

Monsanto

The Sweet Spot; We Raise Estimates

Monsanto is adopting divergent strategies in corn and soybeans. It is leveraging its healthy germplasm market share and beginning a fresh round of sizable trait fee increases this year in corn. Its germplasm market share is weaker and lower in soybeans. We expect only modest trait fee increases in this area, despite the company's monopoly position in traits and record high soy futures prices. MON's new Roundup Ready 2 Yield product offering will encounter stiffer competition from expected new Optimum GAT products from both DuPont and Syngenta.

- **Monsanto will also encourage adoption of its new SmartStax platform in 2010 to attempt to blunt the effects of DuPont's new Optimum GAT trait offering.** The potential for SmartStax to allow farmers to reduce refuge acreage was advanced by recent favorable regulatory rulings for the VT PRO corn borer trait in the US and Canada.
- **Monsanto reported relatively ragged 3Q:F08 EPS of \$1.45 versus \$1.02 in the year-ago period and our estimate of \$1.45.** Roundup profits came in well above our forecast. The 43% EPS growth is largely the result of higher glyphosate herbicide prices (Round Up) and an unremarkable quarterly revenue performance in corn seeds and traits. A low income tax accrual rate (26% versus our 32% forecast) added \$0.14.
- **Monsanto stock trades at an EV/EBITDA multiple of 16.6x our revised F2009 estimate.** This single valuation multiple is the product of a hybrid assessment by investors, in our view. Approximately two-thirds of Monsanto's estimated F2009 gross profit is built upon its leading edge and biotech products, breeding expertise, and a rich R&D pipeline, the source of its remaining one-third of profit is anchored by an off-patent herbicide. Either greater inroads by competitor's new seed and trait offerings or a perceived peak to the agricultural boom could result in multiple compression. **We rate MON Neutral.**

Monsanto (MON;MON US)

| | 2007A | 2008E | 2009E (Old) | 2009E (New) |
|----------------------|--------|--------|----------------|----------------|
| EPS - Recurring (\$) | | | | |
| Q1 (Nov) | 0.17 | 0.46A | | |
| Q2 (Feb) | 0.98 | 1.79A | | |
| Q3 (May) | 1.02 | 1.45A | | |
| Q4 (Aug) | (0.18) | (0.15) | | |
| FY | 1.98 | 3.55 | 4.30 | 4.60 |

Source: Company data, Reuters, JPMorgan estimates.

Neutral

\$131.52

25 June 2008

US Specialty & Commodity
Chemicals

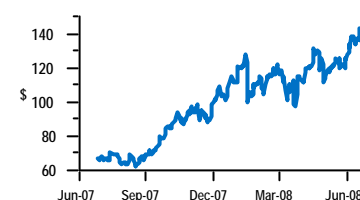
Jeffrey J. Zekauskas^{AC}
(1-212) 622-6644
jeffrey.zekauskas@jpmorgan.com

David Silver, CFA
(1-212) 622-6718
david.silver@jpmorgan.com

Silke Kueck
(1-212) 622-6503
silke.x.kueck@jpmorgan.com

Olga Guteneva
(1-212) 622-6488
olga.v.guteneva@jpmorgan.com

Price Performance



| | YTD | -1M | -3M | -12M |
|----------|-------|------|-------|-------|
| Absolute | 17.8% | 8.3% | 14.8% | 95.6% |

Source: RIMES, Reuters.

Company Data

| | |
|--------------------|----------------|
| Price (\$) | 131.52 |
| Date Of Price | 25 Jun 08 |
| 52-week Range (\$) | 145.17 - 58.50 |
| Mkt Cap (\$ mn) | 73,651.20 |
| Fiscal Year End | Aug |
| Shares O/S (mn) | 560 |

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Details

We are raising our F2009 EPS estimate to \$4.60 versus \$4.30 previously to reflect stronger expected profitability from Seeds and Genomics, highlighted by stronger than expected profits in the Corn seeds and traits business. **We rate Monsanto Neutral.**

We maintain our F2008 EPS estimate of \$3.55. Our estimate is meaningfully above the company's EPS guidance of \$3.40, or 70% growth, and F2008 Street consensus of approximately \$3.25. Our 4Q:08 estimate of a loss of (\$0.15) per share excludes an expected charge of (\$0.20-0.25) per share for the write-off of in-process R&D and inventory step-up effects from the acquisition of De Ruiter Seeds.

