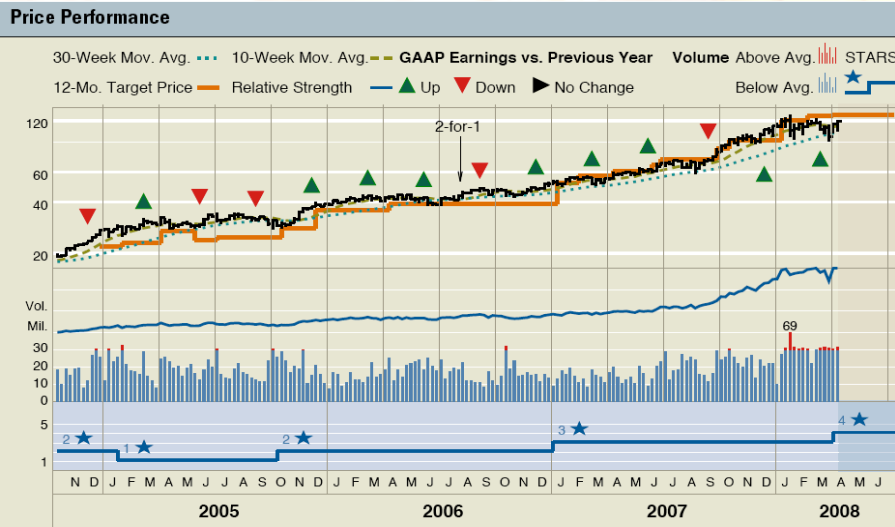


# MONSANTO



**Key Growth Rates and Averages**

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	16.60	16.25	17.03	NA
Net Income	32.09	67.62	NM	NA

Ratio Analysis (Annual Avg.)	1 Year	3 Years	5 Years	9 Years
Net Margin (%)	10.77	7.59	5.48	4.63
% LT Debt to Capitalization	13.29	17.87	18.04	19.39
Return on Equity (%)	13.00	9.03	6.41	4.94

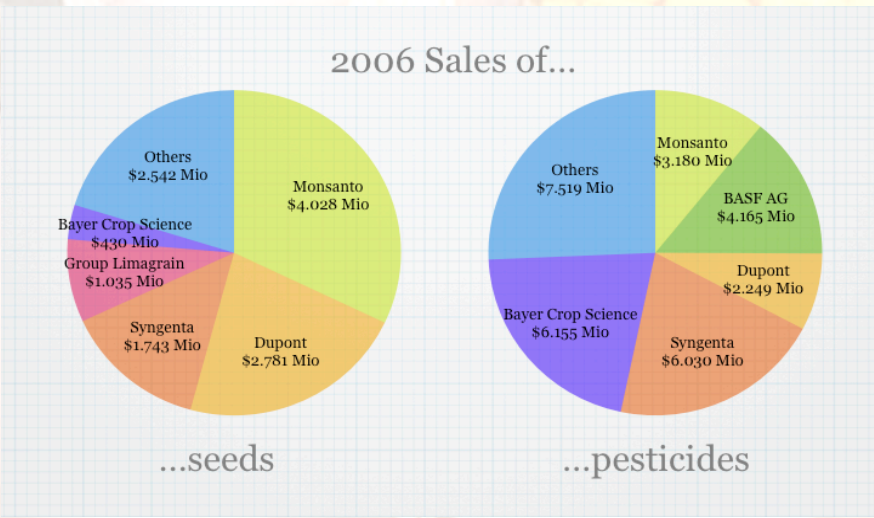
• **STRONG BUY!**

- **Analyst Recommendation:** STRONG BUY; **Outlook:** AGGRESSIVE; The world's largest producer of genetically modified seeds, Monsanto, is strategically positioned to exploit tremendous gains from the agricultural boom. The demand for ethanol is inflating world food prices. Monsanto offers an elegant portfolio of genetically modified seeds, such as corn and soy; the company will continue to benefit from increasing demand.

