

SENESTECH, INC.
(NASDAQ: SNES)



Second Quarter Fiscal Year 2019
Financial Results

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CORPORATE PARTICIPANTS

Ken Siegel - Chief Executive Officer, SenesTech, Inc.
Tom Chesterman - Chief Financial Officer, SenesTech, Inc.
Robert Blum – Managing Partner, Lytham Partners

PRESENTATION

Operator

Good afternoon and welcome to the SenesTech Second Quarter Fiscal 2019 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 "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 Mr. Robert Blum of Lytham Partners. Please go ahead, sir.

Robert Blum

Thank you very much, Cole, and thanks all of you for joining us today. On today's call we will discuss SenesTech's second quarter 2019 financial results for the period ended June 30th, 2019.

With us on the call today are Ken Siegel, the company's Chief Executive Officer, and Tom Chesterman, 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 listeners both on the live portion of the call, as well as, webcast will be able to ask questions. If you are on the webcast, you can type your question into the question box and press submit. We will take as many questions as time will permit for. If you are dialed in, you will ask questions by pressing the "*", "1" button as usual.

Before we begin with prepared remarks, we submit for the record the following statements. Statements made by the management team of SenesTech during the course of this conference call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended and such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe future expectations, plans, results or strategies and are generally preceded by words, such as may, future, plan or planned, will or should, expected, anticipate, draft, eventually, or projected. Listeners are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or results to differ materially from those projected in the forward-looking statements, including the 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 our filings with the Securities and Exchange Commission.

All forward-looking statements contained during this conference call speak only as of the date on which they are made and are based on management's assumptions and estimates as of such date. The company does not undertake any obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events, or otherwise.

With that said, let me turn the call over to Ken Siegel, Chief Executive Officer. Ken, please proceed.

Ken Siegel

Great. Thanks, Robert. Good afternoon, everybody. So, today marks the end of my third full month at SenesTech. During that period of time we've made a number of significant changes in our strategy that are intended to drive our near term and long-term success. Most notably, we are becoming more defined in our focus with an idea that we need to do one thing and to do it well.

As a company rich in scientific progress and success, the transition to commercialization is never easy. For scientific and early commercialization reasons, the company has historically tried to pursue every potential opportunity across multiple end markets and geographies. It has created multiple potential pipelines but, unfortunately, we haven't had the resources or the focus to close deals. The exciting part is that there are so many opportunities for ContraPest out there.

However, in order to become more successful, we need to first prove ourselves with commercial success in a more narrowly defined market or geography. That will then allow us to more readily expand into many additional markets around the country and the world. That brings us to California.

As many of you are aware, the potential adoption of AB1788, which bans second generation anticoagulant rodenticides in California, represents a potential accelerant for the company as ContraPest moves from the disruptive innovation to a potential necessity in the world's fifth largest economy.

Over the past few months, the team at SenesTech has been preparing for the potential passage of 1788. We have significantly expanded our outreach into this market as we build awareness and customer contacts ahead of 1788's implementation. We've also seen an increase in inbound activity as well as responsiveness to our direct selling efforts. We are still in the process of determining the overall value



of the California market alone. Our best estimate at this point is that it currently represents more than 100 million in overall sales of rodenticides as an addressable market. How much and how fast we can generate the sales is yet to be seen though.

We're also testing and augmenting our systems to make sure they are robust enough to handle the anticipated demand. Although we are confident in our ability to manufacture sufficient product to handle demand for this foreseeable future, we are launching incentive programs to attempt to drive some sales into the next quarters as an effort to be better able to forecast future requirements.

All of our backend systems are being reviewed to make sure that we have no footfalls in managing our customers' demand and expectations. Many potential customers in California, such as municipalities, counties, state agencies, and facilities on public lands will shortly be faced with the need to find viable alternatives to SGARs and first-generation rodenticides, ContraPest offers that solution.

In keeping with the theme of focus, we've identified three areas of attack intended to create near-term opportunities and build a solid platform for the future. These are zoos and sanctuaries, municipalities and government agencies, and food and agriculture. Our food and agriculture focus is initially in the feather industry, that's poultry and eggs, for reasons I'll explain in a moment.

