

Agrium's Investor Day

On Tuesday I attended the morning session of Agrium's (AGU) Investor Day in NY (the second part was scheduled for Memphis to visit a couple of their facilities). We're invested in Agrium, having been first drawn to the stock by Jana's Barry Rosenstein. Last year Jana published a detailed criticism of the company, highlighting both its natural advantages in the production of Nitrogen-based fertilizer and its poorly performing retail division. AGU does look cheap, trading at an Enterprise Value to EBITDA multiple of around 6X, or about 10X earnings.

Natural gas is a significant input into the production of Nitrogen-based fertilizers, around 40% of AGU's 2012 EBITDA. Like other North American based producers, cheap domestic natural gas has created a cost advantage versus foreign producers. Owning AGU is a good way to invest in the benefits of this cheap North American resource. Jana's criticisms focused on the Retail division, which they argue is inefficiently run and has made some overpriced acquisitions. Earlier this year a bitter proxy fight broke out as Jana attempted to elect new board members that it felt would be more qualified to oversee the running of the company. The upshot of Jana's interest was that it lost the proxy fight although perhaps not coincidentally AGU did take some steps to return money to shareholders through a newly instituted dividend and share buyback. However, the stock price has slumped since the proxy fight.

The investor presentation was a useful opportunity to see the company's leadership team present its strategy. Although Barry Rosenstein was not there, his presence could be felt throughout the morning. The company went to great lengths to justify its retail strategy, to highlight their successful prior acquisitions but also to reassure that no major new acquisitions would be forthcoming and to explain that it would

maintain its recently found focus on returning capital to shareholders. Their wholesale business has some solid advantages even while prices for its commodities remain under pressure. Its retail business continues to seek operating efficiencies so as to improve returns. The company's stock price still seems to suffer from a conglomerate discount.

Michael Wilson will be retiring as CEO at the end of the year; no doubt having seen off the threat from Jana it feels like a good time to move on. The new CEO Chuck Magro seems a smart guy but the obvious question is why they didn't select one of the two Presidents of their main operating divisions (Wholesale and Retail), both of whom have extensive careers with the company. Chuck Magro has far less operating experience than his two key direct reports, having spent much of his career in staff functions such as Internal Audit, Risk Management and Corporate Development and Strategy. He was only recently appointed to his current role of Chief Operating Officer (COO), in November 2012, creating the impression of a somewhat hasty decision on succession management by CEO Wilson. Chuck's younger than Ron Wilkinson (Wholesale President) and Richard Gearheard (Retail President), and while that need not be a problem by itself, one can't help but think that his relative youth and limited operating experience will be noted by the two presidents. In fact, the obvious question is why one of them wasn't chosen to be CEO. While Retail President Gearheard might have been a controversial choice to run the company given the focus on Retail performance, he and Wilkinson must surely believe themselves to be qualified for the top spot. Both having been passed over for a younger candidate suggests perceived shortcomings in each of them.

The presentations by each division president were informative and interesting. They were also notable for what was not said. In both content and style, the impression was given of two entirely separate businesses that happened to share the same corporate owner. It was as if Agrium is a holding company with

two unrelated enterprises. Neither president spoke even in passing about the other division and although Agrium claims to have an integrated strategy there was little integration in evidence down at the divisional level. Perhaps unfairly, this was somewhat exacerbated by cultural differences; the current and new CEO are both Canadian, as is the Wholesale head Wilkinson. Retail is run by Americans from southern states such as Oklahoma and Mississippi. In response to a question on identifying synergies between the two divisions, CEO Wilson noted that much of what the Retail division sells is sourced from Wholesale although Jana has previously asserted that 90% of Retail's products are sourced from third parties.

Although AGU's stock sold off following the investor day, possibly on cautious guidance for wholesale or maybe because others perceived the issues noted above, we continue to be invested in Agrium. The company has some clear advantages and its stock price is attractive. Barry Rosenstein's previously articulated concerns hold some substance. We'll see if the new management can rise to the opportunity their business model holds.