



RAFI

Rural Advancement Foundation International
www.rafi.org | rafi@rafi.org

GENO-TYPES – 11 June 1998

Implications of the Monsanto / American Home Products Merger American Home “Monster”?

Monsanto's Last Round-up spells High Noon for High-tech. Its \$33 billion mega-merger with American Home Products will force the Life Industry's Top Ten into a race to see who will become the Microsoft of microbiology. A new challenge for anti-trust and anti-monopoly law enforcement.

The June 1st announcement that high-roller Monsanto (St. Louis, Missouri) will merge with American Home Products (New York, NY) - a lesser-known but much larger conglomerate - will have far-reaching repercussions throughout the entire Life Industry. The new enterprise (name not yet determined) instantly becomes the world's leading crop chemicals corporation, the third (possibly second) largest seed company, fourth biggest pharmaceutical concern, and fifth or sixth largest veterinary medicine enterprise. The merger also gives the monster multinational a powerful position covering all forms of biotechnology research and related patents. The AHP/"Monster" will have assets of \$96 billion and annual sales of \$23 billion. It is the sixth largest corporate merger in business history.

American Home Products is a longstanding but little-known veteran of the Fortune 500. Twenty years ago, the company eschewed publicity (it had no public relations department) and answered its New York telephones merely by repeating the number. Its best-known products were canned spaghetti, wart removers, and Chapstick. The company ventured a few major mergers in the late Eighties and, in the Nineties, took aboard its most famous acquisition - the high-profile American Cyanamid, a chemical major with heavy interests in herbicides and herbicide-tolerant crops. Nevertheless, this month's merger with Monsanto tops the charts.

Pharmaceuticals: The new AHP/"Monster" will rank number four in global pharmaceutical sales behind Glaxo-Wellcome, Novartis and Bristol-Myers Squibb. The company will be third in prescription drugs. While Monsanto could only add the limited sales of its G.D. Searle subsidiary (with less than \$2 billion in turnover), AHP was already comfortably ensconced among the drug industry's top ten. Among its best known products: Anacin and Advil for headaches and the anti-hemorrhoid Preparation H for aches at the other end. The new entity will certainly be able to do better than make ends meet, however. The "Monster" is expected to invest \$2 billion in annual pharmaceutical research. In 1997, worldwide pharmaceutical sales reached \$317 billion.

Crop Chemicals: The Monster marriage will force competitors to re-evaluate their own life expectancy in agricultural inputs. Together, the companies will leapfrog over the Swiss giant, Novartis, who seemed to be unassailable in its role as the world's top pesticide pusher.

Plant Breeding: But the real monopoly bonanza may come from plant genetics. From nowhere three years ago, today's US farmland has half of its cotton; 40% of its soybeans; and 20% of its maize sown to transgenic seeds. The total area worldwide seeded to Monsanto's biotech breeding material this year is roughly 22.2 million hectares, an area the size of Guatemala and Honduras combined. Monsanto predicts that we'll see nearly twice that area planted to genetically engineered crops by the year 2000. In the past three years, Monsanto has single-handedly spent more than \$6.7 billion acquiring strategic seed and ag. biotech companies. In the United States, the "Monster" now has 85% of the cotton seed market and ranks second in the highly-profitable maize market. Internationally, the seed subsidiaries are also well positioned in Europe and have one-third of the large Brazilian and almost one-half of the equally substantial Argentinean maize seed business. Monsanto and AHP combine several key crop "species" patents and the infamous "Terminator" technology (a genetic technique that renders farmer-saved seed sterile) that promises to put a headlock on the world's seed supply. The merged entity will take a commanding lead in the lucrative herbicide-tolerance and B.t. (insect-resistance) markets. The "Monster" is expected to spend \$1 billion on agricultural research next year.

