CREDIT LYONNAIS SECURITIES

Vilmorin Clause & Cie

Reuters: **VILM.PA** Bloomberg: **RIN FP** **Food Manufacturing** France

BUY
€83

Upgrade from Add

Next event: **4Q sales – 08/08/02**

Market cap: **€265m**
Net debt 2002E: **€109m**
Book value per share 2002E: **€94.10**

Range (12m): **€84.1–58.1**
Av daily volume: **1,000**
Free float: **27%**

Rel perf/SBF 250 (%):
1m **+13**
3m **+19**
12m **+47**

Abs perf (%):
1m **+7**
3m **+8**
12m **+14**

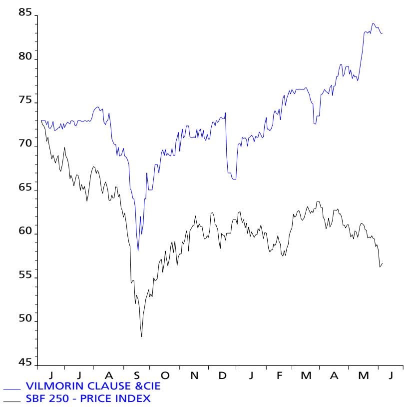
Sowing seeds for tomorrow

- **Favourable economic conditions**. In view of the recent publication of the company's 1H results and nine–month sales, we have raised **our full–year growth forecast from +2.6% to +5.3% (€440m).** The positive trend has been confirmed over the last few weeks (favourable weather), while the US subsidiary has partially made up for its slower performance over the last few months.

- **Comfortable outlook.** The current year (ending 30th June) should mark a strong rebound, after 2000/01 was affected by the poor performance of the consumer division. The recovery at Oxadis and the strong performance of the European trade division (average sales growth of 10%) should make a notable contribution to the expected improvement in margins, with **an operating margin target of 9% vs 8.5% last year**. In the medium term, these trends should be confirmed as the consumer division gradually recovers (consolidated operating margin of 10% in 2002/03E).

- **Share price target raised**. With the group achieving sales growth of 5% year in, year out – exceeding market growth of 2% – with an **EPS compound annualised growth rate of 16%** for the period 2001–05E, we have raised our share price target to **€107, corresponding to upside potential of 29%.** The group, which is world market leader, is capitalising fully on its R&D strength, while offering shareholders a yield of 6–7% and growth of +20% since the start of 2002, under low–risk conditions.

Price & relative to SBF 250 (1 year)



Source: DATASTREAM

Year to June	Sales (€m)	EBITDA (€m)	Attrib net profit (€m)	EPS * (€)	Net div (€)	P/E (x)	EV/ EBITDA (x)	Net yield (%)
2001	418.0	32.2	17.6	5.99	3.00	13.9	11.7	3.6
2002E	440.1	41.6	21.8	6.79	3.41	12.2	9.0	4.1
2003E	457.5	47.2	27.3	8.67	4.27	9.6	7.7	5.1
2004E	475.7	52.0	31.3	9.94	4.91	8.3	6.8	5.9

** Before goodwill and exceps*

This is a translation of a report in French dated 7th June 2002

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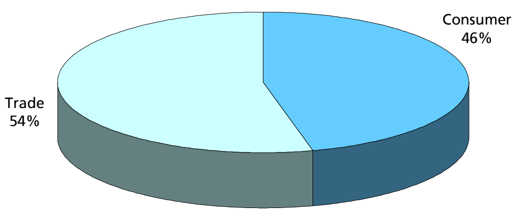
12th June 2002