We believe that zoos and sanctuaries, although a relatively small market, offer us the best chance at near-term revenue. These locations are highly sensitive to the use of poisons given their inherent mission and are in areas in which we already have robust proofs of concept. Given their size and geographic dispersion, we are testing the use of a contract sales organization to help us. Assuming this is successful, we plan to quickly expand its use into our other target markets. Using a CSO will help us get feet on the street more quickly and will allow us to flex our workforce as needs change.

Municipalities and government agencies are another obvious target. We already have demonstrated success in a program we ran in St. Louis and are seeing promising results in our recently discussed program in Washington, DC. With AB1788, we are aggressively focusing on the California market and have projects in test phases in the Bay area and expect to launch an additional test in Los Angeles shortly. We are looking to expand across the state as cities and government agencies look for effective alternatives, once anticoagulants are essentially banned.

Currently, we have a comprehensive awareness campaign in process to make sure that both end-user customers and pest management professionals know that ContraPest is a more effective alternative to ban rodenticides.

We are also working on significantly expanding our training programs to make sure that PMPs are up to speed with how best to employ ContraPest to assure both results and cost effectiveness. We're working with municipalities to make sure that ContraPest is included in their 2020 and 2021 budget cycles. We're also doing sampling to drive adoption ahead of next year's budgets.

Our third target, the feather industry, is potentially the most exciting and the most lucrative. We have two major proofs of concept in process and are working on different baiting techniques to maximize effectiveness. We're also working with the EPA so that the new techniques will be available to consumers, once validated. Again, California has a significant role to play given the strong agricultural base of its economy.



The poultry and egg business has one additional advantage and that's they're made up of a small group of very large players. We believe that, once field use has been validated, we will be able to scale across the industry and across the country. We've also recently learned that chicken manure is a significant contributor to the overall economics of the poultry industry.

Rodenticides can contaminate this product through rat droppings. ContraPest doesn't accumulate in the animal nor is it present in the droppings. Therefore, it doesn't have this significant negative affect that Rodenticides have. Longer term, we believe that this will help drive further adoption within the industry as sensitivity to poisons in fertilizers for organic farming gains even greater attraction.

The feather industry programs also share a common element with many of our future target markets, grain. Grain is the key component of chicken feed and is enormously attractive to rats. As we demonstrate effectiveness here, we are establishing a launching pad for other grain-based industries including food storage, pet foods, cereals, and packaged foods. Since ContraPest will not contaminate grain through rat droppings and simultaneously reduces grain shrinkage, we believe we have a winning combination across many applications.

Again though, I want to make clear that we're highly focused on staying within certain key verticals and geographies. We understand that there are a lot of shiny objects out there, however, as an organization we will stay focused and disciplined on opportunities where we believe we have the best opportunity for quick and efficient results.

As discussed in the press release, the results of the second quarter revenues reflect the focus we are placing into California and the continued adjustment we are making to our sales model.

We're cautiously optimistic about the balance of the third quarter and the fourth quarter, particularly if PMPs and distributors begin to build inventory for the anticipated demand spike after AB1788 goes into effect. However, we don't anticipate meaningful revenue from 1788 until next year.

To make sure that we have sufficient resources to bridge us well into next year, we took steps to reduce our monthly burn rate. We are also continuing our generational shift from science to commerce, an ongoing process. Part of these savings will be reinvested in the company as we build muscle to drive sales and prepare for the anticipated demand from 1788.

Right now, we've largely shifted from our historic focus on R&D to an all-out effort to commercialize ContraPest. Future R&D will focus on product improvement and addressing customer requirements until we achieve sustainable revenues.

Also related to resources, we completed a \$4.1 million financing last month. As we announced at that time, I personally invested heavily in that offering. As you might expect, I believe strongly in this company and I wanted you all to know that I have real skin in the game along with you, between our cost controls and this financing, I believe we have sufficient resources to pursue our strategy.

So, I know there are two questions you have, that I won't be able to definitively answer today. First, will you have to finance again? And second, when will we see meaningful revenue? The two questions, of course, are related. The truth is that with only a few months on the job, I can't say for sure. We have



learned that breaking into the pest management industry has been extremely difficult given practices that have been ingrained over decades, if not centuries.

We continue to refine our sales and pricing strategies and have narrowed our focus to key markets that we believe are the most likely to generate near term results with a significant amount of focus into California, which we believe has the ability to be a significant multimillion dollar opportunity for the company in the relatively near term. That certainly makes this as an exciting time.

So, thank you, shareholders and friends for your continued support of our mission and your confidence in our ability to bring this incredible disruptive technology to commercial success.

