

# Agrium: A Better Way Forward

January 2013



# Disclaimer

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# Legal Notice

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This solicitation is being made by JANA Partners LLC ("JANA"), and not by or on behalf of the management of Agrium Inc. ("Agrium").

The address of Agrium is 13131 Lake Fraser Drive S.E., Calgary, Alberta T2J 7E8.

JANA has filed an information circular containing the information required by Form 51-102F5 – *Information Circular* in respect of its proposed nominees, which is available on Agrium's company profile on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.janaaguanalysis.com](http://www.janaaguanalysis.com).

Proxies for the Agrium shareholders' meeting may be solicited by mail, telephone, email or other electronic means as well as by newspaper or other media advertising, and in person by managers, directors, officers and employees of JANA, who will not be specifically remunerated therefor. In addition, JANA may solicit proxies in reliance upon the public broadcast exemption to the solicitation requirements under applicable Canadian corporate and securities laws, conveyed by way of public broadcast, including through press releases, speeches or publications, and by any other manner permitted under applicable Canadian laws. JANA may engage the services of one or more agents and authorize other persons to assist it in soliciting proxies on behalf of JANA. All costs incurred for the solicitation will be borne by JANA.

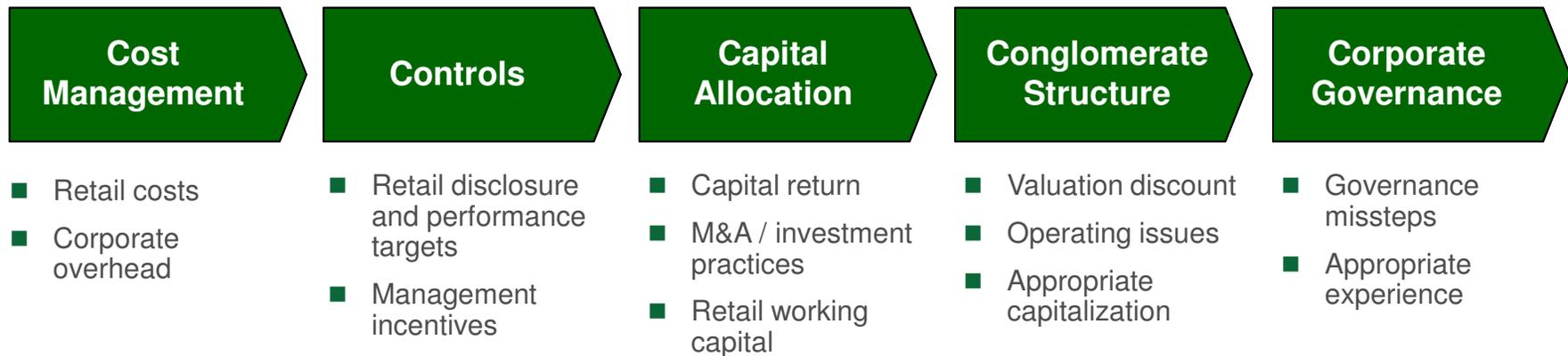
JANA has entered into agreements with Kingsdale Shareholder Services Inc. ("Kingsdale") and The Laurel Hill Advisory Group Company ("Laurel Hill") pursuant to which Kingsdale and Laurel Hill have agreed to assist JANA in soliciting shareholders should JANA commence a formal solicitation of proxies. Kingsdale's responsibilities will principally include advising JANA on governance best practices, where applicable, liaising with proxy advisory firms, developing and implementing shareholder communication and engagement strategies, and advising with respect to meeting and proxy protocol. Laurel Hill will be principally responsible for the solicitation of retail shareholders and other strategic advice. Pursuant to the agreement with Kingsdale, for its solicitation services, Kingsdale would receive a fee in the range of \$125,000 to \$250,000, plus disbursements and a telephone call fee. In addition, Kingsdale may be entitled to a success fee on the successful completion of JANA's solicitation, as determined by JANA in consultation with Kingsdale. Kingsdale will also receive a separate fee for its other services. Pursuant to the agreement with Laurel Hill, Laurel Hill would receive a fee of up to \$100,000, plus disbursements and a telephone call fee. In addition, Laurel Hill will be entitled to a success fee of \$100,000 on the successful completion of JANA's solicitation.

JANA is not requesting that Agrium shareholders submit a proxy at this time. Once JANA has commenced a formal solicitation of proxies, a registered holder of common shares of Agrium that gives a proxy may revoke it: (a) by completing and signing a valid proxy bearing a later date and returning it in accordance with the instructions contained in the form of proxy to be provided by JANA, or as otherwise provided in the final proxy circular, once made available to shareholders; (b) by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing, as the case may be: (i) at the registered office of Agrium at any time up to and including the last business day preceding the day the meeting of Agrium shareholders or any adjournment or postponement of the meeting is to be held, or (ii) with the chairman of the meeting prior to its commencement on the day of the meeting or any adjournment or postponement of the meeting; or (c) in any other manner permitted by law. A non-registered holder of common shares of Agrium will be entitled to revoke a form of proxy or voting instruction form given to an intermediary at any time by written notice to the intermediary in accordance with the instructions given to the non-registered holder by its intermediary.

To the knowledge of JANA, neither JANA nor any of its managers, directors or officers, or any associates or affiliates of the foregoing, nor any of JANA's nominees, or their respective associates or affiliates, has: (i) any material interest, direct or indirect, in any transaction since the beginning of Agrium's most recently completed financial year or in any proposed transaction that has materially affected or would materially affect Agrium or any of its subsidiaries; or (ii) any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter currently known to be acted upon at the meeting of Agrium shareholders other than the election of directors.

