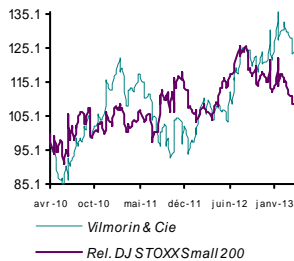


# RESEARCH REPORT MIDCAPS

## EQUITY RESEARCH

12 April 2013

France  
**Buy**



Source: Natixis

Price	04/10/2013	€93.00
Target	↗	€115.00
Upside		23.7%

Performance	1m	12m	1 Jan
Absolute	-5.1%	19.8%	-0.6%
Sector	1.7%	27.1%	11.6%
DJS Small200	-2.0%	17.8%	5.1%

12-month high/low	€104.80 / €77.60
CAC MidSmall	7190.9
DJS Small200	190.8

Market capitalisation	€1.6bn
Free float	32.6%
Limagrain	67.4%
Daily volume	€750k

### Analyst(s)

Nicolas Langlet	(33 1) 58 55 00 95
nicolas.langlet@natixis.com	
Joséphine Chevallier	(33 1) 58 55 96 55
josephine.chevallier@natixis.com	
Pierre Tegnér	(33 1) 58 55 24 34
pierre.tegner@natixis.com	
Olivier Delahousse	(33 1) 58 55 04 47
olivier.delahousse@natixis.com	

Equity Markets	equity.natixis.com
Bloomberg access	NXSE

Distribution of this report in the United States. See important disclosures at the end of this report.

### Food

## Vilmorin & Cie

VILM.PA / RIN@FP

### Fine grain

- **We reiterate our Buy stance on Vilmorin** with a target price raised to €115 versus €112, in the belief that: 1/ the group can deliver EPS growth of > 15% per year in the medium term; 2/ in our view, the consensus under-estimates the growth and margin rebound potential over 2013/15e (+80bp) and 3/ the valuation discount to the sector (-13% in terms of 12m PE) is not justified. The counter-performance for Vilmorin on the stock market (-7% in absolute terms, -4% versus the CAC Small & mid) since the H1 12/13 publication (on 19/02) offers an opportunity to build positions in the stock and the Q3 12/13 publication (29 April) could act as a trigger.
- **Strong operating leverage.** Ongoing market share gains in US corn, development in corn internationally (Brazil and India notably) and the reinforcement of already strong positions in vegetable seeds should allow the group to post organic sales growth >8%/year over the next five years (ex continuation of an active acquisition policy). Aside from optimisation of R&D costs, the improvement in the operating margin (+50bp/year over the next three years) will be carried by: 1/ the gradual recovery for vegetable seeds (higher margin), 2/ improvement in the product mix and 3/ the lever on the corn division. **2016** (2015/2016, year end on 30/06) **should mark a turning point with the start to commercialisation of proprietary GMO corn seeds**, which should underpin a sound improvement in the operating margin (+100bp/year on average over 2016/2021e).
- **Positive surprise potential at the next publications.** We thus spot major upward revision potential for the 2013/15e consensus (Natixis +7% at the EPS level). The consensus under-estimates: 1/ the gradual recovery for the vegetable seeds market; 2/ the ongoing strong momentum for corn.
- **Unjustified discount to the sector.** Vilmorin is now trading on an EV/EBIT of 11.3x (based on our estimates), i.e. a 7% discount on the 5 year average and a 10% discount to the seed sector (Monsanto, Syngenta, KWS). At our target price, the stock would be trading on a 12m EV/EBIT of 12.8x, in line with the sector.

Close on 30/6	Revenues (M€)	Reported net profit (M€)	Adjusted EPS (€)	Chg. EPS (%)	P/E (x)	EV/EBIT (x)	P/CF (x)	Net yield (%)
2012*	1 338,0	80,6	4,98	23,2	18,6	14,1	7,1	1,8
2013e	1 429,0	98,8	5,74	15,3	16,1	12,5	6,4	2,1
2014e	1 502,3	108,1	6,28	9,4	14,7	11,5	6,0	2,3
2015e	1 576,7	118,7	6,89	9,8	13,4	10,5	5,6	2,6

### EQUITY MARKETS

# Contents

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<b>Investment summary</b>	<b>7</b>
<b>1. Heading for €115</b>	<b>8</b>
Target price upped to €115	8
Justified valuation level for the sector	12
Upward revisions for the consensus expected for 2013	13
<b>2. A story of sales growth ...</b>	<b>16</b>
Corn: 60% of the growth over the 5 next years	16
Strengthening of the position as no. 2 in vegetable seeds	25
Continuation of a strong acquisitions policy	27
<b>3. ...and operating margin improvement</b>	<b>29</b>
Vegetable Seeds: return to operating margin levels of 17%	30
Field Seeds: heading for an operating margin over 15%	30
<b>Financial Data</b>	<b>33</b>

# Natixis Nutshell Vilmorin & Cie Buy

Price	04/10/2013	€93.00	Target price	€115.00
Capitalisation		€1.6bn	2013 PE	17.4x
2013 Net debt		€332.0m	2013 EV/EBIT	12.2x
2013 Revenues		€1,478.4m	2012/2015 EPS CAGR	12.0%

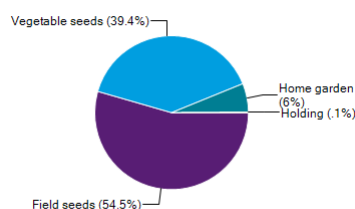
## Profile

- **Business (estimates):** creation, production and distribution of high value added field and vegetable seeds.
- **Main market(s) and state of consolidation:** present on the main seed sectors (cereals, maize, beetroot, vegetables, flowers,...). Sharply growing and relatively concentrated market (the top 6 make 60% of global sales).
- **Competitive positioning:** world no.4 all sectors combined, no. 2 in vegetable seeds and substantial challenger in field seeds (cereals: no. 1 in Europe. maize: no. 3 in Europe and in North America).
- **Strategic thrust:** strong innovation capacity, growing internationalisation and controlled expansion by acquisitions.

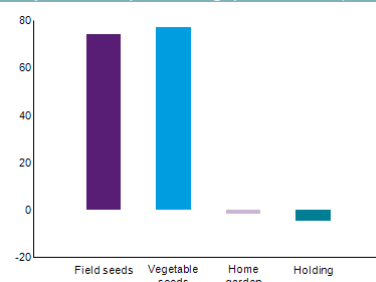
## Porter's 5 forces

<p><b>Supplier power</b></p> <ul style="list-style-type: none"> <li>- The suppliers are multiplication farmers.</li> <li>- Strict specifications between Vilmorin and multiplication farmers which defines the quality and exclusivity of the harvest. Allows security of supply.</li> <li>- GMO traits on Corn licenced to others seed producer (for the moment) like Monsanto.</li> </ul>	<p><b>Barriers to entry</b></p> <ul style="list-style-type: none"> <li>- Genetic research activity. High initial investment (laboratories, research and development) and privileged access to a required genetic portfolio.</li> <li>- Patents.</li> </ul> <p><b>Degree of rivalry</b></p> <ul style="list-style-type: none"> <li>- Concentrated market, consolidating.</li> <li>- Complementarities between the phytosanitary (herbicide) and seed segments.</li> <li>- The sector players are varied: agrochemical groups (Monsanto, Syngenta, Dupont Pioneer), pure players (KWS and Vilmorin), and cooperative groups (Euralis).</li> </ul> <p><b>Threat of substitutes</b></p> <ul style="list-style-type: none"> <li>- Farm seeds: seeds produced by farmers themselves thanks to previous harvests.</li> </ul>	<p><b>Buyer power</b></p> <ul style="list-style-type: none"> <li>- The market is organised into several types of client:</li> <li>- Farmers (55% of sales) through distribution networks that vary according to the country and crop sold</li> <li>- Market gardeners (40% of sales) and indirectly processors, specialists in canning and deep-freezing.</li> <li>- Garden centers, DIY stores and supermarkets, along with amateur gardeners who buy directly by mail order (6% of sales).</li> <li>- =&gt; Wide portfolio of customers with top 10 clients representing only 7.1% of sales.</li> </ul>
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## Turnover 12



## Adjusted operating profit 12 (€m)



Source: Natixis

## Investment case

### Theme

- Strong positions (n°4 worldwide all seeds) on the seed market which offers solid growth prospects (+5%/year) underpinned by solid fundamentals, high barriers to entry and good visibility.
- Undervalued profit growth profile: sales +7%/year (market share gain on the US corn market, development of corn offer international and positions reinforcement on vegetables segment) and +70 pb/year margin improvement over 2012/2017e (leverage on US corn division, vegetables market recovery and commercialization of in house developed GMO seeds (corn)).

### Triggers

- Market share gain acceleration on vegetables and corn segment (US, Brazil, India, China).
- Ongoing sector consolidation which favours the group (potential predator).

### Risks to our scenario

- High decline in agricultural raw materials that would hurt farmers purchasing power.
- Loss of competitiveness for Vilmorin compared with the R&D of its rivals.

### Guidance

- 19/02/13: 2013 organic revenue up 8% (Field seed >10%, Vegetables >3%, Garden stable); EBIT margin 11% with R&D costs over €180m.

### Consensus (FactSet) and Momentum

€m	2013	Natixis vs consensus	2014	Natixis vs consensus	2015	Natixis vs consensus
Revenues	1,459.0	1.3%	1,528.0	4.0%	1,608.7	6.4%
EBIT	163.0	3.2%	174.5	8.2%	184.1	13.6%
EPS (€)	5.36	1.1%	5.81	7.0%	6.05	15.7%

Est.change over 3 months for the consensus EPS		Change in target prices over the last 3 months	Target price (€)	
2013	2014		Consensus	Natixis
6.5%	2.7%	12.7%	106.00	115.00

### Other listed investment vehicles

- No CB.

#### Shareholders

	Shares	Votes
Limagrain	67.4%	75.5%
Free float	32.6%	24.5%

#### Questions to management

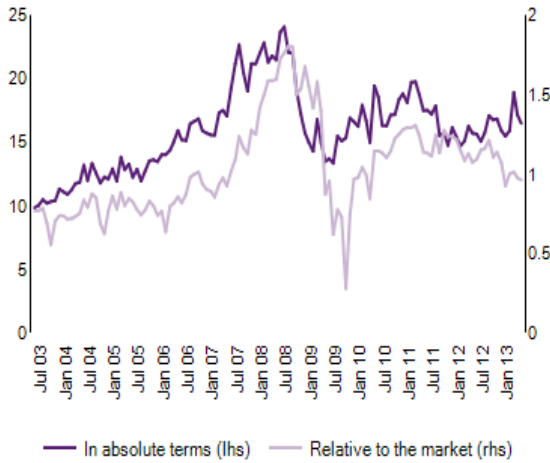
- How do you see the GMO debate shifting in Europe?
- What are the main areas in which the group will be able to maintain leadership despite the competition from agro seed groups like Monsanto?
- Will we continue to see strong inflation for R&D costs in the sector?
- When will Asia become a real growth driver?

#### Key sensitivities

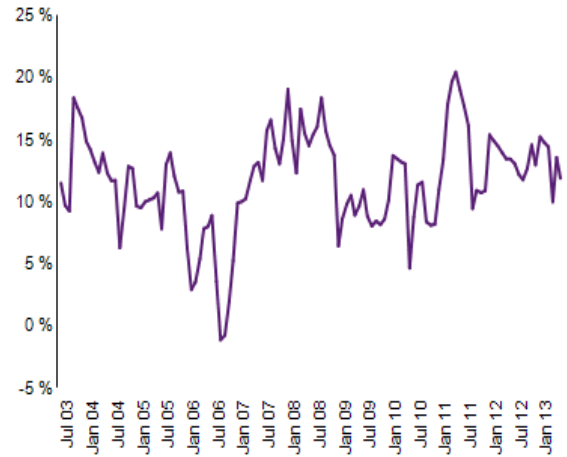
- Soft commodities (wheat, maize and soya), which have an impact on Vilmorin client revenues.
- Forex: Sterling (8%e); dollar (17%e).