And now, let me turn it over to Tom to further review financial results.

Tom Chesterman

Thank you, Ken. As we have just released our financials, I will only summarize and comment. We will be filing the 10-Q tomorrow, which should provide additional information of interest to our investors.

Revenues, as noted by Ken, came in at 24,000, a slight increase over the prior quarter. Revenues were depressed by both our reallocation of resources to California revising our sales model to better address our focused markets, as well as, an impact of changing our tank format from fitting JT Eaton bait station to EVO bait stations.

It is quite clear now that we were right in moving to the EVO compatible design as that is the market preference. But as part of that, we had to replace some JT Eaton inventory in the field with EVO inventory. This is a timing issue, as the returns were sent in last quarter and the replacement sales will show up in this coming quarter.

Gross margin was lower than expected, due to the lower production during the quarter and due to sales incentives. We still believe that going forward margin assumption of better than 50% is reasonable.

Operating expenses came in at \$2.3 million, significantly lower than the second quarter of last year and slightly lower than the first quarter of this year. Our guiding spending philosophy has been, as Ken noted, focus, focus, focus, if it doesn't lead to sales or lower cost, it's likely not to be approved.

Overall, our net loss for the quarter was \$2.3 million, or \$0.09 per share, a significant improvement over the last quarter and the second quarter of last year. Adjusted EBITDA, a non-GAAP measure that we use to assess operating performance, was \$2.0 million loss, roughly equal to the first quarter. We ended the quarter with \$2.6 million in cash, or \$6.2 million on a pro forma basis when we include the net impact of our recent financing. With our current cost structure, this provides us with the necessary resources well into 2020.

A word about our recent financing, as we've previously announced, we priced on July 11th and closed on July 17th an offering of common stock at \$1.35 per share for gross proceeds of \$4.1 million. The pricing represented a discount to the day's close of 11%, or 12% discount to the trailing 30 days. While no one likes to issue stock at a discount, we chose this route rather than to continue to issue stock with warrants. The terms were reasonable, based on recent market comparables and the lack of warrants helped avoid additional overhang.

We're also quite pleased with the quality of the investors that our bank H.C. Wainwright introduced to us. As mentioned above, this provides us the resources to fully pursue our opportunities, most especially to step up the pace in California. Part of stepping up the pace includes expanding our sales presence. To this end, learning a bit from the biotech and pharmaceutical space, we have engaged a contract sales organization, or CSO to expand our outbound sales.

Guided by our marketing and commercialization experts in-house, we expect and hope that they can be productive in a matter of weeks and to move the needle for the fourth quarter and the first quarter of next year.

One last point on stepping up the pace, we have a rich history of scientific progress and success. The technology works and it works better than the status quo. But as we dive deeper into each of the target verticals, we realize we do not have sufficiently compelling commercial validation in each of those verticals. The value statement, as our marketing friends call it, is different for each vertical, each market, and each decision maker. The value of fewer rats is very different for a chicken farm than for a city manager.

So, as we work on market awareness, we are also working on building these compelling value statements in a very multidisciplinary way. Some of this will come from our past experience, some of it will come from validation exercises in the field with customer implementations, such as that's going on in the poultry project, and some of it will come from partnering with enlightened pest management professionals or PMPs. Look to hear more about this in future calls.

One last point, as we step up the pace in these ways and as we pursue this promising strategy, we also wanted to provide some metrics, some ways of monitoring our progress to our investors. As we are in the awareness phase, the first two metrics we would like to introduce are total inquiries and unique contacts.

Total inquiries are a total pipeline of individuals who have shown interest in a solution that SenesTech offers. This is the starting point of a potential customer relationship. As of the end of the second quarter, this figure was 193. In July, as the awareness campaign in California hit its initial stride the number jumped another 417.

Unique contacts are what we call qualified leads, those with whom the conversation has ramped up and who are now ready for a full sales effort. At the end of the quarter, this number was 107. By the end of July, this number had doubled to 218. It's too early to take the next step to conversion rates, but we will keep tracking and reporting this progress for you.

At this point, we'd like to open up the lines for questions. Operator, please do so.



QUESTION AND ANSWER

Operator

Certainly. We will now begin the question-and-answer session. To ask a question you may press “*”, then “1” on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press “*”, then “2.” And at this time, we’ll pause momentarily to assemble the roster.