# Introduction

- ▶ JANA is Agrium’s largest shareholder, owning more than 6% of the company’s shares
- ▶ While Agrium’s board has experience relevant to the company’s fertilizer business (“Wholesale”), two key components are missing that have caused Agrium to underperform its value creation potential:
  - Distribution experience: Agrium’s other business, agricultural distribution (“Retail”), accounts for 30%+ of total EBITDA, ~50% of total value and \$4bn+ of acquisition capital, yet Agrium does not have a single independent director with any relevant distribution industry experience, and has only one independent director with any relevant experience in agriculture
  - Shareholder orientation: Agrium’s board has failed to pursue even the most obvious value-creation measures until pressured by JANA to do so
- ▶ JANA has nominated 5 candidates who can enhance Agrium’s board by eliminating these deficiencies
- ▶ With the benefit of this new expertise and perspective, Agrium’s full board can proactively address the remaining unresolved issues previously identified by JANA, which can be broken down into “5 C’s”



## Director Nominees

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### **Mitch Jacobson – 35+ years of distribution experience**

Past CEO, current Chairman & principal shareholder of MSC Industrial (*cited by Agrium as a Retail comparable*)  
Built MSC from family business with <\$10 million in sales into a leading distributor with a ~\$5 billion market cap  
Director of and investor in HD Supply, a \$8 billion revenue distribution business with 11 distribution platforms



### **Stephen Clark – 30+ years of distribution experience**

Past CEO and current director of Brenntag (*cited by Agrium as a Retail comparable*)  
Built Brenntag organically and through numerous acquisitions into world's largest chemical distributor  
Managed Brenntag through 2 successful LBOs and a 2010 IPO; currently has a ~€7 billion enterprise value



### **David Bullock – 20+ years of operational finance experience including in ag distribution**

Past CFO & COO of UAP (*acquired by Agrium in 2008; cited by Agrium as closest comparable for Retail*)  
Executed UAP turnaround, working capital reduction plan and growth strategy. Partnered with Apollo to purchase UAP, oversaw IPO and sale to Agrium at 13x EBITDA, a return of more than 1,500% from the LBO purchase price  
Past CFO of Graham Packaging, taking business from ownership under Blackstone to an IPO and eventual sale



### **Hon. Lyle Vanclief – 20+ years of farming experience and former Minister of Agriculture**

Former Canadian Minister of Agriculture, overseeing \$140 billion industry and 12,000 employees  
22 year career as agricultural entrepreneur with extensive experience procuring products as a commercial farmer  
Canadian Agricultural Hall of Fame inductee with broad knowledge and understanding of North American ag



### **Barry Rosenstein – 25+ years of unlocking hidden company value**

Founder and Managing Partner of JANA Partners with a successful track record of investing in companies and working constructively with management teams and boards to create value for all shareholders  
Most recently served on board of Convergys, helping lead significant corporate cost reductions, management change, asset divestitures and balance sheet restructuring, resulting in a ~75% return during his tenure  
“Some activists can be brutal and superficial,” [Charles River CEO James] Foster said. “Barry was very driven and directed, but in a low-key, collaborative, thoughtful and well-reasoned way”; Wall Street Journal, 10/7/12

## Director Nominees (Cont'd)

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▶ **The director nominees are independent and will represent all shareholders**

- The five nominees qualify as independent directors under Canadian securities laws, NYSE rules and Agrium's own corporate governance guidelines, and will each have an independent fiduciary duty to represent and create value for all shareholders
- The four non-JANA nominees have no prior business relationship with JANA

▶ **The director nominees are directly aligned with all Agrium shareholders**

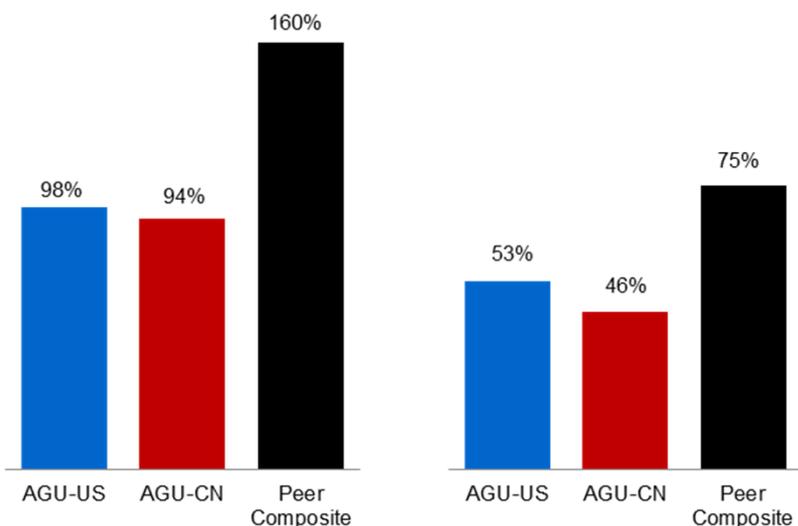
- JANA is Agrium's largest shareholder
- The non-JANA nominees have the following arrangements:
  - Small cash payment (\$50k) for time and expense of serving as nominees through the proxy contest including significant time travelling and meeting with shareholders and other interested parties in the US and Canada
  - Once elected to Agrium's board, these nominees only stand to gain to the extent all Agrium shareholders gain, through:
    - Combined direct ownership of more than 130,000 shares (\$14+ million) of Agrium that they have purchased themselves
    - Additional incentive payments based solely on the performance of Agrium's shares

**The five director nominees are aligned with all other Agrium owners and will work with Agrium's other directors to create value for all shareholders.**

# Impact Of JANA's Engagement

“Investors have benefited from JANA’s actions as it sheds increasing light on the value of [Retail]. AGU shares have risen ~33% since mid-June, when JANA’s involvement in the stock became well known” – *Susquehanna, 10/23/12*