## Historical valuation, 12m yoy

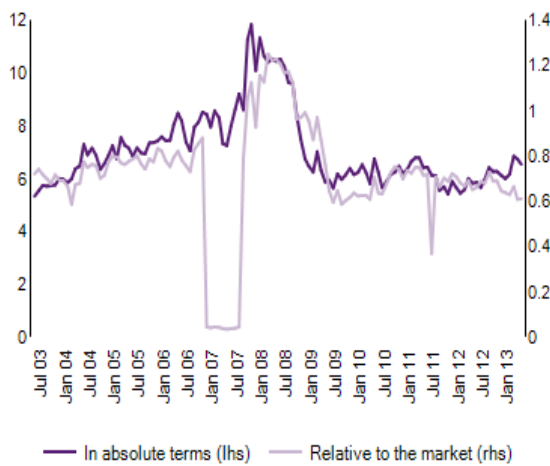
Absolute and relative PE (x)



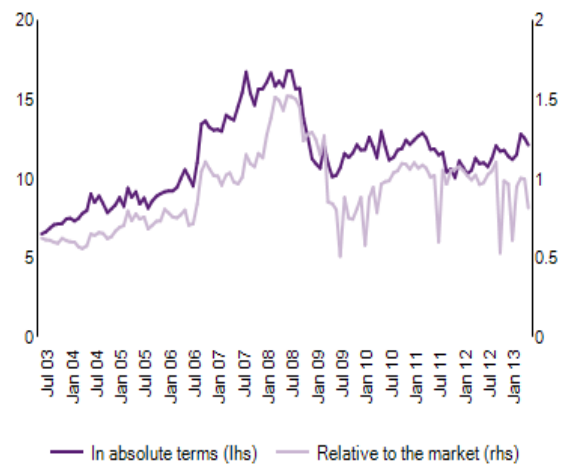
Change in 12-months EPS



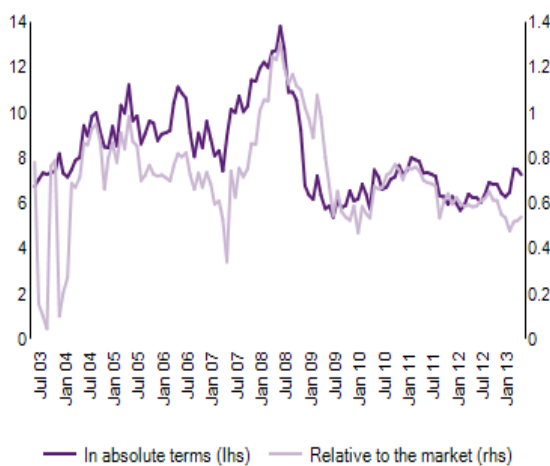
Absolute and relative EV/EBITDA (x)



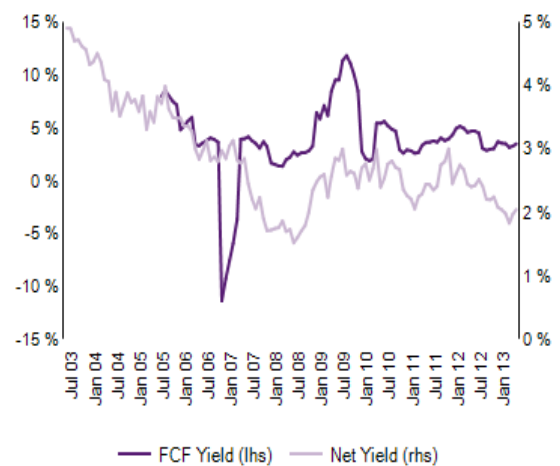
Absolute and relative EV/EBIT (x)



Absolute and relative P/CF (x)



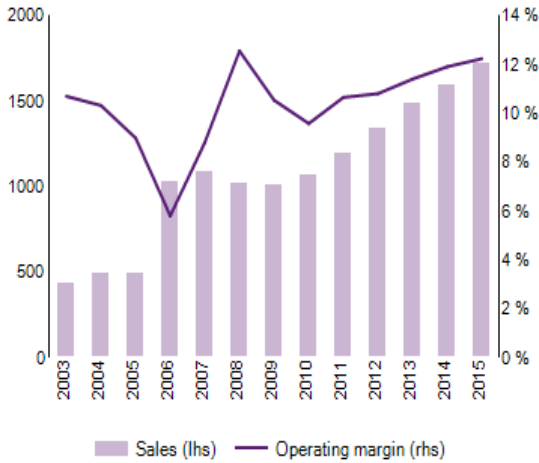
FCF Yield (%) and net yield (%)



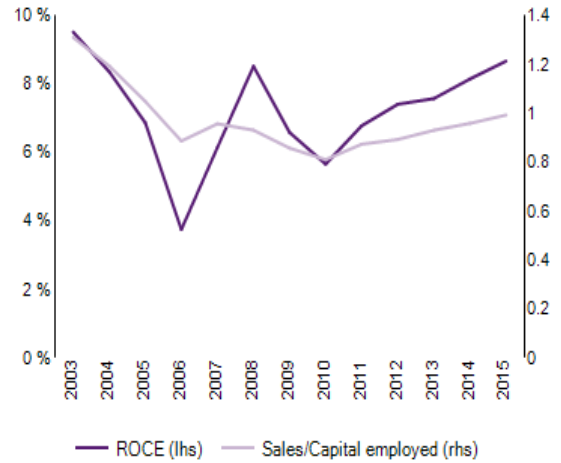
Source: FactSet

## Financial ratios

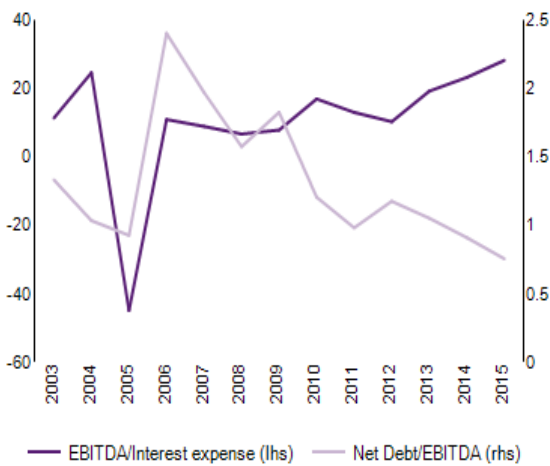
Sales (€m) and operating margin (%)



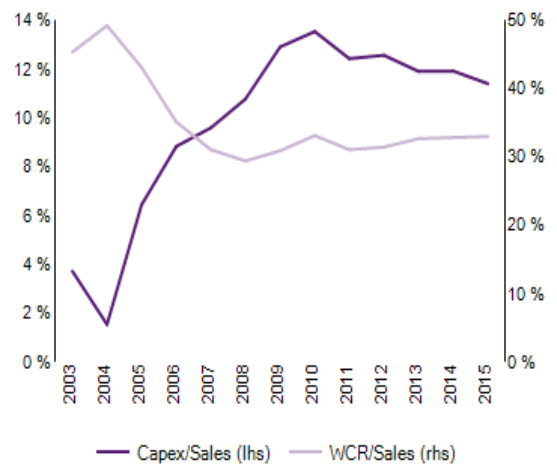
ROCE (%) and Sales/Capital employed (x)



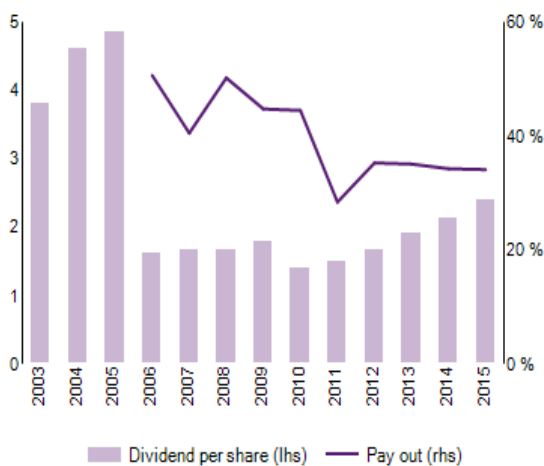
EBITDA/Financial costs (x) and ND/EBITDA (x)



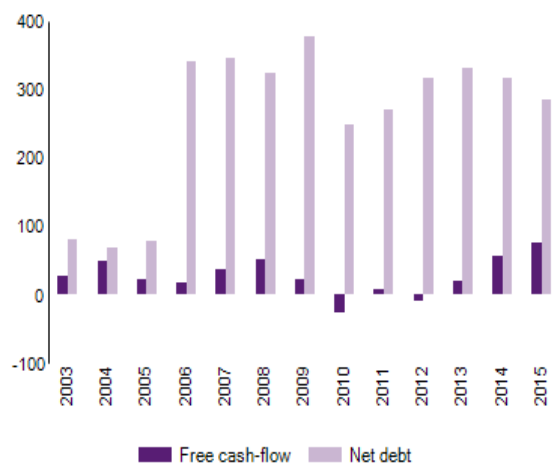
Capex/Sales (%) and WCR/Sales (%)



Dividend per share (€) and Pay out (%)



Free cash flow and net debt (€m)



Source: Natixis

## Investment summary

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We repeat our Buy stance on Vilmorin (target price €115 versus €112) owing to: 1/ the potential for positive surprise at the next publications (Q3 12/13 on 29 April, organic growth +19%); 2/ medium term story of topline growth (> 8% in organic + 2% growth external potential) and margin improvement (+60bp/year between 2012 and 2017e) which is likely to lead to EPS growth >15%/year over the next five years which does not look sufficiently factored in by the consensus (EPS 2013/15e Natixis: 7% over the consensus).

**Potential for nice surprise at the next publications:** our 2013e operating profit estimate is 3% over the consensus which seems to underestimate the growth potential for vegetable seeds and solid price effects in field seeds which is likely to more than offset the increase in costs on the production of corn seeds in the counter-season. For 2014/15e (Natixis +10% vs consensus), the consensus seems to underestimate: 1/ the growth potential for field seeds, carried by ongoing market share gains in America, India and China; 2/ the recovery for the vegetable seeds market; 3/ the improvement potential for the operating margin for the Vegetable and Field seeds division.

**The seeds market (\$34.5bn in 2012) is buoyant** (+5%/year medium-term), underpinned by sound fundamentals, high entry barriers and clear visibility. Vilmorin, the number four player in the seeds segment (4<sup>th</sup> on field seeds and 2<sup>nd</sup> on vegetable seeds) is well placed to profit from this recurrent growth and which offers clear visibility.

**Topline growth story (+8%/year over 2012/17e):** carried by the development on corn (US, Brazil, India, China), the most important field seed at the group level (31% of 2012 sales) and reinforcement of its no. 2 position in vegetable seeds, we think that over the next five years Vilmorin can deliver topline growth of 8%/year. On top of this continuation of the active acquisition policy (€75m/year, +~2% at the sales level, not included in our core scenario), the group could generate sales growth of ~10%/year. The wheat segment (5% of sales at present) could also act a solid growth driver long term.

**Potential for margin improvement (+60bp/year) and EPS growth of ~16%/year over the next five years:** over the last two years, Vilmorin has managed to lift its operating margin by 170bp to reach 10.8% in 2012. And we think that potential for improvement is far from exhausted. Over the next three years, improvement in the mix for both field and vegetable seeds, the maintenance of a sound momentum for field seeds (leverage for the US division), and recovery for the vegetable seeds division is likely to feed an improvement in the operating margin of 50bp/year. By 2016, the commercialisation of proprietary GMO seeds for corn will help cut the amount of royalties paid to Monsanto and hence clearly lift profitability for the field seeds business. In the end, expected topline growth and the improvement in operating margin is likely to lead to EPS growth ~16%/year over the next five years.

**A valuation level (11.3x 12m EV/EBIT) justified by the market's and group's sound fundamentals:** Vilmorin is now trading on a 12m EV/EBIT of 11.3x (based on our estimates), which looks justified by: 1/ the earnings growth potential; 2/ the market's resilience and 3/ the high entry barriers. At the current price, the valuation for Vilmorin shows a 10% discount to its peers (Monsanto, Syngenta, KWS). At our target price, the stock would be trading on a EV/EBIT of 12.8x, in line with the sector.

# 1. Heading for €115

We maintain our Buy rating on Vilmorin with a target price upped to €115 (average for a valuation by discounted flows and valuation multiples, PE and EV/EBIT, targets). This target price implies a 12m PE of 18.1x, in line with the sector average. In the short term, we think that the stock is likely to be underpinned by a sound Q3 12/13 publication (29 April) and upward revisions to the consensus. Our forecasts for 2013/2015e are 7% over the consensus. The difference is both for sales (under-estimate for the potential for field seeds, scope impact and recovery for vegetable seeds) and operating profit (under-estimate of the potential improvement for the vegetable seeds operating margin division, in our view).

## Target price upped to €115

Our target price on Vilmorin, stemming for a average between an approach by discounted cash flows (€140) and a valuation by multiples (€105) comes to €115. Note that the differential between the valuation by DCF and by multiples is due to the fact that the former is the only one to really factor in the potential improvement in the group margin in the medium term on the introduction of the proprietary GMO traits.

Table 1: Valuation summary

€	Valuation	Weighting (%)	12m PE at target price (x)
DCF	140	33	22.1
Target 12m PE	107	33	16.9
Target 12m EV/EBIT	100	33	15.8
<b>Target price</b>	<b>115</b>	<b>100</b>	<b>18.1</b>

Source: Natixis

## Approach by target multiples

The valuation by multiples (2/3 of our target price) is based on a valuation by 12m PE and target 12m EV/EBIT. Our target multiples equate to average ratios (unweighted, to avoid giving too much weight to Monsanto) in the sector.