And our first question today comes from Kevin Ellich with Craig-Hallum. Please go ahead.

Kevin Ellich

Good afternoon. Thanks for taking my questions. I guess...let’s just start off with the metrics that you just provided, Tom, really appreciate that. It’s good to get any information out there. Just wanted to make sure I heard you right. Did you say in July the total increase jumped up 417 or it increased by 417?

Tom Chesterman

It increased by 417.

Kevin Ellich

Okay, that’s fantastic. And then I don’t know if you have this, but how long does it take to convert either a qualified lead or one of these initial inquiries into a sale?

Tom Chesterman

Well, that’s part of the metric tracking that we are focused on. At this point, I don’t think we have enough data to give you a sense of that. I would say that we know it is dramatically different, depending on the vertical you are talking about. Municipals can take months, quarters, even years. On the other hand, a food producer has a different set of incentives, they may make decisions much more quickly. So, I think that, when we get into the more data, we will need to be very cognizant of exactly which kinds of customers we’re talking about.

Kevin Ellich

Okay, that makes sense. And I guess, since you talked about food, Ken, let’s just go back to the feather industry as you call it, poultry and egg. Can you give us a little bit of information in terms of the field studies that you talked about...proof of concept tests that you are running, how long they will take? And you also mentioned I think the EPA, are they involved in the approval to use ContraPest in this setting or not?

Ken Siegel

So, Kevin, I’ll work backwards. The EPA is involved because some of the testing protocols require a waiver for our...from our existing protocols. So that is...they are already supportive of what it is we are doing, and we are just waiting for final clearance to deploy. What we’re doing is, we are working on different baiting techniques for ContraPest in the big henhouses. The key thing here is what we’re attempting to do is bait in a way that the rats already accustomed to consuming the grain and the liquids that are in the barns. So, there won’t be any need for them to become familiar with the baiting stations. We’ll be using [indiscernible] and the like to...so that there’s no initial period of reluctance, no initial period of experimentation, and we’re experimenting with deploying it in different locations. So, the plan is that we’ll take between 90 and 180 days to complete the testing.



And then we go back to EPA with the results to make a permanent change in the labeling. So, the places in which we are testing, we will be able to continue to use that for the foreseeable future, but we'll need the EPA clearance for potentially some of these applications, which will take into early next year.

Kevin Ellich

Got it. And then, while you are doing these proof of concept tests that you talked about, are you getting paid for whatever ContraPest is deployed at those, I guess, henhouses and poultry and egg facilities?

Ken Siegel

We are, it is...actually we're working with a PMP, so that PMP will be buying product from distributions. So, it will be a period of time probably before we see it in direct bookings as some of the distributors are still depleting inventory that they bought earlier this year or last year.

Kevin Ellich

Got you. And then one thing that jumped out to me too, Ken, you talked about chicken manure, which...just can you help educate us what is chicken manure used for and why is that kind of important here?

Ken Siegel

Yes, I mean, it's absolutely fascinating and sometimes every time I say chicken manure, I start to smile so you have to forgive me if we all start cracking up. One of the things that we learned is particularly when the price of eggs drops, a lot of these poultry farms make more money selling the manure than they actually do selling the eggs. And the reason is, is that chicken manure is high-end nitrogen, so it is a very powerful natural fertilizer and it is in high demand for organic farming. Sort of the dirty little secret that we have happened on is if rat droppings get in there, this organic fertilizer actually is contaminated with rodenticides. So, what we believe is by taking...by going with ContraPest, which doesn't end up in the droppings, we have the ability for these farms now to have a better pitch for organic. The other piece is, again, as organic becomes more and more mainstream, we think we are going to start seeing the manures making their way in the conventional farming as well.

Kevin Ellich

Got it, okay. And then California legislation AB1788, just can you give us an update on the timing, when you expect we should hear things more out of California and also what pushback you guys have been hearing in the market, it sounds like...I've seen some stories where some of the pest masters don't want second generation anticoagulants taken away because of how bad the problem is in California.

Ken Siegel

Yes, so a couple of pieces to that. The best intelligence we have right now is AB1788 is in front of the Senate Finance Committee a week from yesterday. It always has to go to the committee in case there is any issue of funding that needs to be required by the state. Since there are no funding requirements, we think this is essentially just a pro forma item. It then will go to the Senate floor later this month. We expect it to pass...actually have pretty high confidence in it passing because, even if it went down on party lines, the democrats have such a significant majority that it's very likely to pass. It then needs to go to the Governor by the 24th of September, and the Governor has already indicated that he will sign it.



