CAN AGRIGENETICS BE REPACKAGED AS BOTANICS?

NEW YORK—Agrigenetics Corp., a company with an interesting history, could have a fascinating future. At least this will be the case if the venture capital firm of James D. Wolfensohn Inc., located here, gets its way.

The complicated idea is to repackage Agrigenetics' original $55 million R&D limited partnership—along with its Madison, WI, facilities and staff of 100, as well as small operations in Kansas and California—into a brand new entity to be called Botanics Inc. "It's all of the old Agrigenetics biotechnology operation," explains someone close to the deal who asked not to be identified. "It does not include the seed companies."

The reason why such a move may be needed goes back to the roots of this 12-year-old, pioneer plant biotech company.

Back in 1981, Agrigenetics formed Agrigenetics Research Associates Ltd., the first R&D limited partnership (RDLP) in biotechnology. This vehicle was eventually to fund a spectrum of agbiotech research, both within the company and by sponsoring the work of some 200 scientists at over 20 universities and research institutes. In drafting the partnership, its authors relied heavily on the only previous RDLP—the ill-fated package put together by Storage Technology—and they did not include the equity buy-out kickers that have since become such a popular part of biotech RDLPs. Later, the 300 limited partners chose a half-dozen of their membership (who go by the name "Nematodes") to act as representatives in dealing with Agrigenetics.

Meanwhile, as part of its ambitious business plan of expansion and integration, Agrigenetics was busy purchasing some dozen seed operations until it had grown into the seventh largest seed company in the U.S. Annual sales topped the $100-million mark in 1982, with about half coming from hybrid corn seed. But the aggressive expansion began to take its toll on the bottom line. In January of 1984, Agrigenetics made an abortive attempt at a $30-million initial public offering. By September of that year, Lubrizol (Wickliffe, OH) agreed to pay some $50 million for the plant biotech company—and to assume Agrigenetics' whopping $60-million debt. Lubrizol closed the biotech firm's Boulder, CO, headquarters and moved Agrigenetics' home base to Wickliffe; the research component, however, remained in Madison. The fit between Agrigenetics and Lubrizol's existing oil seed business seemed solid, and the acquisition had quenched Lubrizol's growing thirst for biotech.

There was just one problem: The majority of Agrigenetics' biotech R&D had been carried out through its partnership, and any application of this technology in Lubrizol's seed business would result in "contaminating royalties." That is, according to the terms of the RDLP, any use of what was learned within the partnership outside of the partnership becomes subject to royalties for the limited partners. "Lubrizol made a big mistake when they bought Agrigenetics," says an interested bystander who requested anonymity. "They didn't realize the terms of the partnership."

To overcome this difficulty, in the summer of 1986 Lubrizol attempted to buy out the RDLP investors. According to Louis Klein, Jr., one of the limited partners, Lubrizol's cash offer totaled less than the original investment. "My feeling," he explains, "was that this is by nature a long-term development situation. My interest is in staying with it over a period of time until the products are developed and they are commercialized." Apparently, most of the limited partners agreed, as they turned down Lubrizol's offer, leaving the corporation to search for some other way to extract value out of the RDLP's technology.

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Enter Richard Morgan and Wilder Fulford of Wolfensohn, who have been trying to spin off the partnership into a new company. According to the plan, Lubrizol and the limited partners would retain an undisclosed equity position in the emerging firm, and Wolfensohn and other investors would buy in via a cash infusion of $15–25 million. Things were looking promising for Botanics until the bottom dropped out of the stock market in the middle of October, causing financiers and companies alike to reevaluate new investments. "The timing was unbelievably unfortunate—or fortunate depending on how you look at it," says Morgan. At the end of October he was still hoping to downgrade the pricing of this private placement of registered stock. "We hope to be able to find a basis to proceed," he said, "but biotech companies have collapsed more than the market, and plant biotech companies have done even worse."

As of the beginning of November, however, limited partner Howard Squadron did not believe that his comrades would be interested in down-pricing the deal. Squadron, a New York City-based lawyer, has been acting as the chief negotiator for the limited partners. "I wouldn't say that the deal is dead," he concluded, "but it's close."

If the transaction does go through, Botanics would still require some streamlining. "The new management team will need to look through the whole portfolio of research and outside assets and assess them," says Morgan.

"There hasn't been a lot of commercial thought as to what should stay and what should go," concurs Fulford. He says that the program contains an abundance of technology, including skill in molecular biology, cloning, gene mapping, and tissue culture, as well as traditional breeding expertise. Some of the partnership's projects examine the biological control of viruses, fungi, insects, and nematodes, both via bio-pesticides and genetically engineered plants. Research is also taking place on modulating plant-Rhizobium interactions for improved yield, and there are breeding programs for cotton, wheat, and vegetables. None of the technology is now tied up in corporate agreements, although a number of deals are reportedly under discussion.

Because of the unique structure of Agrigenetics' original R&D limited partnership, "this won't prove to be a cookie-cutter transaction," says Fulford. But Morgan does see it as a variation on the RDLP buy-out theme made famous by Genentech (South San Francisco, CA), and he notes certain similarities with the spin-off by Celanese of Celgene (Summit, NJ). In this deal, which also involved Wolfensohn, new investors split ownership of Celgene with Celanese.

Limited partner Klein stresses that there *are* other options for Agrigenetics' RDLP if the Wolfensohn arrangement falls through. One would be to set up a company through a different venture capitalist. "Or we may very well work out an ongoing relationship dealing with Lubrizol," Klein speculates. "They would be a strong partner." **—Arthur Klausner**