

# A Buying Opportunity for the Bold

*The seed industry is not a market for the faint of heart. But for the investor with a keen eye and a long-term commitment, ag can pay dividends worth the risk.*

Recent events have cast a shadow over the seed industry. These events include, but are not limited to, the Novartis/Zeneca ag merger; the Monsanto/Pharmacia & Upjohn merger; the cancellation of the Delta & Pineland acquisition by Monsanto and the subsequent lawsuit; the AgriBiotech Chapter 11 filing and the decline of Seminis stock since its Initial Public Offering.

In these tumultuous times, only the bold would buy into the seed industry.

However, history is quick to remind us that the most momentous transfers of wealth in the business world were considered "bold moves." The Manhattan real estate grab in the mid '70s and the aggressive seizure of stocks on October 19, 1987 (Black Monday) are just two examples. In hindsight, we realize that both of these

counter-cyclical investments paid huge returns to those courageous enough to make them. Will the same hold true for the seed industry?

Just as savvy investors saw their hidden moment of opportunity in the Manhattan real estate market of the 1970s and in the stock market on Black Monday, we must take a step back and look beyond the newspaper headlines and popular perceptions. Is the sky truly falling or is the marketplace merely undergoing a cyclical downturn? Considering that the commodity in question is seed, can we still see that the underlying fundamentals remain positive?

For starters, biotechnology is here to

stay. There will be cumbersome new labeling laws. Western consumers will demand tangible benefits, i.e., output traits not just input traits. Developing countries' governments will weigh in on how biotech can help feed their people and how the government must share in the profits. But because the issues are so pressing: exponentially growing world population, decreasing arable land and top soil, increased demand for protein in the diet, and the plain old desire to please the con-

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sumer, biotechnology will eventually be accepted as another breeding tool.

Values in the seed industry, and agribusiness in general, have suffered from a "herd" mentality in the marketplace. Initially, when Monsanto starting making moves in agricultural biotechnology, others followed suit, quickly creating a buying frenzy for seed companies and germplasm. There is disagreement over who coined the term "life science company", but all participants soon adopted the moniker. But as analyst and shareholder rumblings about the under performance of agricultural assets grew increasingly louder, the new life science companies headed for the nearest exit.

So we are at a point in time where the long-term outlook for the seed industry is still quite bullish, while the values of the assets within the industry have become depressed due to market forces. We would argue that a buying opportunity has presented itself.

A bold company with a long-term investment horizon can take advantage of the current market environment to either establish or strengthen its position in the seed industry. Opportunities will present themselves as large companies spin off subsidiaries and reorganize divisions, in an attempt to refocus on pharmaceuticals and chemicals.

The key to success for those companies looking to capitalize on the market downturn will be to make a long-term commit-

ment, not overpay for seed assets, and understand what the end consumer wants and needs.

There is no doubt that a handful of astute companies will continue to support agriculture and biotechnology, realizing that the ownership of germplasm remains strategically important. These companies will undoubtedly surface over the next six to 12 months as they quietly exploit the timing, and build long-term value for their shareholders.

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