Table 2: Valuation multiples for the seed sector based on consensus data

x	12m PE	12m EV/EBIT
Monsanto	20.8	13.6
Syngenta	15.2	12.6
KWS	18.6	11.5
Vilmorin	16.3	11.9
<b>Average</b>	<b>17.7</b>	<b>12.4</b>
<b>Weighted average</b>	<b>18.5</b>	<b>13.1</b>

Sources: Datastream, Natixis



Note that since the integration of the field seeds activity in the Vilmorin business scope (2007), the stock is trading on an average discount of just 4% to the seed sector (vs 20% before integration).

Though Vilmorin is smaller and less advanced in terms of GMO seed development, a valuation in line with the sector looks justified in that the group: 1/ has strong positions in core grains (garden seeds, corn, sunflower, wheat) despite its size; 2/ is likely to begin to market its own GMO corn traits by 2016; 3/ has quality genetic resources; 4/ develops advanced research programmes on promising segments like wheat and 5/ offers EPS growth potential well over that for other players (on our estimates).

Compared with KWS, the stock is now trading on a discount of 11% in terms of 12m PE (versus a 12% premium over the last five years) and a 4% premium in terms of 12m EV/EBIT (versus an average premium of 30% over the last five years).

Table 3: Valuation by target multiples

X	Multiple	12M data	Valuation (€)	Implicit 12m PE
12m PE	17.7	6.04	107	17.7
12m EV/EBIT	12.4	184	100	16.6

Sources: Datastream, Natixis

### DCF valuation: €140

Our main assumptions are:

- **2012/2023e sales CAGR of 7.5%**, mainly driven by the development of the Field seeds activity (ongoing market share gains in the US, development internationally) and reinforcement of the group in vegetable seeds. This growth rate compares with a rise in the seeds market of ~5%/year.
- **Improvement in the operating margin of 810bp (~74bp/year) between 2012 and 2023e** underpinned by: 1/ recurrent improvement in the mix/price; 2/ introduction of proprietary GMO traits; 3/ the operating lever (notably in the US); 4/ optimisation of R&D costs. We expect a group operating margin of 18.9% by 2023e versus 10.8% in 2012.
- Tax rate maintained at 28.5%/year and capex spend (including research effort) of around 11% of sales and DAP representing 10% of sales.
- WACC of 8.8%, growth rate to infinity of 2%.

Our valuation by DCF comes to €140 and trends in a range of €105 to €204 as a function of the long term growth rate and WACC applied.

Table 4: Sensitivity of the DCF valuation as a function of the WACC and infinite growth rate

€	Infinite growth rate (%)	WACC (%)		
		7.8	8.8	9.8
	1.0	153	126	105
	2.0	174	140	115
	3.0	204	159	128

Source: Natixis

- A sensitivity as a function of the average improvement in the operating margin and 2012/13e sales CAGR gives a much broader range of between €98 and €191.

Table 5: Sensitivity of the DCF valuation as a function of the sales CAGR over 2012/2023e and an average improvement per year for the operating margin (bp)

€	Improvement in the operating margin (bp/year) 2012/2023e	Sales CAGR (2012/2023e)		
		6.5	7.5	8.5
	50	98	114	130
	74	122	140	160
	100	148	169	191

Source: Natixis

On an inverted DCF, the current valuation (€93) implies:

- Growth potential limited to 5.5% per year over 2012/2023e (in line with the market) and an improvement in the operating margin of 65bp per year.
- Or improvement potential for the operating margin of just 30bp per year (which thus does not appear to integrate the potential on the commercialisation of the proprietary GMO traits) coupled with sales growth of 7.6% per year.

Table 6: FCF tables

€m	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e
<b>Sales</b>	<b>1,478</b>	<b>1,589</b>	<b>1,711</b>	<b>1,853</b>	<b>2,009</b>	<b>2,138</b>	<b>2,279</b>	<b>2,435</b>	<b>2,597</b>	<b>2,768</b>	<b>2,955</b>
<i>Change (%)</i>	<i>10.5</i>	<i>7.3</i>	<i>7.7</i>	<i>8.3</i>	<i>8.5</i>	<i>6.4</i>	<i>6.6</i>	<i>6.8</i>	<i>6.7</i>	<i>6.6</i>	<i>6.7</i>
<i>Organic growth (%)</i>	<i>10.0</i>	<i>6.5</i>	<i>7.7</i>	<i>8.3</i>	<i>8.5</i>	<i>6.4</i>	<i>6.6</i>	<i>6.8</i>	<i>6.7</i>	<i>6.6</i>	<i>6.7</i>
<b>EBIT</b>	<b>168</b>	<b>189</b>	<b>209</b>	<b>239</b>	<b>278</b>	<b>316</b>	<b>361</b>	<b>413</b>	<b>469</b>	<b>511</b>	<b>558</b>
<i>EBIT margin (%)</i>	<i>11.4</i>	<i>11.9</i>	<i>12.2</i>	<i>12.9</i>	<i>13.8</i>	<i>14.8</i>	<i>15.8</i>	<i>16.9</i>	<i>18.1</i>	<i>18.5</i>	<i>18.9</i>
<i>Change EBIT (%)</i>	<i>16.6</i>	<i>12.0</i>	<i>10.7</i>	<i>14.6</i>	<i>16.1</i>	<i>13.8</i>	<i>14.2</i>	<i>14.3</i>	<i>13.6</i>	<i>9.0</i>	<i>9.2</i>
<i>Change EBIT margin (bp)</i>	<i>60</i>	<i>50</i>	<i>33</i>	<i>71</i>	<i>90</i>	<i>96</i>	<i>105</i>	<i>111</i>	<i>110</i>	<i>41</i>	<i>42</i>
<i>Tax rate (%)</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>	<i>28.5</i>
<b>Tax</b>	<b>-48</b>	<b>-54</b>	<b>-60</b>	<b>-68</b>	<b>-79</b>	<b>-90</b>	<b>-103</b>	<b>-118</b>	<b>-134</b>	<b>-146</b>	<b>-159</b>
<b>NOPAT</b>	<b>120</b>	<b>135</b>	<b>149</b>	<b>171</b>	<b>199</b>	<b>226</b>	<b>258</b>	<b>295</b>	<b>335</b>	<b>365</b>	<b>399</b>
<b>D&amp;A</b>	<b>148</b>	<b>159</b>	<b>171</b>	<b>185</b>	<b>201</b>	<b>214</b>	<b>228</b>	<b>244</b>	<b>260</b>	<b>277</b>	<b>296</b>
<i>As % of sales</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>
<b>Capex</b>	<b>-176</b>	<b>-189</b>	<b>-195</b>	<b>-206</b>	<b>-219</b>	<b>-228</b>	<b>-243</b>	<b>-259</b>	<b>-276</b>	<b>-295</b>	<b>-314</b>
<i>As % of sales</i>	<i>-11.9</i>	<i>-11.9</i>	<i>-11.4</i>	<i>-11.1</i>	<i>-10.9</i>	<i>-10.6</i>	<i>-10.6</i>	<i>-10.6</i>	<i>-10.6</i>	<i>-10.6</i>	<i>-10.6</i>
<b>WCR</b>	<b>482</b>	<b>521</b>	<b>564</b>	<b>613</b>	<b>668</b>	<b>713</b>	<b>763</b>	<b>817</b>	<b>874</b>	<b>934</b>	<b>999</b>
<i>As % of sales</i>	<i>32.6</i>	<i>32.8</i>	<i>33.0</i>	<i>33.1</i>	<i>33.3</i>	<i>33.4</i>	<i>33.5</i>	<i>33.6</i>	<i>33.7</i>	<i>33.7</i>	<i>33.8</i>
<i>Change in WCR</i>	<i>-62</i>	<i>-39</i>	<i>-43</i>	<i>-49</i>	<i>-55</i>	<i>-45</i>	<i>-50</i>	<i>-54</i>	<i>-57</i>	<i>-60</i>	<i>-65</i>
<b>FCF</b>	<b>30</b>	<b>66</b>	<b>83</b>	<b>101</b>	<b>126</b>	<b>168</b>	<b>194</b>	<b>225</b>	<b>262</b>	<b>288</b>	<b>315</b>
<i>Discounting factor</i>	<i>0.2</i>	<i>1.2</i>	<i>2.2</i>	<i>3.2</i>	<i>4.2</i>	<i>5.2</i>	<i>6.2</i>	<i>7.2</i>	<i>8.2</i>	<i>9.2</i>	<i>10.2</i>
<b>Discounted FCF</b>	<b>30</b>	<b>60</b>	<b>68</b>	<b>76</b>	<b>88</b>	<b>108</b>	<b>115</b>	<b>123</b>	<b>131</b>	<b>132</b>	<b>133</b>

Source: Natixis

Table 7: WACC calculation

<b>%</b>	
Cost of debt	5
Tax rate	28
<b>Cost of debt after tax</b>	<b>3.6</b>
Risk-free rate	1.2
Risk premium	8.3
<i>Beta</i>	<i>1.05</i>
<b>Cost of equity</b>	<b>9.8</b>
<i>Market capitalisation (€bn)</i>	<i>1.6</i>
<i>Net debt end-2012 (€m)</i>	<i>316</i>
<b>WACC</b>	<b>8.8</b>
<b>Infinite growth</b>	<b>2.0</b>

Source: Natixis

Table 8: Valuation by discounted flows

€m	
Sum of discounted FCF	1,065
Terminal value	1,994
<b>Enterprise value</b>	<b>3,059</b>
Financial assets	29
Pensions	-22
Minorities	-127
Net debt end of 2012	-316
Associates	27
Equity value	2,651
<b>Price (€)</b>	<b>140</b>

Source: Natixis

## Justified valuation level for the sector

The seed sector (average for Monsanto, Syngenta, KWS and Vilmorin) is currently trading on 12m PE multiples of 17.7x and of 12.4x in 12m EV/EBIT.

Table 9: Valuation multiples for the seed sector based on consensus data

x	Cap. (€m)	Seed sales 2012 (\$m)	Seeds as % of group sales	12m PE	5 year average	EPS CAGR 12/15e (%)	12m EV/EBIT
Monsanto <sup>1</sup>	43,104	9,801	72	20.8	22.2	9.1	13.6
Syngenta	29,721	3,237	23	15.2	15.4	5.5	12.6
KWS	1,861	1,267	100	18.6	15.5	6.3	11.5
Vilmorin	1,761	1,719	100	16.3	17.2	5.7	11.9
<b>Average</b>				<b>17.7</b>	<b>17.6</b>	<b>6.4</b>	<b>12.4</b>
<b>Weighted average</b>				<b>18.5</b>	<b>19.6</b>		<b>13.1</b>

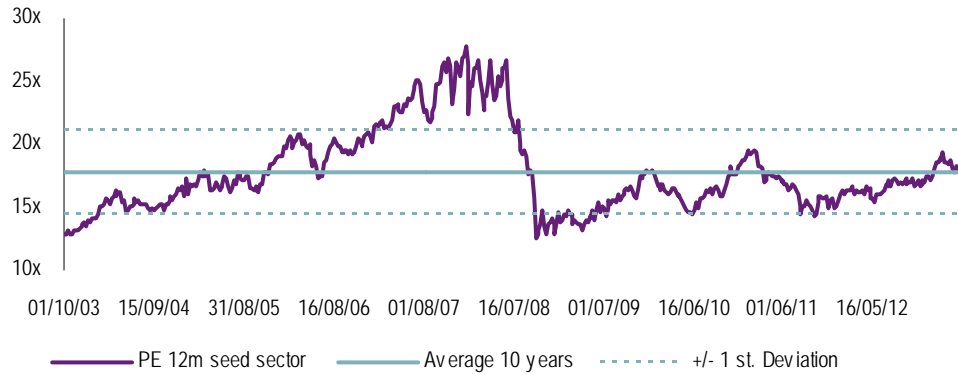
<sup>1</sup> Including royalties.

Sources: Datastream, Natixis

The sector's valuation (17.7x 12m PE), which implies a 50% premium to the Stoxx 600, may look high in absolute terms but in our view it is justified given the sector's sound fundamentals in the medium/long term:

- Growth prospects medium term for the sector (+5%/year) underpinned by solid fundamentals (demographic growth, rise in demand for soft commodities).
- Margin improvement potential thanks to the growing introduction of high valued-added seeds and economies of scale on the R&D programmes.
- High entry barriers in the industry (genetic resources, major R&D expenditure).

