

The Success Of New Seed Varieties Is Critical For DuPont

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DuPont, the world's second largest seed producer after Monsanto has seen impressive growth in agricultural science products in recent years driven by strong industry fundamentals and increased adoption of genetically modified (GM) seeds. Biotech crops are considered the fastest adopted crop technology in the history of modern agriculture. Since the commercialization of biotech crops in 1996, the global area under cultivation of these crops grew impressively at a CAGR of 37% to 160 million hectares in 2011 and the positive trend still continues. [1]

The key factors driving this sharp growth are higher yields and better traits like increased tolerance to herbicides, pests and specific environmental conditions. These factors have also been responsible for driving increased R&D expenditures by companies operating in this segment. As such, the business strategy of players in the GM seeds market has been to invest heavily in R&D of new seed varieties and broadly license the successful patents to other players. Monsanto, the market leader in GM seeds, has been most successful in this business approach led by its Roundup Ready technology, while DuPont's flagship brand of seeds, Pioneer, has not been as successful in this respect.

Herbicide Tolerance Optimum GAT Failure

Glyphosate-based herbicides are used widely for weed control because they are non-selective like the Roundup marketed by Monsanto; however, the chemical also negatively impacts the crop. The Roundup Ready (RR) variety of GM seeds made by Monsanto was specifically engineered to be tolerant to glyphosate. This variety allowed farmers to spray the herbicide over the top of the growing crop, killing all the weeds without affecting the crop. The RR variety of seeds was very successful and went on to become the world's most widely grown GM seed.

More than 90% of soybean grown in the United States contains Monsanto's Roundup Ready gene. In attempts to create its own variety of glyphosate resistant seeds, DuPont was alleged to have used the RR gene. In May 2009, Monsanto filed a patent infringement suit against DuPont. The suit was aimed at forcing DuPont to shelve a herbicide-resistant Optimum GAT soybean seed, which used Monsanto's RR gene. In July 2012, the eight-person jury in the United States District Court in St. Louis awarded \$1 billion in damages to Monsanto. [2]

Advantage in the Drought Resistant Category

The drought resistant trait is another technology expected to be a huge playground for the GM seed industry. As of now, DuPont seems to have a slight advantage in this game as it is the first to announce performance results of its Optimum Aquamax corn hybrid. The company announced that its Optimum Aquamax seeds provided a yield advantage of almost 9% in water-limited environments based on 3,606 comparisons of average yield results with other competitive hybrids in the market. According to DuPont, Optimum Aquamax showed a higher yield in 69% of comparisons under water-limited conditions. [3] DuPont also introduced new varieties of soybean seeds earlier this year. (See: Dupont Looks At Extending Market Share With New Soybean T Series Seeds)

See Our Complete Analysis for DuPont

The global corn, soybean and other seed market is fast evolving led by advancements in GM seed technologies, which implies that innovation holds the key to success of any player in the market. If DuPont is able to leverage this rapidly growing GM seeds market through innovative seed varieties, it will not only help the company extend its market share but also improve profitability through additional patent licensing revenues.

We currently forecast DuPont's market share to grow marginally by 2% over our forecast period, primarily led by consolidation in the global seed industry. However, if the company is able to expand its market share to around 30% over the same period, it would imply 10% upside to our current price estimate.

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