

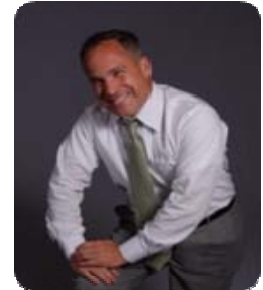


## FOCUS: SEED

### Consolidation Direction – Where and Why the Seed Industry is Headed

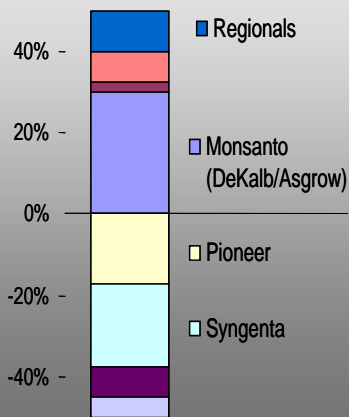
Significant consolidation has occurred in the seed industry in the last decade. But several market influencers have combined in recent months to heighten interest and attention on this important sector of the agriculture industry.

“One thing is certain. The seed industry will change and evolve at an intense pace in the next few years.” Context Partner Blake Sieker said, “There are several reasons for this heightened level of interest in the seed business.” But Sieker added, “It’s critical to understand where we are and how we got here to fully appreciate the direction the seed industry is headed.”



Context Partner, Blake Sieker

*US Corn and Soybean Company Market Share Change (over the past decade)*  
(Context Network © 2008)



#### Understanding the Past Decade

Context Network research shows how dramatically the consolidation in the U.S. corn and soybean market has changed. Sieker says, “Several significant reasons drove change to date. They explain not only the dynamics of history, but also suggest future changes.”

Acquisitions, divestitures and sales drove much of the change since 1999. Sieker said, “Nearly all the purchases of seed companies were by multi-national companies owning their own germplasm and who are now evolving to owning their own technology.”

#### Buyer Motivation, Seller Motivation

Sieker stated, “Market share has significant value for those with owned technology – with which they are able to capture premiums associated with that technology.” In addition, it’s important for larger companies to have a large enough *owned* footprint to be significant – both for economies of scale, *and* for recognition of their products/technologies.”

On the other side of the coin, Context’s research shows there have also been acquisitions by large companies that appear to be defensive moves – purchases made by companies needing to own share so as not to be deprived of that share by technology competitors.

Sieker says seed company sales primarily have been made for one of three reasons. First, companies have been sold because the offer is too good to refuse. “Significant premiums have been paid for companies during the past decade – prices paid that defy normal financial measures – in some cases exceeding three times gross sales. These moves are clearly made for strategic purposes.”

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Secondly, he says fear of the future has been a motivating factor. "Some seed companies feel they've 'seen the writing on the wall' – that they are increasingly captive or semi-captive technology distributors and that they are competing in the retail marketplace with their technology suppliers who have an obviously lower 'cost' point."

The third motivator, according to Context, is financial strain. "Some transactions have occurred because the companies are in financial duress. "This has occurred almost exclusively with smaller companies," Sieker said.