## Before JANA's Engagement<sup>(1)</sup>

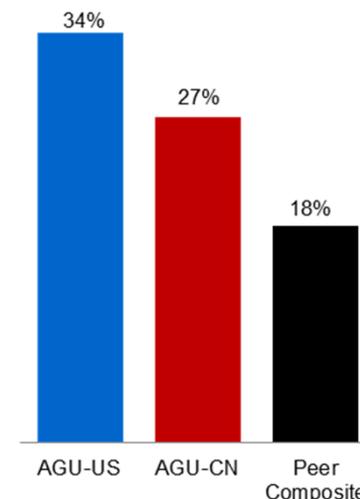


**5 Years (6/1/07-6/1/12)  
AGU-US vs. Peers: -62%**

**3 Years (6/1/09-6/1/12)  
AGU-US vs. Peers: -22%**

## After JANA's Engagement<sup>(1)</sup>

- ▶ Agrium has responded by:
  - Increasing its dividend by ~4.5x
  - Initiating its first large share repurchase
  - Committing to continued growth in capital return
  - Improving Retail disclosure



**Post JANA (6/1/12-12/31/12)  
AGU-US vs. Peers: +16%**

**Agrium for years ignored basic, shareholder-friendly changes until pressured to do so. An enhanced board can unlock even more value.**

<sup>(1)</sup> Represents total returns assuming dividends re-invested. For additional information, including calculation of peer composite, see JANA's October 1 presentation <http://www.janaaguanalysis.com/oct1-presentation.pdf> page 8.

## Impact Of JANA's Engagement (Cont'd)

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“Agrium is attractive because JANA looks likely to win board seats” – *Credit Agricole / CLSA, 12/14/12*

“JANA's interest in Agrium has certainly been a boon for investors” – *Financial Post, 12/21/12*

“After speaking with four of the five directors that JANA Partners is nominating for Agrium's board, we came away impressed with the group's **clear industrial distribution experience and competence** and their ability to articulate the kinds of operational improvements they would seek to implement at Agrium Retail” – *Barclays, 12/13/12*

“While activist shareholder JANA Partners' proposals have been met with stiff resistance from Agrium management, we believe that **significant shareholder value creation** may come from surfacing some of the issues raised by JANA” – *Piper Jaffray, 12/2/12*

“JANA's proposed board members possess solid retail distribution experience and could help unlock value” – *CIBC, 1/15/13*

“**JANA is nominating a retail 'dream team' to Agrium's board**, which currently does not have one independent member with retail distribution experience” – *Barron's, 11/26/12*

## **The 5 C's Of Maximizing Value For All Agrium Shareholders**

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# Cost Management Opportunity

## Cost Management

## Controls

## Capital Allocation

## Conglomerate Structure

## Corporate Governance

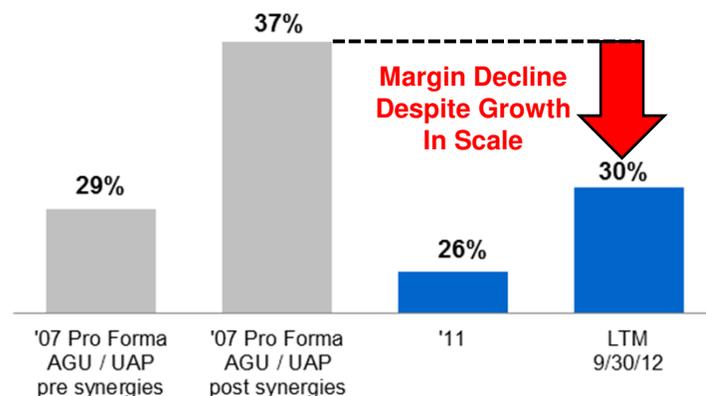
- ▶ Retail margins: Margin contraction despite significant growth in scale
  - Unlike distribution peers,<sup>(1)</sup> who generate operating leverage as they grow

“Agrium’s Retail segment is under-earning” – Piper Jaffray, 12/2/12

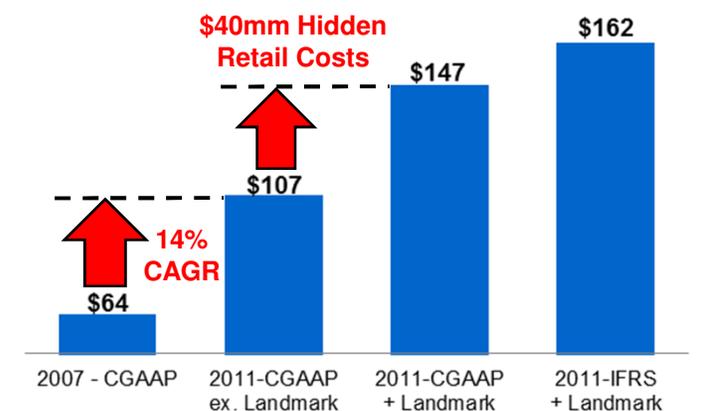
- ▶ Corporate overhead: High levels of growth despite operating Retail and Wholesale at arm’s length
  - In addition to G&A growth in Agrium’s underlying segments
- ▶ JANA’s director nominees are well positioned to address these issues
  - Experience implementing distribution best practices
  - Experience managing corporate overhead across multi-platform businesses

“Agrium’s management should engage with serious consideration many of the issues JANA and its proposed Directors bring up on costs” – Barclays, 12/13/12

## Retail EBIT / Gross Profit<sup>(2)</sup>



## Unallocated Corporate Cost<sup>(3)</sup> (\$mm)



<sup>(1)</sup> See JANA’s October 16 presentation <http://www.janaaguanalysis.com/oct16-presentation.pdf> page 16.

<sup>(2)</sup> See JANA’s October 1 presentation <http://www.janaaguanalysis.com/oct1-presentation.pdf> page 24.

<sup>(3)</sup> Excludes stock compensation expense.