Chart 1: 12m PE for the seed sector (average for Monsanto, Syngenta, KWS and Vilmorin) in absolute terms over 10 years



Sources: FactSet, Natixis

Chart 2: 12m PE for the seed sector versus Stoxx 600 over 10 years



Sources: FactSet, Natixis

## Upward revisions for the consensus expected for 2013

Vilmorin expects organic growth of over 10% for the field seeds division, > 3% for vegetable seeds and sales stability for garden products. At the group level, this leads to expected organic growth > 8%. The group maintains its target adjusted operating margin at 11%.

This guidance looks cautious (Natixis organic growth +10.8%, operating margin 11.4%) and yet the consensus has aligned for the sales level and expects operating profit of just 2% over guidance. In the end, our forecasts for operating profit and net profit in 2013 are 3% and 5% respectively over the consensus.

Table 10: 2013 estimates - guidance, consensus, Natixis

€m	Guidance	Consensus	Natixis	Natixis vs consensus (%)
Sales	1,452	1,457.7	1,478	1
Change (%)	8.5	8.9	10.5	
<i>o/w forex (%)</i>	-0.5 <sup>1</sup>	-0.5 <sup>1</sup>	-0.5	
<i>o/w scope (%)</i>	1.0 <sup>1</sup>	1.0 <sup>1</sup>	1.0	
<i>o/w organic growth (%)</i>	8.0	8.4 <sup>1</sup>	10.0	
EBIT	160	163	168	3
EBIT margin (%)	11.0	11.2	11.4	

<sup>1</sup> Based on our estimates for forex and scope impacts.

Sources: Vilmorin, Bloomberg, Natixis

### Another sound year for field seeds

The organic growth guidance for 2013 for the Field seeds division (>10%, implying organic growth of 10.4% in H2 13) looks cautious in view of the favourable environment for corn and soya (stable surface area, price surges). We expect organic growth of 14.9% over the year with organic growth for corn of 21% (broadly in line with our expectations for the corn business at KWS) and organic growth of 7% for the other Field seeds activity. It is worth noting that at the end of January 2013, organic growth comes to 15.4% vs 8.6% at the end of H1 13, which implies a organic growth of 24% in January 2013, according to our estimates.

At the margin level, the group is cautious stating that the level of operating margin will depend on the increase in costs in counter-seasonal production. We think that the price increases (> 10% in the US, >5% in Europe) will help more than offset production costs and thus underpin the operating margin. In the knowledge that Agrelant generated in 2012 sales of ~\$360m and that the group expects price increases over 10% in the US, the rise in costs will exceed \$36m (versus our estimate of \$15m of cost overruns). **We expect an improvement in the operating margin of 120bp to 11.4% in 2013 for the field seed division.**

Table 11: Field seeds division 2013 estimates

€m	2011	2012	Q1 12/13	Q2 12/13	H1 12/13	Q3 12/13e	Q4 12/13e	H2 12/13e	2013e
Sales	598.6	728.7	67.2	122.9	190.10	529.1	126.2	655.3	845.4
Change (%)	15	21.7	4.0	16.9	12.0	24.8	-6.6	17.2	16.0
Organic growth (%)	13.8	19.7	2.9	12.0	8.6	25.0	-4.6	17.9	15.7
EBIT	39.8	74			-21			117	96
EBIT margin (%)	6.6	10.2			-11.0			17.9	11.4
Change (%)	11.2	85.9			29.1			30.0	30.2

Sources: Vilmorin, Natixis

### Gradual recovery for the vegetable seeds business

Our expectations for vegetable seeds (organic growth +3.5%) are in line with the group's guidance. We understand that the positive trends in North and South America will help offset ongoing weakness in Europe. Note that at end-January 2013, organic growth amounted to 2.4% vs 1.6% at end H1 13, which implies +5% in January, according to our estimates.

We expect a vegetable seed operating margin slightly up over the year (+20bp, to 14.8%). Continuation in the improvement in the product mix and favourable geo mix (sound growth for the

HM Clause business unit which is higher margin than the others) will help offset sales slightly under year-start expectations.

Table 12: Vegetable seeds division 2013 estimates

€m	2011	2012	Q1 12/13	Q2 12/13	H1 12/13	Q3 12/13e	Q4 12/13e	H2 12/13e	2013e
Sales	510.3	527.2	107.6	110.6	218.2	166.3	165.6	331.9	550.1
<i>Change (%)</i>	12	3.3	6.6	2.8	4.7	7.3	1.2	4.1	4.3
<i>Organic growth (%)</i>	7.7	2.9	1.9	1.2	1.6	5.5	4.0	4.7	3.5
<b>EBIT</b>	<b>80.2</b>	<b>77</b>			<b>7.6</b>			<b>74</b>	<b>81</b>
<i>EBIT margin (%)</i>	15.7	14.6			3.5			22.2	14.8
<i>Change (%)</i>	22.6	-4.1			-20.4			9.6	5.9

Sources: Vilmorin, Natixis

By factoring in 'garden' organic growth of 1% and EBIT of €1.5m for this division, group organic is likely to reach 10.8% over the year versus guidance >8%. For its part, the operating margin could be 40 bp over the guidance at 11.4%.

## 2. A story of sales growth ...

Carried by development on corn (US, Brazil, India, China) and the reinforcement of its no. 2 position (even achieved leadership in the medium term) on vegetable seeds, Vilmorin can deliver topline growth of 8%/year over the next 5 years (2012/17e). Adding to this continuation of the acquisition policy of €75m/year (+~2% at the sales level), not included in our core scenario, the group could generate sales growth of ~10%/year. The wheat segment (5% of sales at present) could be a sound growth driver in the long term. The consensus does not seem to believe, at least on 2013/2015e, in this growth story. It only slates a rise in sales of 5.5% per year.

Table 13: Sales forecast (group)

€m	2013e				2014e			2015e		
	Natixis	Consensus	Guidance <sup>1</sup>	Gap (%)	Natixis	Consensus	Gap (%)	Natixis	Consensus	Gap (%)
Sales	1,478	1,458	1,454	1	1,589	1,543	3	1,711	1,621	6
Chg (%)	10.5	9.6	8.7		7.5	5.9		7.7	5.0	

<sup>1</sup> Based on our estimates for forex and scope.

Sources: Vilmorin, Natixis

### Corn: 60% of the growth over the 5 next years

**Corn is the most important field seed at the group level (31% of sales, i.e. €415me in 2012).** We estimate that the rise for the corn seeds market in value (slight increase in farmed area, growing introduction of GMO seeds, increased demand for second generation GMO seeds) and ongoing market share gains will allow Vilmorin to generate corn sales growth close to 15%/year over 2012/17e. Corn is thus likely to represent 60% of group growth over the next five years and 80% of the growth for the field seeds division.

Table 14: Field seeds division sales forecast

€m	2012	2013e	2014e	2015e	2016e	2017e
<b>Corn sales</b>	<b>415</b>	<b>501</b>	<b>568</b>	<b>646</b>	<b>740</b>	<b>848</b>
<i>Organic growth (%)</i>	<i>20.0</i>	<i>20.8</i>	<i>13.3</i>	<i>13.7</i>	<i>14.6</i>	<i>14.5</i>
<b>Other field seed sales</b>	<b>314</b>	<b>344</b>	<b>358</b>	<b>373</b>	<b>389</b>	<b>405</b>
<i>Organic growth (%)</i>	<i>19.4</i>	<i>9.0</i>	<i>1.3</i>	<i>4.2</i>	<i>4.2</i>	<i>4.2</i>
<b>Field seed sales</b>	<b>729</b>	<b>845</b>	<b>926</b>	<b>1 019</b>	<b>1 129</b>	<b>1 253</b>
<i>Change (%)</i>	<i>21.7</i>	<i>16.0</i>	<i>9.6</i>	<i>10.0</i>	<i>10.8</i>	<i>11.0</i>
<i>Organic growth(%)</i>	<i>19.7</i>	<i>15.7</i>	<i>8.4</i>	<i>10.0</i>	<i>10.8</i>	<i>11.0</i>

Sources: Vilmorin, Natixis



Table 15: Corn sales forecast (group)

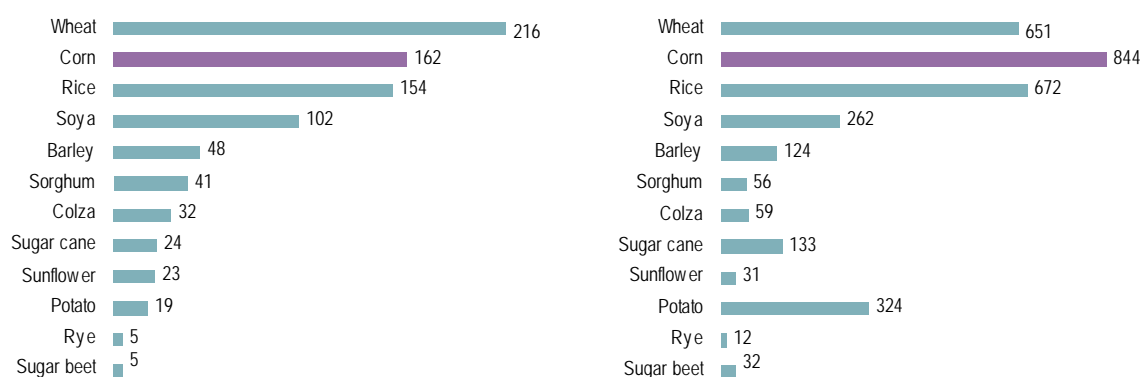
€m	2011	2012	2013e	2014e	2015e	2016e	2017e	CAGR 2012/17e (%)
EU	184	209	225	234	244	253	264	4.8
Change (%)		13.2	8.0	4.0	4.0	4.0	4.0	
US	144	179	229	260	302	351	407	17.9
Change (%)		24.4	28.2	13.2	16.5	16.2	16.0	
Rest of world	2	28	47	74	100	135	177	44.8
Change (%)		ns	68.3	58.8	34.2	35.8	30.6	
<b>Total sales</b>	<b>330</b>	<b>415</b>	<b>501</b>	<b>568</b>	<b>646</b>	<b>740</b>	<b>848</b>	<b>15.3</b>
Change (%)		25.9	20.8	13.3	13.7	14.6	14.5	
OG change %		20.0	20.8	13.3	13.7	14.6	14.5	
% of group sales	27.7	31.0	33.9	35.8	37.7	40.0	42.2	

Source: Natixis

### Corn, a key soft commodity

The corn is a key commodity: number two in terms of planted area (162m ha, vs 216m ha for wheat) and number one in terms of production (844m t vs 651mt for wheat).

Chart 3: Planted area (m ha) and farm production (m t) in 2010



Sources: FAO, KWS

Corn production is likely to continue to rise over the 10 next years (+2.5%/year according to USDA), carried by general drivers (demographic growth, rise of the middle class, etc...) but also by more specific drivers such as:

- Rise in meat consumption (notably in emerging countries) which implies higher demand for corn as animal feed (60% of demand at present is focused on animals).
- Rise in biofuel demand (+4%/year according to the OECD): in the US, 40% of corn production is aimed at biofuels.

While the rise in the farmed area for corn is only likely to amount 1%/year, most of the increase in production will be assured by an improvement in yield that should rise from 5.1 bushells/acre to 5.8 by 2022 (source: USDA long term projection 2013). This will only be achieved via growing utilisation of high value-added seeds.

### Leading seeds market in value

Corn is the number one seed market in the world in value with 40% of the total market (\$34.5bn) i.e. close to \$15bn. This is mainly due to the strong penetration of value-added seeds (GMO) which represent 32% of planted area of corn and a little over half (\$7bn) of the corn seed market.

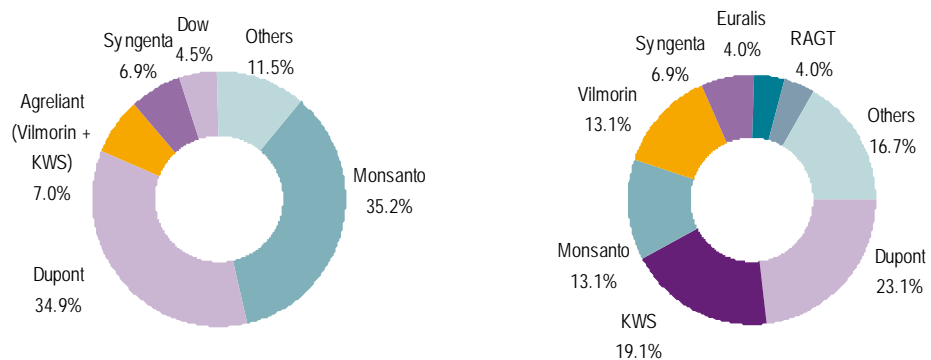
The corn seeds market rose 20%/year in value over the last five years carried by: 1/ growth in farmed area (+2% worldwide) and 2/ growing introduction of GMO seeds (notably in the US and South America).

