TERRA INDUSTRIES INC
Form 425
November 02, 2009

Filed by CF Industries Holdings, Inc.

(Commission File No. 333-157462)

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-6(j)

of the Securities Exchange Act of 1934

Subject Company:

Terra Industries Inc.

On November 2, 2009, CF Industries Holdings, Inc. posted a presentation concerning the proposed transaction on its website. A copy of the presentation follows:

•The strategic benefit of combining these two great companies is undeniable and we are more confident than ever that the transaction will be in the best interests of our respective stockholders

•CF is offering Terra stockholders $32.00 in Cash (including the $7.50 per share special dividend declared by Terra) and 0.1034 of a CF common share for each Terra common share

•Based on CF's closing share price of $83.25 our offer had value of $40.61 on 10/30

•We are offering compelling value to Terra stockholders

•7.1x Aggregate Value / LTM EBITDA

•6.7x Aggregate Value / 2010E EBITDA

•40% Premium to Terra's estimated unaffected share price

•28% Premium to Terra's closing share price on 10/30

•$32 Cash component in excess of Terra s $31.77 closing price on 10/30

•There is no financing condition. Morgan Stanley is providing $2.5 Billion in committed financing

•Unless a merger agreement is entered into by November 30, 2009, our financing commitment would expire

•We have the right to extend the financing commitment until December 31, 2009, subject to there not having been a disruption in the financing markets

•Accordingly, we reserve the right to withdraw our offer if a merger agreement is not entered into by November 30, 2009

•Transaction is not subject to the approval of CF stockholders

•CF has satisfied all antitrust regulatory conditions required to close transaction

•Our offer provides compelling value for Terra stockholders as well as certainty of closing. The transaction clearly is in the best interests of our respective stockholders, and we should move forward promptly and sign a merger agreement to put these two great companies together

•Based on CF's closing share price of $83.25 on 10/30, our offer has a value of $40.61, which represents very attractive enterprise value multiples for Terra stockholders

•7.1x Aggregate Value / LTM EBITDA

•6.7x Aggregate Value / 2010E EBITDA

• In fertilizer and other basic material / commodity industries, valuation multiples typically expand during periods of low or trough profitability and contract during periods of high or peak profitability -- CF and its financial advisors believe the current fundamental environment in the fertilizer industry is consistent with normalized earnings

• The valuation multiples implied by our offer for Terra are very compelling for Terra stockholders, when compared to precedent transactions in the fertilizer industry

• Prior to this year, there were only 3 relevant precedent transactions in the global fertilizer sector this decade. All other sector transactions were either very small or involved bankrupt companies

- CF has offered Terra shareholders a significant premium
- 40% to Terra's estimated unaffected share price
- Terra's shares have been trading on takeover speculation
- There has been significant trading volume, particularly in past several weeks
- The 10/30 closing price of $31.77 reflects at least a few dollars of takeover speculation
- The 10/30 closing price likely would have been about $29 absent takeover speculation

- Premiums for all-cash transactions have historically averaged ~39%

- Premiums for all-cash transactions have averaged around 31% over the last three months

- We are now able to provide mostly cash because the debt markets are now open on more favorable terms
- Earlier this year, the Dow was at 6,500 and the debt markets were closed. With the Dow close to 10,000 and the debt markets open, doing a mostly cash deal is the right transaction

• The substantial cash in our offer provides significant certainty on value for Terra stockholders

• As illustrated in the table, the value of CF's offer for Terra does not change meaningfully regardless of trading value of CF shares

- With a ~$6Bn enterprise value, CF will have increased trading liquidity, improved access to the capital markets and will emerge with a strong balance sheet
- Pro forma for the retirement of the bonds recently issued by Terra, the combined company would have had just under $300MM in cash and investments at 9/30/09, including CF's auction rate securities of $140MM
- We will have a strong, close to investment grade capital structure with $2.2Bn of total debt, and pro forma as of 9/30/2009, net debt of about 1.3 times LTM EBITDA. We believe that leverage of 1.3 times makes sense for our company
- We expect the transaction to be significantly more accretive to CF shareholders than under CF's previous proposal

- Morgan Stanley has committed $2.5Bn to provide the funds required in connection with the transaction, and the transaction is not subject to a financing condition

- $1.3Bn Senior Secured Credit Facilities

- $300MM Revolving Credit Facility, replaces CF s existing undrawn revolver capacity

- $1.0Bn Senior Secured Term Loan

- $1.2Bn Senior Secured Bridge Loan Facility

- Unless a merger agreement is entered into by November 30, 2009, our financing commitment would expire. We have the right to extend the financing commitment until December 31, 2009, subject to there not having been a disruption in the financing markets

- Accordingly, CF reserves the right to withdraw its offer if a merger agreement is not entered into by November 30, 2009

- Pro forma for the transaction, CF will have a strong balance sheet and a prudent leverage multiple of 1.3 times which compares favorably to a global composite of leading public fertilizer and chemical companies

- Since Terra first proposed a business combination in 2004, Terra has recognized the merits of this transaction as evidenced by our past discussions

- CF and Terra have had many discussions over the years, including in 2007, when Terra affirmed the strategic merits of combination