# Controls Opportunity

## Cost Management

- ▶ While Agrium has begun to improve its Retail disclosure following JANA's engagement, significant opportunity for improvement remains
  - Disclosing previously eliminated metrics (working capital and CapEx)
  - Providing organic performance disclosure
  - Establishing consistent return on invested capital reporting<sup>(1)</sup>

## Controls

“Agrium's Board has, in our view, done little to ensure that shareowners in the company have the information they need to make informed decisions” – *Credit Agricole / CLSA, 11/5/12*

## Capital Allocation

- ▶ Expanding Retail performance targets beyond EBITDA to include margin and standard distribution metrics would enable the board and investors to track true performance of the business over time
- ▶ Adding Retail return on capital and margin metrics to Retail compensation targets would better align incentives with value creation and eliminate incentives for suboptimal M&A and capital allocation

## Conglomerate Structure

## Corporate Governance

“Agrium's EBITDA targets can be met with acquisitions at any price at all, with no reference to return on capital” – *Credit Agricole / CLSA, 11/5/12*

<sup>(1)</sup> Agrium management comment at Credit Suisse's 2011 Chemical and Ag conference (September 14, 2011) “If you look at our Retail division over periods of time, we have a return on invested capital of about 15%”, which compares to new financial disclosure that shows a Retail return on capital of 8% for the 12 months ended 9/30/11 (before allocation of any corporate costs, including substantial Landmark related costs reported in corporate) and a return on capital of 9% for domestic Retail.

# Capital Allocation Opportunity

Cost Management

Controls

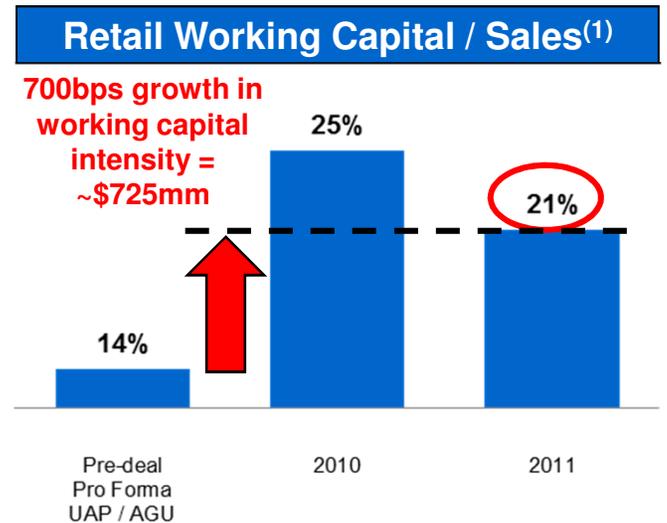
Capital Allocation

Conglomerate Structure

Corporate Governance

- ▶ Capital deployment: Agrium historically prioritized investment in growth at any price, with little interest in returning capital to shareholders until pressed to do so by JANA
  - \$4bn+ of M&A (\$7bn+ attempted) vs. ~\$150mm of dividends / buybacks over the 5 year period preceding JANA's involvement
  - Failure to return cost of capital / mixed track record on M&A and investments
    - Landmark / Kenai / Hanfeng / MOPCO
    - Dutch repurchase executed only ~2 weeks before sizeable earnings miss

- ▶ Working capital: Has increased significantly, despite advantages of increased scale and private label mix, UAP's prior working capital reduction plan and shift toward sale on consignment (e.g. Potash)
  - New claims that higher working capital leads to higher margins are not supported by Retail's historical performance and highlight the board's lack of distribution experience<sup>(1)</sup>



“[W]orking capital could be reduced... without a detrimental effect on margins... best-of-breed distributors and retailers are able to drive down working capital needs while at the same time boosting profitability” – Piper Jaffray, 12/2/12

<sup>(1)</sup> See JANA's October 1 presentation <http://www.janaaquanalysis.com/oct1-presentation.pdf> pages 26 - 27.

# Conglomerate Structure Opportunity

Cost Management

Controls

Capital Allocation

**Conglomerate Structure**

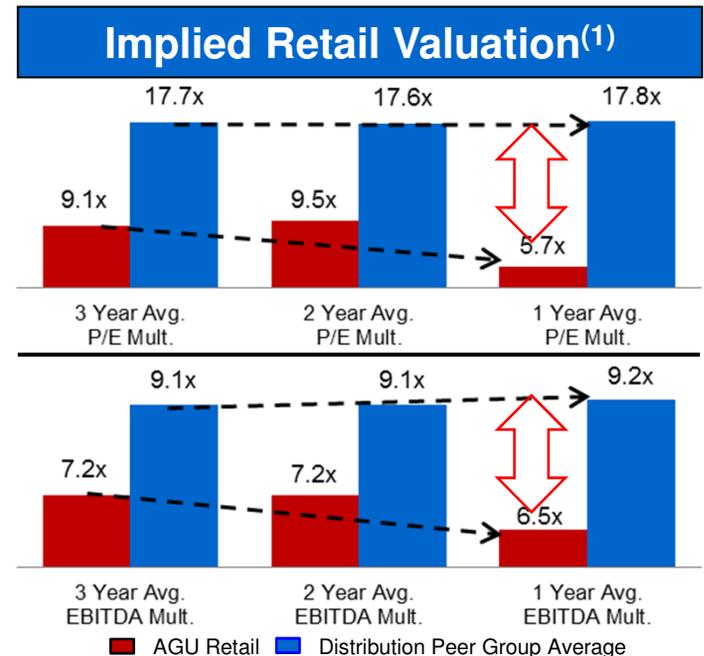
Corporate Governance

- ▶ Agrium suffered from a persistent and growing valuation discount that it widely acknowledged prior to JANA's arrival

“The million dollar question is what’s this retail business worth? ... When UAP was trading, they were trading at about 9x. If you look at Tractor Supply ... they are trading at a multiple of 11x ... I believe we should be trading at 11x ... I’ll just keep hammering at you until we get [the multiple] up to what we feel is a reasonable number” – *Agrium CEO Michael Wilson, 2011 Investor Day*