The market is likely to continue to rise medium term, though at a less sustained pace, thanks to the recurrent improvement in the mix (move from first generation GMO seeds to second generation), to the introduction of GMO seeds in new countries and the launch of new hybrid seeds.

### Vilmorin already has sound positions in corn

Vilmorin is no. 3 ex aequo with Monsanto on the corn seeds segment in Europe (13% market share on Natixis estimates) and no. 3 (7% market share) in North American corn via the Agreliant JV with KWS. The group is not likely to stop there. We think that it can press on with market share gains in the US, Brazil and India, develop its seeds offer in China and maintain its position in Europe.

Chart 4: Corn seeds market share (2012) in North America and western Europe

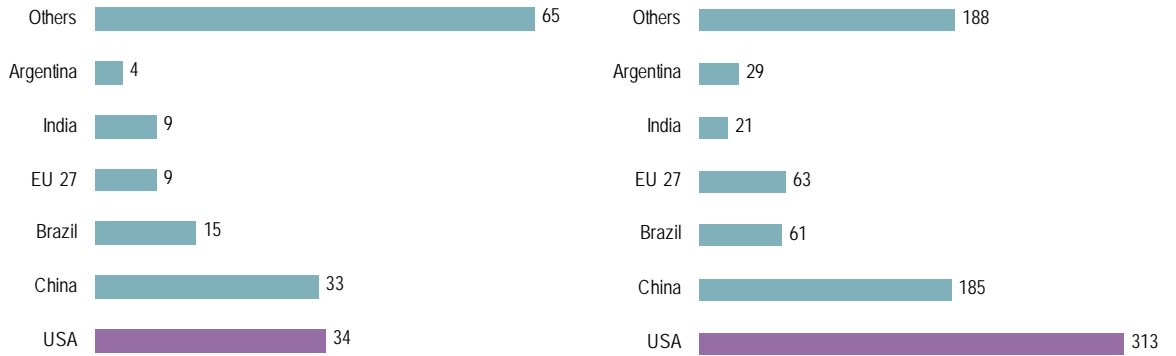


Sources: Vilmorin, company data, Natixis

**10% market share in the US in 5 years' time: a credible scenario**

The USA is the world's largest grower (20% of the total planted area) and by far the largest producer (36% of global production) of corn.

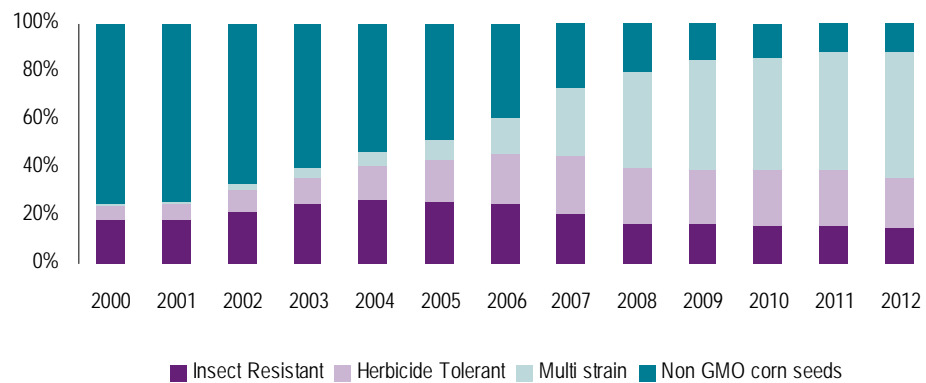
Chart 5: Breakdown by country of planted areas (millions of hectares) and corn production (Mt) in 2011/12



Source: USDA

The corn seed market in the USA (\$6.9bn in 2012) by itself represents 20% of the world seed market in value terms (including vegetable seeds). This is due to the size of the areas cultivated (34 million hectares) and a strong genetically-modified seed utilisation rate (herbicide tolerant, insect resistant, multi-trait) since GM seeds today account for nearly 88% of the planted corn area in the USA.

Chart 6: Breakdown of the US corn seed market by type



Source: USDA

The corn seed market in the USA still has the capacity to grow at a high rate in the medium term buoyed by: 1/ an increase in the penetration of genetically-modified seeds (88% of areas planted in 2012); 2/ an improvement in the mix (transfer from first-generation GM seeds to “multi-trait” GM seeds; and 3/ the introduction of new varieties offering higher value added.

Taking the forecasts for growth in the planted area provided by the USDA and assuming a continuation of the switch from first-generation GM seeds (herbicide tolerant, insect resistant) to multi-trait seeds, **we expect the corn seed market in the USA to grow by 9%/year on average between 2012 and 2018e.**

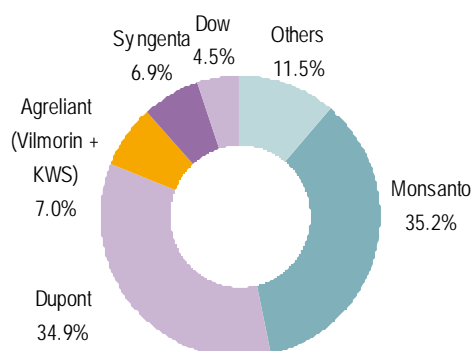
Table 16: Growth of the US corn seed market

\$m	2012	2013e	2014e	2015e	2016e	2017e	2018e
Area planted with "multi-trait" GM seeds (million hectares)	17.66	18.53	19.15	20.27	21.41	22.55	23.57
As % of total corn area	52	54.5	57.5	60.5	63.5	66.5	69.5
Seed prices per Ha (\$)	237	266	288	311	335	362	391
Change in price (%)		12.3	8.0	8.0	8.0	8.0	8.0
Value of the "multi-trait" corn seed segment in \$m	4,191	4,935	5,508	6,297	7,181	8,171	9,223
Area planted with "single-trait" GM seeds	12.23	11.56	10.49	9.72	8.93	8.14	7.29
As % of total corn area	36	34.0	31.5	29.0	26.5	24.0	21.5
Seed prices per Ha (\$)	190	213	223	233	243	254	265
Change in price (%)		12.3	4.5	4.5	4.5	4.5	4.5
Value of the "single-trait" corn seed segment in \$m	2,321	2,463	2,336	2,261	2,172	2,068	1,936
Area planted with non GM seeds	4.08	3.91	3.66	3.52	3.37	3.22	3.05
As % of total corn area	12	11.5	11.0	10.5	10.0	9.5	9.0
Seed prices per Ha (\$)	94.9	107	110	112	114	116	119
Change in price (%)		12.3	3.0	3.0	3.0	3.0	3.0
Value of the non-GM corn seed segment in \$m	387	417	402	394	385	375	362
Total planted corn area	34.0	34.0	33.3	33.5	33.7	33.9	33.9
% Change in total corn area		0.1	-2.0	0.6	0.6	0.6	0.0
Value of the corn seed segment	6,898	7,814	8,246	8,952	9,738	10,614	11,521
Change (%)		13.3	5.5	8.6	8.8	9.0	8.5
Volume (%)		0.1	-2.0	0.6	0.6	0.6	0.0
Price (%)		12.3	6.6	6.8	6.9	7.0	7.1
Mix (%)		0.9	0.9	1.2	1.3	1.4	1.4

Sources: USDA, Natixis

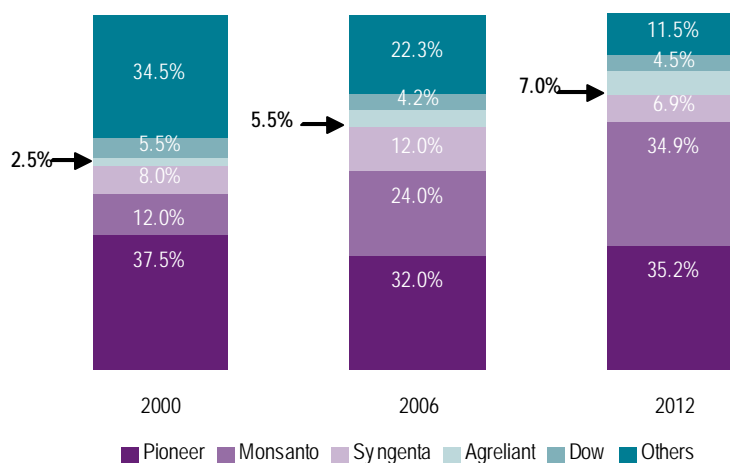
Since the creation of the joint venture Agreliant with KWS (owned 50/50 by the two players), it has gained market share steadily in the US, rising from a market share of 1.5% in 2000 to 7% in 2012.

Chart 7: Market shares in the corn seed segment in North America



Sources: Company data, Natixis estimates

Chart 8: Growth in market shares in the corn seed segment in the USA



Sources: Company data, Natixis estimates

The momentum of market share gains is not yet over and a market share of 10% in the medium term looks achievable in the medium term thanks to:

- A portfolio of diversified brands (6 in total) dedicated by geographic sector.
- A policy of differentiating marketing with a presence in the three distribution networks: direct sales, sales to farmers and sales to dealers and wholesalers.
- Quality seeds with competitive genetics.
- The growing use of GM traits (licensed from Monsanto).

Taking our estimates for growth of the corn seed market in the USA (see the table on the previous page) and a market share of 10% in 2017, we believe that Agreliant could generate sales of \$1bn in 2017, implying a share for Vilmorin of €380m (50% share).

Table 17: Estimates for Agreliant US

\$m	2012e	2013e	2014e	2015e	2016e	2017e
Corn seed market	6,898	7,814	8,246	8,952	9,738	10,614
Change (%)		13.3	5.5	8.6	8.8	9.0
<b>Agreliant market share (%)</b>	<b>7.0</b>	<b>7.6</b>	<b>8.2</b>	<b>8.8</b>	<b>9.4</b>	<b>10.0</b>
Agreliant sales	483	594	676	788	915	1,061
Change (%)		23.0	13.9	16.5	16.2	16.0
EUR/USD	1.35	1.29	1.30	1.30	1.30	1.30
Agreliant sales (€m)	358	459	519	605	703	815
Change (%)		28.2	13.2	16.5	16.2	16.0
Sales reverting to Vilmorin (€m)	178.8	229	260	302	351	407
Change (%)		28.2	13.2	16.5	16.2	16.0

Sources: Vilmorin, Natixis

**Brazil: €100m est. in sales in 2016**

Brazil is a priority development zone for the group’s Field Seeds activities. Vilmorin should generate corn sales of €30m in 2013 in this country. Sales could be increased by a factor of just over 3x in 2016, to over €100m (i.e. 7% of the group’s sales).

The world’s third-largest corn producer with annual production of 61 Mt in 2012, Brazil is a promising market for seed producers given:

- Anticipated growth in production areas +2%/year (source: USDA).

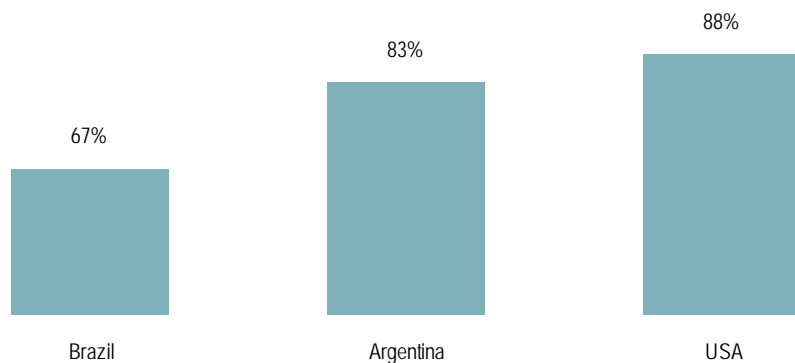
Chart 9: Growth in planted areas and corn production in Brazil



Source: USDA

- The growing use of GM seeds: the corn area planted using GM seeds accounts for just 67% of areas in Brazil (vs. 88% in the USA and 83% in Argentina).

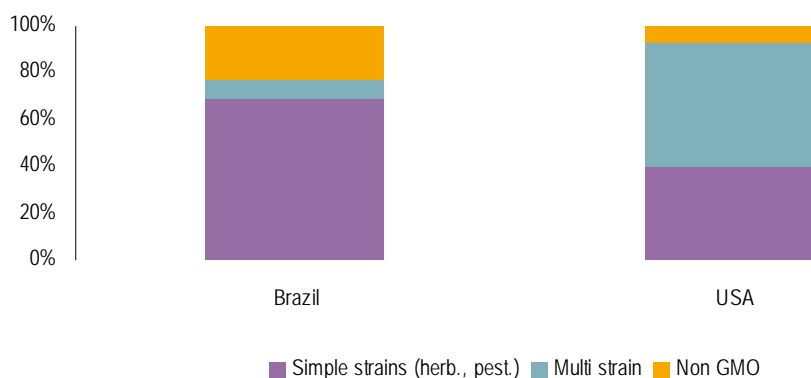
Chart 10: Penetration rate of GM seeds in planted core areas



Source: ISAAA

- The improvement in the mix with the switch, within GM areas, from first-generation GM seeds (herbicides, pesticides) to multi-trait seeds. The area cultivated with multi-trait seeds only accounts for 8% of the Brazilian market (vs. 57% of the American market).

