

BACKGROUND ON MONSANTO'S SEMINIS TAKEOVER

Monsanto Co. to Pay \$1 Billion For Produce-Seed Firm Seminis

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Monsanto Co., looking for places to grow after converting many of America's corn, soybean and cotton farms to biotechnology, agreed to buy Seminis Inc. for \$1 billion in order to expand its sights to vegetables and fruit.

The cost of the acquisition, which also calls for the assumption of an additional \$400 million in debt, startled some investors. That's because, by some measures, the closely held Oxnard, Calif., company was valued at slightly more than \$300 million in 2003, when a mountain of debt forced Seminis to go private.

In New York Stock Exchange composite trading yesterday at 4 p.m., Monsanto traded at \$54.10, off \$3.62, or 6.3%.

Monsanto executives yesterday defended the cost of the deal, its biggest since the late 1990s, arguing that while Seminis brings little in the way of biotechnology skills, it opens up new growth opportunities. Seminis, which has developed crops such as the baby carrot and the personal-size watermelon through conventional breeding, controls roughly one-third of the seed used to grow the fruits and vegetables found in most U.S. supermarkets.

Cobbled together in the 1990s by Alfonso Romo Garza, a Mexican entrepreneur and Olympic horseman who hoped to become as dominant marketing vegetable seeds as Monsanto was with seeds for larger-scale crops, Seminis controls 23% of the world's tomato-seed market, 34% of the hot pepper-seed market and 38% of the cucumber-seed market.

Executives at Monsanto, St. Louis, are playing down their interest in genetically modifying these sorts of crops anytime soon. Although U.S. consumers have largely accepted the presence in their groceries of genetically modified ingredients made from soybeans and corn, opinion research suggests that more shoppers would be leery if confronted with something they eat whole.

Still, Monsanto executives made clear that they hope to genetically modify vegetables and fruit in the future, if the market conditions are right. Seminis "makes a great platform," said Brett Begemann, the Monsanto executive vice president who will oversee the acquired company.

The planned acquisition, which allows Monsanto to leapfrog DuPont Co. as the world's biggest marketer of conventional and genetically modified seed, is a new direction for Hugh Grant, who returned the company to popularity on Wall Street since becoming Monsanto's chief executive officer in May 2003 by cutting costs and narrowing its focus to a handful of crops. The wheat business was jettisoned, for example. Monsanto's stock price has roughly doubled during Mr. Grant's tenure.

After years of cost cutting and retrenchment, Monsanto is eager to find new places to sell seed. Monsanto already saturates much of the American grain belt. Although the

European Union is lifting its de-facto moratorium on genetically modified crops, the business of selling biotech seeds there will be negligible for the foreseeable future.

Monsanto executives figure they can speed development of new vegetable varieties by Seminis by giving it access to technology such as molecular markers, which help plant breeders track desirable traits. Seminis, the world's biggest produce-seed firm, generated a net loss of \$16.3 million on sales of \$525.8 million in the fiscal year ended Sept. 30.

Monsanto to buy seed company Seminis in \$1B deal

ST. LOUIS (AP) - Agricultural biotechnology giant Monsanto (MON) said Monday it will buy vegetable and fruit seed company Seminis for roughly \$1B in cash, broadening its portfolio of seeds and tapping into the trend of healthier diets.

Monsanto said it will assume an additional \$400 million in debt by Seminis, the supplier of more than 3,500 seed varieties to commercial fruit and vegetable growers, dealers, distributors and wholesalers in more than 150 countries.

Monsanto - already staking more of its future on seeds that include genetically modified ones able to withstand weeds, insects and disease - said it also would make a performance-based payment of up to \$125 million by the end of fiscal 2007.

"The addition of Seminis will be an excellent fit for our company as global production of vegetables and fruits, and the trend toward healthier diets, has been growing steadily over the past several years," said Hugh Grant, Monsanto's chairman, president and chief executive.

Grant called 10-year-old Seminis, with sales of \$526 million in its 2004 fiscal year, "uniquely positioned to capitalize on this fast-growing segment of agriculture and the acquisition likewise expands Monsanto's ability to grow."

Citing the pending acquisition, Monsanto pared its estimate for fiscal 2005 earnings to 86 cents to \$1.06 a share, down from a previous range of \$1.56 to \$1.71.

Analysts surveyed by Thomson First Call were expecting Monsanto's earnings of \$2.05 a share.

Pending regulatory approvals, Monsanto expects the deal to close sometime between March and May. The company said the deal should be accretive to earnings per share, cash flow and revenue growth in fiscal year 2006, its first full year of operation.

The move comes two months after Monsanto's newly formed holding company American Seeds acquired the seed company Channel Bio for \$120 million cash. Monsanto formed American Seeds to support regional seed businesses with capital, genetics and technology investments.

Seminis will be a wholly owned Monsanto subsidiary, headed by its existing president and CEO.