- ▶ No meaningful synergies with negative operational consequences: creates conflicts with other Wholesale customers / other Retail suppliers though Wholesale only ~10% of Retail sales, compromising ability to procure product on best terms
- ▶ Each business has different natural investor and research analyst followings, different optimal capitalization and capital allocation priorities
- ▶ All key competitors actively reject manufacturing / distribution integration
- ▶ Given value creation opportunity, conglomerate structure merits an unbiased review

“Agrium's Board has not been able (or willing) to quantify, explain, or defend the current company structure” – *Credit Agricole / CLSA, 11/5/12*



<sup>(1)</sup> Represents periods ending June 1, 2012, the date of JANA's engagement with Agrium. See JANA's October 1 presentation <http://www.janaanalysis.com/oct1-presentation.pdf> page 13. 13

# Corporate Governance Opportunity

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## Cost Management

- ▶ Agrium's board failed to address obvious issues – such as disclosure and capital return – until publicly challenged to do so, and has spent significant shareholder capital to avoid discussing the remaining issues

## Controls

- ▶ When JANA challenged Agrium to unlock the unrealized value in Retail, Agrium's board disavowed its valuation comparables for Retail – which were long-promoted – and introduced a far less applicable set of new Midnight Comparables with lower valuation multiples to talk down Retail's value

## Capital Allocation

- ▶ Despite spending weeks on the road selling shareholders on the company's short term performance and new commitment to transparency, Agrium never guided the market to expect disappointing Q3 earnings (failing to pre-announce, despite having done so in the past), resulting in execution of its Dutch tender share repurchase only ~2 weeks before a sizeable miss and resulting 11% decline in share price

## Conglomerate Structure

- ▶ Hired the same team from Morgan Stanley that argued *against* Agrium's structure when defending CF Industries from Agrium in 2009, to now argue *for* the merits of Agrium's conglomerate structure

## Corporate Governance

“Agrium should be greeting [JANA's nominees] with open arms, rather than paying Morgan Stanley to fend them off” – *Credit Agricole / CLSA, 11/30/12*

## **The 5 C's In Action: Case Studies**

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# Case Study: Retail Footprint Opportunity

## Cost Management

## Controls

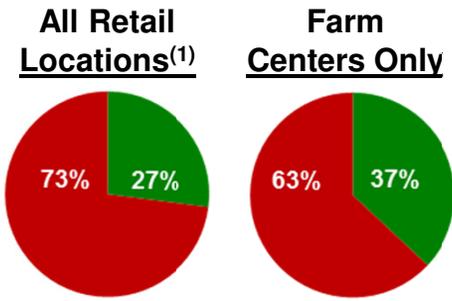
## Capital Allocation

## Conglomerate Structure

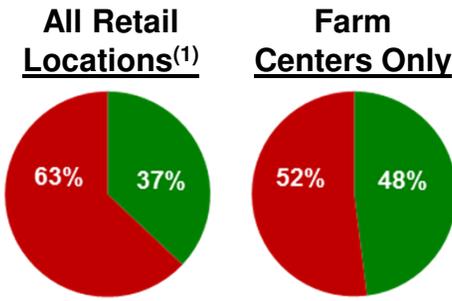
## Corporate Governance

- ▶ Agrium’s Retail distribution business is not a ‘walk-in’ traditional retailer
  - Phone order business, where customers have a salesperson as their primary point of contact and rarely visit a Retail location
    - “I don’t think any of my customers have ever been in the store” – *Retail sales associate interview*
  - Retail locations effectively serve as distribution centers
- ▶ A Retail location typically services customers within ~25-40 miles (or further, as Retail’s President referenced a 50 mile radius for the US corn belt at Agrium’s 2012 Investor Day), as described in Agrium’s 2007 Annual Report (page 22) and by a branch manager in this Agrium video: <http://www.agrium.com/stories/1834.jsp> (at 5:58)
- ▶ However, footprint analysis of Agrium’s 700+ continental US Retail locations shows significant overlap at distances well within this functional radius
  - **Notably, 73% of US Retail locations are within 25 miles of another location, while 63% are within 20 miles and 45% are within 15 miles**

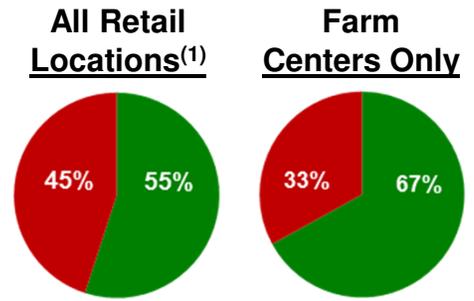
**Overlap: 25 Mile Radius**



**Overlap: 20 Mile Radius**



**Overlap: 15 Mile Radius**



● Overlap with another location within radius    ● No overlap within radius

<sup>(1)</sup> Farm center and satellite locations. See page 17 for more detailed description of footprint analysis.