Monsanto reported above-consensus 3Q:F08 EPS results of \$1.45 versus \$1.02 in 3Q:F07, and our estimate of \$1.45. The Street Consensus estimate was \$1.35. The lower tax rate benefited EPS in the quarter by \$0.14/share. Monsanto posted meaningfully stronger results in the Agricultural Productivity segment, and below-forecast results in the Corn Seeds and Traits business. A lower than expected income tax accrual rate of 26% versus our 33% estimate benefited EPS by \$0.14. Monsanto recorded consolidated sales of \$3.588 billion, an increase of 26.2% versus 3Q:F07 sales of \$2.842 billion.

Sales in the Agricultural Productivity segment increased 36% to \$1,541 million. Sales increased due to higher average selling prices for branded Roundup and other glyphosate-base herbicides globally. Gross profit rose by approximately 64% versus one year ago to \$750 million due to sharply higher global sales volumes and higher average selling prices for its glyphosate-based herbicides. We believe that MON's average selling price for branded glyphosate have now risen above \$13 per gallon, which represented the upper end of its \$11-13 per gallon range during the past few years. Operating profit of \$502 million in the Agricultural Productivity segment was meaningfully higher than our estimate of \$328 million and compares to \$242 million in 3Q:F07.

Sales in the Seeds and Genomics segment increased 20% to \$2,047 million. Sales in the quarter benefited from strong sales of corn seed and trait products in the United States and higher corn seed revenue in Europe-Africa. Sales also benefited from 32% sales growth in the Cotton Seed and Trait business due to strong sales to the U.S. market. Sales of corn seeds and traits increased 9% to \$975 million versus sales of \$891 million in the year-ago period. Gross profit in the Seeds and Genomics segment rose 17% to \$1,219 million. The segment gross margin declined (50) bps to 59.6% as higher low-margin seed sales more than offset benefits from strong adoption of higher-margin triple-trait corn technology. The Seeds and Genomics segment recorded operating profit of \$586 million versus \$557 million in 3Q:F07, representing an operating margin of 28.6%, or a contraction of 390 bps versus 32.5% in the year-ago period. Segment operating profit was well-below our \$911 million estimate due to sharply higher operating expenses representing 31% of sales, versus our estimate operating expenses representing 24% of sales. A less profitable sales mix also contributed to the lower than forecast operating margin (i.e., a higher proportion of lower margin seed sales versus sales of higher margin traits).

Monsanto's management highlighted the longer opportunity for market share gains in its corn seed businesses. Management now expects to realize an increase of 2-3 percentage points in market share for its branded corn seed (DEKALB) in F2008, in line with its previous projection. We estimate Monsanto's branded corn seed share rose by approximately 10 percentage points to 23% for the five years ended in F2007. Monsanto estimates that its American Seeds (ASI) unit may grow its market share by 1-2 percentage point from 9% in F2007.

The company set an initial target for gains in F2009 branded corn seed share of 2+ percentage points in the US market and 1-2 percentage point improvement in Argentina, Brazil, Argentina, India and the European Union.

We believe US planted corn acreage could decline to 83-85 million acres in 2008 versus 93.6 million acres planted in 2007 and a current USDA forecast of 86.0 million acres. Our acreage estimate assumes 1-3 million incremental acres were lost due to a late spring planting season in the Midwest and subsequent severe flooding.

We expect record US corn plantings of 95 million acres or more in spring 2009. We expect that farmers will be encouraged to resume traditional crop rotations in spring 2009 due to a combination of higher mandated ethanol consumption in the US and the exceptionally strong pricing environment for corn. If our forecast is accurate, then MON branded seeds would be used on approximately 1 million more acres in 2008 than in the prior year. We estimate MON sells its basic seed products for an average of \$43-47 per acre (excluding trait fees) with an average gross margin of roughly 45%.

Increased Trait Penetration: Monsanto now forecasts that its triple-trait technology could be planted on 34 million to 35 million acres in the United States in F2009. This compares to planted triple stack acreage of 28 million acres in 2008, and 17.6 million planted acres in F2007.

Roundup and glyphosate-based herbicides are benefiting from stronger demand from emerging markets and higher average selling prices globally. The category should also experience volume growth from greater global acceptance of seeds containing glyphosate-tolerance traits and increased adoption of minimum-till farming practices. Rising farm income, high crop futures prices, and limited inroads by cheaper generic glyphosate products lead us to expect the company will be able to boost shipment volumes and average selling prices above our previous forecast.

