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## JANA Partners' Activist Approach and a Current Idea

Barry Rosenstein, JANA Partners

# Unlocking Agrium's True Value Potential

**October 1, 2012**

Can be found online at: **www.JanaAGUAnalysis.com**

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# Overview

- For years Agrium's full value creation potential has been:
  - *Buried in a Conglomerate Structure*
    - *Lack of Fit:* Pairing a stable distribution business ("Retail") with a volatile, commodity-linked fertilizer business ("Wholesale") has led to a persistent valuation discount and relative underperformance for shareholders, while generating no meaningful benefits, imposing high costs, and limiting the ability of each to take part in consolidation (as buyers or sellers)
    - *Suboptimal Capitalization*: Pairing Retail with Wholesale also prevents each from achieving the optimal capital structure and capital allocation
  - *Burdened by Missteps Stemming from a Wholesale Mindset and Board's Lack of Retail Experience*
    - *Failure to Manage Costs*: Despite spending more than $4 billion in Retail acquisitions, Agrium has failed to achieve operating leverage – causing Retail to substantially underearn
    - *Poor Capital Allocation:* Agrium has failed to properly manage working capital in Retail, has failed to properly integrate or generate acceptable returns on its Retail acquisitions, and has the worst historical track record among its peers in returning capital to shareholders
    - *Poor Retail Disclosure*: These problems have been compounded by insufficient public reporting disclosure, which has inhibited shareholders' ability to measure performance over time and to properly value Retail
- While Agrium's shares have performed well year-to-date on an absolute basis, on a long-term basis Agrium has consistently underperformed the weighted average of its pure play peers
- Rather than embracing the value potential of Retail, however, Agrium's Board and management have disavowed its true value and attempted to rewrite history at the expense of their own share price

**Retail is an undervalued and undermanaged asset, and bold action to unlock this value is long overdue.**

# Overview (cont'd)

- While Agrium has pulled out all the stops to avoid this debate, in reality there is little room for disagreement regarding the need for value-unlocking change:
  - Agrium's management has for years acknowledged that Retail is undervalued, despite recent attempts to disavow the true value of the business
  - Agrium has recently begun to acknowledge that its Retail disclosure is inadequate
  - Agrium has acknowledged that its capital return efforts have been inadequate, as evidenced by the significant capital return initiatives which have followed JANA's involvement
- The areas of most significant disagreement between JANA and Agrium are:
  - The proper trading comparables for Retail, but Agrium's sudden disavowal of the five comparables it had cited for years (the "Original Comparables") and introduction of a new set of lower value comparables (the "Midnight Comparables") is simply not credible, and raises troubling questions
  - Supposed "synergies" between Retail and Wholesale, but these are easily shown to be factually unfounded, unquantified or immaterial; in fact, Agrium's own current "defense" advisor (Morgan Stanley) previously advised pure play fertilizer company CF Industries not to take equity in Agrium because it believed Agrium's conglomerate structure would cause meaningful underperformance for shareholders relative to a pure play competitor
  - Whether Retail has significantly underperformed its potential operationally, but while Agrium may dispute particular aspects of our analysis, none of these objections dispute the larger picture of significant overall underperformance and latent earnings potential
- This leaves only Agrium's short-term share price appreciation to justify its structure and strategy, which:
  - Has been driven primarily by the quality of Agrium's assets and overall strength of the agriculture industry, not by Agrium's integrated structure or skill in managing Retail
  - Does not change the fact that Agrium's shares have consistently underperformed the weighted average of Agrium's pure play peers over the long term, or the fact that no other wholesale fertilizer peer has elected to adopt Agrium's conglomerate strategy

**The question is simple: should shareholders settle for "good enough," or do they want to realize the full potential of Agrium's assets?**

# History

# Agrium's Conglomerate Strategy

- Beginning with the acquisition of UAP in May 2008, Agrium moved to meaningfully increase the size of its Retail distribution business and to diversify from its legacy core Wholesale fertilizer business
  - Agrium has allocated more than $4 billion of capital to high-priced Retail M&A since 2008, with the UAP acquisition more than doubling the size of Agrium's Retail business
- A key rationale for pursuing this conglomerate structure was to insulate Agrium from the volatility of the agricultural cycle in its commodity Wholesale business
  - In particular, Agrium hoped to mitigate the earnings volatility stemming from its uncompetitive cost position in the Nitrogen fertilizer business
  - *"At the time, we were barely breaking even on Nitrogen and Phosphate, and making slim margins on Potash. When you're in that kind of position, you start to get stressed"* – Agrium CEO Michael Wilson, Calgary Magazine, November 2008
  - Commercial linkages of the Retail and Wholesale businesses are limited and the businesses are run separately
- Since Agrium launched this significant diversification initiative, the economics of its core Wholesale fertilizer business have improved meaningfully, as the North American shale gas revolution dramatically re-shaped the global Nitrogen landscape
- This transformed Agrium's Wholesale business overnight from a marginal producer to a global low-cost producer, a structural improvement and stabilization of Wholesale's earnings profile
  - This stabilization is evidenced, for example, by Agrium's recent commentary that it would consider investing in greenfield Nitrogen projects without a long-term gas contract, whereas it previously refused to invest without a gas contract following the disastrous outcome of its Kenai investment

**The North American natural gas revolution scuttled a principal reason for Agrium's diversification strategy.**

# Agrium's Conglomerate Strategy (cont'd)

- Despite losing a key reason for its strategy, Agrium has explained its continued inorganic growth in Retail – and justified large acquisition prices – by pointing to the valuations of the Original Comparables, which are the distribution businesses that it considered the best comparables for Retail: Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts

- Examples of Agrium's strong advocacy for the Original Comparables include its 2011 Investor Day commentary and slides (see below) and a white paper it circulated to research analysts in late 2011 making a detailed argument for the Original Comparables

## Agrium 2011 Investor Day Commentary

- "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, which is a very close model to us – they're in prime centers, they are in the rural areas, they do some small equipment – 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" - *CEO Michael Wilson, Agrium 2011 Investor Day*

## Agrium 2011 Investor Day Slide

### Comparative Retail Multiples

- Retail Distribution Peers Forward EV/EBITDA Multiples
  - Tractor Supply = 11
  - Watsco Inc. = 10
  - Wesco Int. = 9
  - WW Grainger = 9
  - Genuine Parts = 9

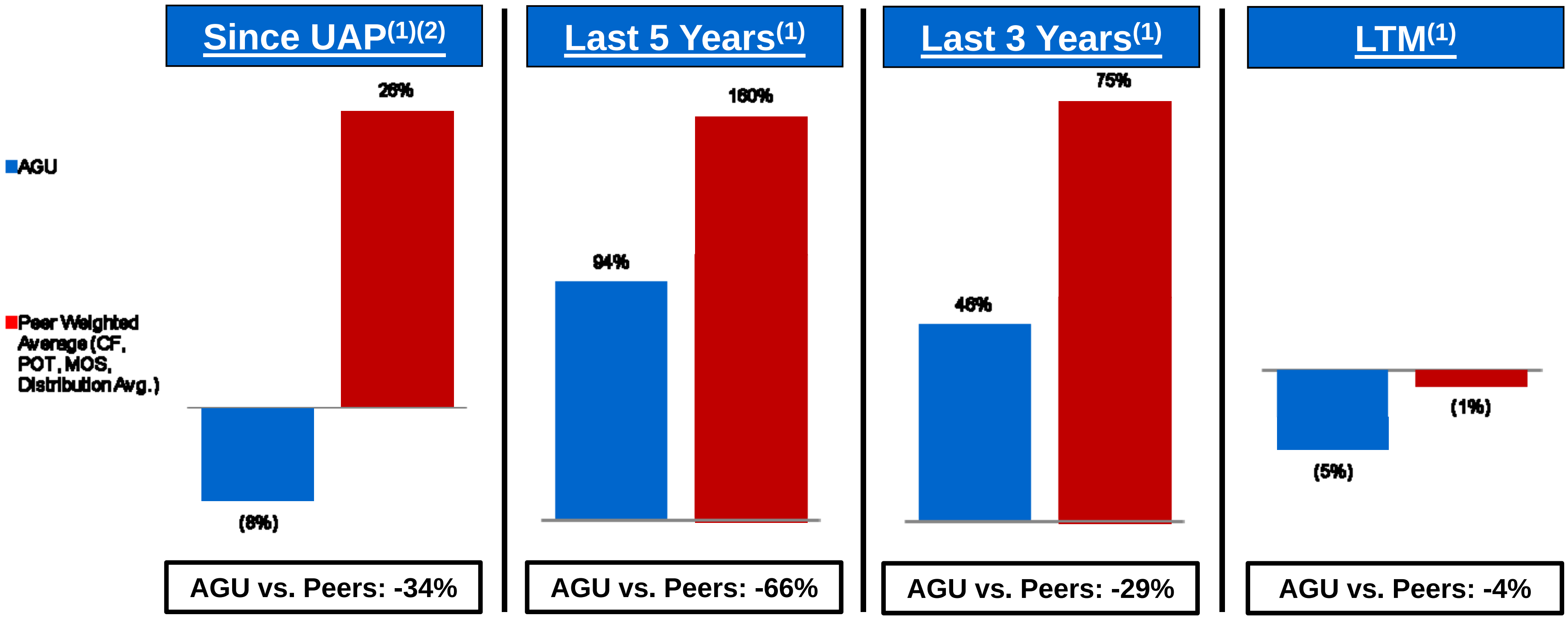
  Similar distributors/retailers
- Agrium is the only publicly traded agriculture retailer
- Retail provides opportunity to complete high return acquisitions through the cycle
- Historical comparison
  - UAP EV/EBITDA multiple of 9 (average street forward valuation prior to acquisition)

10 SUSTAINING A GROWING WORLD | Agrium

**Agrium has long argued that the market significantly undervalues its Retail business, specifically citing five peers as Retail's best valuation comparables.**

# The Result: Underperformance vs. Peer Returns Over The Long-Term

- Agrium meaningfully underperformed the weighted average of its peers in total shareholder return since acquiring UAP and over its own selected measurement periods (from its 2012 Investor day)



