

AFTER GROWTH, FORTUNES TURN FOR MONSANTO¹

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As recently as late December, Monsanto was named “company of the year” by Forbes magazine. Last week, the company earned a different accolade from Jim Cramer, the television stock market commentator. “This may be the worst stock of 2010,” he proclaimed. Monsanto, the giant of agricultural biotechnology, has been buffeted by setbacks this year that have prompted analysts to question whether its winning streak of creating ever more expensive genetically engineered crops is coming to an end. The company’s stock, which rose steadily over several years to peak at around \$140 a share in mid-2008, closed Monday at \$47.77, having fallen about 42 percent since the beginning of the year. Its earnings for the fiscal year that ended in August, which will be announced Wednesday, are expected to be well below projections made at the beginning of the year, and the company has abandoned its profit goal for 2012 as well.

The latest blow came last week, when early returns from this year’s harvest showed that Monsanto’s newest product, SmartStax corn, which contains eight inserted genes, was providing yields no higher than the company’s less expensive corn, which contains only three foreign genes. Monsanto has already been forced to sharply cut prices on SmartStax and on its newest soybean seeds, called Roundup Ready 2 Yield, as sales fell below projections. But there is more.

Sales of Monsanto’s Roundup, the widely used herbicide, have collapsed this year under an onslaught of low-priced generics made in China. Weeds are growing resistant to Roundup, dimming the future of the entire Roundup Ready crop franchise. And the Justice Department is investigating Monsanto for possible antitrust violations. Until now, Monsanto’s main challenge has come from opponents of genetically modified crops, who have slowed their adoption in Europe and some other regions. Now, however, the skeptics also include farmers and investors who were once in Monsanto’s camp. “My personal view is that they overplayed their hand,” William R. Young, managing director of ChemSpeak, a consultant to investors in the chemical industry, said of Monsanto. “They are going to have to demonstrate to the farmer the advantage of their products.”

Brett D. Begemann, Monsanto’s executive vice president for seeds and traits, said the setbacks were not reflective of systemic management problems and that the company was moving to deal with them. “Farmers clearly gave us some feedback that we have made adjustments from,” he said in an interview Monday. Mr. Begemann said that Monsanto used to introduce new seeds at a price that gave farmers two-thirds and Monsanto one-third of the extra profits that would come from higher yields or lower pest-control costs. But with SmartStax corn and Roundup Ready 2 soybeans, the company’s pricing aimed for a 50-50 split. That backfired as American farmers grew only six million acres of Roundup Ready 2 soybeans this year, below the company’s goal of eight million to 10 million acres, and only three million acres of SmartStax corn, below the goal of four million. So now Monsanto is moving back to the older arrangement. SmartStax seed for planting next year will be priced about \$8 an acre more than other seeds, down from about a \$24 premium for this year’s seeds, Mr. Begemann said. The company will also offer credits for free seed to farmers who planted SmartStax this year and were disappointed.

Monsanto has also moved to offer farmers more varieties with fewer inserted genes. Some farmers have said they often have to buy traits they do not need — such as protection from the

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corn rootworm in regions where that pest is not a problem — to get the best varieties. This issue has surfaced in the antitrust investigation.

Monsanto's arch rival, DuPont's Pioneer Hi-Bred, has also capitalized on the lack of options under a campaign called "right product, right acre." "If they don't have a need for rootworm then we won't have that trait in that product," Paul E. Schickler, the president of Pioneer, said in an interview. After years of rapidly losing market share in corn seeds to Monsanto, Pioneer says it has gained back four percentage points in the last two years, to 34 percent. Monsanto puts its market share at 36 percent in 2009 and says it has remained flat this year. In soybeans, Pioneer puts its share at 31 percent, up seven percentage points over the last two years; Monsanto puts its share at 28 percent last year and said it had dropped some this year.

Monsanto had a similar problem with lower-than-expected yields on Roundup Ready 2 soybeans last year, when the crop was first planted commercially, forcing it to slash its premium. But this year, the yield appears to be meeting expectations, said OTR Global, a research firm that surveys farmers and seed dealers. That could bode well for SmartStax next year. One reason is that the Roundup Ready 2 gene is now offered in more varieties, making it better suited to more growing conditions. The yield of a crop is mainly determined by the seed's intrinsic properties, not the inserted genes. An insect protection gene will not make a poor variety a high yielder any more than spiffy shoes will turn a slow runner into [Usain Bolt](#). In the first year of a new product, few varieties contain the new gene.

Still, Monsanto is bound at some point to face diminishing returns from its strategy of putting more and more insect-resistant and herbicide-resistant genes into the same crop, at ever increasing prices. Growth might have to eventually come from new traits, such as a drought-tolerant corn the company hopes to introduce in 2012. "Technologically, they are still the market leader," said Laurence Alexander, an analyst at Jefferies & Company. "The main issue going forward is do they get paid for the technology they deliver. The jury is still out on that one. It's going to take a year or two of data to reassure people."