Human Genomics: All life industry powerhouses have major interests in high-tech genomics research – and AHP and Monsanto are not exceptions. In 1997, Monsanto and Millennium signed a \$343 million alliance, creating the premiere plant genomics firm, Cereon. Monsanto recently inked another genomics deal with Incyte. AHP has alliances with more than 200 biotech firms, including its 1996 acquisition of Genetics Institute and its 55% investment in Immunex. Together, AHP and Monsanto have staked a major position in human and plant genomics.

Livestock: By itself, AHP scored number six among the top ten veterinary medicine companies. Although Monsanto is a minor player, it has dabbled significantly in livestock genetics of late and - on the eve of its nuptials with AHP - formed a livestock feed liaison with the largest private company in the world - Cargill. The world's largest grain-trader, Cargill is also among the top seed and fertilizer companies and has a long history in livestock genetics. With annual sales of \$56 billion (more than twice that of even the "Monster") Cargill has plans for livestock development that could make the common enterprise Top Doc very quickly.

The Microsoft of Micro-biology: Most threatened by the "Monster" mating is Novartis - the prodigy of the 1996 conjugation of two Swiss Life Industries - Ciba-Geigy and Sandoz. In 1997, Novartis was first in crop chemicals, second in seeds, third in pharmaceuticals and ninth in veterinary medicines. It was also the overall front-runner in biotech R&D. The Swiss will undoubtedly feel that the American challenge has to be answered. A likely candidate for takeover include Hoffman-LaRoche, Novartis's pharmaceutical/biotech neighbour in Basel, Switzerland. Other possibilities include France's Rhone-Poulenc and Britain's Zeneca BioSciences. Both companies offer significant opportunities in seeds, pesticides, and pharmaceuticals. None - on their own - will easily survive the rutting rituals of the Nineties on their own.

"DAMND" if You Don't: There are other players who will not want to leave the "Monster's" move unanswered. RAFI has paid particular attention to the five "DAMND" life enterprises - DuPont, AgrEvo, Monsanto, Novartis, and Dow. Look for changes among all of them. DuPont, for example, bought 20% of the world's top seed company, Pioneer Hi-Bred, last summer. Given the sudden market shift, both Pioneer and DuPont may be interested in moving beyond the "just-good-friends" stage. Indeed, until the sudden entrance of AHP, DuPont was touted to be courting Monsanto itself. Some Wall Street match-makers still don't rule out the "mother of all mergers" - the earth-shuddering union of DuPont and the "Monster". This union may or may not be more likely as DuPont continues its quest for the world's largest independent biotech company - Amgen. Rumoured to be looking for a \$25 billion dowry, this conjugation could render DuPont more interested in picking up Pfizer's Viagra than batting eyes at the "Monster".

On the other side of the pond, Glaxo-Wellcome, Bristol-Myers Squibb, Zeneca and the German Brothers Grimm (Bayer and Hoechst) will all want to exercise their Spring mating rites. Most vulnerable to change might be AgrEvo - the Life Industry offspring of Hoechst and Schering. 1998 may not see the single "Microsoft of micro-biology" emerge - but it may signal the end of RAFI's annual Top Ten report on the Life Industry. The Top Five would seem a safer bet.

Trillion Mergers: 1998 will be another banner year in total global mergers. At the beginning of June - with seven months to go - the global tally had reached more than \$1 trillion on its way to something more than a predicted \$2 trillion for the year. Last year's record-smashing total was \$1.6 trillion. The new merger binge hitting the Life Industry, however, poses a special challenge for law-makers increasingly concerned with anti-trust or anti-monopoly legislation. Microsoft may wind up in court over its alleged monopoly in computer software (at least with respect to internet access). And Monsanto may have a tough time convincing US regulators that 85% control of the cotton seed market is good news for consumers. But how can governments prevent a patent monopoly on the wide gamut of life technology patents? The sweeping nature of some of the latest patent claims by the "Monster" and others cuts across species and kingdoms well beyond the normal horizons of corporate watchdogs. Hang onto your genes!