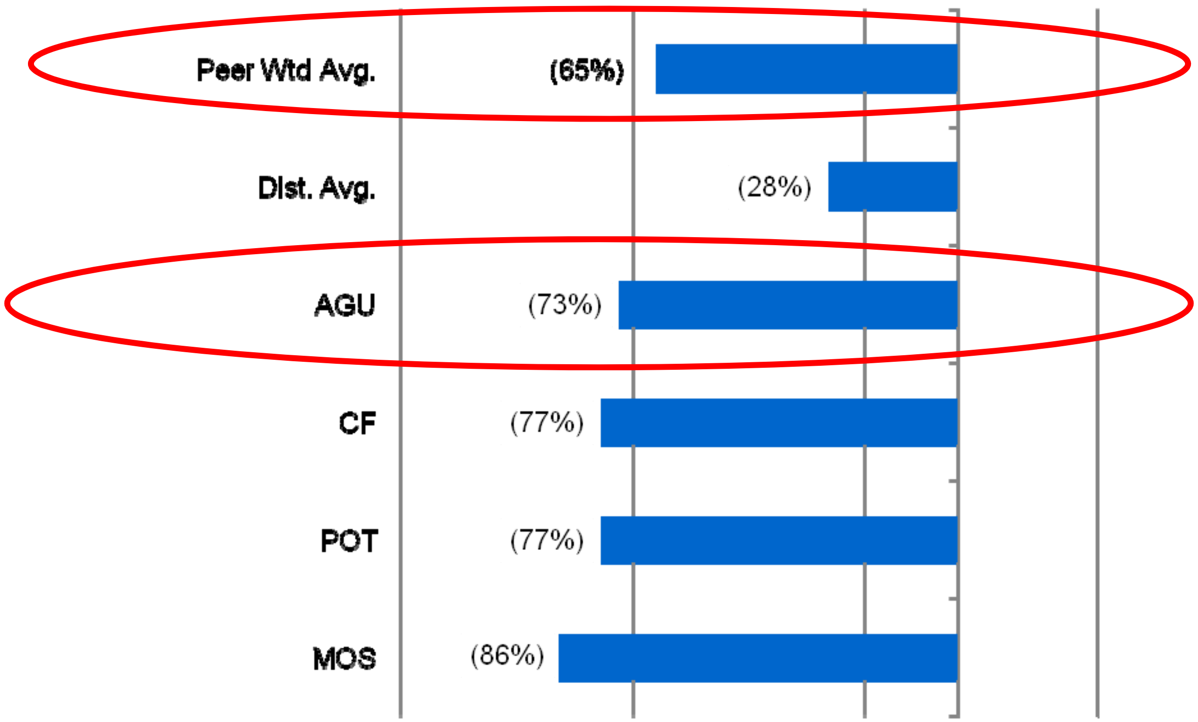

**While Agrium's shares have performed well in absolute terms, comparison to a weighted average of its peers over the long-term shows true underperformance.**

(1) Represents total shareholder returns assuming all dividends reinvested. All periods end at 6/1/2012, the end date of share price performance periods shown at Agrium's 2012 Investor Day in Michael Wilson's slide "Agrium's Strong Share Price Performance (4)" and consistent with the time of JANA's initial engagement with Agrium. Peer weighted average represents average of peers according to Agrium's annual segment EBITDA composition (pre-corporate). CF used as comparable for Nitrogen segment; average of Mosaic and Potash Corp used for Phosphate and Potash segments; average of CF, Mosaic and Potash Corp used for AAT and Resale / Other Wholesale; average of Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts used for Retail. Retail peer group based on Agrium 2011 Investor Day categorization of Retail peer group. AGU represents returns for AGU-TSX. Potash Corp returns use POT-US, consistent with Agrium's use of Potash Corp's US listing in Agrium's 2012 Investor Day presentation and Potash Corp's substantially higher US trading volume. Data per CapitalIQ.

(2) Period beginning at date of UAP acquisition closing, May 7, 2008.

# The Result: No Benefits In Cyclical Downturns

**Total Return[1]: Ag Cycle Peak – Trough (6/17/08-11/20/08)[2]**




- Agrium shareholders did not benefit from the "diversification" that Agrium cites to justify its conglomerate structure during the most significant recent industry downturn
- Instead, Agrium tracked pure play fertilizer peer CF during the last cyclical downturn, while underperforming CF over the past 5 years, returning 165% *less* for shareholders than did CF over that period

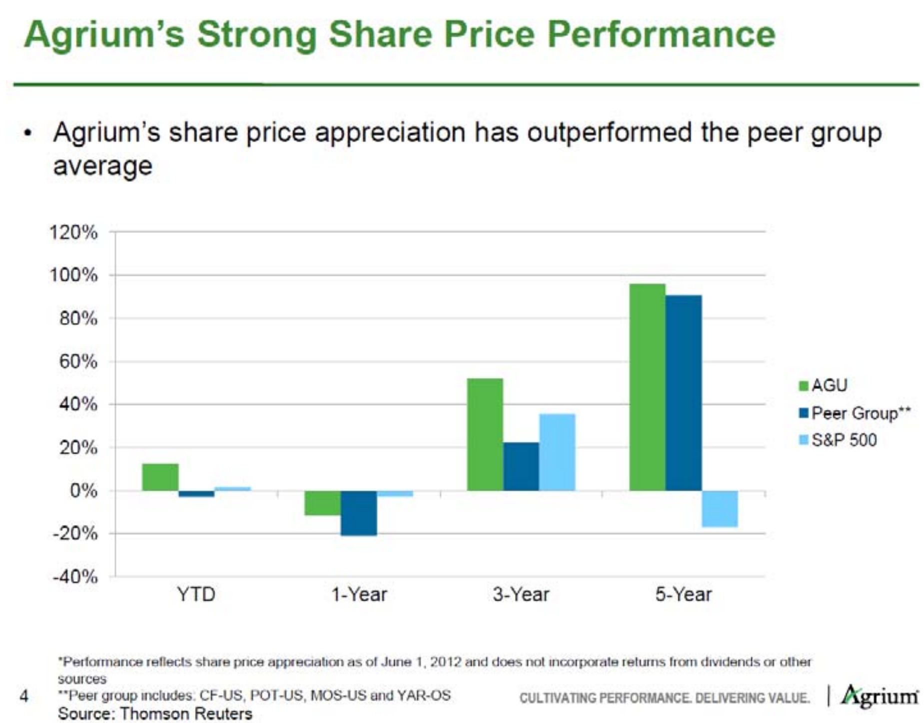
**Agrium shareholders were not insulated by diversification in 2008 as the agriculture cycle turned, suffering equally on the way down while underperforming on the way up.**

(1) Represents total shareholder returns assuming all dividends reinvested. Peer weighted average represents average of peers according to Agrium's annual segment EBITDA composition (pre-corporate). CF used as comparable for Nitrogen segment; average of Mosaic and Potash Corp used for Phosphate and Potash segments; average of CF, Mosaic and Potash Corp used for AAT and Resale / Other Wholesale; average of Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts used for Retail. Retail peer group based on Agrium 2011 Investor Day categorization of Retail peer group. AGU represents returns for AGU-TSX. Potash Corp represents returns for POT-US, consistent with Agrium's use of Potash Corp's US listing in Agrium's 2012 Investor Day presentation and Potash Corp's substantially higher US trading volume. Data per CapitalIQ.
(2) Represents peak-to-trough of the MOO ag sector ETF.

# The Result: Distorted Benchmark To Mask Underperformance

- At its 2012 Investor Day, Agrium sought to defend its conglomerate strategy by comparing its performance to an average of CF, Yara, Mosaic and Potash Corp (see right)
- *This benchmark return excludes any Retail peers entirely,* despite Retail accounting for ~30% of Agrium's total EBITDA, the billions Agrium has dedicated to Retail M&A, and Agrium's regularly emphasizing the value of its Retail business
- Agrium's selective benchmarking raises other serious concerns
  - *Inclusion of Yara:* Yara is a Nitrogen producer whose assets are principally located in Europe and who has been disadvantaged by the shale gas revolution, resulting in an entirely different cost profile than Agrium
  - *Exclusion of Dividends:* This distorts Agrium's performance, given that Agrium has historically provided shareholders a much lower dividend relative to its fertilizer peers

**Agrium's Selective 2012 Investor Day Performance Comparison[(1)]**




**Selective use of comparables has masked the fact that Agrium's diversification strategy has not maximized shareholder value.**

(1) Agrium CEO Michael Wilson's slide "Agrium's Strong Share Price Performance (4)" at Agrium's 2012 Investor Day.

