DuPont Pressured to Sell or Spin Off Ag Business

By Ben Lefebvre

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[DuPont](http://quotes.wsj.com/DD) Co. [DD +0.29%](http://quotes.wsj.com/DD) [**DD**](http://quotes.wsj.com/DD) **in** Your Value Your Change Short position , the chemical conglomerate, is facing increasing pressure from analysts and investors to sell off or spin out the agricultural portion of its business, which has been generating most of its growth.

Such a move would go further than the strategy DuPont has been considering. As activist investor [Nelson Peltz](http://topics.wsj.com/person/P/Nelson-Peltz/459) took a stake in the company, DuPont Chief Executive [Ellen Kullman](http://topics.wsj.com/person/K/Ellen-Kullman/728) floated the idea of jettisoning a smaller division that makes refrigerants and pigments for paints.

But the company, which reports earnings Tuesday, is likely to get an earful from Wall Street, which is urging DuPont to create a stand-alone giant in the growing agricultural-chemical industry, a seed-and-pesticide maker that would compete head-to-head with [Monsanto](http://quotes.wsj.com/MON) Co. [MON +0.14%](http://quotes.wsj.com/MON) [**MON**](http://quotes.wsj.com/MON) **in** Your Value Your Change Short position

DuPont's agriculture business generated $8.3 billion in revenue and more than half of the company's $4 billion of operating income in the first half of the year.

SunTrust Robinson Humphrey analyst Andy Cash expects DuPont to oppose spinning off its main source of sales, because that would expose other lines of business to greater investor scrutiny. DuPont's overall revenues rose just 3.4% last year to $34.8 billion; sales were flat in the first six months of this year.

"For the last few years, the high level in growth in agriculture chemicals has masked some of the weakness in other areas," Mr. Cash said.

DuPont declined to comment.

Under Ms. Kullman, DuPont has resisted the call to spin off the ag chemical business, arguing that the research the company does at each of its seven businesses benefits the company as a whole.

DuPont, which has been based in Wilmington, Del., since its founding more than two centuries ago, has grown by acquisition into a sprawling company that makes solar-panel parts, body armor and food enzymes, among thousands of other products.

Since Ms. Kullman took over in 2009, DuPont's shares have more than doubled, rising from less than $26 a share to $59.45 as of Monday's close. The stock is up 32% so far this year.

But compared with companies focused on agricultural chemicals, DuPont has been trading at a discount, with a price/earnings ratio of about 12, versus a P/E ratio of about 23 for Monsanto.

The pressure to break up DuPont increased after Mr. Peltz's private-equity fund, Trian Fund Management LP, took a nearly $1.3 billion stake in the company, which The Wall Street Journal reported in August. Since then, the shares have generally traded between $56 and $60.

"Why do you have this tremendous ag and bioscience platform tied to an industrial-materials business?" said Deutsche Bank analyst David Begleiter.

A Trian representative declined to comment. The fund, which is currently pressing [PepsiCo](http://quotes.wsj.com/PEP) Inc. [PEP +0.33%](http://quotes.wsj.com/PEP) [**PEP**](http://quotes.wsj.com/PEP) **in** Your Value Your Change Short position to spin off its beverage unit, owns a 2.2% DuPont stake.

Not all analysts believe in the benefits of a breakup. The cost might not be worth the effort, said Hassan Ahmed, analyst at Alembic Global Advisors. Mr. Ahmed estimates that carving up DuPont would, at most, boost overall share value to $69, up from less than $60 now. "We're talking a lot of pain for less than a 20% pop in the stock," he said.

Much of DuPont's growth came under former CEO Chad Holliday, who during his 10 years in charge between 1999 and 2009 bought dozens of companies, gathering them under the DuPont brand. The company's revenues rose 150% during Mr. Holliday's tenure.

His shopping spree's biggest success: the acquisition of seed maker Pioneer Hi-Bred International Inc., which became the cornerstone of an agriculture business. The business has boomed as farmers have sought more pesticides and hybrid seeds to plant crops to feed the growing middle classes in Brazil, China and elsewhere.

DuPont has acknowledged the need to eliminate some business lines. The company sold its performance coatings business, which made paint for automotive and industrial uses, for $4.9 billion to [Carlyle Group](http://quotes.wsj.com/CG), [CG +2.03%](http://quotes.wsj.com/CG) [**CG**](http://quotes.wsj.com/CG) **in** Your Value Your Change Short position a private-equity fund, in February 2013.

**Corrections & Amplifications**   
An earlier version of this article reported incorrectly that DuPont sold its performance-coatings business to Carlyle Group in August 2012 for $2.7 billion. It also misquoted Deutsche Bank analyst David Begleiter about a possible spinoff of DuPont's agricultural business; Mr. Begleiter was referring to the sale of an industrial-chemicals unit.

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