- Since CF went public in 2005, we have heard from CF and Terra stockholders that the companies should combine

- During the course of prior discussions in 2004, Terra shared a presentation with CF on the merits of a combination, part of which can be found on the following page

• Terra has itself recognized the strategic rationale for combining the two companies, and it was Terra who first approached CF Industries about combining the companies. Since Terra s approach in 2004, Terra and CF Industries have had multiple conversations about a transaction and as recently as 2007, Terra affirmed the strategic merits of a combination

• CF Industries believes that the opportunity to create shareholder value is clear and that both sets of stockholders, boards and management teams understand the compelling strategic rationale of the business combination

- CF Industries and Terra Industries have complementary strengths in nitrogen, providing breadth and flexibility in nitrogen product offerings. In addition, the locations of CF Industries and Terra s facilities together increase their domestic geographic reach. The two companies distribution and manufacturing assets combined would enhance service to customers in the agriculturally important central U.S. region, improving the availability, accessibility and timeliness of products to customers. The combined company would also benefit from CF Industries strong world-scale position in phosphate

- The combined company will be a stronger, more competitive player in the global nitrogen fertilizer industry, becoming the global #2 public company

- Furthermore, as a $6Bn company, we will create a larger, more stable company that will be better positioned to pursue growth initiatives with less risk than either company could pursue alone

- We have identified annual cost synergies of up to $135 MM expected from elimination of overlapping corporate functions, optimization of transportation and distribution systems, and through greater economies of scale in procurement and purchasing, among other areas

- The substantial cash in our offer makes the combination far more accretive for CF Industries stockholders, while providing certainty on value and closing for Terra stockholders

• We expect the transaction to generate between $105 and $135 million in annual cost synergies by combining corporate functions and optimizing transportation and distribution systems, and through greater economies of scale in procurement and purchasing. Specific opportunities:

•HQ consolidation -- Total combined 2008 SG&A ~ $140 million

•Total logistics costs of approximately $350 million

•Reduction in total product miles shipped

•Reduced railcar lease costs (more than 5,300 total railcars in the system)

•Over $600 million in non-raw materials purchases (includes: purchased fertilizer products; process chemicals; catalysts; other plant consumables)

•Donaldsonville optimization

•Spare parts inventory pooling

•Reduction in inventory and associated carrying costs

•Optimizing turnarounds and capex spending

•Several underutilized facilities

• We expect to realize full synergies within two years after the closing of the transaction

• We also expect the combined company to benefit from a one-time cash release of up to $60MM, due to inventory reduction

- Both CF and Terra have invested heavily in upgraded nitrogen product capacity, especially UAN. Both have developed strong customer relationships and differentiated channels for distribution

- Bringing the two companies together will enhance the execution of their respective strategies by leveraging common assets, including diverse production locations, in-market storage and water transportation facilities to reach customers more efficiently and effectively

- Far from conflicting, Terra's emphasis on industrial customers and CF's emphasis on agricultural customers complement each other and lead to greater robustness across cycles

- Terra's production in the U.K. and Trinidad will improve CF's geographic balance. CF's Peru project offers an opportunity to expand further in an underserved, high-growth region with advantageous natural gas pricing

- And CF's proven ability to export urea and UAN from North America will provide even greater leverage in optimizing a larger production and logistics system

- Pro forma for the transaction, Terra shareholders will benefit from CF's strong position in phosphate

- Long-term phosphate outlook remains attractive

- Global availability of economically recoverable phosphate rock reserves is limited

- Our phosphate rock mining and fertilizer production are fully integrated in Central Florida

- With annual capacity of just under 1.1 million tons of phosphoric acid per year, Plant City is the 7th largest facility in Fertecon's listing of the world's top 125 plants

- CF is nominating three highly qualified, independent nominees to Terra s board of directors at Terra's annual meeting on November 20th

- By voting for CF s independent nominees at the Terra annual meeting, Terra stockholders will have the opportunity to show support for our offer

- Our director nominees are highly qualified and bring with them their diverse experiences.

•John N. Lilly, president of John Lilly Strategic Insights, LLC and former chief executive officer of The Pillsbury Company

•David A. Wilson, president and chief executive officer of the Graduate Management Admission Council and former managing partner at Ernst & Young LLP

•Irving B. Yoskowitz, senior counsel at Dickstein Shapiro LLP and former executive vice president and general counsel of Constellation Energy Group, Inc., the parent company of Baltimore Gas & Electric Company

- None of these nominees is affiliated with CF Industries or has any relationship with CF Industries (except for his agreement to serve as a nominee for Terra s board). The nominees are independent within the meaning of the listing standards of the New York Stock Exchange as well as the Corporate Governance Guidelines of Terra Industries

- Our offer provides compelling value for Terra stockholders as well as certainty of closing. The transaction clearly is in the best interests of our respective stockholders, and we should move forward promptly and sign a merger agreement to put these two great companies together

• The $32.00/share in cash and 0.1034x CF share offer for Terra would be adjusted upon payment by Terra of declared $7.50/share dividend

• Adjustment would be dollar-for-dollar out of the cash component

• This results in **no economic difference** in offer to Terra shareholders