# Agrium's Buried Value Potential

# The Strength Of Agrium's Retail Distribution Business

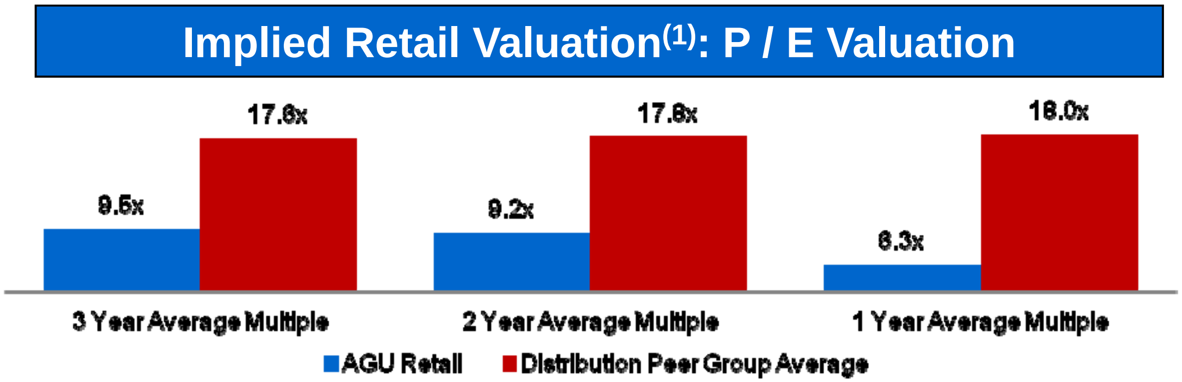
- North America's largest 'direct to farm' distributor of crop nutrition, crop protection and seed products
- Retail is a fundamentally attractive business, with a large competitive moat, strong free cash flow and attractive long-term growth prospects
  - *Large & Growing Market:* The US agricultural inputs market is estimated at $60 billion and has grown at an ~8% CAGR over the past 10 years[(1)]. Increased population, growth in global meat consumption and alternative uses for agricultural products (such as ethanol) have improved grower economics and incentivized growth in ag inputs, particularly given the shift in acreage to crops (such as corn) that are more input intensive
  - *Attractive Market Position:* Retail is positioned between product manufacturers – who have largely shunned distribution with little interest in direct selling – and a highly fragmented customer base of growers, dealers and non-crop customers
  - *Structurally Advantaged:* Scale affords advantaged procurement and product offering capabilities, better in-market density, ability to use leverage with suppliers for superior working capital terms, and advantages in IT, process and pricing that should enable Retail to win share regularly against fragmented competition that includes smaller independent distributors and cooperatives
  - *Model Capable Of Substantial Operating Leverage:* Retail requires limited additional overhead costs to support growth in revenues, allowing for high incremental margins
  - *Accretive Roll-Ups:* Retail can acquire smaller, structurally-disadvantaged competitors at attractive valuations and with substantial cost and working capital synergies
  - *Sizeable Private Label Business:* Retail boasts an attractive portfolio of private label products that offers attractive margins and growth, and which deters producers from direct selling
  - *Counter-cyclical Free Cash Flow and Leveragability:* Retail releases working capital when market conditions soften, providing stable free cash flow and allowing the business to be levered

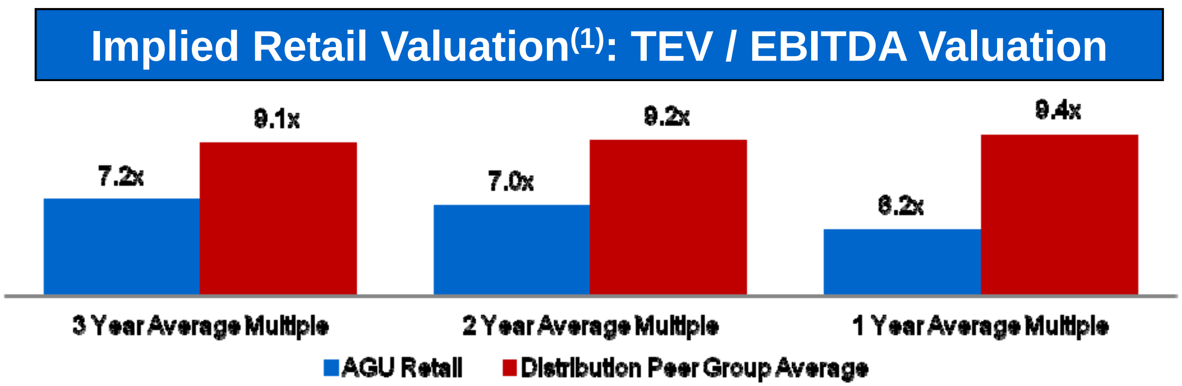
**Retail is a high quality business boasting attractive structural characteristics and end market exposure, thus warranting a premium valuation.**

[(1)] Per USDA's Economic Research Service. Market size represents total estimated market size for fertilizer, seed and pesticide products for 2012.

# Burying Retail's Value In A Conglomerate Structure

- Agrium has suffered from a consistent conglomerate / sum-of-the-parts discount, as investors have repeatedly and consistently refused to accord Retail an appropriate valuation as part of Agrium




**Applying <u>actual Wholesale peer trading multiples</u> to value Agrium's Wholesale business illustrates that the Retail business is valued at a large and growing discount to its distribution peers**

**Investors have not rewarded Agrium for the growth in Retail's scale, as the implied valuation accorded to Retail has remained at a sizeable discount to distribution peers.**

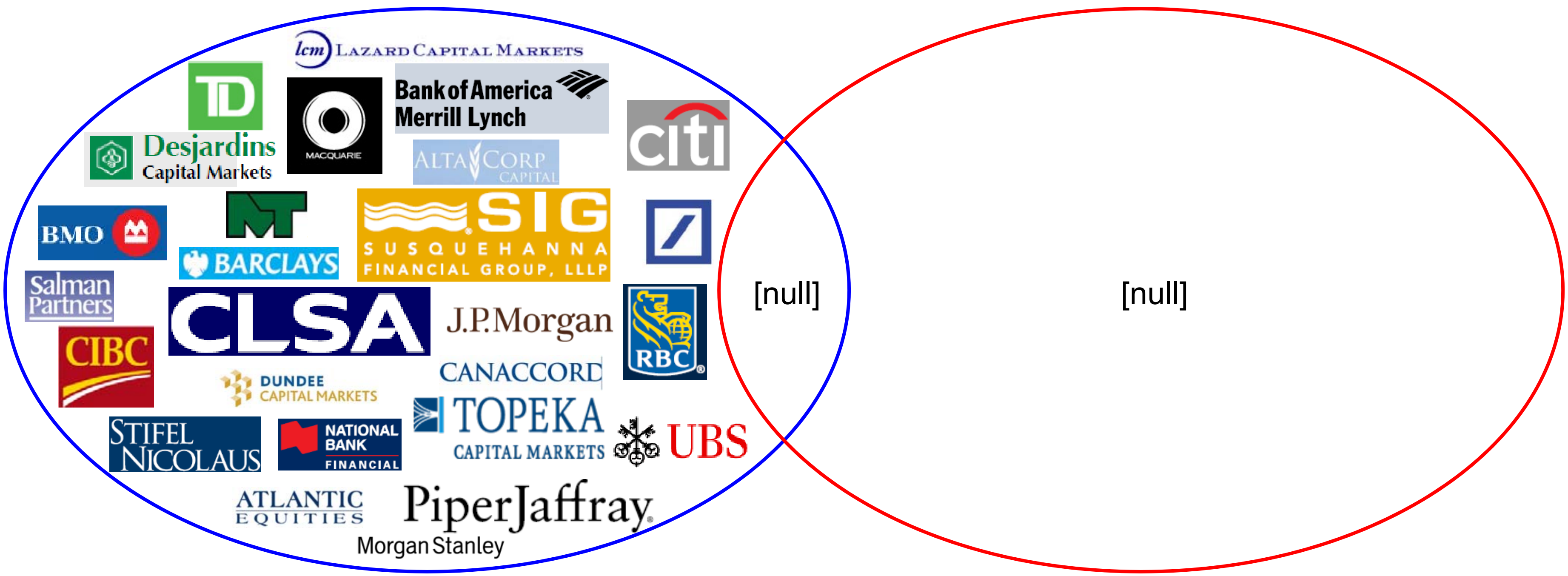
Note: 3, 2 and 1 year average multiples for period ending 9/28/2012.

[1] Represents implied valuation for Retail assuming peer valuation multiples for Wholesale and AAT businesses applied to proportionate Agrium EBITDA composition (pre-corporate). CF used as comparable for Nitrogen segment; average of Mosaic and Potash Corp used for Phosphate and Potash segments; average of CF, Mosaic and Potash Corp used for AAT and Resale / Other Wholesale. Distribution peer group consists of Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts. Distribution peer group based on Agrium 2011 Investor Day categorization of Retail peer group. Note, no comparable valuations are adjusted to reflect Agrium's advantaged statutory corporate tax rate. Data per CapitalIQ.

# Burying Retail's Value In A Conglomerate Structure (cont'd)

- Despite the fact that Retail accounts for ~30% of Agrium's total EBITDA – and a much greater percentage of Agrium's overall value – it is frequently misunderstood and improperly valued by analysts and shareholders
  - Agrium's analysts largely cover fertilizer and materials businesses and do not focus on retail distribution businesses; Agrium compounds this problem by providing limited disclosure on Retail
  - As a standalone distributor before its sale to Agrium, UAP had a following of analysts and investors who valued it more appropriately at ~9x EBITDA, consistent with the multiples of the Original Comparables at that time (which trade at higher valuation levels today)

**Analysts Covering Wholesale[1]** | **Analysts Covering Distribution[2]**




(1) Analysts with a price target for Agrium on Bloomberg and who cover at least one of' Agrium's fertilizer peers as part of their primary coverage universe. Fertilizer peer group consists of CF, Potash Corp and Mosaic.
(2) Represents analysts who publish a price target for Agrium on Bloomberg and who cover at least one of Agrium's distribution peers as part of their primary coverage universe. Distribution peer group consists of Tractor Supply, Watsco, Wesco, Genuine Parts and Grainger. Distribution peer group based on Agrium 2011 Investor Day categorization of Retail peer group.