Chart 11: Breakdown of planted corn areas by seed type in Brazil and the USA



Sources: ISAAA, USDA, Natixis

Using the same methodology as that used to estimate growth of the US market, we expect the Brazilian market to grow by 9%/year over the next five years (including growth in volumes of 1%/year, price rises of 4%/year and an improvement in the mix of 4%/year).

Table 18: Growth of the Brazilian corn seed market

\$m	2012	2013e	2014e	2015e	2016e	2017e	2018e
Areas planted with "multi-trait" GM seeds (millions of Ha)	1.2	2.0	2.7	3.5	4.3	5.2	6.0
Total corn area (%)	8.00	13.0	18.0	23.0	28.0	33.0	38.0
Seed prices per Ha (\$)	98.43	105.98	114.45	123.61	133.50	144.18	155.71
Change in prices (%)		9.9	8.0	8.0	8.0	8.0	8.0
Value of the "multi-trait" corn seed segment (\$m)	114.9	209.9	314.7	435.5	578.2	745.5	941.4
Areas planted with "single-trait" GM seeds (millions of Ha)	10.3	10.2	9.9	9.6	9.3	8.6	8.0
Total corn area (%)	69.00	67.0	65.0	63.0	60.0	55.0	55.0
Seed prices per Ha (\$)	77.14	80.86	83.28	85.78	88.35	91.00	93.73
Change in prices (%)		4.8	3.0	3.0	3.0	3.0	3.0
Value of the "single-trait" corn seed segment (\$m)	793.0	825.4	826.9	827.7	820.0	784.2	745.6
Areas planted with non-GM seeds (millions of Ha)	3.4	3.0	2.6	2.1	1.9	1.9	1.9
Total corn area (%)	23.00	20.0	17.0	14.0	12.0	12.0	12.0
Seed prices per Ha (\$)	38.57	40.43	41.64	42.89	44.18	45.50	46.87
Change in prices (%)		4.8	3.0	3.0	3.0	3.0	3.0
Value of the non-GM corn seed segment (\$m)	132.2	123.2	108.1	92.0	82.0	85.6	89.5
Total planed corn area millions of Ha)	14.90	15.24	15.28	15.32	15.47	15.67	15.91
% Change in total corn area		2.3	0.3	0.3	1.0	1.3	1.3
Value of the corn seed segment (\$m)	1,040	1,159	1,250	1,355	1,480	1,615	1,615
Change (%)		11.4	7.9	8.4	9.2	9.1	9.1
Volume (%)		2.3	0.3	0.3	1.0	1.3	1.3
Price (%)		5.4	3.9	4.3	4.6	5.0	5.0
Mix (%)		3.8	3.7	3.9	3.6	2.9	2.9

Sources: USDA, Natixis

Benefiting from local expertise after the acquisition of various assets in Brazil, high-quality gene pools, and the use of GM seeds, we believe that Vilmorin should be able to gain ~1.5 points of market share/year (at the expense of local producers) and achieve a 10% market share in 2017 (in line with the group's targets).

Table 19: Growth in Vilmorin's corn seed sales in Brazil

€m	2012	2013e	2014e	2015e	2016e	2017e	2018e
Value of the corn seed segment (\$m)	1,040	1,159	1,250	1,355	1,480	1,615	1,777
€/\$ rate	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Market	800	895	959	1,040	1,136	1,240	1,364
<i>Change (%)</i>		<i>11.8</i>	<i>7.2</i>	<i>8.4</i>	<i>9.2</i>	<i>9.1</i>	<i>10.0</i>
<i>Vilmorin market share (%)</i>	<i>2.50</i>	<i>3.4</i>	<i>4.50</i>	<i>6.0</i>	<i>8.0</i>	<i>10.0</i>	<i>10.0</i>
Vilmorin sales	20	30	43	62	91	124	136

Sources: Vilmorin, Natixis

Vilmorin's growth in Brazil has been mainly based on acquisitions (five deals in the last three years). We understand that the group today has the industrial base and genetic resources it needs to expand organically in Brazil.

Table 20: Acquisitions made by Vilmorin in corn in Brazil

Name	Year	Type of asset
Sementes Guerra	2011	Gene pools / industrial assets
Brasmilho	2011	Gene pools / industrial assets
CCGL	2013	Corn gene pools
Geneseed	2013	Research programmes
KSP	2013	Research programmes
Genetica Agricola	2013	Research programmes

Sources: Vilmorin, Natixis

## Sights set on India

The Indian seed market (\$2bn) offers strong growth prospects (+10%/year) reflecting: 1/ the growth in agricultural production in order to reach food self-sufficiency; 2/ the growing use of commercial seeds (vs. farm seeds); 3/ the introduction of GM seeds (currently only used in cotton); and 4/ consolidation between players on the market.

The group has set itself the target of capturing 20% of the Indian corn seed market within 10 years (vs. 10% today) thanks to the strengthening of its current positions but, more importantly, the continuation of an active acquisitions policy.

After the acquisition in 2010 of Avestaghen's field seeds assets, in March 2012, the group sealed the acquisition of a majority stake (61%) in Bisco Bio Sciences. On 14 March 2013, the group announced the acquisition, from the historical family shareholders in Bisco Bio Sciences, of the 39% of the capital that they still owned. The group now has full control of one of the leading corn seed players in India.

Assuming normative growth of the Indian corn seed market of 12%/year in the medium term, this should result in sales of €74m in 2020 vs. €15m today.



Table 21: Estimates for Vilmorin's sales in the corn segment in India

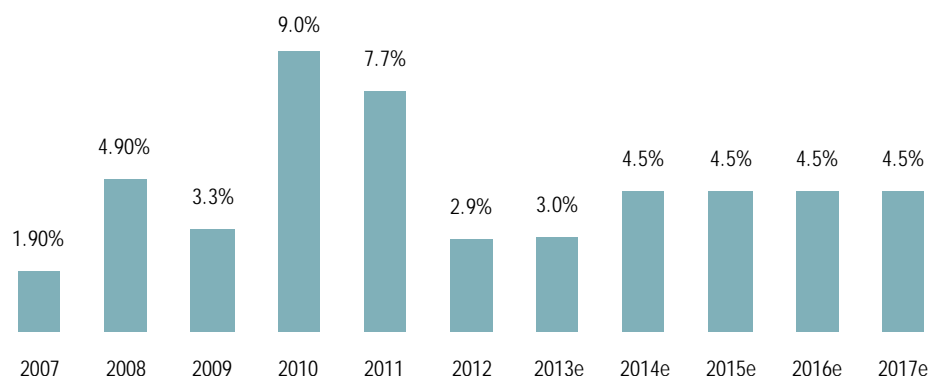
	2012	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Corn seed market in India	150	168	188	211	236	264	296	332	371
<i>Change (%)</i>	12	12	12	12	12	12	12	12	12
Vilmorin sales (€m)	15	19	24	29	35	43	52	62	74
<i>Vilmorin market share (%)</i>	10	11.3	12.5	13.8	15.0	16.3	17.5	18.8	20

Sources: Vilmorin, Natixis

## Strengthening of the position as no. 2 in vegetable seeds

**An historical business for the group, vegetable seeds today account for 39% of Vilmorin's 2012 sales and 51% of operating profit (including the holding company).** The group ranks number 2 in this segment, with a worldwide market share of 14%, behind Monsanto (market share of 17%) and ahead of Syngenta (market share 12%). After two difficult years, the market should gradually pick up and return to a growth rate in value terms of around 3/5%/year in the medium term. Vilmorin seems well placed to at least maintain its current position and thus take advantage of market growth.

Chart 12: Organic growth of Vilmorin's Vegetable Seeds division

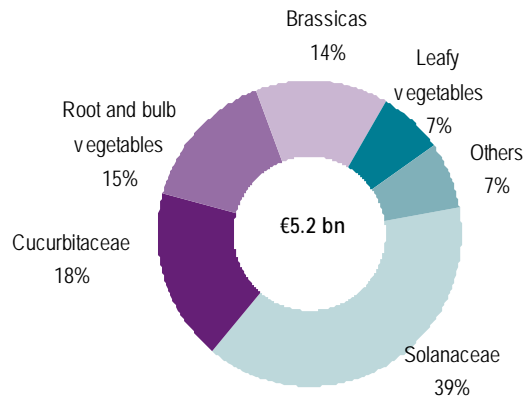


Sources: Vilmorin, Natixis

## Return to growth of the vegetable seed market of 3-5%/year

The vegetable seed segment represents 15% of the world seed market, i.e. \$5.2bn. It is divided into six major product families (solanaceae, cucurbitaceae, root and bulb vegetables, brassicas, leafy vegetables and other).

Chart 13: Breakdown of the vegetable seed market by product category

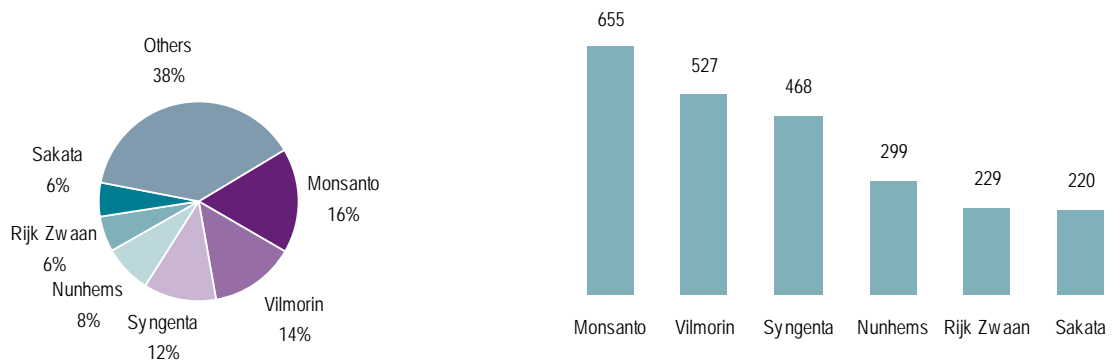


Source: USDA

After two difficult years as a result of public health crises, the deterioration in the economic environment in Europe and revolutions in Arab countries, the main players in the segment (Monsanto, Vilmorin, Syngenta) all agree that the market should improve gradually. We expect the vegetable seed market to grow by 4%/year in the medium term driven by:

- Growing demand for vegetables from emerging countries (notably Asia, eastern Europe, Africa and the Middle East).
- Increased consumption of fresh vegetables.
- Growing use of commercial seeds.
- The improvement in the mix with higher value added seeds that significantly improve the taste, texture, colour and conservation.

Chart 14: Market share and vegetable seed sales (€m) by player



Sources: Vilmorin, Natixis

Backed by its innovation capacity (fruit of its R&D investments), its expertise in key species (tomatoes, melon, carrots), and its organisation into regional business units (proximity to markets), Vilmorin should continue to make market gains in the vegetable seed segment.

We note that, since it refocused its business on around ten species (vs. 30 previously), Monsanto is in the process of losing a little ground in a controlled manner. Vilmorin could take advantage of this situation to step up its efforts in the categories being abandoned.

We note, however, that Monsanto could become more aggressive in terms of innovation in its key categories. Following the acquisition of De Ruiter in 2008, Monsanto began genotyping the main vegetable seed species in 2009. Five years after the acquisition, the group should start to reap the fruits of its R&D efforts in the next few years with a fairly well-filled pipeline, notably in broccoli, tomatoes and peppers.

Chart 15: Monsanto's R&D pipeline in vegetable seeds



Source: Monsanto

## Continuation of a strong acquisitions policy

In the last few years, Vilmorin has invested an average of €40m/year to acquire companies, research centres and gene pools. Everything suggests (strategic sense, desire to expand the group, financial capacity) that the group will maintain this momentum.

Assuming that the group invests €75m each year for targets valued at 3x sales (in line with the sector average), this add €25m in additional sales (i.e. ~+2% top-line growth each year). An investment of this amount would not call into question the group's ability to carry out larger deals.

