



Agrium Inc.: How Much Value Can Activist Shareholders Unlock?

Description

ValueAct Capital, a San Francisco-based fund manager, recently declared in a filing to the U.S. Securities and Exchange Commission that it has acquired 5.7% of **Agrium Inc.** (TSX: AGU)(NYSE: AGU), making ValueAct the second-largest shareholder in Agrium. This follows 18 months after the company board successfully fended off JANA Partners, which proposed a breakup of Agrium's retail and wholesale divisions.

Keeping the status quo

When JANA initially approached Agrium in April 2012, the indication was that the various proposed actions, including a separation of the retail and wholesale businesses and certain other cost reductions, would increase shareholder value by \$50 per share. The basic argument was that a standalone retail business would attract a higher valuation than under a conglomerate structure. In addition, JANA suggested that it was possible to considerably reduce costs and working capital in the business.

Agrium's board eventually defended its strategy successfully with the re-election of all 12 incumbent directors in April 2013. According to the press release at the time, the JANA nominees received less than 25% of the votes, excluding the JANA-owned shares. This was effectively a resounding defeat of the activist shareholder proposals.

Things change

As part of the successful defense strategy employed by Agrium, it highlighted the extraordinary share price performance of 476% between late 2005 (when the integrated strategy was initiated) and early 2013. It also stressed the financial performance of the company over the preceding 10-year period, during which revenues, profits, market capitalization, and dividends increased significantly.

These two points, as well as a board-estimated \$750 million integration synergy shareholder value and the additional borrowing capacity as a result of the larger entity, proved to be a formidable defense as shareholders did not see any reason for change at the time.

The problem for Agrium this time is that company fundamentals have deteriorated over the past two years and the share price is, despite the 8% jump on Friday, still lower than in early 2013. The Agrium's EBITDA, which reached \$2.7 billion in 2012, is expected to be 33% lower by the end of 2014 and earnings per share lower by 45% than the 2012 peak. The return on equity, which peaked in 2011 at 26%, is expected to drop to 12% in 2014.

Interestingly, its retail division performed relatively well over the past two years, with EBITDA expected to be 17% higher in 2014 compared to 2012 as well as improved returns on capital employed. This could further strengthen the argument that the retail business could be a valuable standalone entity.

Given the fact that none of the other major fertilizer producers follow the integrated wholesale and retail approach, Agrium may also have to deal with questions about its previous claims of considerable value in the integrated business model.

What lies ahead?

The battle between the Agrium's board and JANA lasted 11 months, during which the share price increased from \$80 to over \$115 in January 2013, only to fall back sharply when it became clear that JANA was not going to win the battle.

Although ValueAct has not declared its intentions publicly, it has a stated philosophy to work with the company management or board to implement strategies to optimize shareholder value and one could expect this to take place over the next few months.

Agrium is now in a less strong position to defend its integrated conglomerate strategy and may find it more difficult to fend off ValueAct. Shareholders may be in for an interesting time.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/08/20

Date Created

2014/10/28

Author

deonvernooy

default watermark