# No Legitimate Synergies To Justify Conglomerate Structure

► **Agrium's claimed benefits of integration are either flawed or misleading**

| Claimed Benefit[1] | Analysis |
| --- | --- |
| Allows Agrium to capitalize on broad grower and market intelligence | • Other fertilizer producers believe this is inaccurate and provides no advantage, and also results in a perceived conflict of interest as Retail competes with Wholesale's other customers (other distributors and co-ops)<br>• Favorable margins in Wholesale are a function of advantaged product pricing (in the Pacific Northwest) and AECO gas costs, not unique market insights |
| Lets Agrium participate in value creation opportunities that require participation across the agricultural inputs sector | • Agrium's structure has at times actually hindered it in M&A, as CF Industries – with advice from the same team at Morgan Stanley currently "defending" Agrium – rejected Agrium's cash / stock acquisition proposal partly because they (correctly) believed its structure would lead to lower shareholder returns[2]<br>• Viterra was a unique, one-time opportunity; not repeatable. Moreover, in the end though Agrium seems to have gotten a "win", it is CF who appears to have come away with the "wind fall": a best in class wholesale asset (34% stake in Medicine Hat) at a highly attractive valuation[3]<br>• Furthermore, by spending heavily to pursue its strategy Agrium failed to return capital to shareholders, missing the opportunity to generate the strong returns earned through repurchases by peers like Grainger and CF[4] |
| Enables Agrium to enter new markets with low-cost and low-risk entry strategies | • Agrium's expansion into new markets has destroyed significant shareholder capital due to failures of acquisition strategy and operational execution in Alaska (Kenai), Egypt (EAgrium/MOPCO), China (Hanfeng) and Australia (AWB Landmark). While others – such as in Argentina – look more attractive at first, management comments about the importance of continued reinvestment in Argentina to maintain good government relations[5] raise questions about cash repatriation and hence the true merits of such deals |

(1) List of benefits per slide 8 "Our Strategy and Performance" in Agrium's August 20, 2012 Investor Update presentation.
(2) Per CF commentary in form 14D-9 and corresponding investor update call, March 23, 2009.
(3) CF purchased the 34% stake in Medicine Hat for a valuation of ~5x LTM EBIT. Financial details on Viterra's stake available in CF public financial reports.
(4) Per Credit Suisse analysis on buyback effectiveness: "Stock Buybacks: Adding Value or Destroying Value?"; David Zion, Amit Varshney and Nicole Burnap; Credit Suisse; June 18, 2012.
(5) Per commentary of Wholesale division President Ron Wilkinson at Agrium's 2012 Investor Day: "there are some questions being asked, well, what about - are you next to get nationalized? And I think the answer to that is we've got on the chart is that we're reinvesting in Profertil. And that was a big beef of the government … so, we are reinvesting."

# No Legitimate Synergies To Justify Conglomerate Structure (cont'd)

| Claimed Benefit[1] | Analysis |
|---|---|
| Helps Agrium develop new products, such as ESN, to support grower and market needs | • Claimed benefits not quantified by Agrium<br>• Unclear why this could not be achieved through arms' length commercial agreement between two independent entities<br>• Agrium's investment in AAT / ESN itself raises questions about capital deployment and returns. Although Agrium has invested over $400 million in acquisitions and capacity additions since 2006, the AAT segment today only earns ~$10 million of EBIT (pre corporate)[2] |
| Supports greater leverage when needed to fund significant growth opportunities | • Capitalization of the two businesses today is suboptimal, as Agrium operates with no net leverage and Retail should be capitalized with modest leverage (see page 19)<br>• Agrium missed the most meaningful and attractive acquisition opportunity of the past 3 years – CF Industries – in part because of the unattractiveness to CF and its advisor of taking equity in Agrium given its integrated model[3] |
| Wholesale could trade poorly and closer to CF's multiple if not paired with Retail[4] | • Assuming fair value for Retail, Agrium's Wholesale assets are *already* today valued at a deep discount to their intrinsic value and roughly in line with CF despite Agrium's advantaged Nitrogen assets (AECO hub gas, proximity to advantaged Pacific Northwest end markets) and mix of businesses (Potash and Phosphate) |

**Agrium justifies maintaining a conglomerate by citing synergies and risks, but such justifications cannot withstand serious scrutiny.**

(1) List of benefits per slide 8 "Our Strategy and Performance" in Agrium's August 20, 2012 Investor Update presentation.
(2) Represents 2011 EBIT excluding impairment charges related to Hanfeng.
(3) Per CF commentary in form 14D-9 and corresponding investor update call, March 23, 2009.
(4) Per slide 12 "Morgan Stanley View of Wholesale Peer Trading Valuations" in Agrium's August 20, 2012 Investor Update presentation.

# No Legitimate Synergies To Justify Conglomerate Structure (cont'd)

- This leaves only the claim that ownership of Retail allows greater utilization of Agrium's Potash assets(1)
- However, even this claimed operating benefit from integration is misleading
  - Size, not integration, explains higher operating rates for smaller players like Agrium. In commodity industries with few large suppliers, the largest players have the most incentive to balance supply to preserve price, while smaller players like Agrium can "free-ride" by maintaining higher operating rates
  - Despite not having a retail business, a more comparably sized Potash producer, Intrepid Potash, actually has *higher* operating rates than Agrium
  - While Agrium's peer average excludes Intrepid Potash, including Intrepid Potash in the calculation increases average peer Potash operating rates, cutting in half the operating rate benefit Agrium cites
- Even assuming higher operating rates actually did result from Agrium's conglomerate structure and not its size and market position, the value created is negligible and can be realized outside of the conglomerate structure
  - A modestly higher operating rate is worth less than $2 per share(2), far less than the cost to shareholders of Agrium's conglomerate discount and Retail's underperformance
  - A "preferred vendor" supply agreement between standalone companies could also deliver this benefit
- If higher rates result from forcing Retail to take product, this is a dis-synergy, as it introduces undue commodity cyclicality into a business that is valuable because of its stability

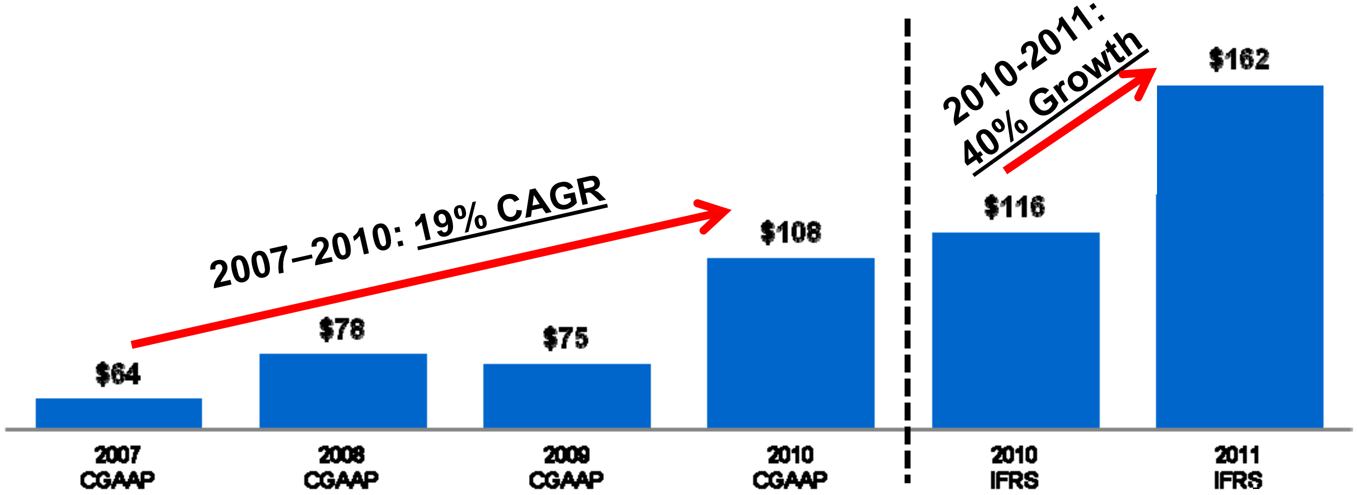
**Upon closer examination, the most meaningful – and only quantified – potential synergy that Agrium has claimed turns out to be immaterial.**

(1) Operating rate benefit per slide 17 "Potash: Strengths & Competitive Advantages" in Agrium's September 2012 roadshow presentation "Cultivating Performance; Delivering Value".
(2) Value per share of ~5% higher operating rate on Agrium's 2mm tonnes of production, assuming 2011 actual Agrium Potash segment marginal economics and valued at average multiple of Potash Corp. and Mosaic. Peer operating rate average includes Intrepid Potash.

# The High Cost Of Maintaining Agrium's Conglomerate Structure

- As Agrium has acquired and invested in growth, corporate costs have grown meaningfully, calling into question the company's cost management
- Agrium's high corporate overhead is particularly notable given management's claim that each business operates independently, meaning that most operating costs should be housed within each business
- While Agrium may cite accounting changes and impact of not-disclosed one-time items, these excuses do not justify the high levels of corporate costs supporting Agrium's burdensome corporate structure

**Agrium Corporate G&A Excluding Stock Compensation(1)**




**Agrium could eliminate significant unallocated corporate overhead as part of a plan to unlock Retail's value.**

(1) Represents unallocated G&A costs exclusive of stock based compensation expense ("SBC"), which averaged $44mm per annum from 2007 to 2011. In 2011, Agrium transitioned its accounting standard from Canadian GAAP to IFRS.

# Agrium's Conglomerate Structure Results In Suboptimal Capitalization And Capital Priorities For Each Of Its Businesses

- Agrium's businesses have different capitalization needs and different best uses for capital, presenting challenges for capital allocation

| | Wholesale | Retail |
|---|---|---|
| **Appropriate Capitalization** | Small / no net leverage with investment grade rating | Moderate net leverage with low investment grade rating (and can easily operate with more debt and a high yield rating, subject to company strategy) |
| **Best Uses for Capital** | Small dividend, large opportunistic returns of capital (buybacks / special dividends) and opportunistic investments in high return projects | Moderate and growing dividend, opportunistic buybacks and tuck-in acquisitions |