We believe Monsanto received strong early-season orders in its United States corn seed business in F2008. Accordingly, we forecast that F2009 corn seeds and trait sales will rise 31% versus F2008. In general, we believe US farmers are inclined to commit to purchase seeds, traits and Roundup earlier than in past years for several reasons, including (1) favorable futures prices for corn and alternate crops that facilitate earlier decision-making. (2) incurring of expenses that reduce their 2007 personal tax bill, and (3) ensuring that they can procure the most desirable seed products, including triple stack products that sold out in F2007.

Earnings Outlook

We raised our F2009 EPS estimate to \$4.60 versus \$4.30 previously to reflect stronger expected profitability from Seeds and Genomics, highlighted by stronger than expected profits in the corn seeds and traits business. Our new estimate reflects our expectation of higher forecasted gross margin from significantly stronger corn seeds and trait sales. We also project moderately stronger shipments and average selling prices for Roundup and other glyphosate-based herbicides. We do not expect the \$850 million acquisition of De Ruiter Seeds to be meaningfully accretive in F2009. We forecast that Monsanto's gross profit will rise by approximately \$1.474 billion in F2009 to \$7.434 billion. Rising profitability from sales of corn seeds and traits and from Roundup herbicides comprise the largest sources of the increase.

We maintain our F2008 EPS estimate of \$3.55. The estimate reflects in-line 3Q:F08 EPS results and a 4Q:F08 EPS estimate of a loss of (\$0.15). Our estimate is meaningfully above the company's EPS guidance of \$3.40, or 70% growth, and F2008 Street Consensus of approximately \$3.25. Our 4Q:08 estimate of a loss of (\$0.15) per share excludes an expected charge of (\$0.20-0.25) per share for the write-off of in-process R&D and inventory step-up effects from the acquisition of De Ruiter Seeds.

Monsanto: Historical Performance and Outlook

| | 3Q:F08E Current | 3Q:F08E Previous | 3Q:F07 | 4Q:F08E | F2007 | F2008E Current | F2008E Previous | F2009E Current | F2009E Previous |
|---|--------------------|---------------------|----------------|-----------------|----------------|-------------------|--------------------|-------------------|--------------------|
| Seeds and Genomics | | | | | | | | | |
| Revenues | | | | | | | | | |
| Corn | \$975 | \$1,203 | \$891 | \$440 | \$2,807 | \$3,629 | \$3,857 | \$4,757 | \$4,629 |
| Soybeans | 447 | 396 | 325 | 40 | 901 | 1,104 | 1,054 | 1,126 | 1,043 |
| Cotton | - | - | 212 | 61 | - | 422 | 494 | 464 | 543 |
| Seminis | 185 | 201 | 170 | 193 | 612 | 714 | 736 | 936 | 810 |
| Other | 161 | 207 | 114 | 112 | 626 | 405 | 451 | 446 | 497 |
| Total | \$2,047 | \$2,359 | \$1,712 | \$847 | \$4,946 | \$6,275 | \$6,592 | \$7,729 | \$7,522 |
| Gross Profit: | | | | | | | | | |
| Corn | \$565 | \$746 | \$530 | \$222 | \$1,721 | \$2,245 | \$2,426 | \$3,073 | \$3,011 |
| Soybeans | 269 | 226 | 203 | 14 | 588 | 663 | 620 | 658 | 629 |
| Cotton | 195 | 249 | 179 | 41 | - | 293 | 348 | 348 | 407 |
| Seminis | 93 | 110 | 72 | 102 | 267 | 372 | 397 | 575 | 470 |
| Other | 97 | 145 | 62 | 70 | 395 | 224 | 272 | 246 | 299 |
| Total | \$1,219 | \$1,476 | \$1,046 | \$450 | \$3,014 | \$3,798 | \$4,062 | \$4,900 | \$4,815 |
| Seeds and Genomics Segment EBIT | 586 | 911 | 557 | (232) | 905 | 1,411 | 1,728 | 2,181 | 2,156 |
| Agricultural Productivity | | | | | | | | | |
| Roundup Revenues | \$1,168 | \$1,022 | \$757 | \$853 | \$2,568 | \$4,011 | \$3,865 | \$4,394 | \$4,157 |
| All Other Revenues | 373 | 373 | 373 | 199 | 1,031 | 1,079 | 1,079 | 1,068 | 1,068 |
| Total Revenues | \$1,541 | \$1,395 | \$1,130 | \$1,052 | \$3,599 | \$5,090 | \$4,944 | \$5,462 | \$5,225 |
| Agricultural Productivity - Gross Profit | | | | | | | | | |
| Roundup and Other Glyphosate | \$594 | \$460 | \$286 | \$375 | \$854 | \$1,934 | \$1,800 | \$2,163 | \$1,936 |
| All Other | 156 | 110 | 171 | 50 | 418 | 396 | 350 | 371 | 325 |
| Total Gross Profit | \$750 | \$570 | \$457 | \$425 | \$1,272 | \$2,330 | \$2,150 | \$2,534 | \$2,261 |
| Agricultural Productivity EBIT | 502 | 328 | 242 | 147 | 471 | 1,425 | 1,245 | 1,535 | 1,282 |
| SG&A | 622 | 582 | 487 | 689 | 1,898 | 2,306 | 2,320 | 2,633 | 2,547 |
| R&D | 251 | 225 | 197 | 272 | 791 | 944 | 884 | 1,084 | 1,022 |
| Depreciation | 143 | 143 | 128 | 143 | 512 | 572 | 572 | 572 | 572 |
| Operating Income | 1,094 | 1,239 | 819 | (88) | 1,597 | 2,873 | 3,007 | 3,716 | 3,438 |
| Interest Expense | (3) | 6 | 1 | 0 | 17 | (6) | 8 | 72 | 26 |
| Other Charges and Expenses | (5) | 20 | 8 | 20 | 25 | 18 | 43 | 0 | 0 |
| | 285 | 400 | 231 | (32) | 400 | 833 | 940 | 1,057 | 996 |
| Income Tax Rate | 26% | 33% | 29% | 28% | 27% | 30% | 32% | 29% | 29% |
| Diluted Shares | 560.0 | 559.2 | 555.2 | 560.0 | 555.0 | 559.2 | 558.8 | 562.0 | 562.0 |
| EPS | \$1.45 | \$1.45 | \$1.02 | (\$0.15) | \$1.98 | \$3.55 | \$3.55 | \$4.60 | \$4.30 |