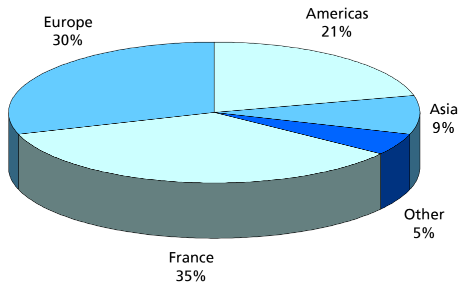
Profit and loss account 2001–2004E

Year to Jun (€m)	2001	2002E	2003E	2004E
Sales	**418.0**	**440.1**	**457.5**	**475.7**
% change	+12.3	+5.3	+4.0	+4.0
Personnel costs	–112.5	–115.8	–118.7	–121.7
EBITDA	**32.2**	**41.6**	**47.2**	**52.0**
EBITDA margin (%)	+7.7	+9.5	+10.3	+10.9
Depreciation & provisions	–9.8	–11.6	–10.9	–11.2
Other	13.5	10.0	10.0	10.0
EBIT	**35.9**	**40.0**	**46.3**	**50.9**
Net interest charge	–6.6	–6.5	–6.2	–5.7
Earnings bef tax & exceps	29.3	33.5	40.1	45.2
Tax	–9.1	–10.8	–11.5	–12.5
Associates	–0.1	0.0	0.0	0.0
Minorities	–1.0	–1.0	–1.0	–1.0
Joint ventures & holdings	0.0	0.0	0.0	0.0
Exceptional items	–1.1	0.5	0.0	0.0
Goodwill amortisation	–0.4	–0.4	–0.4	–0.4
Attrib net profit	**17.6**	**21.8**	**27.3**	**31.3**
NP bef exceps, GW & tax	28.2	32.5	39.1	44.2
NP bef exceps & GW	**19.1**	**21.7**	**27.7**	**31.7**
Tax rate (%)	31.1	32.3	28.6	27.6
Average headcount	2,756	2,839	2,910	2,982
Shares (m)	3	3	3	3
EPS declared (€)	**5.52**	**6.82**	**8.55**	**9.82**
EPS before exceps & GW (€)	5.99	6.79	8.67	9.94
Goodwill per share (€)	0.13	0.13	0.13	0.13
CFPS (€)	–8.00	4.13	6.44	7.67
Free CFPS (€)	–11.69	1.42	3.57	4.80
BV per share (€)	90.25	94.10	99.26	104.63
Dividend (€)	3.00	3.41	4.27	4.91

Sales split by activity



Sales split by region



Cash flow statement 2001–2004E

Year to Jun (€m)	2001	2002E	2003E	2004E
EBITDA	**32.2**	**41.6**	**47.2**	**52.0**
Exceptional items	–1.1	0.5	0.0	0.0
Change in WCR	–42.0	–11.1	–9.0	–9.4
Provisions	0.0	0.0	0.0	0.0
Operating cash flow	**–10.9**	**31.0**	**38.2**	**42.6**
Net interest charge	–6.6	–6.5	–6.2	–5.7
Tax	–9.1	–10.8	–11.5	–12.5
Capex	–10.7	–9.1	–9.1	–9.1
Free cash flow	**–37.3**	**4.5**	**11.4**	**15.3**
Dividends paid	–11.1	–9.6	–10.9	–13.6
Acquisitions/disposals	–11.4	0.0	0.0	0.0
Capital increase	17.5	0.0	0.0	0.0
Other (currencies etc)	24.5	8.2	8.7	8.0
Change in net debt	**–17.8**	**3.2**	**9.2**	**9.7**

Summary balance sheet 2001–2004E

Year to Jun (€m)	2001	2002E	2003E	2004E
Fixed assets	**100.4**	**99.3**	**98.0**	**96.4**
Goodwill & intangibles	92.1	91.7	91.3	90.9
Operating WCR	217.3	228.4	237.4	246.8
Net cash (debt)	**–111.8**	**–108.6**	**–99.5**	**–89.7**
Provisions	10.2	10.7	10.7	10.7
Shareholders' funds	**287.8**	**300.1**	**316.5**	**333.7**
Minorities and pref shares	0.0	0.0	0.0	0.0
Attrib shareholders' funds	287.8	300.1	316.5	333.7