	Growth Rate			
	Aggressive	Optimistic	Moderate	Pessimistic
2008	89%	67%	33%	2%
2009	120%	77%	33%	2%
2010	171%	57%	33%	1%

	2008	2009	2010	Terminal Value	NPV
<b>Aggressive</b>	\$1,742.580000	\$3,833.676000	\$10,389.261960	\$1,033,663.907019	
t <sub>0</sub>	\$1,568.399793	\$3,105.585626	\$7,574.899058	\$753,653.126240	<b>\$765,902.010717</b>
<b>Optimistic</b>	\$1,539.740000	\$2,725.339800	\$4,278.783486	\$111,513.501803	
t <sub>0</sub>	\$1,385.834737	\$2,207.744241	\$3,119.697349	\$81,305.440464	<b>\$88,018.716791</b>
<b>Moderate</b>	\$1,226.260000	\$1,630.925800	\$2,169.131314	\$37,303.260608	
t <sub>0</sub>	\$1,103.688743	\$1,321.180956	\$1,581.532048	\$27,198.123864	<b>\$31,204.525611</b>
<b>Pessimistic</b>	\$940.440000	\$959.248800	\$968.841288	\$9,683.044063	
t <sub>0</sub>	\$846.437983	\$777.068611	\$706.390405	\$7,059.989597	<b>\$9,389.886596</b>

- **Outlook**-Net Income and NPV
  - **Aggressive**- The U.S. economy is suffering from stagnant growth as well as a rising level of inflation. As the U.S. economic slowdown reverberates throughout the world economy, standard commodities provide safe-harbor in the international financial environment, presenting a potential growth opportunity for the “agri-tech” company and for the entire agricultural sector, as the devaluation of the U.S. dollar will trigger a higher demand for U.S. exports. Monsanto, Mosaic, and Syngenta represent a propitious niche group in the current agri-boom, supplying world demand for efficient crop production.
  - **Optimistic**- Acknowledging the grim economic outlook for the U.S. economy and the falling dollar, in conjunction with the relative increase in oil futures and commodity prices, specifically corn and wheat, the world’s largest producer of genetically engineered seeds, Monsanto, is a proven strategic investment. Analysts and environmentalists realize the competitive advantage of agri-tech, as it produces more output with less input. However, most of the major players in the GMO industry, such as DuPont, Dow and Syngenta, will attempt to capture Monsanto’s impressive 10% market share<sup>1</sup>.
  - **Moderate**: Although a stagflationary economic environment is great for Monsanto, the barriers to entry in such an industry are medium to low, implicating that any player in the chemical or agriculture industry, such as Archer-Daniels Midland- historically a conventional agriculture company, and Bayer-a major diversified chemical company, will seek a dynamic entry into the market through various cooperative strategies, in order to capture a share of the lucrative market. There will be competition.
  - **Pessimistic**- Realizing the proliferation of the corn industry compromises the world ecosystem by the increasing levels of carbon dioxide and thereby accelerating “global warming”, governments will implement stringent regulations to harness growth, in order to protect the environment. Moreover, if ethanol is not the “alternative energy story of the future”, the glut in supply anticipating previous demand will cause commodity prices to fall drastically, and cripple the agricultural sector.



Valuations (\$ in millions)	
Beta	1.2
Risk Free Rate	4.55%
Risk Premium	5.60%
CAPM	11.27
WACC	11.11%
NPV Aggressive	\$765,902.01
NPV Optimistic	\$88,018.72
NPV Moderate	\$31,204.53
NPV Pessimistic	\$9,389.89

<sup>1</sup> « Tracking the Trend Towards Market Concentration : The Case of the Agricultural Input Industry. ». United Nations Conferenced on Trade and Dvelopment. 20 April 2006.

Current Share Price, April 10, 2008: \$120.27; **FPS Research**

## **Investment Thesis**

Through synergies of biotechnology and agriculture, Monsanto provides farmers with a sustainable competitive advantage by simply introducing one or more genes into a seed, which thereby combat unwelcome weeds and repel unwanted insects, producing abundant crop yields<sup>2</sup>.

