Agribusiness Banking Crops Up Anew on Wall Street
The fragmented industry is estimated to generate as much as $1 trillion in revenues annually
By Kelly Holman
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Charlie Rentschler is not your typical Wall Street professional. When he's not poring over the financials of agriculture machinery companies, he's tending to his Indiana farm where he raises corn and hogs on 200 acres.

As an equity research analyst at Morgan Joseph — he joined the banking boutique firm in January — he tracks agriculture company stocks like those of Agco Corp., Deere & Co., Hemisphere GPS, Monsanto Co. and Potash Corp. As he sees it, Wall Street and its investors suddenly can't get enough information about agriculture.

Morgan Joseph is not the only Wall Street firm interested in agriculture. Investment bankers have found that, at a time when food commodity prices are above historical levels, interest is heightened in cross-border transactions among companies such as fertilizer producers. Also, the industry has attracted private-equity investors like New York's Arlon Group LLC and Paine & Partners.

Rentschler was among the professionals playing host at Morgan Joseph's "Ag Day" for investors this week. The event featured farmers from the American Midwest and addressed questions such as "Will more fertilizer be used this spring due to lower prices?" and "Is the nation's infrastructure up to handling future huge harvests?" The invited guests included hedge funds and private-equity firms, said Rentschler, who readily quoted the prices of corn, soybeans and new tractors but would not offer names of the funds attending the event in a Midtown Manhattan hotel.

"We are witnessing new multinational companies out of emerging markets, especially Brazil, Mexico and India, seeking sizable investments in the U.S. and other developed markets," said Emmanuel Durand, the global head of M&A at Rabobank International, a Netherlands bank that has financed Dutch farmers for more than a century and advised large agriculture businesses for years.

In a move to capitalize on the investment banking opportunities within the industry, Rabobank has teamed up with Rothschild to work jointly on global M&A and capital markets-related assignments for food and agribusinesses.

A report published by Rabobank this year said that U.S. M&A activity in food and agriculture could be expected to increase in 2010 as corporations look to build scale and diversify into complementary businesses like bioethanol production.

Durand said that U.S. companies, too, want to expand and are moving into emerging markets through acquisitions as part of an effort to broaden their revenue sources.

Rabobank has been an active investment bank in the sector. For example it advised White Plains, N.Y.'s Bunge Ltd. on the sale of an oil-seed provider, Saipol S.A.S., to the French oil-seed processor Soprol in January. It also advised the Brazilian beef company JBS SA on its $2.8 billion December acquisition of Pilgrim's Pride Corp.

So far this year, there has been a steady pace of activity involving agriculture businesses. Deerfield, Ill., fertilizer maker CF Industries Holdings Inc. on Tuesday offered $4.7 billion for Sioux City, Iowa, rival Terra Industries Inc. This was the second bid by CF Industries for Terra. In a letter to Terra shareholders last year, CF Industries argued that a merger would produce cost savings for the combined entity and boost profits through synergies. Morgan Stanley and Rothschild are advising CF Industries. Credit Suisse, meanwhile, is advising Terra.

Terra has caught the attention of another suitor. It drew a $4.1 billion bid from the Norwegian fertilizer maker Yara last month. Yara said in marketing materials that it wants to expand its global reach and says the acquisition could save it $60 million within a year. Yara also says it would become a leader in the global fertilizer industry if it buys Terra.

Last week, the farm machinery manufacturer Deere & Co. announced it had hired Goldman Sachs to explore strategic alternatives for its wind energy business. And last month Bunge bought five Brazilian sugar cane mills from Brazil's Moema Group while selling Brazilian fertilizer assets to Vale SA for $3.8 billion.

Agribusinesses, Durand said, offer steadier, more predictable cash flows than companies in many other industries, which makes them more attractive acquisition candidates for financial and strategic buyers. The industry, by some estimates, accounts for as much as $1 trillion in annual revenues.

Though agribusinesses were negatively affected by the recession, their ability to weather the economic storm has allowed them to emerge in better shape than companies in industries like retail. This, said industry bankers, enables them to be better positioned to grow through acquisitions.

"We are seeing renewed growth in M&A activity in the global food and agribusiness industry and increasing interest from both financial sponsors and strategic investors," said Durand.

One of the more interesting deals last year involving a private-equity firm was Black Diamond Capital Management LLC's $104 million purchase of Hines Horticulture Inc. out of bankruptcy.

Last year, 443 transactions worth $12.4 billion were completed, up from 230 deals worth $8.5 billion in 2008, according to data compiled by Thomson Reuters.

This year, dealmakers say, the pace of 2009's activity could be surpassed.

The expectations for greater deal activity stem from the fact that the agribusiness industry is highly fragmented. Also, the vast variety of businesses ranges across manufacturers of farm machinery, multinational chemical companies that produce fertilizers and pesticides, seed companies and technology businesses that design software and GPS systems for vast farm operations.

Twenty-four of the largest publicly traded companies in the sector are listed on the Standard & Poor's Agribusiness North America Index, which is divided into segments classified as producers, distributors and processors, as well as equipment and materials suppliers. The top 10 on the index, which requires the listed companies to maintain a minimum market capitalization of $500 million, is a mix of both domestic and international businesses as well as household-name corporations.

Archer-Daniels-Midland Co., Monsanto Co. and Hormel Foods are some of the more recognizable business names on the index. U.S. companies account for the lion's share of the index listings, followed by companies headquartered in Canada and Brazil.

The fact that many of these agribusiness companies held off on dealmaking last year only plays in to the rationale for deal activity in 2010, especially if companies want to meet 10% to 15% revenue growth targets set by corporate boards, said Scott Isherwood, a managing director at Morgan Joseph. “The way to get there is to buy companies. You've got some good balance sheets out there and access to equity capital markets. If the right deal comes along, you can do it.”

Kevin Schwartz, a partner in Paine & Partners, which invested in seed companies like Seminis Inc., agreed. “We're seeing countries like China taking a very significant interest in agribusinesses,” he said, “and a number of businesses in China are looking for agribusiness acquisitions on a global basis.”