# Case Study: Retail Footprint Opportunity (Cont'd)

Cost Management

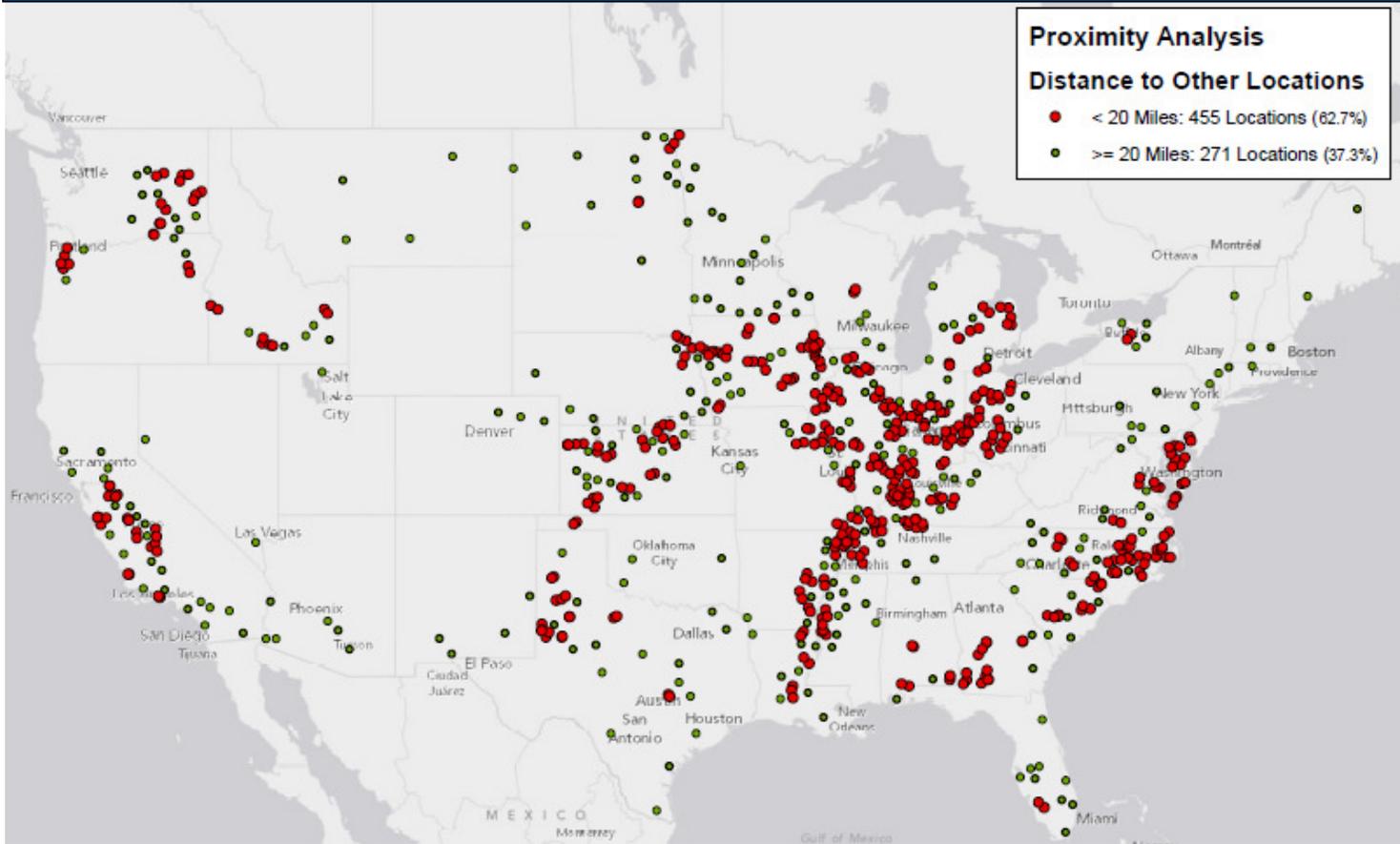
Controls

Capital Allocation

Conglomerate Structure

Corporate Governance

## Agrium Retail Footprint Analysis: Overlap Within A 20 Mile Radius



● Overlap within 20 miles of another location      ● No overlap within 20 miles

Note: Analysis based on Retail locations in continental US listed on Agrium’s website (<http://www.cpsagu.com/map/Default.aspx>) as of Jan 17, 2013. Locations include only farm centers & satellites and for conservatism exclude regional & divisional offices, distribution centers, terminals, and plants which otherwise would have further increased the number of overlapped locations. The same analysis done on Canadian locations also reveal additional store overlap. Proximity based on geodesic distance, which on average represents ~85% of actual driving distance.

## Case Study: Retail Footprint Opportunity (Cont'd)

### Cost Management

- ▶ Agrium's redundant footprint highlights many of the company's opportunities for cost, CapEx and working capital improvement and contributes to Retail's failure to generate operating leverage despite rapid growth in scale

### Controls

- ▶ **Costs:** Duplicative locations results in redundant direct costs (headcount, facilities, maintenance, insurance), increases organizational costs (district and regional management layers with ~50 office locations) and complicates oversight
- ▶ **Controls:** Retail's network should be regularly monitored by a board that understands how to optimize distribution / cost leverage while prioritizing sales relationships with farmers and customer service levels / fill rates

### Capital Allocation

- ▶ **Capital Allocation:** Redundant locations results in excess capital deployment
  - Duplicative safety-stock inventory to support overlapping locations, while fewer branches allows better demand management with lower aggregate inventory
  - Duplicative CapEx for equipment / maintenance at multiple locations

### Conglomerate Structure

- ▶ **Persistence of Retail's footprint overlap – while Retail's President has acknowledged it as an opportunity – illustrates the benefit of adding distribution experience to the board to help prioritize and tackle this and other problems**

### Corporate Governance

"We don't need the number of facilities we have out there ... we need to have fewer facilities. And instead of replacing a blender at five to ten places, let's just put it in one place and just replace it one time" – *Agrium Retail President, Agrium 2012 Investor Day*

**Retail's leading position in a structurally attractive, fragmented distribution landscape amplifies the return on resolution of this cost issue, enhancing Retail's position as a long-term secular winner.**