The application of biotechnology in the agricultural sector has engendered worldwide debate, promise and controversy. Though the international environmentalist lobby has historically proven successful in generating disdainful consumer sentiment in genetically modified organisms (GMOs), stigmatizing biotechnological participation in traditional farming with labels such as “Franken-food”, the inherent benefits of GMOs appear to be gaining support, as demonstrated by the steady, international growth of such crops now harvested in America, Brazil, India and other developing countries<sup>3</sup>. Concordantly, the recent World Trade Organization ruling in February of 2005 relinquishing the moratorium imposed by the European Commission on GMOs sowed within the Euro Zone, demonstrates the gradual international embrace of “agri-tech”. The company is currently receiving about 45% of its revenues from outside the U.S., and notes that strong foreign currencies relative to the dollar should promote solid sales and earnings growth<sup>4</sup>. This leads us to believe that continual growth will be evidenced. More specifically, corn and soybean farmers have realized tremendous profits by planting such genetically modified crops.

The current driver in the “agri-boom”, is the demand for ethanol. Farmers are responding from increased demand in corn, and planting accordingly. The foreign and domestic demand for biofuels and ethanol, combined with the demand for “proteins” in emerging markets, affords Monsanto users with incredible strategic leverage, as genetically engineered seeds provide farmers with the benefits of using less water, producing more food from less land, and farming less fertile land, ultimately reducing the environmental impact of commercial agriculture<sup>5 6</sup>.

Monsanto offers an elegant portfolio of corn seeds and chemicals. The premium seed system, “Roundup Ready 2 Corn”, is a perfect product synergy consisting of Monsanto’s very own chemical weed killer, Roundup, and a seed modified to maximize root protection in roots and stalks. “Roundup Ready 2 Corn” enables farmers with the ability to overcome natural obstacles to plentiful yields, such as weeds, by spraying Roundup over the entire crop, effectively eliminating every plant organism without a “Roundup Resistant Trait”. Sown successfully, a farmer may realize an increase of 6.5 bushels per acre more than the leading herbicide program<sup>7</sup>.

Monsanto is committed to American energy independence through ethanol. In 2006, U.S. ethanol volume displaced about 170 million barrels of imported crude oil, valued at \$11 billion dollars; by 2015, approximately 5 billion bushels of corn could produce over 15 billion gallons of Ethanol<sup>8</sup>. The company’s recent development of High Fermentable Corn (HFC) is a “hybrid for a high ethanol yield capabilities” exclusively developed for the most efficient refinement of ethanol. One acre of HFC produces 420 gallons of ethanol, whereas one acre of conventional corn produces 180 gallons of ethanol<sup>9 10</sup>. A proven first mover in “agri-tech”, Monsanto may very well prove to be the Exxon-Mobil of ethanol.

<sup>2</sup> <http://www.monsanto.com/products/default.asp>

<sup>3</sup> “Son of Frankenfood.” The Economist 17 January 2008

<sup>4</sup> <http://www.sciencenews.org/articles/20060722/food.asp>

<sup>5</sup> “Corn Upside Likely Remains”. Monsanto Company. Morgan Stanley Report. 2 April 2008

<sup>6</sup> “Weighing the GMO Arguments”. Food and Agriculture Organization of the United Nations. 14 April 2008.

<sup>7</sup> [http://www.monsanto.com/monsanto/ag\\_products/input\\_traits/products/yieldgard\\_plus\\_corn\\_2.asp](http://www.monsanto.com/monsanto/ag_products/input_traits/products/yieldgard_plus_corn_2.asp)

