

## US Monsanto Extends Sugarcane Ambitions Buying Brazilian Firms

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Missouri-based Monsanto is investing in a new large-acre row crop, sugarcane, to diversify its existing core crop portfolio. The company announced that it has entered into an agreement to acquire Aly Participações Ltda., which operates the sugarcane breeding and technology companies, CanaVialis S.A. and Alellyx S.A., both of which are based in Brazil. The transaction should be completed soon.

Monsanto's US\$ 290 million (616 million Brazilian reais) acquisition of Aly Participações Ltda. from Votorantim Novos Negócios Ltda. and its sister company, Votorantim Industrial S.A., will be done with existing excess cash. Both Votorantim Novos Negócios Ltda. and Votorantim Industrial S.A. are part of the Brazilian industrial conglomerate, Votorantim Participações S.A. (commonly referred to as the Votorantim Group).

Monsanto Company is a leading global provider of technology-based solutions and agricultural products.

"Global demands for raw sugar and biofuels are beginning to rise at a faster pace than the current production levels in sugarcane, a crop that is essential to meeting these demands," said Carl Casale, executive vice president of global strategy and operations for Monsanto.

"Similar to our work with technology collaborators, we expect the additions of CanaVialis and Alellyx will allow us to combine our breeding expertise with key large-acre crops with their breeding expertise in sugarcane. Our goal with this approach is to increase yields in sugarcane while reducing the amount of resources needed for this crop's cultivation, just as we're doing now for corn, soybeans and cotton.

"We view this as a significant opportunity over the longer term to supplement our ongoing commitment to corn as an ethanol feedstock, diversify our crop technology portfolio and provide innovations to such a vital crop as sugarcane."

For Fernando Reinach, executive director of Votorantim Novos Negócios, the acquisitions of CanaVialis and Alellyx by Monsanto will allow the companies to reinforce their technology portfolio, which will help Brazil meet the demand for sugar and ethanol in the intermediate and long terms.

"Monsanto's expertise in advanced breeding and trait development combined with CanaVialis' and Alellyx's knowledge of the genetics of sugarcane will help growers to substantially increase productivity in a shorter period of time," said Reinach.

Sugarcane is a giant perennial plant that typically grows best in tropical climates. As the major source of sugar around

the world, sugarcane is planted on more than 50 million acres worldwide, with more than 17 million of those acres residing in Brazil.

CanaVialis is the world's largest private sugarcane breeding company. Through its breeding activities, CanaVialis is developing and commercializing proprietary germplasm, or a plant's genetic raw material, that is anticipated to bring significant yields to sugarcane over publicly available varieties.

Alellyx is an applied genomics company that is focused on developing biotech traits primarily for sugarcane. Their location and expertise in Brazil are especially important, as Brazil is the world's largest producer of sugarcane, the largest exporter of finished sugar, and the world's second-largest producer of ethanol after the United States.

"While we see this move as a long-term investment and a commitment to populating our research and development pipeline, we expect to receive the near-term benefit of access to leading sugarcane germplasm technologies, which can help us accelerate the timeframe for bringing trait technologies to market, possibly around 2016, and bring this germplasm to other sugarcane- growing areas of the world," said Casale.

Because the acquisition represents a long-term investment in research and development (R&D) and breeding, the company does not expect the acquisition to bring earnings until the middle of the next decade. The company additionally expects a purchase-accounting adjustment for in-process R&D.

The global demand for sugar has intensified in recent years. The International Sugar Organization estimated earlier this year that the world will consume 3.9 million tons more sugar than it will produce in 2008-2009. And both the United Nations' Food and Agricultural Organization (FAO) and the Food and Agricultural Policy Research Institute (FAPRI) see sugar consumption increasing faster than production over the next decade.

As for the world's growing ethanol demands, the FAO and the Organization for Economic Co- operation and Development project that global ethanol production will increase rapidly and reach roughly 125 billion liters in 2017, twice the quantity produced in 2007.

Monsanto previously established a licensing and trait-collaboration agreement with CanaVialis and Alellyx in 2007 to develop and commercialize Roundup Ready and Bt insect-protected technologies for sugarcane growers in Brazil. Monsanto intends to retain the leadership and the approximately 250 employees at the two companies and focus on development of the businesses.

The pending acquisitions of CanaVialis and Alellyx represent the third major investment Monsanto has made in Brazil over the past year. In 2007, Monsanto acquired Agroeste, a Brazilian corn seed company, and announced US\$ 60 million in investments to expand its seeds research and production.

CanaVialis was created in March 2003 from a partnership between Votorantim Novos Negócios and a group of scientists with more than 30 years of experience in the development of sugarcane varieties. CanaVialis has contracts with 46 sugarcane mills whose production area covers 1,100,000 hectares, or approximately 15 percent of the planted sugarcane market share.

Alellyx was created in 2002 by researchers involved in the sequencing of sugarcane and *Xylella fastidiosa* genomes. *Xylella* is the bacterium that causes Citrus Variegated Chlorosis, a disease that during the 1990s affected two-thirds of orange plantations in Sao Paulo.