# Case Study: Retail Acquisition – AWB Landmark

Cost Management

Controls

Capital Allocation

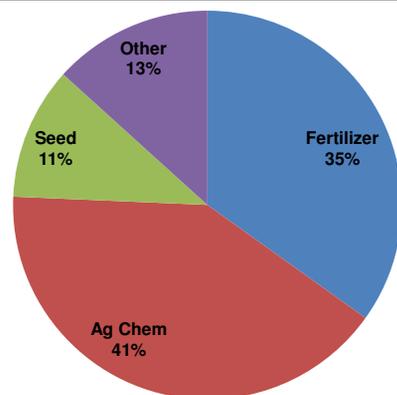
Conglomerate Structure

Corporate Governance

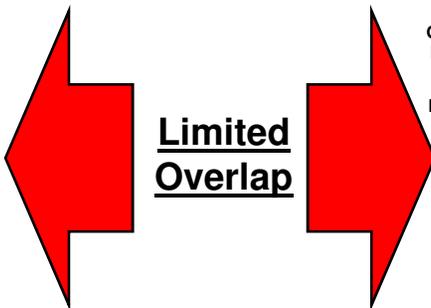
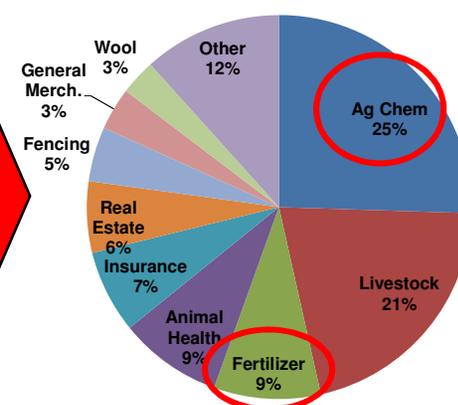
▶ **Capital Allocation:** AWB Landmark did not meet key criteria for acquisition of a distribution business in a new geography (where traditional synergies are limited)

- ✗ Criteria #1 – Attractive Price: Agrium paid ~15x EBITDA (net of divestiture), and took significant execution risk by agreeing to acquire all of AWB Landmark *without* an agreement to divest its sizeable grain handling business
- ✗ Criteria #2 – Attractive End Market: Australian retail is a mature, low growth market
- ✗ Criteria #3 – Customer / Supplier Overlap: No overlap of Landmark’s customers and Retail’s core North American customers. Limited potential benefit to existing suppliers, particularly given extremely different mix of business
- ✗ Criteria #4 – Experience To Improve Business: Landmark has a very different earnings mix than Agrium’s core North American Retail business, with a distinct minority of gross profit coming from businesses that Agrium had real familiarity with

Retail GP Mix pre Landmark<sup>(1)</sup>



Landmark GP Mix<sup>(1)</sup>



<sup>(1)</sup> Retail represents 2010 GP mix. Indicative Landmark GP contribution as per AWB Landmark fairness opinion (page 18); available in AWB Scheme Booklet dated 10/7/10 (page 56).

## Case Study: Retail Acquisition – AWB Landmark (Cont'd)

### Cost Management

- ▶ **Controls:** Agrium's public Retail EBITDA targets and Retail compensation programs incentivize Retail management to grow EBITDA and pursue M&A at any price – rather than generate strong returns on capital – which led to the aggressive pursuit of an expensive acquisition in an unfamiliar geography (with only 3 days of diligence) that appears to offer no near-term prospects of returning its cost of capital

### Controls

- On August 14, 2010, following the announced merger of AWB Landmark with GrainCorp, Agrium offered to acquire AWB Landmark and cited the need for only limited due diligence
- On August 17, Agrium signed a confidentiality agreement with AWB Landmark, and just 3 days later on August 20 an all cash deal was announced
- Landmark operations and synergy realization – which is already behind plan – will remain a management drain, taking focus away from the sizeable growth and operational improvement opportunities in core North American Retail

### Capital Allocation

### Conglomerate Structure

- ▶ **Corporate Governance:** Landmark illustrates the need for independent directors with experience in distribution to provide proper oversight and protect shareholders from reckless deployment of capital and poorly conceived acquisitions

### Corporate Governance

“Others have had very limited success with the added value service model in Australia, and it is difficult to see why Agrium will do any better. And the house brand road is littered with casualties” – *Business Spectator*, 10/3/10 (commenting upon Agrium's announced acquisition of AWB Landmark)

## Case Study: Unallocated Corporate Overhead Opportunity

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### Cost Management

- ▶ Agrium has experienced significant, unchecked levels of growth in unallocated corporate overhead (excl. stock comp)
  - 14% annual growth in corporate costs, far higher than inflation
  - Additional \$40mm of Landmark-related costs buried in 2011 corporate costs
  - These costs are in addition to significant amounts of direct G&A growth in Agrium's underlying business units

### Controls

- ▶ The magnitude and growth of Agrium's corporate overhead illustrates several key shortcomings and raises questions regarding board oversight

### Capital Allocation

- ▶ **Cost Management:** The board has failed to check growth in overhead
  - Agrium has actually *touted* its 14% annual growth in corporate costs, because it is below rates of growth in EBITDA (32%) and total assets (23%)
  - Significant EBITDA growth unrelated to corporate and driven by M&A and changes in commodity prices (e.g. shale gas), while asset growth has been matched by increases in segment-level G&A (e.g. in Retail)

### Conglomerate Structure

- ▶ **Controls:** Inclusion of one-time Landmark related costs in corporate – without clearly disclosing this to investors – obfuscates performance

### Corporate Governance

- ▶ **Conglomerate Structure:** Corporate structure results in overhead cost “tax”
  - Costs should be allocated to segments with only very limited true ‘corporate’ overhead remaining, particularly given segments are run at arm's length
    - Better instills P&L accountability and ensures that underlying businesses are incurring only those services that they *need*

## Case Study: Retail Comparable Company Switcheroo

### Cost Management

▶ When pressured to unlock Retail's value, Agrium instead changed its long-standing valuation comparable set for Retail to talk down its value potential

▶ The Original Comparables were clearly more appropriate:

- Regularly cited by management as the right comparables, including in CEO's presentation at the 2011 Investor Day and in a 2011 white paper distributed by Agrium management to sell-side analysts

- Used by UAP in its 10-K to measure share price performance vs. peers

- Were valued by public markets in line with UAP – at 9x EBITDA – for the 2 years preceding its sale to Agrium

### Controls

▶ The new lower-multiple Midnight Comparables, by contrast, include newly public companies, small and micro cap stocks with very limited liquidity, companies with control shareholders, and companies with very dissimilar business mixes and cyclical exposures

- Only one of the new Midnight Comparables (Airgas) is appropriate

- Brenntag, while a very appropriate business model comparable, is less appropriate as a valuation comparable given its European listing (however, even with a European discount, it still trades at ~9x+ 2013 EBITDA)