What's going on right now is the pest control industry is going down two different tracks, one of which you've seen which is the [indiscernible] scare tactics about the rodent problem in major cities, particularly LA and San Francisco. And then, conversations about bubonic plague, typhus, et cetera. One of the interesting things that we've learned is the issue of typhus actually is being spread by cats and not by rats, but they are trying, I don't think that they're getting a lot of traction with the scare tactics, the other tactic that they're trying now is to see whether they can put riders on at the bill, which might either delay its effectiveness or give the pest control companies the ability to essentially pay a fee or a fine if they wanted to continue to use anticoagulants. Current intelligence indicates neither of those paths is likely to be successful, but obviously we're looking at it closely.

Kevin Ellich

Sounds good. Thanks for all the help.

Operator

Okay. I'd like to turn the conference over to Robert Blum to read questions offline.

Robert Blum

Alright. Thanks so much, Cole. And again, as a reminder to everyone on the webcast portion, if you would like to ask a question, you can type it into the 'Ask a Question Box' and press submit. We'll try to take as many questions as time will permit for. For those live on the call, if you would like to ask a question, please press the "*" "1" button and we will try to return to any additional questions that might be coming from the line's live portion.

The first question here is and you've touched about this a little bit on the prepared remarks, Ken. Has the company developed a specific plan to target specific areas to generate revenue, for instance, animal sanctuaries, zoos, and poultry farms which you talked on? Specifically, also how did the recently announced hospital deployments come about? Was that the results of a pest control company or was it internally generated?

Ken Siegel

So, let me expand a little bit on the verticals. As I mentioned in the prepared remarks for the zoos and sanctuaries, we are bringing onboard a contract sales organization. They're scheduled to go completely live Labor Day. We are in the process now of sharing with them all of the leads we have in that area. We're training their sales personnel with an idea that they'll be able to ramp very quickly. We're in the middle of the comprehensive awareness campaign with the municipalities and state agencies.

One of the things that's interesting...I might have even mentioned in the conversation that you and...that I was having with Keith is that, in terms of the municipalities in California, there...they have recognized that even whether or not 1788 comes into effect, they have a significant amount of pressure from within their communities to move forward with...moving away from rodenticides. So, one of the things that started to happen in that area is we're now getting inbound calls. So, we've been invited now to present and make proposals in a number of the major cities and we've already begun to get some small orders early in the past week or so for the deployments that we're looking at particularly in Los Angeles. So that one combination of the awareness, a combination of the fact that they know that 1788 is coming and the fact that they have enormous pressure coming from their own internal constituencies, that's beginning to drive itself to a degree.



The poultry and eggs, that's being driven by our own efforts in these tests that we're doing. And other pieces we are looking at, again trying to stay from bright and shiny objects, but when somebody comes in with something interesting that may potentially generate short-term revenue. For example, big box retail, we're looking at that as well. So, everything has a specific team deployed against it, a specific strategy.

As Tom mentioned in his remarks, we're also working very much on assessing what success looks like in each of those verticals. So back to poultry, back to grain, et cetera, it's a reduction in grain loss. It's a reduction in the loss of their chickens, their protein, and a reduction in contamination to the byproducts. And they can actually do some pretty specific math as to how much ContraPest will actually drive to their bottom line by effectively eliminating rodents.

The cities and municipalities, it's very much complaint-driven, it's sighting-driven, so we're working with them on demonstrating how it is they will reduce complaints coming in from their constituents. And zoos and sanctuaries, a similar piece there. It's a reduction on sightings, it's a reduction on damage to the wildlife that they are protecting. But again, there it's a little bit more intangible. They're not looking at a specific economic value, so we have to come up with different alternatives. And Tom, do you want to talk a little bit about...

Tom Chesterman

Yes, the hospital was actually a case study that actually was from the last year. It was a PMP that deployed at a hospital successfully. He was...found that he was able to drastically reduce his time on prem, servicing the traps that he had. And so, from a PMP's business standpoint that contract moved from being a difficult contract to a relatively profitable contract as a result of the ContraPest deployment. So that's one of the reasons why we wanted to make sure that it got out as a testimonial as opposed to being if not a new deployment.

