help expedite speed to market needs. They have already participated in 4 tagging sessions at major recycled PET suppliers in both China and Taiwan. They offer us a local presence with established lines of communication and formidable strength in field operations, with expertise in manufacturing, import/export, and have close-knit connections to the largest companies in the region.

And while I am not yet able to mention the names of the other companies with whom we are working, but who are depicted in this slide, I would like to share how the picture is already unfolding in the Asia hub-and-spoke model. A large strategic partner located in [Haiyan], China, on a supply of recycled PET, begins with collecting post-consumer bottles in 20 locations throughout China, where they crush bottles and then carry the recycled material all the way through to filament yarn in a 3-million-square-foot facility with the capacity for 300 metric tons per day, running nonstop. A pilot in this facility is under way as we speak. They are investing in kind by having built new processing lines specifically for our CertainT pilot. This hub shows commitment to becoming a CertainT verified recycled PET manufacturing hub. They and we are already recruiting brands and manufacturers to this source that include one of the largest global retailers of home textiles; and Tex-Ray, a high-tech fabrics house with whom we've signed a strategic alliance agreement; and the largest spinners in Vietnam, China and Taiwan.



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Now here's a brief update on our textile programs we've reported previously. As we announced yesterday, A&E thread products have reached manufacturing lines in the U.S., Europe and Canada. Producers of apparel, automotive components, home furnishings, medical supplies, footwear and a diverse range of industrial products rely on A&E's industrial sewing thread.

In the viscose hub, 3 of the world's largest viscose suppliers, together providing over half the world's viscose, are actively engaged in our sales pipeline from precommercial production runs to negotiations of statement of work.

In our leather hub, work continues with a sponsor the pilot completed in 2018. A second tannery will be producing SigNature-tagged product to be used for demonstrations to brands who are already expressing interest.

In our down-feather hub, an integrated supply chain will begin with a pilot in down feather next month. Brands have already expressed interest in protecting and tracing this high-value material.

Egyptian cotton, announced last week. The DNA Transfer System is being installed at the gin as we speak, with tagging projected to begin within the next 2 weeks. This paid commercial run will offer samples for sale and marketing to brands and retailers.

In wool, 2 initiatives are just beginning with signed, funded projects in traceability and in brand protection.

One theme that I would like to call out underlying our textiles business is the movement of authentication testing closer to our customers, and in most cases, right onsite. We have now proven the use of our portable SigNify onsite authentication systems as a critical piece of manufacturing quality control procedures at the factory and are beginning customer training and adoption as we speak. With a dozen readers shipped or forecasted for shipment to customers, the last couple of weeks speaks volumes of that trajectory.

Sun Chemical group, the certified testing partner, performed authentication onsite at 2 of the large installations mentioned previously. At a pilot in India last week, our R&D and India lab teams were onsite testing for the customer who will adopt the system in the future after training. 4 other customers in other industries are also using the system for manufacturing quality control.

Now, the benefits of this model are significant -- reducing turnaround times from days to minutes and offering quality intelligence prior to goods leaving the factory. With these early innovative customers, we will continue to simplify the protocols and the recurring shipments of authentication systems as their volumes ramp up. As our textiles grow in the realization of our current opportunities, we will share the benefits of our integrated supply chains across all our verticals to ensure maximal growth in revenue.

Now, with regard to LineaRx, we acquired the assets of Vandalia in 2015 at a superb price and then integrating their customer base into Applied DNA, and now are migrating them into our wholly owned subsidiary, LineaRx, that we created just 8 months ago. The creation of LineaRx made great sense, since we had innovated and tamed large-scale PCR, and then began applying our technology to assemble gene-sized fragments that could be manufactured in larger scale than anyone appears to have contemplated.

The production of genes at large scale in linear format opens a wide array of new opportunities, some of them just being discovered by our customers, some of whom have come to us in an epiphany triggered by the notion that linear DNA even exists at large scale. Large-scale PCR allows for new approaches to therapeutics and diagnostics that were once only the province of expensive chemistries or complex bacterial- or viral-based methodologies.

The dawn of synthetic genomics enabled gene editing, immuno-oncology, redirected cell therapies, RNA therapies and gene therapies. But we believe that large-scale linear DNAs will let discoveries be utilized in more patients more safely, and with the ability to customize personalized therapies for patients that are refractory to some of the most ground-breaking new therapies.

