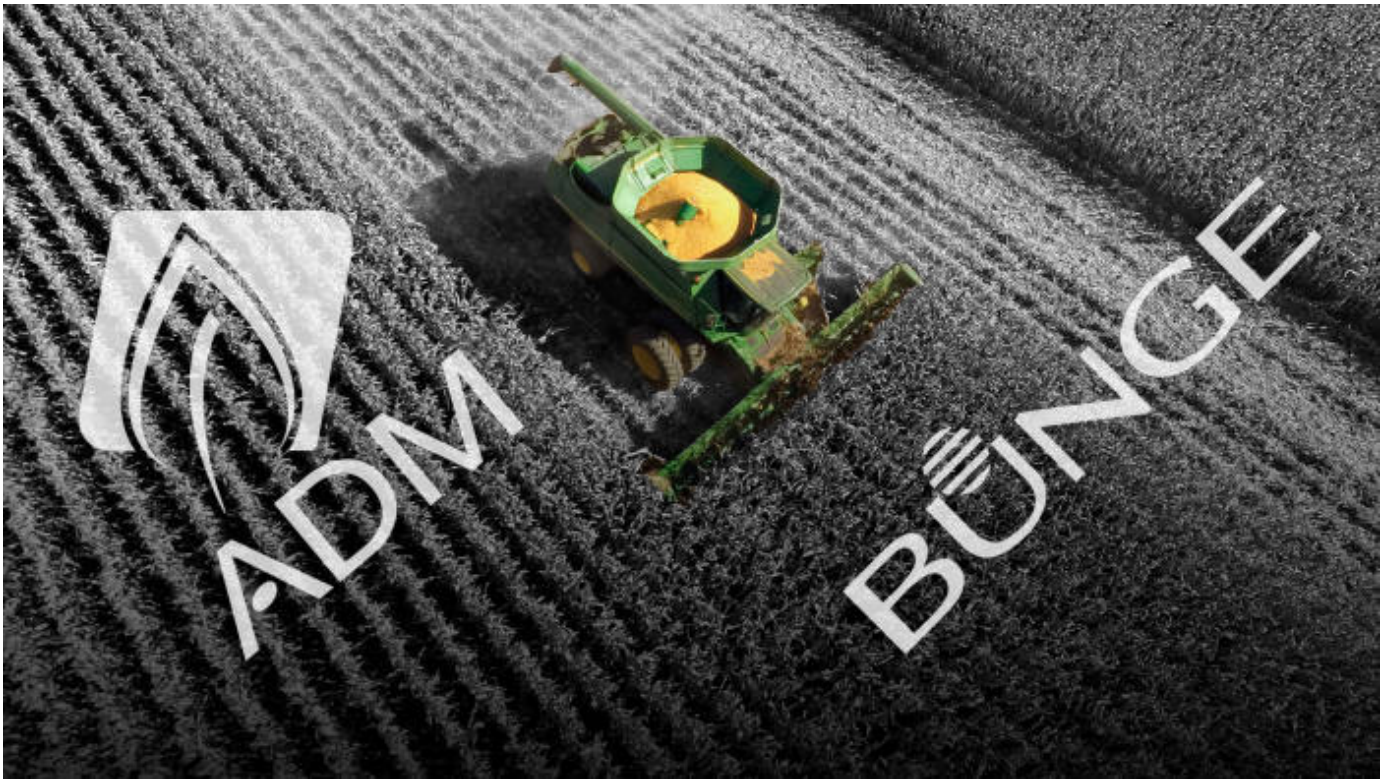
Agricultural Commodities

# ADM and Bunge sow seeds for grain revival with tie-up talk

Merchants under pressure from shrinking margins amid growing competition

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Gregory Meyer in New York and Neil Hume in London
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The proposed $30bn tie-up between Archer Daniels Midland and rival Bunge has highlighted how the toughest market conditions in a generation have forced the world's biggest grain merchants to rethink strategies and attitudes to dealmaking.

ADM and Bunge are two of the world's four largest grain trading houses, using sprawling networks of storage, transport and processing assets to shuttle bulk crops from farmers to customers or convert them into ingredients.

The Chicago-based group approached Bunge with a takeover offer in the past month, say people briefed on the matter. Combined they would create a company with annual sales of almost $110bn, putting it on level pegging with Cargill, the industry leader.

Both companies are feeling the pinch of acting as middlemen at a time when farmers have become more selective about when and at what price they will sell their crops. The democratisation of industry data has eroded the value of information once controlled by the big trading houses, and

used to exploit arbitrage opportunities. At the same time, a series of bumper harvests has weakened agricultural traders' bargaining power with customers in the food industry.