Investment ratios 2001–2004E

Year to Jun	2001	2002E	2003E	2004E
P/E before goodwill	**13.9**	**12.2**	**9.6**	**8.3**
Published P/E	15.0	12.2	9.7	8.5
P/CF	–10.4	20.1	12.9	10.8
P/BV	0.9	0.9	0.8	0.8
Net yield	3.6	4.1	5.1	5.9
EV/sales	0.9	0.8	0.8	0.7
EV/EBITDA	**11.7**	**9.0**	**7.7**	**6.8**
EV/EBIT	10.5	9.3	7.9	7.0
ROE (%)	7.1	7.4	9.0	9.8
ROCE (%)	9.4	9.6	10.9	11.8
Gearing (%)	38.8	36.2	31.4	26.9
Payout (%)	54.4	50.0	50.0	50.0

Company data

Shareholders	73%	Groupe Limagrain Holding
	27%	Free float
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Source for tables on this page: Company, CLS

A good season

Contrary to last year, the results recently published by the group (1H results and nine–month sales) give grounds for greater confidence regarding the achievement of its annual targets, both short and medium term.

The crucial period is between February and April, as nine–month sales represent nearly three–quarters of annual sales, compared with 30% for 1H. Furthermore, at the end of March, management has good visibility on annual targets (year ending 30th June), particularly due to the positive trends seen in April and May.

Sustained growth

Tangible growth

Following 1H sales of €153.3m, up 4.5% (+5.8% on an unchanged consolidation basis and at constant exchange rates), the positive trend was confirmed by 3Q sales, with growth of 4.2% (+5.5% on an unchanged consolidation basis and at constant exchange rates).

Quarterly sales growth

(%)	1Q	2Q	1H	3Q	9–months
Consumer	+13.4%	+24.8%	+19.1%	+5.5%	+11.0%
Trade	+2.5%	–12.3%	–5.5%	+3.0%	–1.4%
Consolidated	**+7.9%**	**+1.4%**	**+4.5%**	**+4.2%**	**+4.3%**
Like for like	**+3.6%**		**+5.8%**	**+5.5%**	**+5.6%**

Source: Company

Recovery expected

The consumer division achieved notable growth of 11% over the first nine months of the year (+8.5% on an unchanged consolidation basis and at constant exchange rates). This is partially due to the success of the autumn flower bulbs harvest, with a favourable basis effect, as well as increased market share in France and abroad. This was the case in the US in particular, after the US No 1 lost supply contracts with Wal–Mart and Home Depot, to the benefit of competitors, including Vilmorin Clause et Cie's US subsidiary, Ferry Morse, as well as a positive autumn grass season.

French subsidiary, Oxadis, is currently performing extremely well (nine months: +6.7%). This trend was confirmed in April and May, after the subsidiary had achieved a poor performance the year before. Oxadis reported growth of +20% in packet seed sales over 10 months. The subsidiary has also benefited from a new supply agreement with the Cora chain.

The trade division reported contrasting results, but demonstrated a general improvement, with excellent performances from French and European subsidiaries. However, the group's US and Japanese activities were weighed down by interim trends and last year's performance.

US subsidiary, Harris Moran, is operating on a market that is still unsettled by the difficulties currently facing world No 1, Seminis.

Seminis has a US market share of 50% and is shaking up the market with a relatively aggressive pricing policy. With a fall of 8% at the end of March 2002, Harris Moran could reduce by half its lag over the last quarter, while Seminis has announced an improvement in its 1H results. Sales were up 3.9%, with growth of +5.5% in 2Q to the end of March 2002, excluding interest rate effects.

Europe compensates for US and Asia

Recently acquired Japanese subsidiary, Kyowa (40% consolidated), has been affected by the severe depreciation of the yen, which partly explains the 20% fall in sales over nine months, as well as a significant slowdown in materials sales, which represent two–thirds of sales, while seeds represent one–third of sales. The subsidiary is expected to undergo major reorganisation – with relocation and transferral of production – and should benefit rapidly from cost–cutting plans.

However, **the group's French and European subsidiaries are achieving unfaltering performances, with nine–month sales growth of between 10% and 18%.** This organic growth results from the launch of new plant varieties such as lettuce for Vilmorin, as well as synergies between Clause and Tézier, which has a strong position in products such as melons, representing 15% of the subsidiary's sales. This has resulted in a higher market share in Europe, to the detriment of Seminis. These excellent results are also due to the long–standing strategy of obtaining plant breeders' rights, which has fuelled the market for new value–added varieties.