Source: Company Reports and JPMorgan estimates.

Monsanto: Biotech Penetration For Major US Crops Market for Planting/Marketing Years 1996/97 through 2008/09E

In millions of acres

| By Crop - US | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007E | 2008E |
|-----------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Soybeans | 1.2 | 7.9 | 29.1 | 40.5 | 45.0 | 54.8 | 60.0 | 63.6 | 67.2 | 66.4 | 71.7 | 61.2 | 69.5 |
| Corn | - | 2.3 | 12.3 | 17.5 | 17.3 | 18.9 | 26.0 | 32.4 | 42.3 | 45.4 | 47.3 | 67.4 | 73.0 |
| Cotton | 1.8 | 2.7 | 4.8 | 8.2 | 9.7 | 11.2 | 10.3 | 10.2 | 11.1 | 10.9 | 11.5 | 8.6 | 5.9 |
| Canola | - | - | - | 0.2 | 0.7 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.5 | 0.6 | 0.3 |
| Total | 3.0 | 12.9 | 46.2 | 66.4 | 72.7 | 85.8 | 97.2 | 106.9 | 121.2 | 123.3 | 131.0 | 137.8 | 148.7 |
| % chg yr-vs-yr | | 330% | 258% | 44% | 9% | 18% | 13% | 10% | 13% | 2% | 6% | 5% | 8% |

Source: USDA, Monsanto and JPMorgan estimates. The 2007/08 Planting/Marketing crop year includes the harvest of the crop that is planted in spring 2007 and is then marketed over the next twelve months. Trait Intensity refers to acres planted solely with seeds containing solely Monsanto-owned traits. It therefore excludes acres containing either traits produced by a competitor or acres containing traits from more than one supplier.

Rising Trait Penetration in Corn: We estimate that corn acres planted with Monsanto's biotech traits rose to approximately 87% of 84.0 million acres planted in the US in 2008. This compares with approximately 72% of 93.6 million acres planted in 2007 and 60% of 78.3 million total acres planted in 2006. MON's material lead in production of all major biotech trait products for corn leads us to expect it to capture 50% or more of the incremental growth in trait acreage during F2009-10.