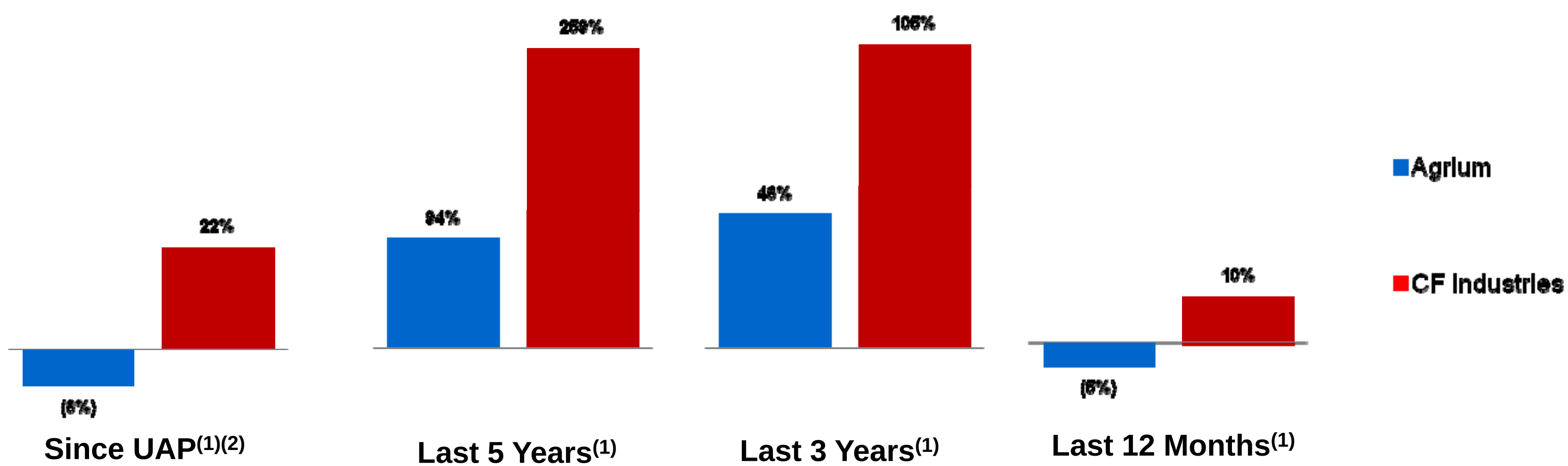
- As a result of housing two such different businesses under one roof, Agrium is capitalized and has deployed capital in a suboptimal manner
  - Capitalization: Agrium's businesses have been net underlevered
  - Capital Allocation: historical failure to return capital either regularly or opportunistically
- Agrium's comments regarding its corporate dividend policy – which it has linked to Retail earnings growth and expressed as a payout on Retail earnings – demonstrates the difficulties in trying to straddle the capital demands of two such different businesses

**Agrium combines two businesses with different capitalization and capital allocation profiles, and as a result has failed to optimize results for either.**

# Comparison With CF Demonstrates The Advantages Of A Focused, Pure Play Wholesale Strategy

- Wholesale's pure play fertilizer peer CF Industries has generated significantly better total returns for shareholders over the long-term than has Agrium, evidencing that a pure play strategy can outperform a conglomerate strategy and avoid the operational disadvantages of a conglomerate strategy
  - Of note, Agrium's Nitrogen assets – which account for the majority of Wholesale EBITDA – are in aggregate actually *more* attractive than CF's (due to an advantaged AECO gas price and advantaged access to attractive Pacific Northwest markets)
- Agrium's *own* current "defense" advisors (Morgan Stanley), who previously ran CF's defense against Agrium's hostile takeover attempt, argued against Agrium's offer on the basis that *CF shareholders would be significantly disadvantaged by taking equity in Agrium*, as they correctly believed that Agrium would underperform a pure play competitor like CF

## Agrium vs. CF Industries: Total Shareholder Return




**CF's clear outperformance without the claimed benefits of integration makes Agrium's dedication to its conglomerate structure all the more perplexing.**

(1) Represents total shareholder returns assuming all dividends reinvested. All periods end at 6/1/2012, the end date of share price performance periods shown at Agrium's 2012 Investor Day in Michael Wilson's slide "Agrium's Strong Share Price Performance (4)" and consistent with the time of JANA's initial engagement with Agrium. AGU represents returns for AGU-TSX. Data per CapitalIQ.
(2) Period beginning at date of UAP acquisition closing, May 7, 2008.

# Retail’s Persistent Underperformance & Inadequate Disclosure

# Operating Issues In Retail

- Retail has been burdened by missteps stemming from operation of the business with a Wholesale mindset and Agrium's lack of true retail distribution experience on its Board
  - Maximizing the value of a retail business requires experience in developing strong IT systems which can be integrated with operational finance capabilities and controls to create optimal network density, drive logistics efficiency and optimize working capital levels, as well as managing dynamic pricing for tens of thousands of SKUs sold to hundreds of thousands of customers
  - Agrium's Board lacks this experience, and attempts instead to substitute experience in midstream (pipeline) distribution and in energy and materials production, which are entirely different businesses
- This has adversely impacted performance in three key respects
  - Failure to manage costs
    - Significant excess cost growth and failure to achieve operating leverage as the Retail business has grown
  - Poor capital allocation
    - Mixed acquisition track record
    - Substantial and unproductive increase in excess Retail working capital
    - Poor capital return track record
  - Poor public reporting disclosure on Retail
- As a result, Retail appears to be substantially overcapitalized and meaningfully underearning its potential

**Agrium's failure to manage costs, properly allocate capital and provide sufficient disclosure in its Retail business has led to significant underperformance.**

# Significant Cost Growth And Lack Of Operating Leverage

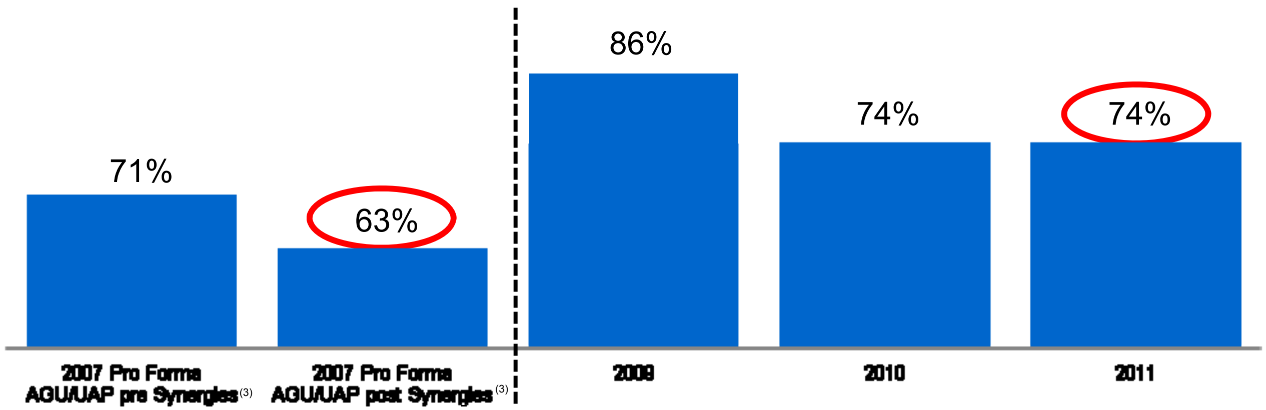
- As Retail has grown through acquisitions and organic growth, it has failed to realize the operating leverage inherent in its retail distribution model
- While Agrium's poor Retail disclosure makes it difficult to determine why this has happened, we believe Agrium has made several execution errors that have contributed
  - Agrium operates an excess number of farm centers, having been slow to manage its footprint by rationalizing locations following acquisitions in a business where phone orders are highly significant
    - Agrium has acknowledged this shortcoming: *"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" – Retail President commentary, Agrium 2012 Investor Day*
  - Agrium has not achieved leverage in its sales management model
    - Agrium has an excess number of regional and district managers, creating unnecessary management layers in a business that does not require such overhead
  - Agrium uses a costly "high touch" service model market-wide which is only suitable for certain areas
    - While the high touch model has proven suitable for Agrium's legacy West Coast business – where higher value crops (such as fruits and vegetables) and a more stringent regulatory environment allow farmers to place a premium on services – it is less valuable in the Midwestern farm belt
- Given Retail's challenges with more fundamental issues like managing costs and working capital, there is likely a large pricing opportunity as well, given that pricing is a function that is frequently mismanaged by unfocused, suboptimally operated retail distribution businesses, and requires highly IT-driven operational finance capabilities and strong operational controls for optimal results

**While ongoing acquisition integration and accounting changes may explain some cost growth, these factors cannot account for Agrium's overall failure to manage costs.**

# Significant Cost Growth And Lack Of Operating Leverage (Cont'd)

- We compare Retail's operating expense and profitability to Gross Profit, the common metric used by retail distribution businesses[1], rather than Revenue (which Agrium uses) for several reasons:
  - For retail distribution businesses, the cost of the underlying product sold – which is not controlled by the distributor, and which can be volatile for Retail given that it sells commodities – impacts Revenue and COGS, making comparison of performance over time relative to Revenue highly inconsistent. Measurement of the retail distributor's costs and profits relative to Gross Profit improves comparability, with Gross Profit serving as a proxy for "Net Revenue"
  - The OpEx / Gross Profit ratio is reflective of the operating leverage created, as it highlights the costs required to operate (OpEx) relative to the economic value add of the distributor (Gross Profit)
- Analyzing Retail's OpEx growth relative to Gross Profit shows it has failed to generate operating leverage, with operating expenses actually growing faster than Gross Profit since the UAP acquisition[2]

**Operating Expense / Gross Profit**




**Despite spending billions to add scale, Retail has failed to achieve operating leverage promised from synergies, and has actually experienced negative operating leverage.**

[1] In addition, some distributors report this or similar statistics as public KPIs.
[2] While we would prefer to analyze the business using comparable volume-based metrics (e.g. EBIT / tonne) or location-based metrics (comparable EBIT / store), given Agrium's poor disclosure in Retail, the analysis we employ is the best tool at shareholders' disposal to assess performance over time.
[3] Pro Forma AGU/UAP reflects Agrium Retail 2007 and UAP FY 2008 pro forma operating expense / gross profit ratio. Pro Forma AGU/UAP includes an estimate to adjust UAP reported numbers for classification differences to match Agrium accounting practices. Using UAP actual reported numbers (before any adjustments), the 71% operating expense / gross profit ratio would be 69%. "pre Synergies" is before inclusion of the $117mm of synergies realized from the UAP acquisition. "post Synergies" reflects the $117mm of synergies, which are allocated 50% to COGS and 50% to SG&A.