Improvement in 1H profits

The group's 1H profits show an improvement, even though they do not live up to full–year expectations, given the seasonal nature of the business. The group regularly sustains losses in 1Q, while overall costs are spread out evenly over the two halves of the year. In addition to results in terms of absolute value, it is more important to analyse changes from one half–year to the next.

Positive trends should be confirmed

The 0.8% increase in the gross margin and the **€1.5m reduction in operating losses** (€14.4m vs €15.9m) are largely due to the consumer division's favourable product mix, following severe deterioration in the mix in 4Q of the previous year, as well as tight control of external and staff costs. However, it should be noted that the comparison basis was more favourable.

In spite of exceptional costs, such as a provision of €900,000 to cover currency effects relating to sales in Argentina, **the group was able to reduce the attributable net loss by €2.8m in 1H (–€13m vs –€15.8m).**

The 3Q sales clearly confirm the full–year earnings forecasts, with a considerable improvement in margins for the current year.

Targets revised upwards

The poor performance seen in the previous year – EPS before goodwill and exceptionals down 17.3% to €5.99 – was primarily due to three factors:

- Disappointing performance by the consumer division, with a fall in profit margins for main subsidiary Oxadis, due to unfavourable weather conditions, an unfavourable product mix, the need to restructure logistics, reporting etc. Overall, the consumer division generated a net loss of €1.5m.
- Difficult conditions in the US and the price–cutting policy of worldwide No 1 Seminis.
- The consolidation of Kyowa, which is almost breaking even. Two–thirds of sales excluding seeds generate low profit margins.

Of these three factors, the first is likely to disappear, while the other two are expected to be attenuated gradually, as Seminis' situation improves.

Original forecasts conservative

Doubling our sales growth forecast…

In view of the group's nine–month performance, with sales growth of 4.3% (+5.6% on an unchanged consolidation basis and at constant exchange rates), we consider our original sales growth forecast of 2.6% to €429m to be too conservative. This opinion is validated by: (i) the proportion of sales generated over the first nine months of the year – nearly 75% of annual sales; and (ii) the sustained level of sales in April – solid performance over 10 months – in spite of a slight fall over the last few weeks, which is more due to the basis effect rather than a downturn in the trend.

We now predict **sales growth of 5.3% to €440m** (€444.7m in operating revenue), with stronger growth in the consumer division, in line with the trends seen in 1H and, especially, the first nine months.

Sales by division*

(€m)	2000/01	2001/02E	Chg.	2002/03E	Chg.	2003/04E	Chg.
Vilmorin	48.9	53.8	+10%	56.5	+5%	59.3	+5%
Nickers	25.4	27.9	+10%	28.7	+3%	29.6	+3%
Clause	54.1	59.5	+10%	62.5	+5%	65.6	+5%
Tézier	28.2	33.3	+18%	34.9	+5%	36.7	+5%
HM	60.5	58.1	–4%	59.9	+3%	61.7	+3%
Kyowa	33.2	30.5	–8%	31.5	+3%	32.4	+3%
Trade	**259.8**	**262.6**	**+1.1%**	**273.5**	**+4.2%**	**284.9**	**+4.2%**
Oxadis	102.9	109.1	+6%	113.5	+4%	118.0	+4%
Flora Fr	28.5	28.5	–	29.1	+2%	29.7	+2%
Ferry M	21.3	29.0	+35%	31.4	+5%	32.9	+5%
Suttons	22.1	22.1	–	22.8	+3%	23.5	+3%
Consumer	**181.0**	**201.4**	**+11.3%**	**209.0**	**+3.7%**	**216.8**	**+3.8%**
Consol.	**418.0**	**440.1**	**+5.3%**	**457.5**	**+4.0%**	**475.7**	**+4.0%**

** Excluding intra–group sales*

Source: CLS estimates

Our new forecasts assume consolidated growth of around 4% in 4Q (2Q of the calendar year), corresponding to a level close to that seen in the previous quarter, which represents nearly 25% of annual sales. Favourable weather conditions over the last few weeks are likely to have a positive effect, at least for the group's consumer divisions.

