The Mosaic Company (MOS)

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Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Mosaic – business

- Phosphate - 75% sales, 50% earnings
- Potash - 25% sales, 50% earnings

Mosaic – business (cont'd)

Mosaic – Misc thoughts

- What can go wrong?
  - Agri business slowdown, fertilizer glut:
    - *curtailments of up to 20% in planned potash production from February through May 2012. During the quarter we also announced a plan to reduce finished phosphate production by up to 250,000 tonnes to help manage inventory levels*.
  - EPA, green legislation, lawsuits
  - Monopoly lawsuits

Mosaic – Misc thoughts

- Opportunities:
  - Fertilizer prices are at secular high?

Strategic considerations

- Moat (*switching costs, habit, low cost*):
  - What are the moats? Permits and locations to start potash mine.
  - What does it take to sustain the moats? None
  - Bargaining power of suppliers/customers? Not a big one
- Is it a low risk business? Somewhat.
- Is there high uncertainty? Medium
- How capital intensive is the business? Yes
- Future growth – Unknown
- Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions? Possibly overstated due to boom in agri commodities

Management

- I don't usually do management analysis. Included for template completeness
- No dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV

Piotroski Score

Only applicable to Graham Cos – N/A to MOS

1. Net Income: Bottom line. Score 1 if last year net income is positive.
2. Operating Cash Flow: Better earnings gauge. Score 1 if last year cash flow is positive.
3. Return On Assets: Measures Profitability. Score 1 if last year ROA exceeds prior-year ROA.
4. Quality of Earnings: Warns of Accounting Tricks. Score 1 if last year operating cash flow exceeds net income.
5. Long-Term Debt vs. Assets: Is Debt decreasing? Score 1 if the ratio of long-term debt to assets is down from the year-ago value. (If LTD is zero but assets are increasing, score 1 anyway.)
6. Current Ratio: Measures increasing working capital. Score 1 if CR has increased from the prior year.
7. Shares Outstanding: A Measure of potential dilution. Score 1 if the number of shares outstanding is no greater than the year-ago figure.
8. Gross Margin: A measure of improving competitive position. Score 1 if full-year GM exceeds the prior-year GM.
9. Asset Turnover: Measures productivity. Score 1 if the percentage increase in sales exceeds the percentage increase in total assets.

- Total: / 9

Is it a good business?

- 5 year history of profits
- ROE:
  - 2009: 27.7 2010:9.5 2011:21.6 2012 9mo:16
- Margins
  - 2009: 23 2010:12 2011: 25 2012q1:17
- No growth: 3 year sales growth 2%, earnings growth -7%
- No dilution
- Strong balance sheet
  - Debt << cash/short term investments
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - ~ ROE

Is it a good business? Cash flow

- Good operating cash flow, weak FCF:
  - 2012 9mo 1423M earnings, 1476M operating cash flow, 280M FCF (FCF = OCF – capital expenditures)
  - Free Cash Flow/Share higher than dividends paid

Is business cheap? – Buffettology calculations

- ROE 15%
- Earnings in 10 years = ROE*Equity*$(1+\text{ROE})^9$ = $6242M
- Equity in 10 years = Equity*$(1+\text{ROE})^9$ = $41.6B
- Market cap = 155M x P/E (15) = $93.6B
- Rate of return = 13% after tax (calculations omitted)

- 9 year earnings growth: N/A. Assuming XX% earnings growth: YY% share price growth.

Is business cheap? DCF

- Discounted cash flow
  - Current earnings of 1897M (FCF ~400M)
  - 10% growth for 5 years, leveling after that
    - 15% discount -> $18B current valuation
  - 5% growth for 10 years, leveling after that
    - 15% discount -> $17B current valuation
  - 10% growth for 10 years, leveling after that
    - 15% discount -> $23B current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 1897M / (23B+2B-3B) = 8%

- What makes up the margin of safety? Not much
- Is there a sufficient margin of safety? No.

Is business cheap? - Graham investment considerations

- N/A for MOS – included for completeness
- 2 P/Book – not a net net
- Altman Z score (http://en.wikipedia.org/wiki/Altman_Z-score)