### Capital Allocation

### Conglomerate Structure

### Corporate Governance

**This tactic illustrates serious capital allocation and governance deficiencies at Agrium.**

## Case Study: Retail Comparable Company Switcheroo (Cont'd)

Cost Management

- ▶ **Capital Allocation:** Prices paid for \$4+ billion of Retail acquisitions – including UAP at ~13x EBITDA and Landmark at ~15x – can only be justified by reference to Agrium's Original Comparables

Controls

- ▶ **Corporate Governance:** The board's switch to the Midnight Comparables when challenged by JANA to unlock value means one of two things:
  - Either Agrium's board for years sat idly by and allowed management to pursue acquisitions at inflated valuations without any serious consideration of value
    - When asked why Agrium switched their comparables so suddenly, Agrium's VP of Corporate and Investor Relations commented to Reuters that the board "*hadn't really done that much work*"<sup>(1)</sup> on valuing Retail before JANA's involvement
  - Or, the board never honestly evaluated its corporate structure with an eye to maximizing value, and instead sought to avoid a debate by deliberately talking down Agrium's value

Capital Allocation

Conglomerate Structure

Corporate Governance

**No matter the ultimate outcome, Agrium shareholders deserve a better process than this, and the current board still has much to explain regarding how it previously evaluated Retail acquisitions and the company's overall structure.**

<sup>(1)</sup> "Shareholder, Agrium Spar Over Value Of Retail Arm"; Reuters; Rod Nickel and Euan Rocha; August 16, 2012.

# Case Study: Dutch Tender Share Repurchase

Cost Management

▶ Agrium’s poorly executed buyback illustrates key deficiencies on its board

1 In addition to two dividend increases in response to JANA’s calls for increased capital return, on August 2, 2012 Agrium announced a C\$900mm Dutch tender repurchase, its first meaningful buyback in a decade, which was managed by Morgan Stanley

Controls

2 Ahead of the repurchase, Agrium began a global roadshow to promote the company’s performance, strategy and new commitment to transparency

Capital Allocation

3 On October 19, Agrium executed its C\$900mm buyback at C\$103 / share

Conglomerate Structure

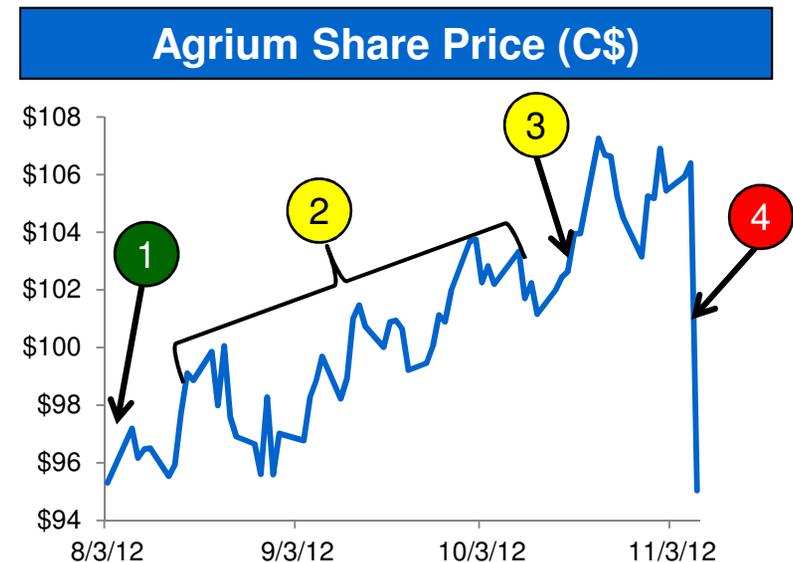
4 On November 7, Agrium announced earnings that significantly missed expectations, causing a 1 day drop in the stock of 11% (to C\$95)

Corporate Governance

▶ **Capital Allocation:** By failing to pre-announce its quarter and extend its tender offer, Agrium missed the opportunity to repurchase a larger number of shares at a lower price and reduced the value created by the buyback

▶ **Controls:** Agrium’s board either was not paying attention to results or elected to pursue the buyback knowing it had a negative quarterly announcement in ~2 weeks

▶ **Corporate Governance:** Execution of the buyback given these circumstances illustrates a need for owner-orientated perspective on Agrium’s board



# The 5 C's Opportunity Summary

## Cost Management

- ▶ Retail savings potential of more than \$200 million (~15% of NA cost base) from optimizing footprint, associated regional/divisional offices costs and restoring margins, with additional savings from enhanced distribution practices. Corporate savings potential of \$50+ million from addressing bloated cost base that has grown 14% p.a.<sup>(1)</sup>

## Controls

- ▶ Substantial value creation through improved disclosure, institution of appropriate performance metrics and proper alignment of management incentives with shareholder value creation

## Capital Allocation

- ▶ Substantial value creation from more disciplined M&A and investment practices, directing additional capital toward pursuing a share shrink ahead of realizing value creation plan, a clearer commitment to prioritizing capital return and releasing at least \$725 million of excess working capital<sup>(2)</sup>

## Conglomerate Structure

- ▶ Fresh, unbiased review of Agrium's structure based on all the facts could result in the elimination of significant and persistent sum of parts discount

## Corporate Governance

- ▶ Given several troubling lapses in corporate governance, shareholders can only benefit from adding nominees to the board who will bring an enhanced shareholder mindset and relevant experience to protect shareholders

**Given the magnitude of opportunities evident from the outside, the true value creation potential at Agrium is likely significantly larger than investors can quantify.**

<sup>(1)</sup> \$50+ million corporate cost opportunity excludes elimination of \$40 million of hidden one-time Retail costs reported in 2011 corporate costs.

<sup>(2)</sup> As illustrated on page 12.

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**Given the significant value creation potential at Agrium and the collective skills and experience of JANA's nominees, why *wouldn't* you want these nominees to join Agrium's board?**