The challenges of funding innovation in a mid-sized multinational agrochemical company

Presentation to SCI Symposium

Funding Agri-Innovation: New Ventures in Food Security & Biorenewables

Chris Richards
Chairman, Arysta LifeScience

Summary

- Arysta LifeScience is a fast-growing international agrochemical company, with a distinctive business model

- Invests in product development and registration, prior to marketing and sales through its companies in 55 countries; it does not carry out basic research

- The company's business model has developed to deliver short term profit and cash while maintaining investment for the mid-term, in response to shareholder needs

- The company's evolution from its trading company roots in 2001 has depended on different shareholders and lending arrangements

- The pros and cons of funding from private equity, venture capital and banks are discussed

- Start-up ventures can benefit from partnering with established companies as they commercialise products; hints are offered on choosing and managing partners

Arysta LifeScience

Arysta LifeScience Snapshot:

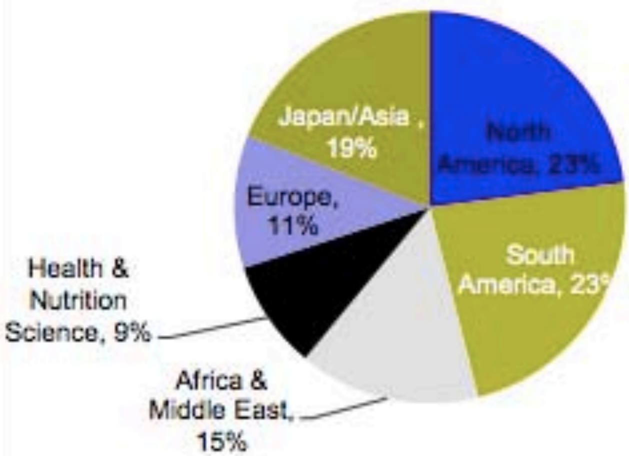
Arysta Overview

- One of the largest private global ag-chem companies
- Weighted towards emerging markets – over 60% of sales
- Underpinned by attractive base of mature market niches
- Arysta proprietary brands comprise approximately 50% of sales
- Local registration and formulation capability – enabling responsive delivery and localized products
- Strong M&A and integration track record and pipeline

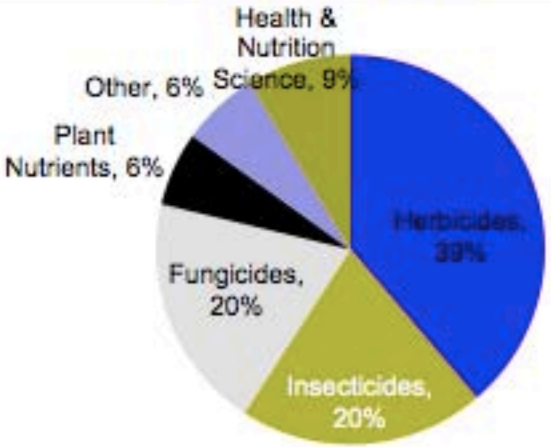
Key Figures

2010E Sales	$1.4 billion
2010E EBITDA	$265 million
Registrations	3,500
Employees	2,400
Formulation	138 kte (in 10 facilities)

Split by Geography



Split by Product



Arysta LifeScience

Arysta LifeScience's Broad Global Reach:

Arysta Company Office

Abidjan
Bamako
Bobo Dioulasso
Bogota
Brussels
Bucharest
Budapest
Cary
Calgary
Durban
Ho Chi Minh
Istanbul
Karachi
Madrid
Mozambique
New Dehli
Paris
Pau
Prague
Santiago
Sao Paulo
Seoul
Shanghai
Singapore
Tema
Tokyo
Warsaw
Yangon
Nove Zarnky