<sup>8</sup> <http://www.monsanto.com/processorpreferred/>

<sup>9</sup> <http://www.monsanto.com/processorpreferred/>

<sup>10</sup> <http://ers.usda.gov/AmberWaves/April2006/Features/Ethanol.htm>

Current Share Price, April 10, 2008: \$120.27; **FPS Research**

Accordingly, sector analysts acknowledge a maturing U.S. farm economy, heavily intensive in corn cultivation, increasing 19% in late 2006 as farmers responded to skyrocketing food prices<sup>11</sup>. However, there is increasing speculation of a soybean boom. Therefore, corn farmers may plant less acres of corn during fiscal year 2008, as they anticipate an increased demand of soybean crops<sup>12</sup>. However, if such a boom in soybean planting ensued, Monsanto is well positioned to mobilize and dynamically respond to a market shift, as they feature “Roundup Ready Soybeans” in their product portfolio, exhibiting the same technological breakthroughs featured in “Roundup Read 2 Corn”.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Income Statement Analysis (Million \$)</b>										
Revenue	8,563	7,344	6,294	5,457	3,373	4,673	5,462	5,493	5,248	NA
Operating Income	2,138	1,694	1,503	1,254	768	882	1,335	1,216	1,179	NA
Depreciation	527	519	488	452	302	460	554	546	547	NA
Interest Expense	139	134	115	91.0	57.0	59.0	99.0	214	269	NA
Pretax Income	1,336	1,055	261	402	-38.0	202	463	334	263	NA
Effective Tax Rate	30.1%	32.2%	39.8%	32.6%	NM	36.1%	35.9%	47.6%	43.0%	NA
Net Income	922	698	157	271	-11.0	129	297	175	150	NA
S&P Core Earnings	951	745	363	362	317	5.45	277	NA	NA	NA
<b>Balance Sheet &amp; Other Financial Data (Million \$)</b>										
Cash	866	1,460	525	1,037	511	428	307	131	26.0	NA
Current Assets	5,084	5,461	4,644	4,931	4,962	4,424	4,797	4,973	4,027	NA
Total Assets	12,983	11,728	10,579	9,164	9,461	8,890	11,429	11,726	11,101	NA
Current Liabilities	3,075	2,279	2,159	1,894	1,944	1,810	2,377	2,757	1,704	NA
Long Term Debt	1,150	1,639	1,458	1,075	1,258	851	893	962	4,278	NA
Common Equity	7,503	6,680	5,613	5,258	5,156	5,180	7,483	7,341	4,645	NA
Total Capital	8,653	8,319	7,071	6,333	6,414	6,031	8,376	8,303	8,923	NA
Capital Expenditures	509	370	281	210	114	224	382	582	632	NA
Cash Flow	1,449	1,217	645	723	291	589	851	721	697	NA
Current Ratio	1.7	2.4	2.2	2.6	2.6	2.4	2.0	1.8	2.4	NA
% Long Term Debt of Capitalization	13.3	19.7	20.6	17.0	19.6	14.1	10.7	11.6	47.9	NA
% Net Income of Revenue	10.8	9.5	2.5	5.0	NM	2.8	5.4	3.2	2.9	NA
% Return on Assets	7.5	6.3	1.6	2.9	NM	1.3	2.6	1.5	1.4	NA
% Return on Equity	13.0	11.2	2.9	5.2	NM	2.0	4.0	2.9	3.4	NA

## In the News

Monsanto Company announced on March 31, 2008, to acquire De Ruiter Seeds Group B.V., a Dutch-holding company that owns and operates De Ruiter Seeds. The acquisition is expected to build on the strength of Monsanto's vegetable seed business as well as enhancing the company's growth in the protected-culture segment, the fastest-growing sector within the vegetable seeds industry.

Monsanto is devoting more research in marker-assisted breeding, which is expected to offer an immediate jump-start for De Ruiter Seeds breeders. The combination of De Ruiter Seeds' rich pool of genetic research and their operating experience within the protected-culture segment is expected to further enhance Monsanto's service of the vegetable seed market. Analysts contend such synergies are “expected to enable both companies to offer better products to growers and do so faster than either company could have done on its own”<sup>13</sup>. Monsanto intends to finance the acquisition with cash. The acquisition is expected to be accretive to Monsanto's earnings per share (EPS), cash flow and revenue growth by the second-full fiscal year, following closure of the acquisition.

<sup>11</sup> Monsanto Company Analysis Report. Standard & Poor's. April 5, 2008.

