



CONTEXT

Thinking in Context. . .

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Dear Friends and Colleagues,

Happy New Year! At this time, as an industry, we have many things for which to be grateful. As a company,

The Context Network has become more deeply engaged in more numerous probing and revealing projects, analyses, and client endeavors. In this issue of *Thinking in Context*, we're very pleased to share a collection of briefs on some of the many issues Context continues to pursue.

You may note that the topic areas in this issue are broad – but so is Context's network of experts in food, agro and biosciences. We are pleased to continue to offer our multi-client reports – deep analysis of specific topics; white papers on timely issues and business transactions and a host of expert consulting services.

For most, the New Year offers a time to resolve anew, both personally and professionally. We take the opportunity at the turning of the calendar to implement new efficiencies and explore new business endeavors. Context will continue to support your business efforts in this New Year. Indeed, we hope to help put the future in "context" by our continued focus on issues, ideas and endeavors that are driving our industry.

We wish you each a prosperous year and look forward to sharing our perspectives of what's to come.

Sincerely,

Tray Thomas
Founding Partner
The Context Network

Context Ventures, LLC Launched

Today's marketplace is consolidating both upstream and downstream. Context Partner, Steve M. Hawkins said, "Many companies are looking for those with whom they can best align for a larger business footprint." In response to this growing need, Context Ventures, LLC was formed in 2007. Hawkins said, "We launched Context Ventures to provide transaction support to companies that are buying and/or selling businesses, have technologies that are looking for partnerships, strategic alliances and/or joint ventures. Our Context partners, associates and consulting experts in our network have a broad depth of experience in business transition." Hawkins concluded, "We look forward to bringing this unique set of services to the industry." For more information on Context Ventures: steve.hawkins@contextnet.com

New Animal Biotech Study Launched

What role will biotechnology play in the future of animal agriculture? What will be the key drivers of its success, adoption or redirection? How will the business model of each of its key players shift over time? These important questions will be addressed in a new multi-client study, *The Future of Biotechnology in Animal Agriculture*. Initiating this new study is Context consultant, Dr. Thomas Klevern. "The *Future of Biotechnology in Animal Agriculture* provides an important step toward greater understanding in an emerging technology in agriculture." Klevern continues, "We believe it is extremely valuable to understand that there is a significant opportunity for biotechnology in animal agriculture but that it comes with several uncertainties. By exploring the opportunities, pooling

data and resourcing qualitative and quantitative data from each of the players, we can offer a significant body of relevant information that can help guide the industry as it moves forward in developing its future."

Klevorn expects to explore influences of biotechnology in animal agriculture throughout the channel as they impact technology providers, producers, packer/processors, and consumers. "We'll investigate current and future discoveries, innovations and implementations of biotechnology and genetic discoveries in animal agriculture."

He concludes, "We look forward to developing this study. Animal agriculture faces some interesting opportunities as biotechnology and genetic sciences advance in proficiency." For more information on *The Future of Biotechnology in Animal Agriculture*: thomas.klevorn@contextnet.com

Coming Next Issue: Context's Precision Ag Update

Context Partner, Mike Borel will present perspectives on Precision Ag Technologies: what to expect and how it will impact seed companies in the years ahead, in the March issue of *Thinking In Context*." Borel expects remote sensing, variable rate delivery and geographic information systems will lead the charge.

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Context White Papers Now Available

- Implications of Monsanto's September Agreements with Dow AgroSciences, LLC and with DuPont
 - The Feasibility and Impact of a 35 Billion Gallon Alternative Fuels Standard
 - Facts and Implications of the Acquisition of UAP by Agrium
- Visit www.contextnet.com to learn how to access these insightful reports

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Biofuels Update – Understanding Change and Fluctuation in this Emerging Biofuels Market

“Context believes that grain-based biofuels production could reach its maximum potential over the next five years.”

As we predicted in our multi-client study, *“The Future of the North American Biofuels Industry”*, biofuels profitability has dropped precipitously, consolidation has begun and planned plants are being canceled.

Since October, five ethanol projects have been canceled and, on November 29, Verasun and U.S. BioEnergy announced they are merging their operations. Earlier this year, Verasun acquired three, 100 MM gallon projects from ASA Alliances. Various market watchers are predicting tough-going for the industry through at least 2008 and probably well into 2009.

We see these difficulties leading only to a slowing of the industry’s rate of growth. New demand for ethanol will be coming from both the Northwest and Southeast. In addition, it has been reported that the U.S. Congress will likely boost the current RFS from 7.5 billion gallons in 2012 to around 20 billion gallons by 2015.

Despite the slowdown in the biofuels industry, corn and soybean prices will remain significantly above their five year averages. The demand from biofuels worldwide is a new, permanent component of demand for corn, sugarcane, rapeseed and soybeans. The supply of corn, soybeans and rapeseed are constrained in the near term since increases in acreage in North America and the E.U. are not really feasible and only South America has the ability to expand total acres being farmed. Increasing demand for protein and edible oils worldwide also seems likely to keep carryover/stocks of corn and oilseeds in fairly short supply.

Context believes that grain based biofuels production could reach its maximum potential over the next five years. The new RFS being fashioned in the Congress would set the requirement for corn-based ethanol at 15 billion gallons and at 1 billion gallons for biodiesel. The other 4 billion would come from other alternative fuels. Theoretically, the ethanol industry could reach that level of production in three or four years since current production capacity is at 7.2 billion gallons and another 6 billion gallons of capacity is “under construction”. Capacity in the biodiesel industry is already at 1 billion gallons.

Context sees fairly modest growth in biofuels consumption in the U.S. over the next two years while the capacity glut and transportation issues are resolved. A new RFS will reinvigorate the industry after that, but not to the irrational levels of 2006. For additional information, contact: jim.murphy@contextnet.com



Context
Consultant,
Jim Murphy

Context Partners Speak Out – Seed Industry’s Rapid Growth Through 2020

Recently, Context partners, Steve M. Hawkins, Mike Borel, Blake Sieker and Tray Thomas each have made presentations to various groups of agriculture industry leaders. A few of the most recent programs were developed for seed industry professionals. Tray Thomas comments on some of their presentation highlights.

“We had the opportunity to consider where, as an industry, we have come since biotech traits entered the marketplace. Since 1995, we’ve seen a dramatic shift in the weed control market. As an industry, we’ve created a sizeable insect control market that was previously non-existent. We’ve established a novel market niche for a new seed brand in terms of stacks of traits. Now, as the first wave of biotech traits nears its crest, we look ahead to a deep and broad pipeline. In the near term, stacked traits will dominate the market. Longer term, novel trait introductions promise to deliver unprecedented change.”

Context’s Global Seed Market Database and the Global Seed Sector 2020 Outlook - Major Field Crops reports provide both benchmarks of past and current seed market values around the world, and projections of values out 10 - 15 years. Thomas added, “Based on numbers from those reports, we forecast the global commercial field crop seed markets to surpass \$36B USD in 2020. Seed and traits segments are forecast to grow by an estimated 9% compounded annual growth rate, while conventional seeds segments valuation is expected to remain sedentary. That’s an estimated growth of \$18 billion USD in seed crop value in roughly 12 years!”

For additional information on these trends and projections, or to reach a Context partner for a speaking engagement, contact tray.thomas@contextnet.com

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 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.

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