As we look forward, by combining large-scale PCR manufacturing with robotics, we believe that personalized genetic therapies can one day soon be generated at the point of care, in close proximity to the patient's bedside, in record time and at record costs. Now, we have already shared our vision with a number of the best known hospital networks in the U.S., and we hope to develop a sponsor for this strategy at some time in the future.



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These high-minded goals will be costly to achieve and will only be accomplished with customers and partners. We believe that by providing services as a contract research organization, or a CRO, and eventually a contract manufacturing organization, or CMO, which, by the way, operates at a much higher margin, we can recruit the income necessary to completely cover the costs of operating LineaRx. To that end, we have already recruited multiple CRO and CMO customers in both diagnostics and therapeutics. These activities have now attracted the attention of large pharmaceutical and biotech companies who see the utility of our linear DNA platform in the production of their next-generation therapeutics.

We believe that in time, we can attract the sponsorship of big pharma in the development of our own therapeutics, 2 of which are currently evolving as preclinical packages. In this context, we believe that LineaRx can attract significant revenues and create value for our shareholders. Currently, LineaRx has no dedicated employees, and its project load is serviced by the employees of Applied DNA.

So in conclusion, cannabis, textiles and our wholly owned subsidiary LineaRx are expected to drive our top line performance for the balance of fiscal 2019, while we also progress nascent opportunities in other industries, including pharmaceuticals. We believe that market trends are becoming tailwinds for us. Sustainability in manufacturing is becoming increasingly relevant to today's consumers, and manufacturers are seeking to elevate brands and projects by establishing the transparency and truth that consumers desire. Our DNA technology platform is becoming the basis for the trust that both sides seek.

Well, this concludes my prepared remarks, and operator, can you now open the line to questions, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question will come from Craig Pierce with Morgan Stanley.

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

Let me -- I've got a list. They're pretty short as far as the answers. One is a -- question one is, what percentage of your revenue today would you say is seasonal versus, say, 2, 3 years ago?

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Well, obviously, our effort to diversify within textiles into synthetic fibers is one way of diminishing our exposure to seasonality. And it's important also to note that synthetic fibers represent a large multiple of the total addressable market of cotton, for example. So I think we will steadily see a decrease in the amount of seasonality that we're exposed to because of cotton, and right now I'd say it's somewhere between 20% or 25%.

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

And how do you think that compared, guesstimating, maybe, 3, 4 years ago?

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Oh, we had a much higher dependence 3 to 4 years ago, especially with the launch of our cotton business. We had large partners and they were placing large orders in anticipation of maintaining complex inventories and managing JIT shipments all over the world.



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Craig Pierce - Morgan Stanley - VP of Wealth Advisor

Much higher.

James A. Hayward - Applied DNA Sciences, Inc. - President, CEO & Chairman

Yes. So since that time, we have approached a new equilibrium, and the balance is much more readily managed.

Craig Pierce - Morgan Stanley - VP of Wealth Advisor

What is the drop-dead date for federal compliance that you have to do something? I mean, God forbid a reverse stock split, that kind of thing.

Beth M. Jantzen - Applied DNA Sciences, Inc. - CFO

I believe you mean the NASDAQ compliance. So for -- it's currently July 29 -- yes, it's July 29, but we are, for the bid price deficiency, able to request a 180-day extension, as long as we're in compliance with the market value stockholders' equity deficiency as of July 29.

Craig Pierce - Morgan Stanley - VP of Wealth Advisor

Okay. And how much higher do we -- do you have to take that to get to that point? On just the stockholder deficiency.

Beth M. Jantzen - Applied DNA Sciences, Inc. - CFO

Your stockholders' equity has to be \$2.5 million. And as of March 31, we were a negative \$734,000. Or you have to have a market value of \$35 million for 10 consecutive trading days.

Craig Pierce - Morgan Stanley - VP of Wealth Advisor

Okay. What do you have, I mean, formally or informally, as a defense against a hostile takeover? I mean, I think with -- you're becoming extremely visible, waving flags on -- in all the things you're about to do, but obviously, extremely small capitalization. I mean, do you feel adequately protected from that? To the extent you want to protect.