Monsanto said it expects to continue Seminis' focus on developing products using advanced breeding techniques, with biotech applications an option well down the road.

That push comes as biotech crops are flourishing in the United States and taking root overseas, accounting for several tens of billions of dollars in crops in five leading countries, despite European resistance to the technology.

Alfonso Romo, chairman and chief executive of Seminis, said "we are bringing a complementary technology base and specialized expertise that can not only support economic growth for farmers, but contribute to the health and nutrition of consumers on a global scale."

Monsanto Buying Leader in Fruit and Vegetable Seeds

The New York Times

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By ANDREW POLLACK

In at least a temporary diversification away from genetically modified crops, Monsanto, the agribusiness company, agreed yesterday to pay about \$1 billion to acquire Seminis, the world's largest producer of fruit and vegetable seeds.

Until now, Monsanto has focused on corn, soybeans and cotton seeds, and on using genetic engineering to produce crops that are resistant to herbicides and insects.

But executives said yesterday that Monsanto would develop new vegetable varieties using conventional breeding. They said the fruit and vegetable seed business could grow without biotechnology, based on a consumer movement toward healthier diets.

"It's fine to dream, but you have to decide what you're going to do tomorrow morning," Monsanto's chief executive, Hugh Grant, said about biotech fruits and vegetables during a conference call with analysts. "In the long term, there may be opportunities in biotech."

Some genetically engineered papaya and squash are on the market. The first biotech crop to be commercialized was the Flavr Savr tomato, developed by a biotechnology start-up that Monsanto acquired. But that tomato did not catch on.

Now industry executives say it is difficult to bring new biotech fruits and vegetables to market because of consumer resistance. Also, fruits and vegetables are small crops, making it difficult to recoup development and regulatory costs. A few years ago, Monsanto decided to focus its biotech efforts on major crops.

The acquisition comes as Monsanto has been shifting its business from agricultural chemicals to seeds and biotechnology. Over the last decade, it has aggressively acquired seed companies, mainly in the corn and soy business, igniting some concerns that the markets were becoming too concentrated.

The new acquisition not only makes Monsanto the largest supplier of vegetable seeds in the world, but also, according to the company's calculations, the largest seed and biotech company over all. It would surpass DuPont, which owns the corn seed giant Pioneer Hi-Bred, in terms of revenues derived from seeds and biotech traits.

Seminis, based in Oxnard, Calif., had sales last year of \$526 million, with its leading products being tomato, cucumber, beans and pepper seeds. Its main brands are Seminis, Asgrow,

Petoseed and Royal Sluis and it sells mainly to farmers, not gardeners. But, with partners, it has recently started to develop some consumer items, like the Bambino miniature watermelon and Lettuce Jammers, lettuce in the shape of a taco shell.

Its main rivals in fruit and vegetable seeds are Syngenta of Switzerland and Limagrain of France. Less than 1 percent of Seminis's sales come from genetically modified seeds.

Under the deal, Monsanto will pay about \$1 billion in cash and assume \$400 million in debt. It might also pay an additional sum of up to \$125 million by the end of fiscal year 2007 based on the performance of Seminis.

Seminis was started in 1994 by a Mexican entrepreneur, Alfonso Romo Garza, who decided to create a giant vegetable seed company by acquiring smaller ones. The company went public in 1999 at \$15 a share, though Savia, a Mexican company affiliated with Mr. Romo, retained majority ownership.

But the company suffered severe losses and in 2003, majority control was acquired for \$3.78 a share by Fox Paine & Company, a buyout firm.

Fox Paine, based in Foster City, Calif., paid \$163 million for what is now a 58 percent stake in Seminis. New management helped spur growth and restore profits before special charges. Based on the \$1 billion Monsanto is paying, Fox Paine will get about \$580 million, the president and co-founder, Dexter Paine, said.

Shares of Monsanto, which have nearly doubled in the last year, fell \$3.62, or 6 percent, yesterday to \$54.10, as investors seemed to be surprised by the size and price of the deal.

"I think the market was expecting strategic acquisitions of the bolt-on variety," like small corn-seed companies, said Kevin McCarthy, analyst at Banc of America Securities. "This deal is clearly in a different league."

Frank Mitsch, analyst at Fulcrum Global Partners, pointing to how much the price of Seminis has risen since Fox Paine bought it in 2003, said, "It does make one step back and wonder as to why this transaction didn't occur 18 months ago."

Monsanto has said that sales of its genetically modified soy, corn and cotton continue to grow, but that it has had trouble expanding genetic engineering to other crops.

It dropped an effort to introduce genetically modified wheat last year after some American farmers said such an introduction might hurt exports. And its genetically modified grass for golf courses has run into opposition from environmental groups.

With fruits and vegetables, it said, it will analyze genes in the crops to speed conventional breeding of improved varieties but would refrain for now from putting new genes into the crops.