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Chemicals / Commodity

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Global Agriculture

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Industry Update

Monsanto & DuPont Announce Next-Gen Licensing Agreement

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Crop trait licensing agreement highlights Monsanto's leadership position

We believe DuPont's agreement to license next generation soybean technologies from Monsanto coupled with DuPont and Monsanto agreeing to dismiss their soybean patent lawsuits and Monsanto agreeing to dismiss its claim on a \$1B jury damage award from DuPont is a win-win for both companies. For Monsanto, it is a clear validation of its RR2Y and Xtend platforms under favorable economic terms with an estimated \$10-plus/bag of royalties versus ~ \$1/bag of royalties for its first-generation RR soybeans. For DuPont, it enables a strong and competitive soybean product suite well into the future while removing the uncertainty stemming from the \$1B jury award.

DuPont to license next-generation soybean traits from Monsanto in '14-'23

DuPont and Monsanto have announced a series of licensing agreements, whereby DuPont will be able to offer Monsanto's Genuity Roundup Ready 2 Yield (RR2Y) soybeans as early as '14 and Roundup Ready to Xtend glyphosate and dicamba tolerant soybeans as early as '15.

DuPont reaffirms Agriculture segment financial targets

In conjunction with the announcement of its licensing agreement with Monsanto, DuPont reaffirmed its sales and margin targets for its Agriculture business segment: '15 sales target of \$13.3-\$14.6B (vs \$10.4B in '12) and a '13-'15 PTOI margin target of 19%-21% (vs. 19.8% in '12).

Key Highlights

Under the licensing agreement, DuPont will make a series of upfront and variable based royalty payments for the rights to offer RR2Y soybeans and RR2Xtend in its products. DuPont will make four annual fixed royalty payments from '14-'17 totaling \$802MM for trait technology, associated data, and soybean lines to support commercial introduction. In '18, DuPont will begin paying royalties on a per unit basis for RR2Y and RR2Xtend for the life of the agreement for continued technology access, subject to minimum payments thru '23 totaling \$950MM. We believe this agreement mitigates uncertainty for DuPont around the patent expiry of RR1 in '14 and will allow DuPont to offer a strong product suite to its customer base well into the future. The added flexibility to combine RR2Y traits with other traits/genetics is critical for DuPont to compete and maintain its position as the #2 player in global seeds and traits. Additionally, Monsanto has dismissed its RR1 soybean patent lawsuit against DuPont, including the August '12 jury damage award of \$1B, and DuPont has dismissed its antitrust case against Monsanto. For Monsanto, the agreement is a clear positive as it validates the RR2Y and RR2Xtend platforms. Additionally, the agreement appears \$0.35-\$0.40 accretive for Monsanto upon full adoption of the next-gen traits by DuPont (in 4 yrs) based on royalties of \$10-plus/bag on RR2Y/RR2Xtend (vs ~\$1/acre on RR1) on 28MM acres (35% DuPont market share on 80MM US soybean acres). We note that payments in '14 will offset the \$0.20-\$0.25 lost as RR1 comes off patent in Brazil in '13.

Monsanto: Price target \$112. Risks: grain prices, regulatory delays

Our \$112 PT reflects Monsanto trading at 22.4x '14E EPS, roughly in-line with its current year multiple. Risks: regulatory delays, lower grain prices.

DuPont: Price target \$55. Risks: lower corn seed pricing, TiO2 s/d, PV s/d

Our \$55 target price is based on DuPont trading at 12.4x '14E EPS, in-line with differentiated peers. Risks include lower seed pricing, weaker housing.