### Sector poised to see further consolidation

Numerous small targets (<€100m) are likely to be bought out in the next few years. They can no longer remain competitive because:

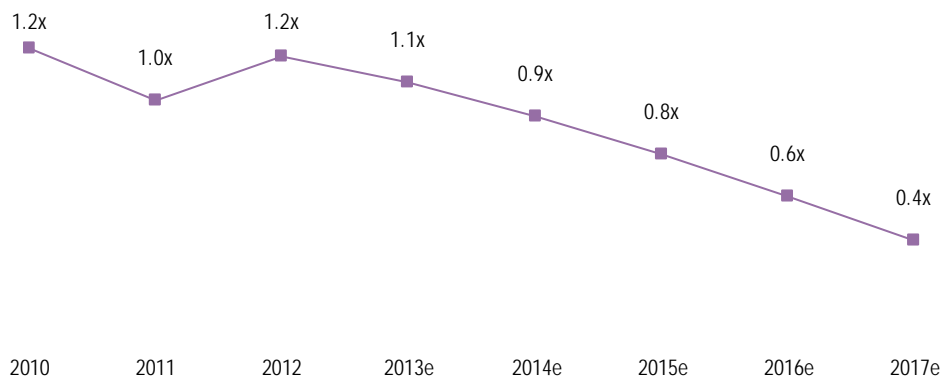
- They lack the critical size to make the increasingly onerous investments in R&D (on average 15% of players' sales vs. 10% five years ago).
- They will not be able to optimise their R&D like the other larger groups, which can take advantage of cost synergies.

The problem remains the cost of this external growth: sector transaction multiples have tended to increase significantly, reaching all-time highs on deals such as Monsanto's takeover of De Ruiters (around 5x sales). Monsanto has financing capacity in keeping with its size and is driving up the valuations of targets in the sector.

### Fire power of €600m

Based on its good financial health (Net debt/EBITDA of 1.2x at end-2012), Vilmorin today has firepower of €620m assuming a maximum ND/EBITDA ratio of 3x. We do not expect any deals on this scale in the short term but instead further small/medium-sized acquisitions (€30/100m).

Chart 16: Vilmorin's ND/EBITDA ratio excluding potential acquisitions



Sources: Vilmorin, Natixis

### Acquisitions focused on corn and emerging countries

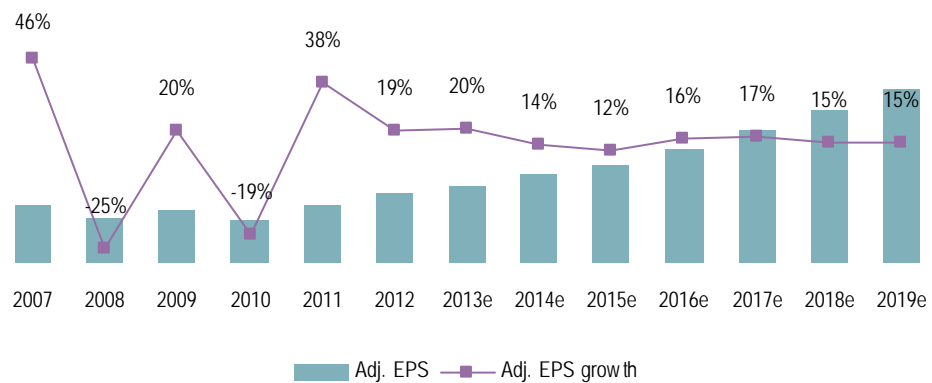
Despite the increase in transaction multiples over the last few years, the group should continue its policy of acquisitions in the hunt for targets that allow it to: 1/ improve its genetic resources; and 2/ penetrate new markets and new categories.

**In line with the deals in the last three years, the group is likely to continue to acquire targets that extend its activities in emerging countries (Latin America and southeast Asia mainly) and in strategic segments (corn and vegetable seeds).**

### 3. ...and operating margin improvement

In the last two years Vilmorin has managed to improve its operating margin from 170bp to 10.8% in 2012 thanks to: 1/ **the improvement in the product mix**; 2/ **the optimisation of R&D costs**; and 3/ **the lever on the “corn” activity (notably in the US)**. This momentum should continue in the next few years (+70bp/year) with: 1/ the return of profitability in vegetable seeds to 18% (vs. 14% today); and 2/ the continuation of the improvement in the operating margin in field seeds, which should benefit from the good momentum in corn and the commercialisation of proprietary traits in corn in 2016. All told, we believe that top-line growth, combined with the improvement in the operating margin, will enable Vilmorin to generate EPS growth of ~+15%/year in the next 10 years.

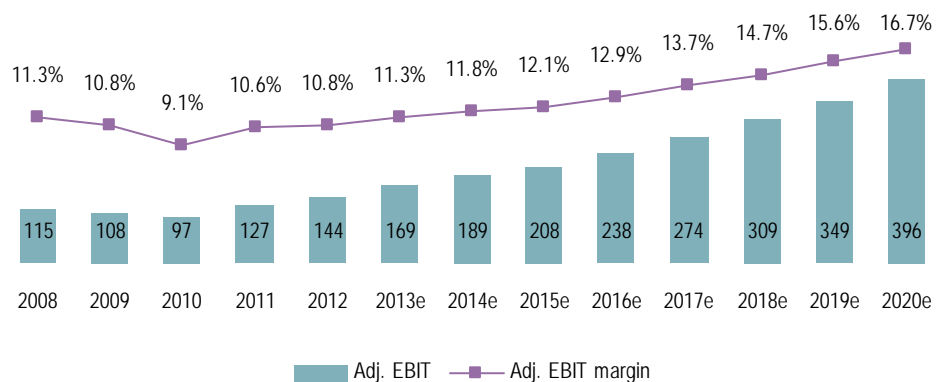
Chart 17: Adjusted EPS (€) and change in Vilmorin's adjusted EPS 2007/2019e



\* Growth in 2013 adjusted EPS is calculated on an adjusted number of shares

Sources: Vilmorin, Natixis

Chart 18: Group operating profit and operating margin in 2008/2020e

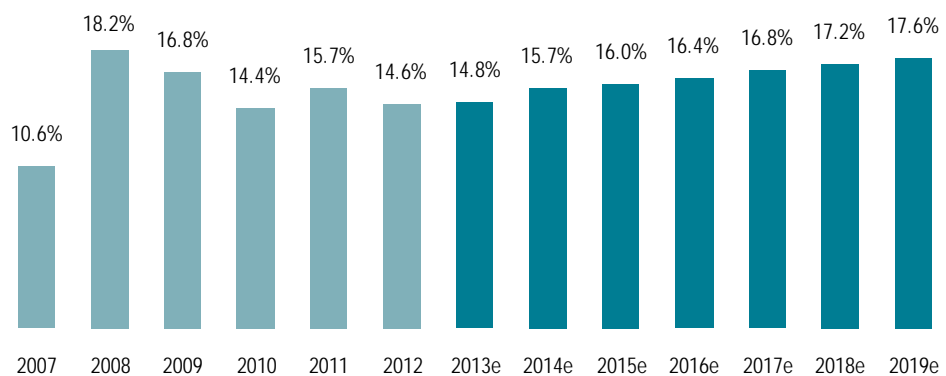


Sources: Vilmorin, Natixis

## Vegetable Seeds: return to operating margin levels of 17%

The Vegetable Seeds operating margin suffered strongly between 2008 and 2012 (-360bp) as a result of the downturn on the vegetable seed market. The gradual recovery on the vegetable seed market, the improvement in the mix and the payback from the R&D efforts made in recent years should make it possible to gradually restore profitability levels to near to those seen before the market downturn in 2009, i.e. around 17%.

Chart 19: Adjusted operating margin in the Vegetable Seeds division 2007/2019e

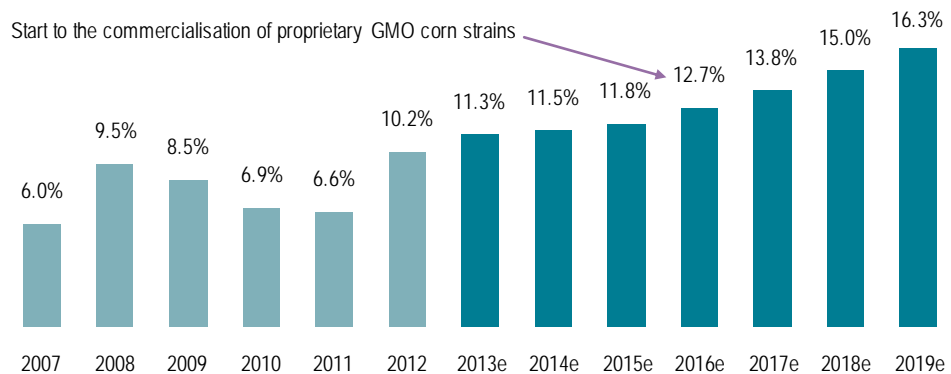


Sources: Vilmorin, Natixis

## Field Seeds: heading for an operating margin over 15%

After suffering a deterioration in its adjusted operating margin of 290bp between 2008 and 2011, the Field Seeds division saw its adjusted operating margin jump 360bp to 10.2% thanks notably to strong organic growth (+19.7%). Between 2013 and 2016, we expect a slight progression in the operating margin (+30bp/year) driven mainly by the operating lever. More importantly, 2016 could mark a turning point in the group's history, particularly for the margin, with the commercialisation of proprietary GM traits.

Chart 20: Adjusted operating margin in the Field Seeds division 2007/2019e



Sources: Vilmorin, Natixis

## Commercialisation of proprietary GM corn traits: a turning point!

Vilmorin today generates sales of ~€200m from GM seeds (mainly in the USA). As the group does not have its own “proprietary” traits, it has to license them from rivals (Monsanto). For the last few years, the group has been working on developing first-generation traits for corn (herbicide tolerance, resistance to insects). This research effort was strengthened with the creation of the joint venture Genective (in partnership with KWS) in November 2011.

**What is the purpose of developing proprietary traits?** The aim is to reduce the amount of royalties paid to other players, and even license out its own technologies to other seed producers.

**What is the time frame for commercialisation?** The field trials have been conclusive and the deregulation procedures are underway, with first-time commercialisations expected in 2016 in the USA.

**What is the potential for the replacement of the current portfolio of GM seeds?** The switch within the portfolio of GM seeds from in-licensed seeds to seeds developed in-house will be gradual. We expect a gradual replacement of the portfolio of GM seeds of 5% in 2016e rising to 25% in 2020e. The rest will continue to be licensed from Monsanto.

**What impact on activity?** The impact on sales should be neutral as we believe that the quality of Vilmorin's first-generation traits will be at least equivalent to those currently licensed from Monsanto.

**What impact on the operating margin?** We believe that the group pays out ~50% of the sales generated on GM seeds in the form of royalties to Monsanto, i.e. ~€100m in 2012. Access to its own traits should enable Vilmorin (via Agrelant) to limit the amount of royalties paid to Monsanto. The sales not paid out will add directly to operating profit.

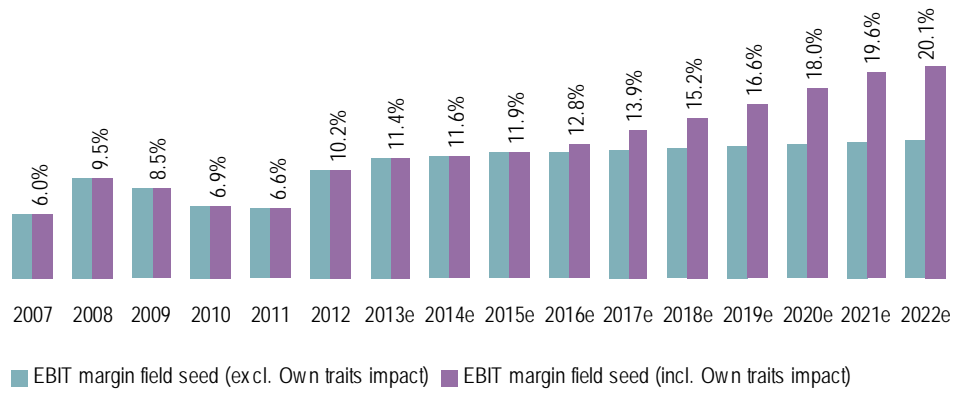
Table 22: Impact on Field Seeds operating profit of the commercialisation of proprietary GM corn traits

€m	2012	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
GM corn seed sales OGM (a)	171.1	222.6	258	309	373	450	511	584	663	756	855
Sales of GM corn seeds with proprietary traits (%) (b)	-	-	-	-	5.0	10.0	15.0	20.0	25.0	30.0	30.0
Sales of GM corn seeds with proprietary traits (c) = a x b	-	-	-	-	19	45	77	117	166	227	257
Field Seeds op. profit (excl. impact of proprietary traits)	74	96	107	120	135	153	167	184	202	223	244
Field Seeds op. margin (excl. impact of prop. traits) (%)	10.2	11.3	11.5	11.8	12.0	12.2	12.4	12.6	12.8	13.0	13.2
Impact of proprietary traits (d) = c x 50%	-	-	-	-	9	23	38	58	83	113	128
Fields Seeds op. profit incl. impact of proprietary traits	74	96	107	120	145	175	206	242	285	336	372
Fields Seeds op. margin incl. impact of prop. traits (%)	10.2	11.3	11.5	11.8	12.8	14.0	15.2	16.6	18.0	19.6	20.1

Sources: Vilmorin, Natixis

All told, if the group managed to replace 30% of its GM corn seed portfolio in 2022e with its own proprietary traits, we estimate that Vilmorin could generate a Field Seeds operating profit of €372m in 2022e (vs. €244m excluding the commercialisation of proprietary traits). The Field Seeds operating margin could then reach 15.2% in 2018e and 20.1% in 2022e.