Arysta Representative Office

Buenos Aires
Colombo
Kiev
Lome
Manila
Moscow
Salt Lake City

Arysta Joint Venture Office

Asuncion
Athens
Bandung
Cairo
La Reunion
Mauritius
Nairobi
Portuguesa
Santa Cruz

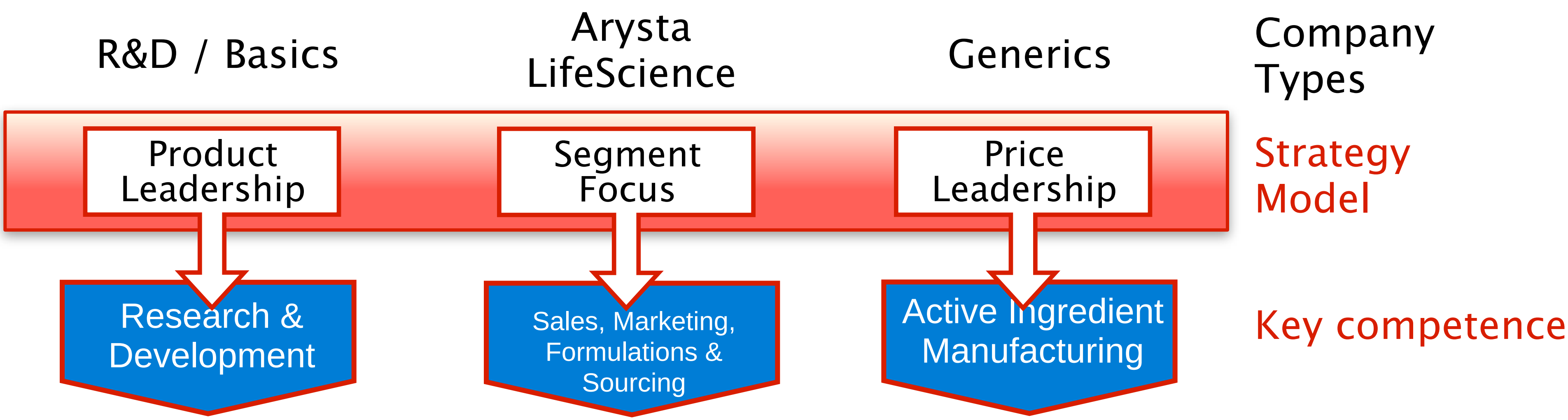
Other

Dusseldorf
Milan

Source: Company Data

Formulation Facility	Capacity
France (Pau)	36.8kte
Mexico (Saltillo)	31.5kte
Brazil	26.6kte
South Africa	22.0kte
Senegal	10.0kte
Burkina Faso	6.0kte
Ivory Coast	Repacking only
Colombia	1.1kte
South Korea	1.9kte
Vietnam	2.3kte

Company Strategy Differentiated from Competition

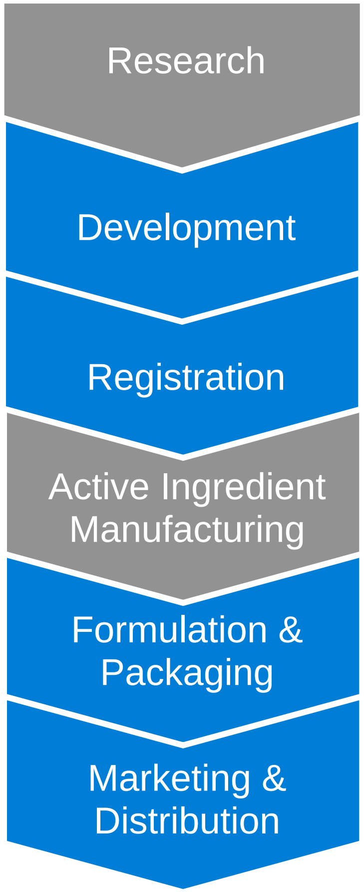


- Arysta LifeScience's ***segment-focused strategy*** achieves sustainable market share in specific crop market segments in our regional businesses
  - Focused on customer benefits, not basic research or low-price products
  - Global formulation and field development capability
  - Global regulatory competence
  - Emerging technologies are used to create new products
- Particular strength in:
  - Emerging countries & selected sectors in developed countries
  - Focus on horticulture, sugar cane, cereals

Arysta LifeScience's business model

Arysta LifeScience targets the portions of the industry value chain where we have competitive advantage; seeks partners for other areas

Agrochemical value chain



Key Areas of Focus for Arysta LifeScience

- Arysta LifeScience is focused on its key capabilities: new product development and registration, formulation and packaging, and marketing and distribution
- Avoiding cash intensive basic research
- Manufacturing efforts focused on the proprietary and value added function of product formulation
- Established global presence provides local expertise and know-how
- 'Asset light' model and lean cost base provide flexibility in down-turns and supports cash flows

Development and Registration Capability:
A Core Competence

Significant Development and Registration Resources:

- **Field development capabilities**
  - **~90 people in field development across all regions**
  - **72 ha experimental station in Brazil: early stage screening of new molecules from various sources**
- **Strong and integrated registration organization**
  - **~60 people in registration**
  - **3,500+ registrations in 85+ countries**
- **Strong partnerships with contract research organizations**

Regulatory & Development Spend:

~ 3% of sales

[1] *Other includes AI and/or Formulation Source Change and Others.*

Arysta LifeScience

Acquisition Track Record

- Arysta LifeScience has a strong track record of acquisitions
  - Successful integration of 16 product and company acquisitions since 2001
  - Significant synergies generated