James A. Hayward - Applied DNA Sciences, Inc. - President, CEO & Chairman

So we have discussed this issue at great length with our board and our advisors. Obviously we have a deep belief in the future value of this company, and the last thing we want to be is exposed to a potential takeover, especially at our current prices. So without revealing that which I should not, suffice it to say we have plans in place to avoid it.

Craig Pierce - Morgan Stanley - VP of Wealth Advisor

LineaRx has been -- you've described it -- cannabis, textiles, I mean, in your last slide, a third of the fiscal '19, you're looking for LineaRx to be a major part of the revenue, which sounds to me -- I mean, at this point, what my sense is, it's really not been that much so far. It sounds like there's going to be a huge, relatively percentage -- I mean, relatively speaking, jump in any revenue from that, your wholly owned subsidiary.



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James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Yes. Let me just point out that that figure was not meant to be arithmetic and imply 1/3, 1/3, 1/3 contributions to our revenue. It was just meant to imply that those were the 3 top line drivers.

Now, that said, we are recruiting more and more customers under LineaRx, but it is at the lower-cost end of those business relationships. They enter as CRO customers, which is but a fraction of the relationship when it matures to CMO customers.

However, so I think that we'll continue to build that business on the basis of incoming new sales. But the volume in the collective will only grow higher if some of those customers actually move on to a CMO business, where we are supplying higher volumes of product at higher grades of quality.

But that said, we are also attracting large -- the attentions of large companies, pharma and bio, who are interested in our linear DNA platform. And the potential there is for much more substantial contract research opportunities. We don't have any of those right now in our retinue of revenue, but we're trying hard to get them.

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

And last one, for everybody else that's in line behind me, you talk about "our exclusive cannabis licensing and cooperation agreement with TheraCann," et cetera, et cetera. So you talk about that in one paragraph and then you talk about, in the next one, this -- TheraCann's market position, da-da-da, is yielding a pipeline of opportunities that spans interest in numerous countries wanting to protect their licensing cannabis supply. My question is, is that pipeline coming through TheraCann, or is it coming in addition from other channels outside of the exclusive licensing and cooperation agreement with TheraCann?

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Okay. Well, first of all, I'd like to point out that TheraCann has been a superb partner with us. And we are working very, very closely together in servicing that marketplace. Together, we are managing a dashboard of abundant opportunity. And those opportunities come several ways. They come directly to Applied DNA, we cultivate them and share them with TheraCann. Or they come directly to TheraCann, they cultivate them and share them with us. So it's very much a cooperative relationship where we each bring great strength to the table and it is, we feel, the best way to gain entry into the marketplace. And the evidence so far, based on the volume of projects on our dashboard, is that there's a very strong drum beat, and we're expecting to be engaged in supplying and authenticating cannabis and hemp products in the very near term.

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

So it sounds like your pipeline of opportunities, it some way or other does involve TheraCann at -- globally.

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Oh, yes. Yes. We're partnered (inaudible).

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

Okay, and just a one-off on that, what would you say your confidence level is that the revenue from TheraCann is going to exceed the minimums, annuals that you -- let's say, in the next 2, 3 years. I mean, just -- obviously -- what's your confidence level that those are just minimums that are great for us to hear, but you have confidence that they're going to be exceeded as far as revenue flowing into Applied?

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James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Yes, I wouldn't have signed a contract I thought destined to fail. So I have every belief in those numbers, and I know they're achievable.

Craig Pierce - *Morgan Stanley - VP of Wealth Advisor*

Okay. But I mean, beyond achievable, you're -- sounds like you're fairly confident you will -- Applied will be receiving more than those minimum numbers year-over-year.

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

From your mouth to God's ears.

Operator

(Operator Instructions)

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Dr. James Hayward for any closing remarks.

James A. Hayward - *Applied DNA Sciences, Inc. - President, CEO & Chairman*

Well, I'd like to thank everyone for their loyalty and persistence and working closely with us. We hear from many of you often, often with ideas for new business and referrals. We're grateful for it. In closing, I'd like to remind you about our annual meeting, which is 1 week from today on the 16th here at the Center of Excellence in Wireless Information Technology. You can check our website for time and directions. Thank you very much.

Operator

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

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