"The merger would make sense strategically for ADM because it would create significant scale in South American, European and Asian markets, eliminate excess capacity in regions where margins have compressed and reduce its cost to serve customers and farmers globally," says Robert Moskow, analyst at Credit Suisse.

**We just don't feel that the acquisitions today are priced at the point that we will make the proper returns**

**Juan Luciano, chief executive, ADM**

Shares in Bunge, which has a market value of more than $11bn, rose 3 per cent on Monday, while ADM, with a market value of $23.3bn, increased almost 2 per cent.

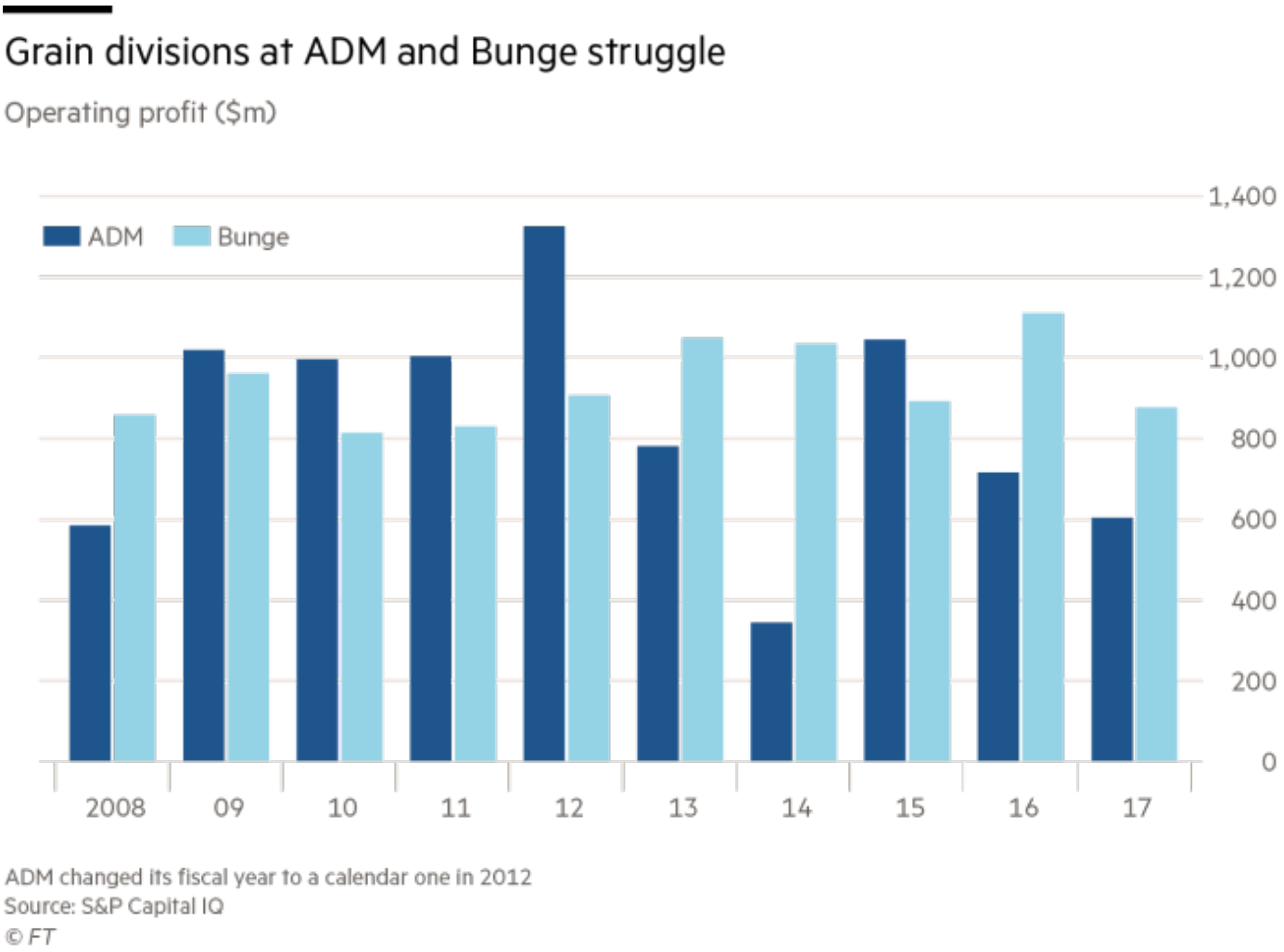
That ADM would consider doubling down on the business of dispatching corn, soyabeans and wheat speaks to the difficulties facing the industry.