Monsanto: Biotech Penetration of US Corn Market for Planting/Marketing Years 1999/00 through 2008/09E

| US Corn | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09E |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Planted acreage | 77.4 | 79.6 | 75.8 | 78.9 | 78.6 | 80.9 | 81.8 | 78.3 | 93.6 | 84.0 |
| Monsanto Biotech acres (All Traits) | 17.5 | 17.3 | 18.9 | 26.0 | 32.4 | 42.3 | 45.4 | 47.3 | 67.4 | 73.0 |
| Monsanto Biotech Share (%) | 22.6% | 21.7% | 24.9% | 33.0% | 41.2% | 52.3% | 55.5% | 60.4% | 72.0% | 86.9% |
| Trait Intensity (traits per biotech acre) | 1.00 | 1.01 | 1.06 | 1.08 | 1.16 | 1.21 | 1.35 | 1.60 | 1.92 | 2.16 |
| Monsanto Triple Stack Acres | - | - | - | - | - | - | 1.3 | 5.8 | 17.6 | 28.0 |

Source: USDA, Monsanto and JPMorgan estimates. The 2007/08 Planting/Marketing crop year includes the harvest of the crop that is planted in spring 2007 and is then marketed over the next twelve months. Trait Intensity refers to acres planted solely with seeds containing solely Monsanto-owned traits. It therefore excludes acres containing either traits produced by a competitor or acres containing traits from more than one supplier.

We believe Monsanto's growth in trait acreage in US corn (i.e., any acre planted with corn seed possessing at least one Monsanto trait) will begin to moderate in F2010 and beyond, a function of rising competition in biotech traits. We expect DuPont to aggressively substitute its own single- and double-stack Herculex traits for licensed Monsanto traits in its Pioneer-branded seeds. Beginning in 2010, we expect DuPont to roll-out an aggressive commercialization program for its Optimum GAT biotech traits for corn, which could present additional competitive pressures for biotech market share.

Valuation and Rating Analysis

We rate MON Neutral. We believe that MON's current valuation, based largely on potential stemming from the Seeds and Genomics segment, is balanced by a rich valuation that may limit further multiple expansion. The current valuation creates downside risks for disappointments from volatility in grain prices, which are now close to historical high water marks. We believe MON possesses certain advantages when compared to its peers, including (1) strong market positions and pure-play focus, (2) productive R&D and healthy product pipeline, (3) modest balance sheet leverage and positive free cash flow. The stock ranks near the top of our peer group of major agricultural chemical/seed stocks, trading at 28.6x our estimated F2009 EPS. It trades at an EV/EBITDA multiple of approximately 16.6x our F2009 EBITDA estimate. This compares with EV/EBITDA ranges for its peer group (including SYT, DD, and DOW) of approximately 5.0-12.7x 2009 estimates.

Monsanto is net debt-free as of May 31, 2008. We expect healthy free cash flows from operations, though risks from non-operating issues remain. We estimate F2009 operating cash flows (net income + depreciation & amortization + deferred taxes, but excluding working capital changes) in a range of about \$3.2 billion, compared with estimated outlays for capital spending plus technology investments (i.e., excluding acquisitions and other discretionary outlays) of \$1.1 billion and estimated dividend payments of \$384 million. Accordingly, MON's free cash flow yield is approximately 2.8%, based on our F2009 estimate. These calculations exclude the effect of major acquisitions, pension contributions, or potential amounts required for future settlements of major legal disputes. MON's pension and

postretirement benefit plans had a combined unfunded status of approximately \$499 million at August 31, 2007.

Recent share repurchases have been largely offset by share issuance tied to stock option exercises. MON's diluted shares outstanding total was 560 million at May 31, 2008. This compares with 555 million shares at August 31, 2007, 551.6 million shares at year-end F2006, and 545.4 million at year-end F2005. Since authorizing a four-year \$800 million share buyback program in F2006, Monsanto has spent a total of \$450 million to repurchase its shares, including \$24 million in 3Q:F08. The company plans to announce an additional \$800 million share repurchase authorization before October 2009, or upon completion of the current repurchase authorization.

Risks to our Rating

Increasing competition. We believe that Monsanto possesses impressive competitive advantages versus other major producers in most all areas of biotechnology development for corn, soybeans, and cotton. The company remains the sole entity to commercialize glyphosate tolerance traits for soybeans, corn, and cotton, among the most widely utilized products by farmers. However, during the next several years, DuPont's Pioneer unit will launch several potentially differentiated biotech trait products under the *Optimum GAT* name, including double herbicide tolerance traits (glyphosate and sulfonylurea) for both corn and soybeans. Monsanto will see its monopoly status end, and depending upon the performance of these new products and other factors, Monsanto could see its leadership position erode somewhat. This could affect Monsanto's EPS growth rate and also its valuation.