# Capital Allocation: Mixed Track Record Of Pricing And Executing Retail Acquisitions

- Beginning with UAP, Agrium has invested $4 billion in Retail acquisitions meant to provide accretive, high-return scale to the business, yet the two acquisitions that constitute the bulk of this spending appear to have struggled to achieve the company's *minimum* required after tax return hurdle of 9%[(1)]
- Agrium's $860mm[(2)] acquisition (net of divestitures) of AWB Landmark for 14.6x EBITDA (2010) appears to offer no near-term path to returning its cost of capital
  - 2% current after tax return growing to only 6% by 2015 assuming full realization of synergies and four years of organic growth[(2)]
  - Synergies behind plan, raising questions about Agrium's ability to integrate a business in a new geography (Australia) with a different mix/model than the core North America Retail business
  - This transaction also raises serious questions regarding Agrium's acquisition strategy
    - Acquisition was signed before securing a buyer/price for the grain handling business, which constituted a substantial component of Landmark's value and which Agrium did not want
    - Landmark is in an unfamiliar place, has a different product mix and offers limited synergies
- Agrium's $2.65 billion[(3)] acquisition of UAP for 12.8x EBITDA (2008) appears to be returning only 8% after tax, even after realizing $117 million of publicly-disclosed synergies and 3 years of organic growth[(3)]
  - This return calculation does not take into account the relative increase in capital intensity Agrium has overseen, which has resulted in hundreds of millions of additional working capital and CapEx

**Agrium has so far failed to realize the true value potential of its significant expenditures in Retail due to execution and integration issues.**

(1) Base after tax return hurdle per Charles Magro's slide "Agrium's Disciplined Growth (11)" at Agrium's 2012 Investor Day.
(2) Represents Agrium's net purchase price, per Charles Magro's slide "Agrium's Disciplined Growth (12)" at Agrium's 2012 Investor Day. Assumes for Landmark $59mm of base EBITDA, $40mm of synergies and $11mm of incremental EBITDA between 2011 and 2015 reflecting proportional share of total Retail organic growth over that period. Base and incremental EBITDA per Richard Gearheard's slide "Retail EBITDA: Value-Added Growth (6)" and slide "The Road to $1.1-Billion and Beyond (7)" at 2012 Investor Day. Assumes CapEx reflecting Retail's 2007-2010 average CapEx / revenue level applied to Landmark revenues. Assumes 30% corporate tax rate reflecting assets located in Australia. The Landmark acquisition appears to require a 15% 2011-2015 organic growth CAGR for base EBITDA or an aggregate organic increase in EBITDA of 75% (in addition to full realization of synergies) in order to return Agrium's stated minimum 9% return hurdle (though management has suggested its base return hurdle is higher than 9% for foreign acquisitions). Additionally, this analysis does not burden returns for potential increases in working capital investments since acquisition by Agrium.
(3) Represents Agrium's purchase price per Charles Magro's slide "Agrium's Disciplined Growth (12)" at Agrium's 2012 Investor Day. Assumes for UAP $207mm of base EBITDA, $117mm of run-rate annual synergies realized as of 2011, and assumes 8% organic Base EBITDA growth per year. Base EBITDA and synergies per Richard Gearheard's slide "Retail EBITDA: Value-Added Growth (6)" at Agrium's 2012 Investor Day; organic growth not disclosed, but 8% assumption is in line with prior Agrium commentary and growth in the US ag inputs market (see page 12). Assumes CapEx reflecting Agrium Retail's 2007-2010 average CapEx / revenue level applied to UAP revenues (Note: Agrium stopped providing disclosure of CapEx per segment in 2011). Assumes 35% corporate tax rate reflecting UAP assets principally located in the United States.

# Capital Allocation: Substantial And Unproductive Increase In Retail Working Capital

- Over the past 2 years, Retail has operated with working capital levels of between ~21-25% of revenue[(1)], a meaningful increase in working capital intensity compared to the levels required by Agrium Retail and standalone UAP before Agrium's acquisition of UAP, demonstrating a lack of capital control and discipline
  - For the comparable year end seasonal period, pre-acquisition, pro forma combined working capital intensity of the combined Agrium Retail and UAP was ~14%, materially more than UAP's pre-deal 10% target and in line with the current 16% average of Agrium's distribution peers[(2)]
  - In the two years before undertaking the UAP acquisition and more than doubling the size of its business, Agrium Retail alone operated with meaningfully lower working capital (14% and 18% in 2006 and 2007, respectively)
- *Just getting back* to the pro forma pre-deal working capital level of 14% of revenue would release over $725 million of capital from Retail[(3)]
- Other factors suggest that the working capital improvement opportunity may be even larger
  - There appears to still be significant unrealized potential from the UAP acquisition, given that this acquisition promised procurement synergies, offered greater density and scale (by improving inventory utilization across footprint) and improved logistics (by enhancing movement of inventory to meet demand) that should have reduced working capital intensity, plus at the time of the acquisition UAP already had working capital productivity initiatives in place to reduce working capital levels[(4)]
  - Trade practice for Potash and Phosphate has increasingly moved to sale on consignment or just-in-time delivery, reducing retail distributor inventory (and price risk)
  - Agrium still has the opportunity to optimize its farm center footprint following Retail acquisitions

(1) 21% and 25% represent Agrium Retail's 2011 and 2010 stated working capital levels per Agrium's 2012 proxy.
(2) Pro forma combined working capital represents weighted average of Agrium and UAP end of year working capital / sales ratio for the 2 fiscal years preceding the UAP acquisition (Agrium FY 2006/2007 ratios of 14%/18% and UAP FY 2007/2008 ratios of 11%/14%). UAP targeted working capital level of 10% per UAP's Q2 FY 2008 earnings release issued on October 4, 2007. Average of distribution peers represents average of 2011 end of year working capital levels for Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts. Distribution peers based on 2011 Investor Day categorization of Retail peer group.
(3) Calculated as 2011 Agrium Retail revenue * (Agrium 2011 working capital ratio less pro forma Agrium & UAP pre-deal working capital ratio), per footnote #2.
(4) See JPMorgan fairness opinion to UAP's Board of Directors, Schedule 14D-9 as filed with the SEC on December 10, 2007.

# Capital Allocation: Substantial And Unproductive Increase In Retail Working Capital (cont'd)

- Agrium attributes its high working capital to opportunistic inventory purchases that enhance margins and generate a return in excess of its 9% *minimum* after tax return hurdle
  - "Yes, we've got a high working capital, but it's worth it because we get a hell of a return on it" – *CEO Michael Wilson, Agrium 2012 Investor Day*
- However, Agrium has not demonstrated any benefits from the step-change increase in working capital since acquiring UAP, and Agrium's aggregate EBIT growth can not substantiate claims of returns earned on capital deployed (see page 31)
- Operating the Retail business with excess working capital destroys substantial value by depriving Retail of the earnings stability that warrants a premium multiple and justifies the large prices that Agrium has paid to acquire much of its current scale
- Furthermore, lax working capital oversight encourages managers to risk shareholder capital on speculative 'heads I win, tails you lose' bets, where they can receive significant incentive compensation when inventory bets go right, and shareholders are the ones left holding the bill when bets go wrong

**Agrium has substantially increased working capital, to the detriment of its Retail business and overall shareholder value.**

# Capital Allocation: Poor Capital Return Track Record

- Before faced with shareholder pressure, Agrium had the worst capital return record among its fertilizer and distribution peers, with a de minimis dividend and virtually no buyback activity over the tenure of current senior management
- This questionable capital return discipline was fully evidenced at the company's 2012 Investor Day, where Agrium announced an intent to make substantial investments to develop greenfield Nitrogen capacity in the United States despite simultaneously asserting that its existing *wholesale assets alone* were worth more than the company's enterprise value[2]
  - Agrium apparently failed to take into consideration that, with assets trading at such a sizeable discount to its view of replacement cost and perception of fair value, a share buyback was a highly logical use of capital for the company
  - This lack of fundamental analysis regarding the optimal use of capital mirrors Agrium's historical 'growth at any price' capital allocation strategy, which has involved high priced acquisitions and virtually no return of capital prior to shareholder pressure
  - While it is true that since we began engaging with Agrium the company has substantially increased its dividend and announced a buyback ~7x larger than its cumulative repurchases over the past 8 years, its prior history of poor capital allocation has deprived shareholders of significant value

**AGU View On Replacement Cost[1]**

| Plants | Current Replacement Cost (millions of USD) |
| --- | --- |
| Nitrogen | 7,600 |
| Phosphate | 2,000 |
| Potash | 5,100 |

**While Agrium's capital return efforts have greatly improved following shareholder pressure, it is unclear based on prior history whether this will be sustained.**

(1) Per Stephen Dyer's slide "Investing for the Future (9)" at Agrium's 2012 Investor Day. Represents replacement cost view for Wholesale assets only.
(2) Agrium total enterprise value at date of 2012 Investor Day, June 12-13, 2012. Per Bloomberg.

# Retail's Poor Public Reporting Disclosure

- Agrium provides only aggregate segment level Revenue and EBIT and 'product level' Revenue and Gross Profit detail for Retail, with limited operating disclosure on the segment beyond these basic metrics, while Agrium's balance sheet disclosure for Retail is even more lacking in detail
  - This is in stark contrast to public reporting for Agrium's Wholesale business, where management offers detailed disclosure that provides investors with excellent visibility into performance drivers
  - From a poor starting point, Agrium's Retail disclosure has actually *worsened* over time with fewer valuable segment-level metrics disclosed as the business has substantially grown in size. This has resulted in less transparency and accountability to shareholders as Agrium's management and Board spent billions of dollars in Retail acquisitions
- Instead of providing real KPIs (key performance indicators), Agrium has anchored investors to only one metric: dollars of EBITDA
  - Agrium has measured the progress of Retail in dollars of EBITDA, and it communicates to shareholders a multi-year strategy for Retail linked only to a future EBITDA dollar target
  - Agrium provides no volume-linked metrics (for example, EBIT / Tonne), no comparable performance metrics (for example, same store sales) and does not provide detail on the organic growth in the business despite regularly acquiring Retail assets
  - This level of disclosure is far inferior to that provided by the Original Comparables and other distributors, who endeavor to provide shareholders with more detailed operating and balance sheet disclosure / metrics

**"Is Agrium Retail undermanaged? We don't really know, and neither do you … the lack of scrutiny by investors is largely a function of Agrium's disclosure – no segment offers less useful information than [Agrium] Retail does" – Mark Connelly, CLSA[1].**

[1] "Jana is good news for investors"; Mark Connelly and Kurt Schoen; CLSA; August 16, 2012.