Major Acquisitions – 2001 to Present

Transaction	Date Closed	Primary Region
Dinamic®	Q4 2001	Brazil, Mexico, others
Everest®	Q4 2002	US and Canada, with global opportunity
Moviagro	Q4 2004	Chile
Bayer Products	Q2-Q4 2005	Global
Volcano	Q4 2005	South Africa, with sales and distribution opportunity to rest of Africa and Brazil
Micro Flo	Q1 2006	US
GBM	Q4 2007	Mexico, Central & South America, with global opportunity
Tsunami	Q3 2010	South Africa
FES Group	Q1 2011	Russia
Devidayal	Q1 2011	India

Arysta LifeScience

Arysta LifeScience: Corporate history & shareholders

- Origins in two Japanese trading houses
  - Tomen (now Toyota Tsusho) &
  - Nichimen (now Sojitsu)
- 2001: Spin-out and merger to create Arysta
  - A $700m sales holding company for life science interests
- 2002: Olympus Capital buys in
  - Initially 12% holding, with effective management control
  - Increased to 100% holding 2006 - 07
- 2003 - 2008: Company transformation
- 2008: Bought by IEIL, a Permira Funds company
  - LBO with clear mid-term plan
- 2010: Sales reach $1,400m

- **Entrepreneurial growth**
- **Stand alone**
- **Clear vision; focus on re-structuring to create long term shareholder value**
- **Management five year plan 2008 - 2012**
- **Institutionalise global excellence**

Arysta LifeScience’s experience of bank lending

- Early days (2003 - 04)
  - Lacklustre profitability, patchy cash generation; not meeting targets; opaque reporting
- Banks unco-operative; restricted lending, heavy reporting; minimal debt capacity
- Create a track-record (to ’06)
  - Focus on profit & cash; meet agreed targets; simple reporting
  - Early acquisitions delivered value
- New bank, new start
- Willingness to lend became eagerness to extend credit; bringing acquisition ideas
- Achieving an LBO (2008)
  - Commit to clear targets
- US$1.75bn facility; >50 banks
- Living with leverage (now)
  - Rigid focus on quarterly delivery
  - Invest sensibly in mid term
- Good-will and credibility in spite of global financial crisis
- Deliver; communicate intensively; think ahead - no surprises

Raising funds: Banks, PE and VCs

- Banks: Many loans, low risk, cheap debt
  - No share in upside so focus on downside risks; 'automated' processes
  - One loss can wipe out profits; force bankruptcy early to limit losses
  - Quarterly focus on cash flows and covenants
- Private Equity: Build a portfolio, some risk, expensive equity
  - Find companies (and managers); build a growth plan; coach management
  - Invest equity, then raise debt; need existing cash flows to justify loans
  - All sizes: big (eg Permira $1bn cheques), medium and small ($100ks)
  - Low risk appetite but will often re-capitalise the weak
  - Mid-term view, with exit after 4 - 6 years
- Venture Capital: Build a portfolio, high risk, high return
  - Find ideas; fund cash burn; support management
  - Place many bets; 70% of returns from 6% of investments
  - Repeated fundings expected; long term view (to a point...)

Partnerships offer many benefits to start-ups

Arysta LifeScience as an example

- Arysta LifeScience is looking for:
  - New products and technologies, with demonstrable customer benefits
  - Revenue within 2 - 5 years
  - Preference for fit with priority crops (horticulture, sugar cane, cereals)
- Arysta LifeScience can offer:
  - Market knowledge, global reach
    - Ability to understand global customer needs
    - Realistic market projections
  - Technical partnership
    - Formulation development capability
    - Global field development programme; central co-ordination
    - Ability to get products registered globally
  - Development funding
  - Revenue generation
    - Experienced marketing and sales staff in key markets

How technology companies should approach partners

- Find the right contacts:
  - As senior as possible; global accountability (CEO, Global Marketing Head)
  - Cultivate the relevant technical experts
- Hone the messages:
  - Present the end customer benefits simply; back up with real data
  - State what are you offering to the partner (eg short term revenue)
  - Be clear on what you are asking for (eg development funding)
- Get a clear agreement:
  - Get the partner committed to a development plan, milestone gated
  - Seek commercial headlines up front
- Be the evangelist within their organisation:
  - Relentless proselytising at all levels, globally
- Get the right partner:
  - Big enough to be effective, small enough to be focused and decisive

Example: plantimpact + Arysta LifeScience

- Plant Impact:
  - A UK-based innovative green science company that specialises in crop enhancement, with a robust pipeline of plant nutrients
- 2008:
  - Senior contacts, followed by intensive technical reviews of data
  - Mobilisation of marketing intelligence in key countries
- 2009:
  - Exclusive license agreement for BugOil (natural insecticide), in addition to exclusive evaluation period for plant nutrients
- 2010:
  - Evaluation, development and distribution agreement for Plant Nutrients signed
  - First distribution agreement for InCa ™ in Mexico
- 2011:
  - In the process of finalizing distribution agreements for InCa and other products in multiple geographies
  - Working together as close partners