The expiration of major patent protection means that MON's *Roundup* franchise is faced with heightened competition from both imports of generic product and also from branded competition. A faster-than-expected decline in either product prices or branded volumes could drive earnings below our current assumptions and the shares price could fall. Should MON be able to increase third-party sales and reduce operating costs sufficiently to offset the decline in branded revenue, the company could earn in excess of our F2008 and F2009 EPS estimates and the share price could rise.

Broadening market access for MON's family of genetically engineered products is a key objective for the company. We believe an array of new and second-generation trait products for the US market is sufficient to support EPS growth over the next few years. However, if key agricultural markets in Europe, Latin America, Asia, and elsewhere remain mostly closed to MON's biotechnology-derived products, prospects for longer-term EPS growth could suffer and the shares could trade lower. Difficulties in implementing a value-capture system in Brazil, an unfavorable legal climate in Argentina, and attempts by the Indian government to set prices for MON's cotton products each highlight the less-certain operating environment in many emerging market economies. We expect intellectual property concerns will continue to sharply limit the economic opportunity for MON traits in potentially huge markets such as China and India.

Company Description

Monsanto Corp is among the world's foremost producers of crop chemicals, seeds, and related biotechnology products for agriculture, with FY 2007 revenues of \$8.6 billion and operating income of \$1.6 billion. MON was established as a separate agricultural-input focused company in 2000 upon its spin-off from Pharmacia Corp. Seeds and Genomics is a leading producer of seeds, biotechnology traits and services sold both directly to growers and licensed to other seed companies. Its Holden's unit develops germplasm for breeding of traditional and new seed varieties. The DEKALB and Asgrow units are among the largest marketers of branded seed products, including genomics-based varieties and hybrids.

MON is the world leader in developing seeds with biotechnology traits, with a global market share of approximately 90% of acreage planted with herbicide tolerance and insect protection traits. During FY 2007, Seeds and Genomics revenues totaled \$4.97 billion with gross profit of \$3.01 billion and operating profit of \$905 million. MON's biotechnology traits were used on 246.4 million acres worldwide.

Agricultural Productivity includes the Roundup herbicide franchise, as well as selective herbicides, products for animal agriculture, and a lawn and garden unit. Its Roundup brand of non-selective glyphosate herbicide has been the most successful crop chemical in history, due to its high effectiveness, broad spectrum of weed control, and strong environmental profile. Among selective herbicides, Harness (acetanilide) is the second-largest selective herbicide for control of grassy weeds, while within Animal Agriculture, Posilac-brand bovine somatotropin improves dairy cow productivity. During F2007, segment revenues totaled \$3.6 billion with gross profit of \$1.27 billion and operating profit of \$471 million, excluding Solutia-related charges of (\$40) million.

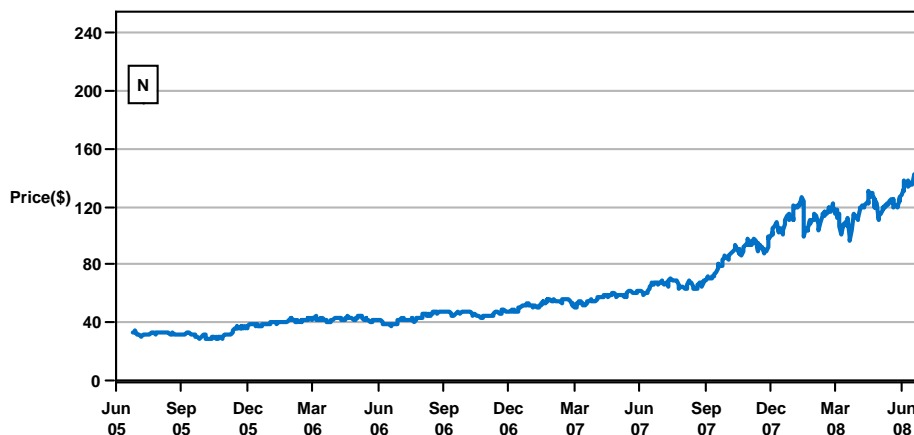
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Monsanto (MON) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 28, 2002 - Dec 31, 2003. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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|-------------------------------------|---------------------|-------------------|-----------------------|
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Jeffrey J. Zekauskas
(1-212) 622-6644
jeffrey.zekauskas@jpmorgan.com

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