Robert Blum

Alright. Our next question here and this came in a couple of different times. Can you share any updates on success with the program in Washington, DC?

Ken Siegel

I can. So, Washington, DC, the original program was set out essentially to measure consumption which is what the city believed would be the best indicator of success with the product. We have gotten our initial studies back. Consumption at all of the stations, with the exception of two or three, has been at the 75% to 100% level in relatively short periods of time. So, they're seeing good consumption. What we have asked them to do and what we're doing now is we want to count juveniles, which will be the most clear indication that we're actually knocking the populations down. So, over the past week, we've been installing cameras in a number of the alleys in the wards that we're servicing. That data will take another few weeks before we have it back. But at least the preliminary indication is the consumption has been very good and very high and now we want to see whether we can monitor or whether we're actually seeing a reduction in rat activity through reduction in juveniles.

Robert Blum

Alright. Our next question here is probably for Tom, why was the cost of goods so high during the quarter?



Tom Chesterman

Yes, I touched on this a bit in my remarks and a lot more detail will of course be in the 10-Q that we'll file tomorrow, but just to reiterate. We had some sales discounts. We had some incentives out there. We also had some scrap, which is although low on an absolute basis, had a measureable impact on gross profit given the level of sales. So, all of those combined to produce a lower than expected margin. But we still continue to be confident that we can move towards an expected margin in the 50% range.

Robert Blum

Alright. Our next question here, is there any update on seeking approval for mice?

Ken Siegel

Mice is still in the queue. What we are really focusing on right now is twofold, one of which is making sure that we have a general use designation in all 50 states or as close as we can get to that and the various usage that we're looking at for the poultry industry. So, mice have taken a little bit of a backburner as we're focusing on the core markets, but it's something that we would identify to continue to pursue in 2020.

Robert Blum

Is there an update on your internal breakeven revenue level?

Tom Chesterman

Well, the breakeven, again as I mentioned, we expect gross margins to be able to move to about 50%. Our operating expenses are...just using very round numbers, \$8 million a year. That implies the breakeven ought to be somewhere in the \$16 million range per annum on a run rate basis. That's just a very simple way of any kind of a forecast, but as of right now that's what it would look like.

Robert Blum

Alright. The next question here is, can you discuss what is happening with previous contracts that were negotiated in Hawaii, St. Louis? We already touched on Washington, DC as well as New York. Do you have any update that you can provide?

Ken Siegel

Do you want to take that one?

Tom Chesterman

Sure. Going in kind of top of mind order--St. Louis, the initial deployment was successful and there was a lot of press about that success. We do know that the PMP is now deploying ContraPest on additional sites, so we consider that to be a successful and growing relationship there.

With respect to Hawaii, there is a distributor that is distributing product there. We do not have direct contact with any of the PMPs there, so we do not know exactly how or where it's being deployed there.

Washington DC, we just mentioned. New York, again, that's something that is being done by the PMPs and we are seeing through distributors there. We do get anecdotal evidence from our business there that it is being deployed and it is particularly in the private sector is expanding in its deployment, but we don't have any hard numbers on the government's contracts there. Most of our attention, as Ken

mentioned, as we mentioned elsewhere has been moving towards California where there is a different set of politics at play.

Robert Blum

Alright. It looks like our next question here is: Now that you have almost 50 states accepting the less restrictive use label, what are your plans to capitalize upon this situation in terms of sales development?

Ken Siegel

Interesting question. So, one of the going-in assumptions and how we market this has been that the vast bulk of sales are going to be to PMPs and through PMPs. So, we have been working with the PMPs on their value models, how it is they can deploy ContraPest in a way that assures a long-term revenue stream for them. So one of the key pieces we're working on the model is that, since ContraPest can so dramatically reduce rodent populations, that they switch from the historic let's bomb with rodenticides every three months and wait for rebound and come back to a model in which essentially they knock the population down and then they switch more to a maintenance model. And so, the idea is to get the PMPs focused on multiyear contracts, which essentially, if you think about it as some of us who have termite control, et cetera, it's more a guarantee that the rodents aren't going to come back. So, their revenue stream in the backend really becomes more an annuity because their service levels drop.

As the PMPs are trying to internalize this, and they continue to fall back on their normal practice, which is let me charge as much as I can, because if this product works as well as I think it does, I may not have a future revenue stream. So, one of the concerns that's come up initially is getting them out of the mindset that they shouldn't be overcharging for ContraPest as well as for the service.