Top picks

DuPont (DD.N),USD48.97	Buy
Monsanto (MON.N),USD103.79	Buy

Companies Featured

DuPont (DD.N),USD48.97	Buy		
	2012A	2013E	2014E
EPS (USD)	3.53	3.90	4.45
P/E (x)	13.9	12.6	11.0
EV/EBITDA (x)	8.2	6.9	7.8

Monsanto (MON.N),USD103.79	Buy		
	2012A	2013E	2014E
EPS (USD)	3.70	4.40	5.00
P/E (x)	20.7	23.6	20.7
EV/EBITDA (x)	10.4	12.6	11.2

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Monsanto Valuation

Our \$112 price target is based on Monsanto trading at 22.4x 2014 EPS in 12 months, roughly in-line with its current multiple of 23.6x ('13E EPS). We believe this valuation is warranted by the Monsanto's defensive earnings growth characteristics as well as our forecast of 11.3% in 2013E and 11.3% in 2013E, and the close correlation we have found ($R^2 > 75\%$) between chemical sector valuations and ROIC..

Monsanto Risks

Key downside risks include regulatory delays on approvals for new biotech seed products, lower farm incomes which could result in farmers spending less on premium seeds and traits, and increased regulatory barriers to genetically modified crops.

DuPont Valuation

Our \$55 target price is based DuPont trading at 12.4x 2014E EPS in 12 months, in line with DuPont's current year multiple and differentiated chemical peers currently trading at 12.6x 2013 (current year) EPS.

DuPont Risks

Key risks for DuPont include losses in US corn seed market share by Pioneer, a stronger USD, lower TiO₂ prices, higher raw material costs, slowing in the R&D pipeline, and reduced government subsidies for solar.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
DuPont	DD.N	48.97 (USD) 26 Mar 13	1,7,8,14,15
Monsanto	MON.N	103.79 (USD) 26 Mar 13	8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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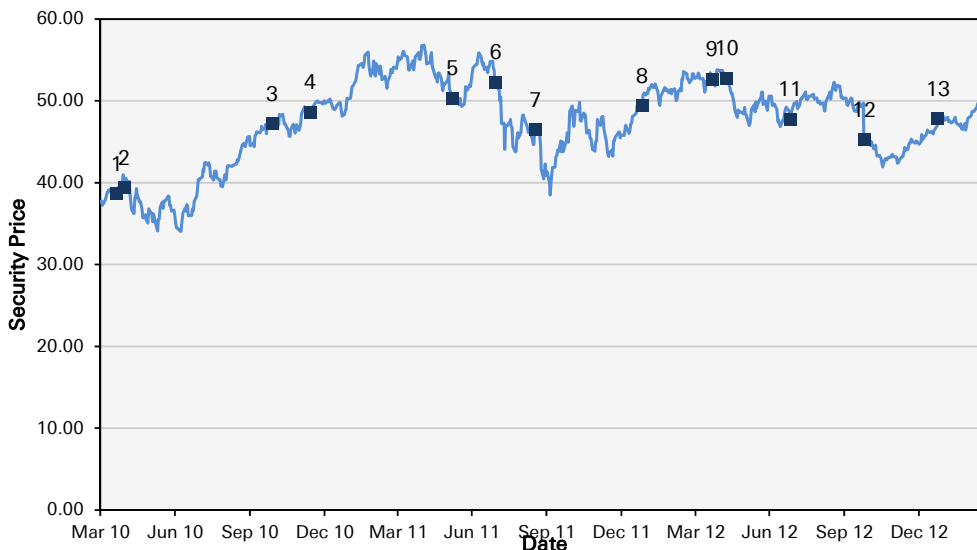
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Historical recommendations and target price: DuPont (DD.N)

