



MON Raises Guidance, but Profit-Taking Still Ensues

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Clearly, **Monsanto** (MON) continues to be a consistently growing company in the ever-expanding agricultural seed and chemical businesses. As this quarter points out, however, there is little tolerance for blemishes when investors have high expectations for growth.

If you normalize the tax rate, then you should shave off about 5 cents or 6 cents of EPS, which still would have Monsanto beating EPS estimates, but revenue fell short of consensus by about \$120 million. I would hypothesize that shortfall could have come from the volatility in Roundup sales. All too often investors, particularly the momentum players, fail to recognize that Roundup is Monsanto's largest individual product. The good news is that the company will launch new products in 2009, which will be certain to boost Roundup sales.

Another blemish in the quarter was the slippage in gross-margin rates for corn, soybean and cotton seeds.

The bottom line is that I continue to like Monsanto, but it remains a bit richly valued. I would revisit the stock if it got to the low \$120s, where it makes a more compelling purchase and has technical support as well.

Monsanto reported third-quarter 2008 EPS of \$1.45 on total net sales of \$3.588 billion. Free cash flow for the first nine months of 2008 was \$675 million.

By segment, net sales and year-over-year changes (by my calculations) were as follows:

- Corn seed was \$975 million, up 9.4%.
- Soybean seed was \$447 million, up 31.4%.
- Cotton seed was \$279 million, up 31.6%.
- Vegetable and fruit seed was \$185 million, up 8.8%.
- Roundup and herbicides was \$1.168 billion, up 54.3%.

Also, by my calculations, gross profit margins for the quarter with year-over-year changes were as follows:

- Corn seed was 57.9%, down 1.6%.
- Soybean seed was 60.2%, down 2.3%.
- Cotton seed was 69.9%, down 14.5%.
- Vegetable and fruit seed was 50.3%, up 7.9%.
- Roundup and herbicides was 50.9%, up 13.1%.

Management is expecting corn margins to grow in 2009.

Gross profit as a percentage of sales rose to 55% from 53% in third quarter 2007. Net income as a percentage of sales rose to 23% from 20% in third quarter 2007. One needs to factor in the decline in the effective tax rate, however, from 29% in third quarter 2007 to 26% in the current quarter, which was attributed to a one-time tax benefit in Argentina. For fiscal 2008, the effective tax rate is expected to be 29% to 30%.

Monsanto has revised its EPS guidance for 2008 from a previous range of \$3.15 to \$3.25 to a new estimate of \$3.40. In addition, management expects free cash flow of \$550 million and cash from operations of \$2.6 billion for the full year. Cash deployed for investing activities such as the De Ruiter Seed and Marmot acquisitions will utilize approximately \$2.05 billion of the cash flow.

Management provided some commentary on the impact of the recent floods in the Midwest. While the floods are dramatic, most farmers face the issue of the colder and wetter start to the growing season. The company does not expect a material impact from the levels of returns and replant rates. There is, however, potential for a later-than-normal harvest and frost risk.

Market penetration for all of Monsanto's corn products should reach 50% or more in 2009, with Dekalb and ASI expected to be at 65%. All brands are expected to grow market share in 2009.

Roundup Ready soybeans have penetration rates of 96% in the U.S. and 55% in Brazil. The

company is going to introduce the Roundup Ready 2 Yield product in 2009, which is the first innovation for soybeans in 13 years.

For Rothbort's preview heading into the Monsanto conference call, please click [here](#).

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At the time of publication, Rothbort had no positions in the stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele. He also is the founder and manager of the social networking educational Web site [TheFinanceProfessor.com](#).

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