So, what we're doing at the outset is in the now 43 states that are non-RUP is, we've identified how it is we can go directly to end users, sell them the product at our current margin within the markup by the PMPs and the distributors with instructions on how to deploy. And we're currently working that model with a couple of corporates. The key piece here is not necessarily to move fully into a non-PMP deployment. It's really to indicate to customers that they have alternatives and we think that will also start introducing some discipline on the pricing side of the PMPs. So, we are looking at how it is we deploy directly. We've got a couple of projects now in process with direct deployment to end users in non-RUP markets. We're also using it as a way to impose pricing discipline in the core markets whether it's RUP or non-RUP.

Robert Blum

Alright. Cole, I'm going to turn the call back over to you for additional questions that might be on the live portion of the call here.

Operator

Absolutely. Our next question will come from Kevin Ellich from Craig-Hallum. Please go ahead.

Kevin Ellich

Hi, guys. Thanks for taking my follow-ups. Ken, just wanting to follow-up quickly. You said I think there is 43 states now that have removed the restricted use label. When do you expect to get the rest, the other seven states?



Ken Siegel

Two of them...it's interesting. Two of them are not going to remove the designation, but are going to essentially allow us to sell it as though it's non-RUP. So, we're really up to 45. The other five I don't know them off the top of my head other than one of them is California. So, California is clearly the one, Kevin, that we're most acutely focused on. And we're looking at that as first quarter next year. But in the meantime, at least the good news in California is because of AB1788, there's enormous pressure on end user customers to shift, regardless of whether we go non-RUP.

Kevin Ellich

Got you. Okay. Do you think you'll get the other four states by year-end then?

Ken Siegel

I'm not sure. I'll go back to our regulatory people and see what the sense is. They're kind of dribbling in it at this particular point in time, but none of them are of the magnitude of a California.

Kevin Ellich

Got you. Okay. And then with the CSO, the contract sales force for zoos and sanctuaries, just wondering if you could give any information in terms of what the arrangement is with them? Do they get a percentage of the sales? And I guess, are they exclusive to ContraPest or are they able to sell other things as well?

Ken Siegel

So, the company that we've engaged is not exclusive to ContraPest, but we will have dedicated salespeople who will only be selling our product. So, the arrangement essentially is we pay the salaries of the salespeople. They will be commissioned so their salaries are relatively low. A significant portion of the balance is commission. There is a modest, call it, the supervisory fee to the company itself, and then a small commission on actual sales. So, we stayed away from a lot of the models which are to pay based on leads. They will be commissioned only if they sell the product.

Kevin Ellich

Got you. Okay. That makes a lot of sense. And then, Tom, cash burn I think this quarter around \$2 million. Are we still looking at about \$8 million for the year?

Tom Chesterman

Yes, as we said, we've taken steps to reduce the burn rate where we can, but some of that is being redeployed to sales activities and marketing activities. So, I think probably a steady state is probably a conservative assumption.

Kevin Ellich

Okay. That's what we use. And then lastly, Ken, with the Washington, DC update, and forgive if I'm misunderstanding what you meant, but it's great that the consumption rate was high for all the bait stations out there. And I think you said you're installing cameras or have installed cameras to see the activity of juveniles. I guess why do you need to do that, when that's exactly what ContraPest does is it stops rats from reproducing?



Ken Siegel

In some respects, you're right. It's belt and suspenders. But as I'm thinking about this in terms of creating the proofs of concept and the future testimonials, it's one thing to say that product's being consumed. It's another thing to be able to say definitively that we've seen a reduction. And so, this is sort of in the...if I can come up with something that hits somebody squarely between the eyes and says, it works and here is documented proof, it just feels like a better way to sell on a go-forward basis. But consumption clearly is the indicator that it's working. This is something that I think, no matter what vertical we take it to, they're going to go, okay, it's actually reducing the rat population.

Kevin Ellich

Okay. That makes sense. And then lastly, Ken, you've been with the company three months now and beside the big investments you made with the equity offering, how would you say the first few months have gone, relative to what you expected when you started? Were the pros and cons both positive and negative that you've learned since joining the company?