(as of 3/26/2013)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

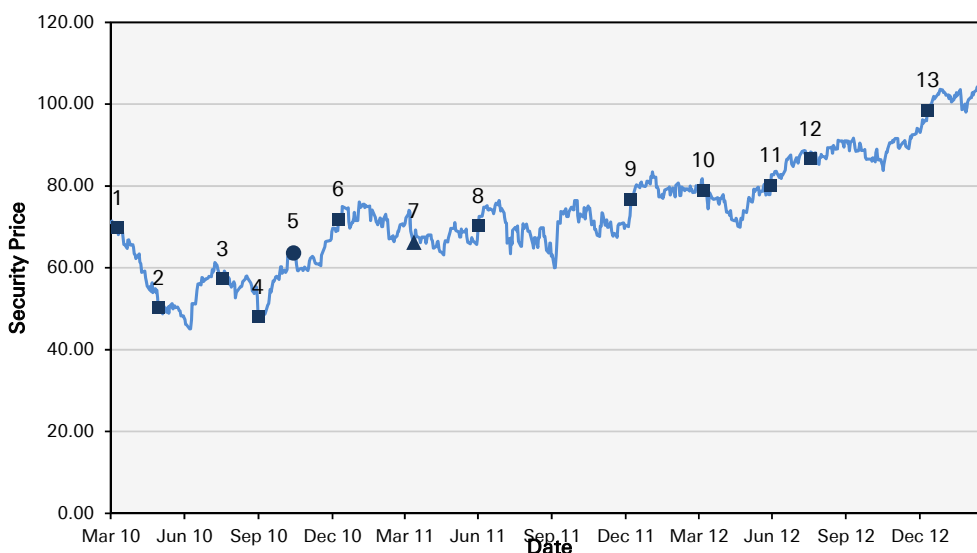
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	04/19/2010:	Buy, Target Price Change USD44.00	8.	01/25/2012:	Buy, Target Price Change USD57.00
2.	04/28/2010:	Buy, Target Price Change USD45.00	9.	04/20/2012:	Buy, Target Price Change USD58.00
3.	10/27/2010:	Buy, Target Price Change USD52.00	10.	05/08/2012:	Buy, Target Price Change USD60.00
4.	12/13/2010:	Buy, Target Price Change USD55.00	11.	07/25/2012:	Buy, Target Price Change USD57.00
5.	06/06/2011:	Buy, Target Price Change USD58.00	12.	10/24/2012:	Buy, Target Price Change USD54.00
6.	07/29/2011:	Buy, Target Price Change USD60.00	13.	01/23/2013:	Buy, Target Price Change USD55.00
7.	09/16/2011:	Buy, Target Price Change USD55.00			

Historical recommendations and target price: Monsanto (MON.N)

(as of 3/26/2013)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002



1. 04/07/2010:	Buy, Target Price Change USD82.00	8. 06/30/2011:	Buy, Target Price Change USD80.00
2. 05/28/2010:	Buy, Target Price Change USD60.00	9. 01/06/2012:	Buy, Target Price Change USD85.00
3. 08/16/2010:	Buy, Target Price Change USD70.00	10. 04/05/2012:	Buy, Target Price Change USD90.00
4. 09/29/2010:	Buy, Target Price Change USD65.00	11. 06/28/2012:	Buy, Target Price Change USD92.00
5. 11/12/2010:	Downgrade to Hold, USD65.00	12. 08/16/2012:	Buy, Target Price Change USD100.00
6. 01/07/2011:	Hold, Target Price Change USD75.00	13. 01/09/2013:	Buy, Target Price Change USD112.00
7. 04/11/2011:	Upgrade to Buy, Target Price Change USD78.00		

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

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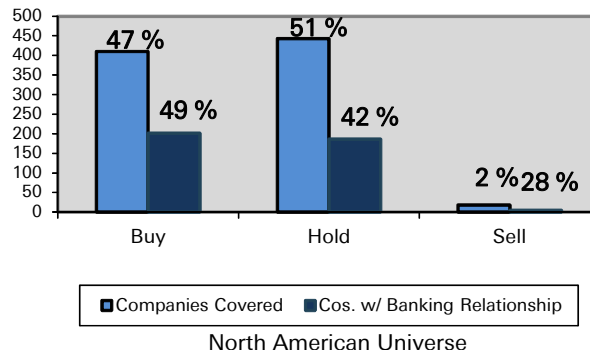
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Equity rating dispersion and banking relationships





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