

The Rise and Fall of AgriBioTech

A potential buyer has emerged to purchase portions of AgriBioTech. Money from the sale will help pay off ABT's mounting debt, but will company shareholders be left out in the cold?

By Bill Goodbar

On May 8, 2000 AgriBioTech (ABT) announced that it had an agreement in principle to sell all of its turfgrass seed assets and Specialty Division for a total consideration of \$65 million plus the assumption of liabilities, including grower contracts. The buyers are Kenneth Budd and the J.R. Simplot Company. Presumably Budd will end up with the turf seed business, while Simplot will get the Specialty Division. This transaction, and the expected sale of the forage and residual assets, will close the book on the latest, but surely not the last, roll-up scheme in seed.

FROM THE BEGINNING

ABT was originally formed as AgriInnovations, Inc. in 1983 by Johnny Thomas, John Francis and Marlan Scully. The company's name was changed to AgriBioTech in 1986. In 1994 the company began trading on the OTC Bulletin Board following a reverse merger with an acquired public shell.

In January 1995, the management of the company unveiled the roll-up strategy of acquiring regionally based seed companies specializing in the production and distribution of turf and forage seed. From 1995 through 1999 ABT acquired 34 companies for an aggregate amount of approximately \$225 million, paying on average 1/2 times the annual sales per company. The company financed these acquisitions primarily through equity.

ABT hit full stride in the summer of 1998 when its stock hit a high of 29-1/2 on June 19, 1998, making the market value of the company's equity equal to roughly \$1 billion, or two and a half times the annual sales of about \$400 million. Major investors over the years have included the State of Wisconsin, Fidelity Management and the Soros Fund. In addition, in June 1998, the company negotiated a new \$100 million revolving credit facility with Bank of America.

THE PARTY'S OVER

Things began to unravel a bit in August 1998 when negative stories about

the company began appearing in internet chat rooms. The negative impact on the stock was large enough to prompt ABT to issue a press release defending their accounting policies and plans for future growth. The stock however, continued to slide, falling to 9-1/2 by mid-September.

On October 8, 1998, Merrill Lynch & Co. was hired to help ABT look for a buyer. By this time investors started to take note that ABT's gross margins were half of those achieved by acquisition candidates in the agronomic sector. Synergies at the operating level were not being realized across all of the subsidiary companies and economically viable genetically modified traits for turf and forage were still a long way off.

In November and December 1998, the company raised sufficient cash through a private placement and the divestiture of a non-core business to meet the year-end obligation on its operating line. However, ABT's deal to acquire the alfalfa seed business of AgriPro fell through in December. The AgriPro acquisition would have pushed ABT's sales to \$500 million, the magic number ABT had targeted from the beginning.

Since an appropriate suitor hadn't been located by the end of January 1999, Merrill Lynch's efforts were suspended. ABT's stock continued to drop, hitting 8-1/4 by the end of January. Now litigation reared its ugly head. Lawyers began hounding the company, filing at least three major class-action suits on behalf of the shareholders. Among other things, ABT and its management were accused of issuing false and misleading statements about the company's growth strategy, its plans to find a buyer, and fraudulent accounting practices.

At the company's annual meeting on February 22, 1999, ABT announced that Richard Budd would replace Johnny Thomas as Chairman and CEO. Budd had previously been a member of ABT's board of directors following the sale of his company, Lofts Seed, to ABT. Management pinned their hopes on Budd, believing his credibility with the banking community would help

resolve the company's credit difficulties.

Cost cutting and restructuring efforts continued throughout the spring of 1999, while discussions continued with existing creditors to meet seasonal working capital needs. The State of Wisconsin stepped up in June and July 1999, putting an additional \$31.5 million of equity into ABT, allowing it to pay down its revolving line of credit with Bank of America and repay a bridge loan from the Budd family.

In October 1999, GE Capital signed a commitment letter to arrange a syndicate of lenders to provide ABT with a revolving line up to \$115 million, and a term loan of \$20 million, to replace the line from Bank of America. The commitment was contingent however, on new equity of \$5 to \$15 million being brought in. ABT's stock had dropped so low by November (3-1/2) that the board adopted a poison pill rights offering, fearing that the company was ripe for a hostile takeover.

In December 1999, GE Capital stated that \$15 million in new equity was needed to complete the syndication of a long-term financing package. The company raised only \$2.5 million in a private placement at \$3 per share. The State of Wisconsin well had run dry.

The inevitable came on January 24, 2000 when ABT announced it would file bankruptcy under Chapter 11. Arthur Andersen was brought in to help restructure, while Development Specialists, Inc. was appointed by the court to sell the assets.

The \$65 million brought in by the announced sale to Budd and Simplot, added to the cash that will be generated from the sale of the forage assets, will all go to paying down the bank debt. Common shareholders, who represented \$280 million of paid-in capital on the December 31, 1999 balance sheet, and whose stock had a market value of \$1 billion just two years ago, will receive nothing in the end. ●

Bill Goodbar is vice president of AgriCapital Corporation based in New York. He can be reached at (212) 765-7090 or via e-mail at goodbar@agricapital.com.