# Retail’s Poor Public Reporting Disclosure (cont’d)

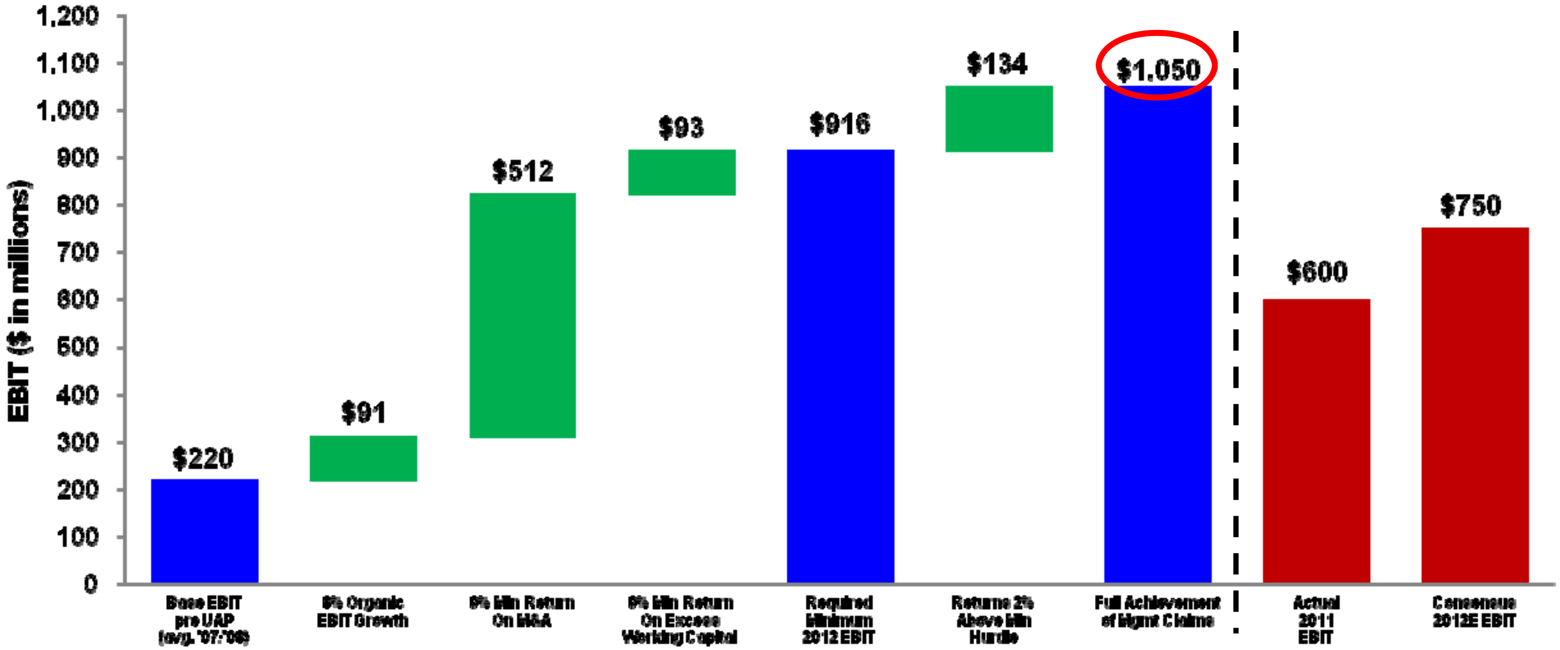
- This poor disclosure prevents investors from understanding Retail’s underlying earnings power or measuring performance, and gives management incentives that are not aligned with shareholders
  - As a result, it becomes even more difficult for Agrium’s shareholders and Wall Street research analysts to accord Retail the multiple it deserves
  - Management’s compensation structure also incentivizes the pursuit of acquisitions and paying high prices to hit future EBITDA dollar targets, rather than tying compensation to a more appropriate set of valuable Retail performance metrics
- When investors and analysts have requested better disclosure on Retail, Agrium’s responses have demonstrated a lack of clarity and an inability to synthesize performance so problematic that it raises serious concerns regarding performance tracking and oversight
  - “Unlike Wholesale, we don’t – most of our sales are not straight Potash or straight DAP or MAP, it’s the urea that blends with it. So when you start looking at per tonne of a blend, it is not comparable in all cases. I mean, so solutions, what we sell in the solution for is a lot less than what we sell ammonia for. But anyway, we have that information. It’s just that it’s a lot of detail. With chemicals, I mean, I don’t know how many SKUs do we have on it. I mean it’s 70,000 chemicals, I mean. Now, that might be different package sizes and so forth. But it’s to say how much are we getting per gallon, we sell some of them by the ounce, it’s really apples and oranges on the chemical side for sure … there’s just a lot of detail and I think you might get overwhelmed with it … might be careful what you wish for” – *Comment by Retail President at Agrium’s 2012 Investor Day in response to a question requesting better disclosure on the Retail business*

**Agrium’s inability to articulate even basic metrics or KPIs for Retail raises serious questions about how it manages the business and what – if any – real assessment is done to track performance over time or measure the success of capital deployment.**

# Result Of Missteps: Retail Has Failed To Realize Potential

- Agrium has spent $4 billion in Retail acquisitions with a 9% *minimum* after tax return hurdle and has claimed that "IRR levels for approved projects are generally significantly higher than the base hurdle rate"(1)
- Agrium has also increased Retail's relative level of working capital intensity since the UAP acquisition by $725 million, citing the same return hurdles
- If these goals had been met, and given organic growth in the business, *Retail would be earning over $1 billion of EBIT* (pre-corporate costs and Viterra), $300 million above its expected 2012 segment EBIT and over $350 million above expected 2012E EBIT after allocating corporate costs

**Retail EBIT Bridge(2)**




**By the company's *own standards*, Retail is substantially underperforming.**

(1) Base after tax return hurdle and commentary on returns for underwritten investments per Charles Magro's slide "Agrium's Disciplined Growth (11)" at Agrium's 2012 Investor Day.
(2) Bridge of Agrium's EBIT from normalized earnings level pre-UAP. Average of 2007 and 2008 is an appropriate baseline for comparison, as 2007 and 2008 have planted acreage and growing season commodity prices comparable with 2011 and 2012 actual levels. Organic EBIT growth not disclosed, but 8% assumption is in line with prior Agrium commentary and growth in the US ag inputs market (see page 12). Return on M&A represents EBIT required to achieve base after tax return hurdle on Agrium's $4bn of Retail acquisitions beginning with UAP as per Charles Magro's slide "Agrium's Disciplined Growth (12)" at Agrium's 2012 Investor Day. Return on excess working capital represents EBIT required to satisfy Agrium's base after tax return hurdle on the $725mm increase in working capital since UAP (as explained on page 26). Note: excludes Viterra acquisition in both capital deployed and M&A returns calculations.

# Agrium's Board Lacks True Experience In Retail Distribution, Leading To Failure Of Strategy And Operational Oversight

- Agrium qualifies the Directors below to oversee its Retail business by pointing to their experience in "marketing / distribution"
- However, these directors are principally credentialed in midstream (pipeline) distribution and in energy / materials production
  - While these individuals may be established and well-credentialed executives, they do not offer any experience in true "breaking bulk" retail distribution like Agrium's Retail business
- The Board's shortcomings in distribution have likely resulted in a lack of oversight at Retail, which is reflected in poor disclosure, operational underperformance and value-destructive capital allocation

| Director[1] | Qualification In "Marketing / Distribution" |
|---|---|
|  **Ralph Cunningham** | • Executive and Board member of multiple midstream energy and chemical / materials companies including Enterprise Products, TETRA Technologies, DEP Holdings, Encana, TEPPCO, CITGO, Huntsman Chemical, Texaco and Exxon |
|  **Russell Girling** | • CEO of TransCanada, a diversified energy and pipeline company<br>• Has been a Director of midstream energy and nuclear power companies |
|  **Russell Horner** | • Former CEO of Catalyst Paper, a forest products and paper company<br>• Significant experience in pulp and paper manufacturing |
|  **David Lesar** | • CEO of Halliburton, a global oilfield services company<br>• Has been a Director of chemical manufacturing and power generation companies |
|  **John Lowe** | • Former Assistant to the CEO of ConocoPhillips, an integrated energy company<br>• Experience in chemicals industry and with midstream and exploration / production energy companies |

**Agrium's Retail underperformance demonstrates the challenges of overseeing its strategy and execution without actual retail distribution experience on the Board.**

[1] Represents the independent Directors Agrium cites as qualified in "marketing / distribution" in the board qualification matrix of its 2012 proxy (page 17).