<sup>12</sup> Monsanto Company Analysts Report. Argus. April 3, 2008.

<sup>13</sup> <http://monsanto.mediaroom.com/index.php?s=43&item=586>

Current Share Price, April 10, 2008: \$120.27; **FPS Research**

Recommendation **BUY** ★ ★ ★ ★ ★

Industry wise, “one-fifth of corn and almost one sixth of the U.S. grain harvest overall goes toward ethanol production” (Harder). Agricultural economist Chad E. Hart of Iowa State University in Ames commented, "We're seeing already higher projected prices than normal for the 2007 crop." With demand for corn rising, production is also likely to increase. Higher corn prices will lure farmers to devote more acres to cultivating corn.

Monsanto reported record net sales of \$3.8 billion for the second quarter of fiscal year 2008, which were 45 percent higher than sales in the same period in fiscal year 2007. Key drivers for the quarter were increased revenues from the company's U.S. corn seed and traits business as well as increased revenues from its Brazilian corn seed business. Monsanto saw record sales of \$5.9 billion in the first six months of the company's fiscal year 2008. The year-to-date sales were 42 percent higher than sales compared with the same period in fiscal year 2007. Key contributors to the company's growth included increased global sales of Roundup and other glyphosate-based herbicides, as well as higher worldwide corn seed and traits revenues. The company now expects that its free cash flow for fiscal year 2008 will be \$1.3 billion.

### **Company Overview**

Monsanto is committed to advancing the growth potential of seeds by unlocking the secrets of life through biotechnology. Monsanto is an “agri-tech” company helping farmers around the world enhance crop yields, with less farming input. Headquartered in St. Louis, Missouri, the company has 62 locations and facilities around the world, located in regions such as Canada, China, France, India, Japan, South Africa, Taiwan, and United Kingdom. All of these locations and facilities focus on agriculture and supporting local farmers with their advanced technology in genetic engineering. There are two main structures in Monsanto Company. The first segment is dedicated to biotechnology, seed research, breeding and genomics. Monsanto seed portfolio consists of genetically modified corn, cotton, oilseeds-such as soybeans and canola, and fruits and vegetables. The second segment consists of home and commercial crop protection products and pesticide products, such as Roundup.

**FPS Research: Jackie Fung, Edwin Pun, Alex Singleton,**

Appendix-1

Maturity	Yield	Yesterday	Last Week	Last Month
2 yr AA	4.12	3.97	3.75	3.41
2 yr A	3.93	3.78	3.62	3.39
5 yr AAA	4.33	4.14	3.94	3.97
5 yr AA	4.71	4.53	4.44	4.03
5 yr A	5.34	5.10	5.10	4.98
10 yr AAA	5.30	5.78	5.06	4.90
10 yr AA	5.97	5.72	5.68	5.65
10 yr A	5.55	5.45	5.33	5.65
20 yr AAA	6.77	6.57	6.44	6.46
20 yr AA	5.77	6.09	6.08	6.26
20 yr A	6.63	6.44	6.31	6.33

Agency	Ratings						
S&P	AAA	AA+	AA	AA-	A+	A	A-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch IBCA	AAA	AA+	AA	AA-	A+	A	A-

- Total Debt = \$1,420,000,000.
- Market Capitalization = 548,770,000 shares outstanding \* \$120.27 = \$66,000,567,900.00
- Monsanto Debt Rating = "A", or 5.55%
- Recommendations
  - 1 Star = Sell
  - 2 Stars = Hold
  - 3 Stars = Buy
  - 4 Stars = Strong Buy
  - 5 Stars = Nothing is a perfect buy\*

Current Share Price, April 10, 2008: \$120.27; **FPS Research**

Recommendation **BUY** ★ ★ ★ ★ ★



Current Share Price, April 10, 2008: \$120.27; **FPS Research**

Recommendation **BUY** ★ ★ ★ ★ ★





Current Share Price, April 10, 2008: \$120.27; **FPS Research**

Recommendation **BUY** ★ ★ ★ ★ ★