**Market Share Loss/Gain**

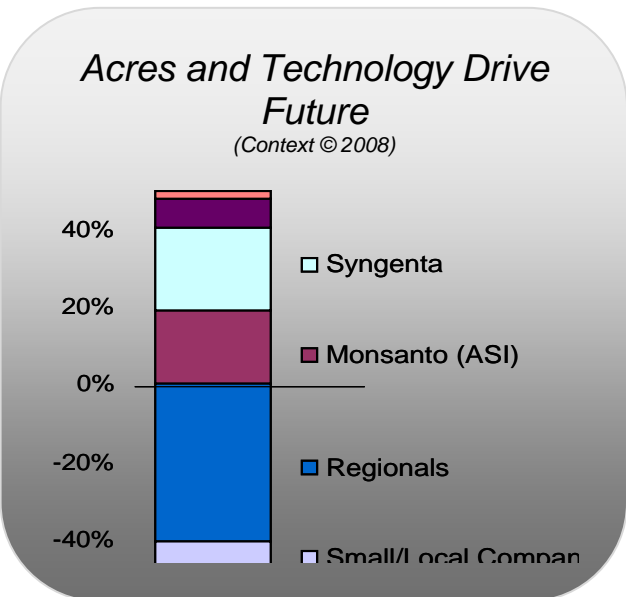
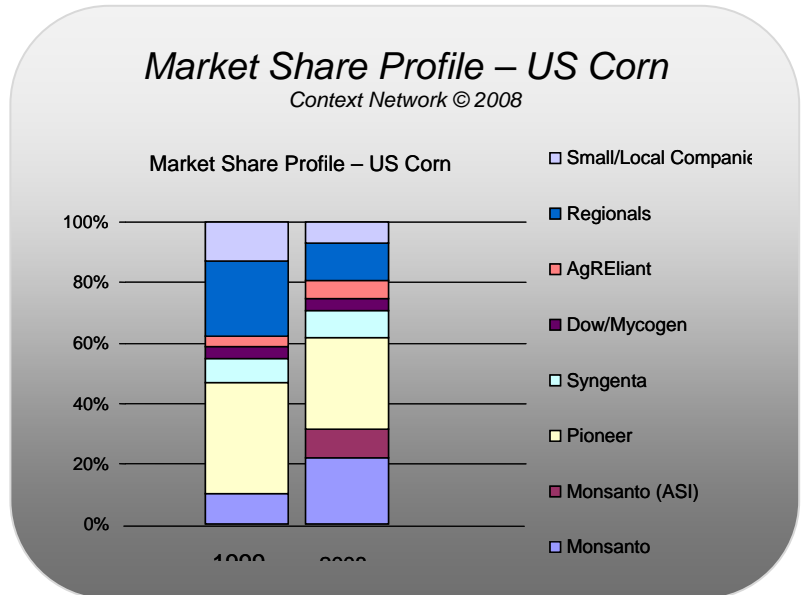
A huge contributor to the shift in the seed industry market share profile has been market share gain or loss. "Companies gain or lose market share for several reasons including availability of technology, product performance, sales force and distribution systems, and pricing and programs.

"This graphical representation shows market share movement from 1999 -2008 of attributable gain/loss in owned share excluding transaction impact."

**Tech Drive Future Change**

Recent market conditions including the global acreage status and that of technologies have heightened interest in the seed business.

Sieker said, "Larger U.S. and global acres have driven up prices and demand for ag products. With a larger market in which to operate, the value of the market presence increases."



He noted technology delivery systems - technology implanted into the seed - are increasingly substituting for herbicides and insecticides. "This dynamic causes major crop protection companies, many of whom are largely the significant seed industry players as well) to invest heavily in this area as the value streams undergo substitution." During this same time, key chemicals have come off patent and others are not far behind. "This has forced companies to seek better chemistries and modes of action to maintain their value in the marketplace while competing with generics and others with their conventional products."

Furthermore, he insists biotechnology will be a strong market influencer in the years ahead. "Even though biotechnology is extremely expensive to develop, the 'cost of goods' once developed is near zero, unlike chemicals that require large facilities and logistics as well as fixed costs."

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### Small Seed Companies Fit in Future

As the seed business has evolved from a production/niche product marketplace to a technology distribution marketplace, the role of the smaller seed company has changed significantly. Sieker said, “Unlike a decade ago, seed companies are reliant on technology suppliers (both their willingness to supply and the price at which they supply it). This creates a very challenging paradigm in the long term for the smaller companies. They do not have the economies of scale of the larger companies, they generally have significantly higher production costs, and they are increasingly competing in the marketplace with their technology suppliers.”

Seiker concludes, “Our research and ongoing focus on the seed industry tell us that significant seed industry consolidation should and will occur over the next few years – especially as the more innovative of the smaller companies look into the future and strategically think through whether and how they fit in this marketplace.”

For more information on Context’s recent seed industry consolidation study, contact [blake.sieker@contextnet.com](mailto:blake.sieker@contextnet.com).

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*The Context Network* provides business management and strategy consulting services to the world’s leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of more than 100 industry and subject-area experts.