# JANA’s Engagement To Date And Agrium’s Response

# Background Of JANA's Engagement With Agrium

- JANA began a private dialog with Agrium's management and Board in May 2012, advocating the pursuit of steps to realize Agrium's full value potential including:
  - Improving capital allocation through larger and more consistent return of capital to shareholders
  - Highlighting and enhancing the value of Retail through:
    - Initiating a Retail operational improvement plan to reduce excess working capital and costs
    - Pursuing a separation of Retail and Wholesale into strong independent public companies
    - Improving financial disclosure for the Retail business
  - Eliminating excess corporate overhead supporting Agrium's conglomerate structure
  - Over time, evaluating the potential strategic value of its Potash assets
- JANA believes such steps would meaningfully improve Agrium's value
  - Focusing each business and driving Retail's earnings potential through operational improvement
  - Freeing Agrium's businesses to appropriately capitalize themselves and allocate capital in an optimal manner, and better positioning each to pursue consolidation opportunities
  - Improving capital allocation to reverse Agrium's history of substandard capital return and establishing credibility with investors as a disciplined allocator of capital
  - Addressing Agrium's persistent conglomerate discount to unlock the value potential of Retail
- After sharing these views with Agrium in May, JANA met privately with management in early July and presented a more detailed analysis that showed Agrium's underperformance and highlighted its value creation potential, and also provided its analysis to Agrium's full Board

# Agrium's Response

- Positively, Agrium has improved the size and regularity of capital return
  - On June 7, Agrium increased the size of its already-declared semi-annual dividend by over 100%
  - On August 2, Agrium announced a $900 million Dutch tender share repurchase, representing a buyback initiative ~7x larger than all prior share repurchases over the past 8 years
- Agrium also acknowledged that there are always opportunities to improve operational performance and offered this as a potential constructive area for further dialog
  - While Agrium takes issue with some of our analysis – which, given its poor public disclosure and the superior information any company has, is not surprising – nothing that Agrium has said has substantively refuted our key points
- However, with respect to uncovering Agrium's true value potential, rather than make a compelling case for its current strategy and structure based on the facts, *Agrium simply and astonishingly attempted to wipe the historical record of its prior comments regarding the undervaluation of Retail*
  - Despite arguing for years that its Retail business was undervalued, when we agreed with them and challenged the company to unlock that value, Agrium responded by discarding its long-standing (and appropriate) set of Original Comparables in the middle of the night for six new Midnight Comparables for the Retail business, which of course trade at lower multiples, and of which only one – Airgas – warrants real consideration as a valuation comparable for Retail
  - Ironically, in mounting this defense of its structure and strategy, Agrium turned to the same expensive advisors that previously advised CF not to transact with Agrium in a stock deal *because* it believed that same structure and strategy would underperform

**Rather than engage in a constructive dialog with its largest shareholder on value, Agrium resorted to an expensive, insular and strained defense of the status quo.**

# Agrium's Midnight Comparables Are Simply Indefensible

| Company | Size / Mult.[1] | Key Observations On Comparability |
|---|---|---|
| **MRC Global** | $2.5bn / 8.0x | • Has been a public company for less than 6 months<br>• Control shareholder owns 77%<br>• Poor liquidity, trading ~$7 million per day since IPO<br>• End markets exposed to energy CapEx cycles |
| **Metals USA** | $0.5bn / 6.1x | • Control shareholder owns 53%<br>• Micro cap, with only ~$500 million market cap<br>• Poor liquidity, trading only ~$3 million per day<br>• End markets more cyclical, less attractive long term |
| **Reliance Steel & Aluminum** | $3.9bn / 6.4x | • End market demand very cyclical and less attractive, with high exposure to non-residential construction<br>• Provides manufacturing services that are capital intensive and less attractive than pure distribution |
| **Beacon Roofing** | $1.3bn / 9.3x | • Small cap, with only $1.3 billion market cap<br>• Poor liquidity, trading ~$14 million per day<br>• End markets heavily exposed to construction cycles |
| **Brenntag** | EUR 5.1bn / 8.9x | • Highly applicable business model comparable, breaking bulk of products with cyclical, commodity exposure<br>• However, an inapplicable valuation comparable, as listed in continental Europe, where valuations are typically lower than for comparable US companies |
| **Airgas** | $6.3bn / 8.7x | • Similar business model, size, liquidity, trading and index inclusion (S&P 500) characteristics |

(1) Represents Market Capitalization and TEV / NTM EBITDA multiples as of September 28, 2012. Data per CapitalIQ.

# Agrium's Midnight Comparables Are Simply Indefensible (cont'd)

- The Midnight Comparables consist of micro cap and small cap stocks, newly public companies, companies with controlling private equity shareholders, with very limited trading liquidity, with a high level of exposure to challenged end markets and with non-US / Canada listings
  - Of the 6 Midnight Comparables, only one – Airgas – matches the business model, technical, listing and geographic characteristics to warrant serious consideration as a valuation comparable. Brenntag is a highly applicable business model comparable, but its foreign listing makes it a less applicable valuation comparable
- In order to avoid a debate on structure and strategy, Agrium is therefore actually talking *down* the value of Retail, incorrectly and to the detriment of shareholders
- There are two potential explanations for this switch, neither of which is acceptable:
  - When challenged to unlock significant unrealized value through operational and structural change, the Board and management sought to avoid this debate by deliberately sabotaging Agrium's value
  - Or, the Board and management spent over $4 billion of shareholder capital on Retail acquisitions, including buying UAP for 12.8x EBITDA and Landmark for 14.6x EBITDA,(1) without any real understanding of what these businesses were worth, in complete disregard of their fiduciary duties
    - When asked why Agrium switched to the Midnight Comparables so suddenly, Agrium's VP of Corporate and Investor Relations stated that the Board "hadn't really done that much work" on valuing Retail before JANA's involvement(2)

**The Midnight Comparables either reflect a desire to protect the status quo at any cost, or indicate a complete abdication of oversight while billions were spent.**

(1) Net purchase price for UAP and Landmark acquisitions per Charles Magro's slide "Agrium's Disciplined Growth (12)" at Agrium's 2012 Investor Day. UAP and Landmark Base EBITDA per Richard Gearheard's slide "Retail EBITDA: Value-Added Growth (6)" at Agrium's 2012 Investor Day. Represents acquisition valuations before synergies.
(2) "Shareholder, Agrium Spar Over Value Of Retail Arm"; Reuters; Rod Nickel and Euan Rocha; August 16, 2012.

# Original Comparables Remain The Most Appropriate

- We believe Agrium's Original Comparables remain the appropriate comp group for Retail given that they share the closest business model, size, exchange and liquidity dynamics to a standalone Retail business
- The applicability of these Original Comparables is evidenced by their comparability to standalone UAP before it was acquired by Agrium
  - For the 2 years preceding its sale, standalone UAP traded at an average valuation of 8.9x NTM EBITDA, exactly in line with the average multiple of the 5 Original Comparables
  - In its 10-K filings, UAP measured its share price performance against a peer group that consisted of the 5 Original Comparables and Airgas (and incidentally, outperformed the group even before Agrium acquired them)
  - Additionally, 4 of the 5 Original Comparables were used in a comparable companies analysis performed by JP Morgan as part of their fairness opinion to UAP's board
- Agrium has attempted to justify its disavowal of Retail's Original Comparables by arguing[1] that standalone UAP traded at a discount to the S&P 500, and the S&P 500's valuation multiple has declined since Agrium acquired UAP – ergo, a standalone UAP would be valued at a lower valuation today, meaning Agrium Retail would trade for a lower multiple than did UAP before its acquisition
  - However, the Original Comparables actually *trade at a higher valuation today* than they did preceding the UAP acquisition, meaning UAP – and by extension, Agrium Retail – even under Agrium's logic would today trade at a premium to UAP's previous valuation levels of ~9x EBITDA
  - The Original Comparables have appreciated in value because the market has rewarded them for their attractive growth, stability and free cash flow profiles, exactly the characteristics that warranted UAP's valuation and that Agrium cites as the attractive attributes of Retail

**Despite the Board's attempt to abandon them, the Original Comparables for Retail were and remain appropriate.**

[1] Per communications of Agrium management with Wall Street research analysts.

# Agrium's Value Creation Potential

# What Agrium Should Do Today

- Agrium has a myriad of steps it can take today to unlock its massive buried value creation potential for shareholders:
  - Committing to larger and more consistent return of capital going forward
  - Improving disclosure in Retail
  - Initiating a working capital and operational cost reduction plan in Retail
  - Rationalizing unallocated corporate overhead
  - Pursuing a separation of Retail and Wholesale

**Agrium can harvest its substantial untapped value creation potential by immediately pursuing these steps.**

# Value Creation Opportunity

**Address Conglomerate Discount**

~$15-20 per share opportunity to eliminate the sum of parts discount from improving retail disclosure and announcing a plan to separate Retail via a tax free spin transaction.(1)

**Rationalize Costs**

$20+ per share opportunity from eliminating excess cost in Retail to realize inherent operating leverage and from reducing excessive unallocated corporate overhead.(2)

**~$50 Per Share Value Creation Opportunity**

**Improve Capital Allocation**

At least ~$10 per share from releasing excess working capital and from committing to a more aggressive and more consistent return of capital through increased dividends and buybacks.(3)

**Provide Retail Oversight**

Further meaningful value creation by adding real distribution executives to the Board who can better define operational and strategic goals and properly incentivize management to achieve them.

**There is no legitimate reason to deny shareholders this value creation opportunity.**

(1) Assumes elimination of conglomerate structure results in valuation consistent with current peer actual P / E and TEV / EBITDA NTM multiples as of September 28, 2012. CF used as comparable for Nitrogen segment, with adjustment to company's EBITDA multiple to reflect Agrium's advantaged statutory tax rate; average of Mosaic and Potash Corp used for Phosphate and Potash segments; average of CF, Mosaic and Potash Corp used for AAT and Resale / Other Wholesale; average of Original Comparables (Tractor Supply, Watsco, Wesco, Grainger and Genuine Parts) used for Retail. Retail peer group based on Agrium 2011 Investor Day categorization of Retail peer group. Data per CapitalIQ.
(2) Assumes Agrium right-sizes overhead to bridge the difference between current costs and pro forma UAP / Agrium (inc. synergies) levels at the time of the transaction. See additional detail on page 24. Assumes savings capitalized at valuation level of Original Comparables as of September 28, 2012. Assumes that Agrium rationalizes 60% of unallocated overhead costs following the separation of Retail, with savings capitalized at Agrium's implied sum-of-the-parts multiple as of September 28, 2012.
(3) Assumes $725mm working capital rationalization opportunity. Assumes Agrium initiates a $1.5bn share repurchase program concurrent with taking steps to unwind Agrium's conglomerate discount via separation of Retail (see footnote #1), to rationalize Retail and corporate costs (see footnote #2) and to right size working capital in Retail. Assumes shares repurchased at September 28, 2012 closing price of $103.46 and are funded by debt with a 3.0% after-tax cost of capital (higher than after tax cost of recently issued 10 year debt). Buyback is assumed in addition to announced $900mm buyback, which was undertaken after Agrium announced that it would not be purchasing Viterra's 34% stake in the Medicine Hat Nitrogen facility for a similar amount. Value creation represents immediate value accretion (growing further over time) of share repurchases assuming value creation from steps noted above.