Ken Siegel

That's a great question. So obviously there have been more pros than cons, or I wouldn't have put \$1 million of my own money in, so it's a way to start. All the pros are...I'm enormously impressed with the talent of the team, the strength of the science. And I came in as I even said on day one, it's better to have a challenge of selling a product than have the challenge of creating it and then figuring it out how to sell it. So that's all very positive. The thing that is a little concerning is some of the stuff that we've identified and we talked about on the call today, I need more proofs of concept, which is what we're working on in these various verticals, and we need a focus.

One of the things is there were so many attractive alternatives that the company was pursuing that putting the discipline in and saying we're going to go with these three key verticals, we're going to focus our energy in California was a major shift. But given the revenue profile, given the fact that we're public, I felt I owed it to the investors to buckle down and hit those areas where we were most likely to generate revenue in the nearest term. So that was the challenge that I think we all saw and what we're laying out for you now is how we're going to address it. And hopefully, when we get together next quarter, I'll be able to tell you that we hit on the right formula. I'm very optimistic, again, or I wouldn't have put that amount of money in.

Kevin Ellich

Got you. Thanks again.

Ken Siegel

Our pleasure.

Operator

And our next question comes from Greg Sullivan, a Private Investor. Please go ahead. Mr. Sullivan, your line is open.

Greg Slavin

Hi. I'm sorry. Actually, Ken, you've done a really good job of answering my question before I even got a chance to ask.

Ken Siegel

Terrific.

Greg Slavin

Thank you.

Operator

Our next question comes from Mike Lee, a private investor. Please go ahead.

Mike Lee

Good afternoon, gentlemen.

Ken Siegel

Hi, Mike.

Mike Lee

It has been very nice to listen to you folks speak and you've given a lot of information. Of all of my questions I only have one left. And it's in regard to a comment that Mr. Chesterman said that...Mr. Siegel said that in California there was an option for the end users to possibly buy directly from SenesTech than the distributors. My question is, will the pricing for the end user be exactly the same if they buy directly from SenesTech versus an up charge from the distributors? That's my question.

Ken Siegel

So essentially our plan right now is we will sell at what we believe is our suggested retail price to an end user. What's been happening is the distributors and the pest management companies have been marking up from the suggested retail price, sometimes one or two times what it is, we would otherwise sell at. We will allow for volume discounting for large purchases, but the key here is really to me the integrity of our pricing and put some discipline in the pricing that third parties have been using to markup the product.

Tom Chesterman

I would just add one thing to that and that is that you have to also remember that the PMPs are incorporating our product into a service offering and so there's a lot of different pieces that go into that. If a customer was considering buying direct, they're still going to have to figure out the cost and feasibility of servicing that. And so, it's all going to be brought together in one way or another. So, it really is not as clear an apples-to-apples comparison, because of that service component.

Mike Lee

Sure. And if I may add one more question. On the website in July last month, which is the first month of the next quarter, it looks as if there was an asset who tried to move a lot more product and there was some sort of discount, which was probably in June or earlier. Can you give us the listeners an indication of how that promotion went in the month of July?

Tom Chesterman

I think it would be premature for us to comment on the next quarter. We're going to try and remain disciplined to remain in the quarter that we're reporting on.



Mike Lee

That's fair enough. Okay. Thank you very much. I appreciate it.

Ken Siegel

You're welcome.

Operator

I'd like to turn the conference back over to Mr. Blum to read additional questions.

Robert Blum

Alright. Just looks like maybe one or two more questions here. Question is, how far along is SenesTech or ContraPest in developing birth control for plants, wild hogs, and all other animal and non-animal species?

Tom Chesterman

Well, I'm going to take that because I want to make sure that our new CEO knows that we got the message. We are all about focus, focus, focus. So, Ken, just so you know that we actually heard what you were saying. We are not working on those other programs at present. We are working on making ContraPest work for the products we have and can sell right now.

Robert Blum

Alright. With that, I will turn it back over to Ken for any closing remarks.

CONCLUSION**Ken Siegel**

Well, everybody, thanks for spending the time. I will tell you it's been an exciting three months and hopefully I've given you a sense of what the strengths are that I inherited as the CEO which are really quite incredible and how it is that we're working together as a team to drive focus and make sure that we're doing the one thing that all of you will most value, which is put some revenue on the board. And hopefully, either in the next quarter call, or certainly in the next few, we'll be talking about the uptick in revenue and how we're driving the success. So again, thanks all of you for the support. I hope you realize just how passionate we all are about this company. And I look forward to talking to you next quarter. So, thanks, again.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time and have a wonderful day.