Chart 21: Operating margin of the Field Seeds division incl./excl. commercialisation of proprietary GM corn traits



Sources: Vilmorin, Natixis



Financial Data	on 30/6				Vilmorin & Cie	
<b>Breakdown by activity (M€)</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>CAGR 12/15</b>
Turnover	1,191.8	1,338.0	1,478.4	1,589.1	1,711.4	8.6%
Field seeds	598.6	728.7	845.4	926.5	1,019.1	11.8%
Vegetable seeds	510.3	527.2	550.1	578.9	607.8	4.9%
Home garden	81.9	80.8	81.6	82.4	83.2	1.0%
Holding	1.0	1.3	1.3	1.3	1.3	0.0%
<b>Adjusted operating profit</b>	<b>126.7</b>	<b>144.3</b>	<b>168.3</b>	<b>188.9</b>	<b>209.0</b>	<b>13.2%</b>
Field seeds	39.8	74.0	96.4	107.5	121.3	17.9%
Vegetable seeds	80.2	76.9	81.4	90.9	97.2	8.1%
Home garden	6.5	-1.8	1.5	1.5	1.5	
Holding	0.2	-4.8	-11.0	-11.0	-11.0	-31.8%
<b>Adjusted operating margin</b>	<b>10.6%</b>	<b>10.8%</b>	<b>11.4%</b>	<b>11.9%</b>	<b>12.2%</b>	
Field seeds	6.6%	10.2%	11.4%	11.6%	11.9%	
Vegetable seeds	15.7%	14.6%	14.8%	15.7%	16.0%	
Home garden	7.9%	-2.2%	1.8%	1.8%	1.8%	
Holding	ns	ns	ns	ns	ns	
<b>Profit &amp; loss statement (M€)</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>CAGR 12/15</b>
Revenues	1,191.8	1,338.0	1,478.4	1,589.1	1,711.4	8.6%
Change	12.0%	12.3%	10.5%	7.5%	7.7%	
Organic growth	9.6%	11.0%	10.0%	6.5%	7.7%	
EBITDA	276.0	269.0	316.2	347.9	380.3	12.2%
Change	34.0%	-2.5%	17.6%	10.0%	9.3%	
EBIT	156.7	137.7	168.3	188.9	209.0	14.9%
Change	61.2%	-12.1%	22.2%	12.2%	10.7%	
Adjusted EBIT	126.7	144.3	168.3	188.9	209.0	13.2%
Change	24.5%	13.9%	16.6%	12.2%	10.7%	
Operating margin	10.6%	10.8%	11.4%	11.9%	12.2%	
Financial items	-21.3	-26.3	-16.5	-15.0	-13.5	
Pre-tax profit on ordinary activities	105.4	118.0	151.8	173.9	195.5	18.3%
Exceptional items	30.0	-6.6	0.0	0.0	0.0	
Corporate tax	-38.7	-26.1	-43.8	-50.1	-56.2	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	0.6	1.8	1.8	1.8	1.8	
Minority interests	-6.3	-6.5	-7.2	-7.9	-8.7	
Net profit on divested activities	0.0	0.0	0.0	0.0	0.0	
<b>Reported net profit</b>	<b>91.0</b>	<b>80.6</b>	<b>102.7</b>	<b>117.7</b>	<b>132.5</b>	<b>18.0%</b>
Change	67.6%	-11.4%	27.4%	14.7%	12.5%	
Adjusted net profit	69.5	85.7	102.7	117.7	132.5	15.6%
Change	28.3%	23.2%	19.8%	14.7%	12.5%	
<b>Cash flow statement (M€)</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014e</b>	<b>2015e</b>	<b>CAGR 12/15</b>
Cash flow from operations	167.0	225.7	257.8	284.6	312.4	11.4%
Net Investments	-148.0	-168.0	-175.8	-189.3	-195.0	5.1%
Decrease (Increase) in WCR	-11.9	-67.0	-62.3	-38.7	-42.8	
Free cash flow	7.1	-9.3	19.7	56.6	74.6	na
Acquisitions	17.0	-13.0	0.0	0.0	0.0	
Dividend	-35.0	-30.3	-36.0	-40.3	-45.1	14.2%
Capital increase	-11.5	55.7	0.0	0.0	0.0	
Divestments	-	-	-	-	-	
Miscellaneous	0.4	-48.7	0.0	0.0	0.0	
Increase (Decrease) in cash	-22.0	-45.6	-16.3	16.3	29.4	
<b>Net debt</b>	<b>270.2</b>	<b>315.7</b>	<b>332.0</b>	<b>315.7</b>	<b>286.3</b>	
<b>Gearing</b>	<b>26.1%</b>	<b>28.1%</b>	<b>27.8%</b>	<b>24.6%</b>	<b>20.8%</b>	

Balance sheet (M€)	2011	2012	2013e	2014e	2015e	CAGR 12/15
Net fixed assets	997.2	1,081.1	1,109.0	1,139.2	1,162.9	2.3%
o/w net goodwill	311.6	333.0	333.0	333.0	333.0	
o/w gross goodwill	-	-	-	-	-	
Financial fixed assets	62.1	64.9	64.9	64.9	64.9	
WCR	369.7	420.2	482.5	521.2	564.1	
Net assets on divested activities	-	-	-	-	-	
Total equity	1,035.9	1,121.9	1,195.7	1,281.0	1,377.0	6.9%
o/w shareholders' equity	928.0	1,006.9	1,073.6	1,151.0	1,238.3	
Provisions	122.9	128.6	128.6	128.6	128.6	
Net debt	270.2	315.7	332.0	315.7	286.3	

Per share data (€)	2011	2012	2013e	2014e	2015e	CAGR 12/15
Shares outstanding (millions)	17.2	17.2	17.2	17.2	17.2	0.0%
Diluted shares (millions)	16.9	17.5	19.2	19.2	19.2	3.2%
Reported EPS	5.29	4.68	5.42	6.22	6.99	14.3%
Adjusted EPS	4.04	4.98	5.42	6.22	6.99	12.0%
Goodwill	0.00	0.00	0.00	0.00	0.00	na
Cash flow	9.70	13.11	13.61	15.03	16.49	7.3%
Net dividend	1.50	1.65	1.90	2.13	2.38	13.0%
Payout ratio	28.4%	35.2%	35.1%	34.2%	34.1%	
Book value	60.17	65.16	63.14	67.64	72.71	3.6%

Financial ratios	2011	2012	2013e	2014e	2015e	CAGR 12/15
Operating margin	13.1%	10.3%	11.4%	11.9%	12.2%	
Adjusted operating margin	10.6%	10.8%	11.4%	11.9%	12.2%	
Effective rate of tax	-28.6%	-23.4%	-28.8%	-28.8%	-28.8%	
Net margin	8.1%	6.4%	7.3%	7.8%	8.1%	
ROE	9.8%	8.0%	9.6%	10.2%	10.7%	
ROCE	6.8%	7.4%	7.6%	8.1%	8.7%	
Capital employed (M€)	1,367	1,501	1,591	1,660	1,727	4.5%
Interest cover (x)	5.9	5.5	10.2	12.6	15.5	
Debt/EBITDA (x)	1.0	1.2	1.1	0.9	0.8	
Gearing	26.1%	28.1%	27.8%	24.6%	20.8%	
WCR (% of sales)	31.0%	31.4%	32.6%	32.8%	33.0%	
Goodwill (% of book value)	30.1%	29.7%	27.8%	26.0%	24.2%	
Net investments (% of sales)	-12.4%	-12.6%	-11.9%	-11.9%	-11.4%	

Investment ratios	2011*	2012*	2013e	2014e	2015e
EV/Turnover (x)	1.3	1.4	1.4	1.3	1.2
EV/EBITDA (x)	5.8	6.6	6.5	5.9	5.3
EV/Adjusted EBIT (x)	11.6	12.5	12.2	10.8	9.6
P/BV (x)	1.4	1.2	1.5	1.4	1.3
P/CF (x)	7.1	6.2	6.8	6.2	5.6
Adjusted P/E	19.6	15.7	17.4	15.1	13.6
Reported P/E	19.6	15.6	17.4	15.1	13.6
Net yield	2.3%	2.9%	2.0%	2.3%	2.6%
Free cash flow yield (%)	5.1%	1.0%	1.2%	3.4%	5.3%

\* stock market ratios at 11/04 of the historic year based on estimates at this date.

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This document may mention valuation methods, which are defined as follows:

- 1/ Peer comparison method: valuation multiples for the company in question are compared with those of a sample of companies in the same sector, or with a similar financial profile. The sample average acts as a valuation benchmark, to which the analyst can, where necessary, apply discounts or premiums resulting from his/her perception of the company's specific features (legal status, growth outlook, profitability, etc.).
- 2/ NAV method: Net asset value is an assessment of the market value of the assets on a company's balance sheet using the method that the analyst deems most relevant.
- 3/ Sum of the parts method: this method involves valuing each of the company's businesses separately using the most appropriate valuation methods for each, and then adding them together.
- 4/ DCF method: the discounted cash flow method involves assessing the current value of cash that a company will generate in the future. The analyst draws up cash flow projections based on his/her assumptions and models. The discount rate used is the average weighted cost of capital, which equates to the company's cost of debt and the theoretical cost of equity as estimated by the analyst, and weighted by the proportion of each of these two components in the company's financing.
- 5/ Method based on transaction multiples: with this valuation method, the company's multiples are compared with those seen in transactions involving groups with a similar business profile.
- 6/ Dividend discount method: with this method, the analyst establishes the present value of dividends to be paid to shareholders by the company, using a projection of dividend payments and an appropriate discount rate (generally the economic cost of equity).
- 7/ EVA method: with the Economic Value Added method, the analyst determines the additional level of profitability generated annually by a company on its assets relative to its cost of capital (difference also known as value creation). This additional profitability can then be discounted over the coming years using a rate corresponding to the weighted average cost of capital, and the resulting amount is added to the net asset value.

\* Up to 04/30/2010, Natixis ratings covered the next six months and were as follows:

Buy	upside of 15% to market and high-quality fundamentals.
Add	upside of 0-15% and/or high risk.
Reduce	downside of 0-15%.
Sell	downside of more than 15% and/or high risks on business and financial fundamentals.

From 05/01/2010, Natixis ratings cover the next six months and are as follows:

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Neutral	upside between +10% and -10%
Reduce	downside of more than -10% and/or high risks on business and financial fundamentals.
Present shares	favorable response to a public offer (takeover, delisting,...)

At 04/12/2013, Natixis ratings and the proportion of total stocks for which its parent company Natixis has provided investment services over the past 12 months break down as follows:

	Companies covered	Corporate companies
Buy	43.42%	2.11%
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Reduce	12.89%	0.00%

Reference prices are based on closing prices.

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Natixis			Natixis Securities Americas LLC.		Natixis
Paris	Office address	Postal address	New York		London
30 avenue Pierre Mendès France 75013 Paris France <i>A public company with a board of directors and €4,653,020,308.80 capital 542 044 524 RCS Paris</i>	47 quai d'Austerlitz 75013 Paris France	BP 4 75060 Paris Cedex 02 France	1251 avenue of the americas New York, NY 10020 USA <i>Member of the NASD and SIPC</i>		Natixis London Branch LTD Cannon Bridge House 25 Dowgate Hill London EC4R 2YA UK
<b>Head of Equity Research</b> Sixte de Gastines Tel. (33 1) 58 55 06 87 sixte.degastines@natixis.com			<b>Fabrice Weill</b> Tel. +1 212 891 1850 Fabrice.Weill@us.natixis.com		<b>Chris Thompson</b> Tel. (44 203) 216 9565 chris.thompson@uk.natixis.com
<b>Head of Sector Research</b> François Digard Tel. (33 1) 58 55 03 40 francois.digard@natixis.com					
<b>Head of Equity Sales</b> Continental Europe Philippe Denoyelle Tel. (33 1) 58 55 05 91 philippe.denoyelle@natixis.com					
<b>Head of Equity Sales UK and US</b> Chris Thompson Tel. (44 203) 216 9565 chris.thompson@uk.natixis.com					
<b>Head of Sales trading</b> Christophe Pallard Tel. (33 1) 58 55 90 71 christophe.pallard@natixis.com					
<b>Head of Corporate broking</b> Cédric Richard Tel. (33 1) 58 55 90 60 cedric.richard@natixis.com					