ADM has in recent years sought to mitigate this by investing in businesses that sell more specialised ingredients for higher profit margins. In 2014, ADM paid €2.3bn for Wild Flavors, a speciality food and drinks flavour company, its biggest deal.

But such businesses are not big enough to offset structural problems in trading bulk foods. Less than 10 per cent of ADM's operating profit in the past 12 months came from its Wild Flavors & Speciality Ingredients division, according to S&P Capital IQ.

Juan Luciano, ADM's chief executive, has in the past year raised doubts about expanding his company through big-ticket acquisitions. "We have the balance sheet to do acquisitions. We just don't feel that the acquisitions today are priced at the point that we will make the proper returns," he said at a conference last May.

That might be about to change as market conditions look set to deteriorate further. Profit margins from grain trading could tighten even more as rivals add to their crop-handling networks, increasing competition to procure supplies from farmers who have built up their own storage.




G3, a joint venture between Bunge and a Saudi investor, is building a massive grain terminal in Vancouver, British Columbia that is expected to compress export margins on the Pacific coast. In Brazil, Cargill is considering a new grain port in Barcarena, according to World-Grain.com, an industry news service, where ADM and Glencore, the Swiss commodities trader and miner, jointly own an export terminal.

Both ADM and Bunge have irreplaceable portfolios of ports, grain storage silos and crushing plants for commodities such as soyabeans and sunflower seeds. But the bulk of ADM's assets are in the US, while Bunge has a bigger presence in Brazil, another surplus grain producer.

"Potential deal synergies could be significant as ADM and Bunge have substantial overlap in North American and South American grain origination and oilseeds processing and could therefore be able to optimise their networks to maximise utilisation rate and minimise costs," said Vincent Andrews, analyst at Morgan Stanley.

Others see a different motive. New York-based Bunge rebuffed Glencore after it made an approach last year. A standstill agreement preventing Glencore from making a new offer expires next month.

"The fear factor is driving ADM," says Jean-François Lambert of consultancy Lambert Commodities. "The thought of Glencore buying Bunge and emerging as even bigger competitor is quite uncomfortable for ADM."

Ivan Glasenberg, Glencore's chief executive, has made no secret of his desire to expand his agricultural business, a joint venture with two Canadian pension funds.

"We're looking to grow that business in various parts of the world," he said in December.

It is not clear how Bunge, founded 200 years ago in Amsterdam, will respond to ADM's overture. Neither company has yet commented on the takeover reports. Despite pressures in its main agribusiness division, Bunge's shares have been propped up by its status as a potential takeover target.

Soren Schroder, Bunge's chief executive, has spoken openly about the need for consolidation in the industry, but he has emphasised his preference for joint ventures and partnerships instead of the sale of the company.

In the past year, Bunge has held discussions with Gavilon, a grain company owned by Marubeni of Japan, about partnering on grain handling facilities in the US, people familiar with the matter said. Bunge declined to comment and Gavilon did not respond to a request for comment.

A potential ADM-Bunge tie-up has already sparked anxiety among farmers who rely on competing bids to get the best prices for their crops. The US and Canada have highly consolidated oilseed processing industries with ADM and Bunge representing a little over 50 per cent of capacity, according to Credit Suisse.

**An ADM takeover of Bunge would be yet another wave in the overwhelming flood of consolidation overtaking every agriculture industry**

**Rob Larew, National Farmers Union**

"An ADM takeover of Bunge would be yet another wave in the overwhelming flood of consolidation overtaking every agriculture industry," says Rob Larew, senior vice-president of public policy and communications at the National Farmers Union in the US. "It's time we put a stop to unbridled consolidation in agriculture."

Such rhetoric suggests that any deal would require significant divestitures in the US. The sale of assets could create an opportunity for Glencore or another strategic buyer — possibly China's Cofco International — to make long-sought inroads into breadbaskets such as the US without having to bid for the whole of Bunge.

But even ADM's approach has shown investors that Mr Luciano has a pragmatic streak, as well as a recognition that action needs to be taken to preserve profitability in increasingly challenging

market conditions.

"We think things are going to come back but the layer of profitability may not come back," he told the conference last May, referring to grain and oilseed trading. "And I think that's something important for everybody to realise."



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the digital technology is set to change the way raw materials are bought and sold.

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