…on the basis of modest growth in 4Q

The catching–up process under way in the US (Harris Moran), specifically in sales to canning companies, should help to compensate for the fall in the first nine–months of the year (–8%).

For the next few years, **we have a deliberately conservative growth forecast of +4% for 2002/03E and 2003/04E,** with slightly stronger growth expected in the trade division. This growth rate still exceeds growth of the seed market as a whole – estimated at 2% overall – but is considerably below the CAGR of +9% reported by the group for the 13–year period from 1991 to 2004E (+10% from 1991 to 2002E). This stronger long–term performance results from Vilmorin Clause et Cie having increased its market share over the last decade, enabling it to assume the status of a world leader.

New forecasts remain modest

The group is expected to be able to improve its profitability considerably in the year ending 30th June 2002, in view of temporary factors that affected profitability the year before. Brief analysis of the group's 1H results confirms these trends, even though they cannot be used to predict future developments.

The main factor behind the improvement of the group's margins is undeniably **the stronger performance of the consumer division**, with an upturn in profit margins for main subsidiary Oxadis. **The subsidiary has repositioned its brands and adopted a new organisational structure**, partly at the instigation of new management – the MD and deputy MD left the subsidiary following the poor performance of 2000/01.

Positive contribution from consumer division

Although the consumer division achieved operating margin of nearly 5% over the last few years, 2000/01 saw a downturn, with a limited operating profit of €3.5m, corresponding to margin of 1.9% or just 10% of consolidated operating profit.

For the current year, we predict **operating margin of 3%, with subsidiary Oxadis amounting for two–thirds of operating profit**. This forecast takes into account difficult market conditions in Germany, with the loss of a supply contract with Wal–Mart.

Operating margin by division

	1998/99	1999/00	2000/01	2001/02E	2002/03E	2003/04E
EBIT	€39.9m	€39.9m	€35.9m	€40.0m	€46.3m	€50.9m
Margin	**11.1%**	**10.6%**	**8.5%**	**9.0%**	**10.0%**	**10.6%**
Trade	16.8%	16.0%	14.2%	14.1%	14.9%	15.3%
Consumer	5.4%	5.4%	1.9%	3.1%	4.4%	4.6%

Source: CLS estimates

Improvement in margins

The second element behind the improvement in margins is not as evident, as it has had an effect over time, but it is still decisive. This is the group's strategy of **obtaining rights to new plant varieties** in order to meet the growing demands of trade customers in the food manufacturing industry, such as market gardeners and canners. These new rights, protected by a 'plant breeders' rights certificate' (COV – Certificat d'Obtention Végétale), result in higher profit margins, which are apparent at the level of the trade division.

While marketed products to which the group holds breeders' rights represented 66–70% of group sales in the early 1990s, they **currently represent nearly 82%** of sales. This results in operating margin of nearly **14%, compared with 11%** in the early 1990s.

The consolidation of Kyowa in 2000/01 affected the overall profitability of the division. Expected stagnation in 2001/02 should be caused primarily by the lack of recovery in the Asian division, while the US division should still be subject to less favourable market conditions.

Factors behind improvement over the next few years

The anticipated operating profit for this year (**€40m**) should be one of the best results ever achieved by the group over the last few years, largely thanks to the trade division (estimated operating profit of €34m), as well as a notable improvement in the consumer division's operating profit (+€3m). This historically high operating profit should constitute a starting point for further improvement, in view of: (i) a continued **strategy of obtaining plant breeders' rights**; (ii) a confirmed upturn in the group's **foreign consumer subsidiaries**; (iii) a pick–up in the **US** market, with an end to price–cutting policies; and (iv) the repercussions of **restructuring measures that are underway in Japan.**

We predict an increase of 1 percentage point in the operating margin in 2002/03E, followed by 0.6 points in 2003/04E (10.6%), corresponding to the levels achieved two and three years ago.

Consolidated operating profit

(€m)	1998/99	1999/00	2000/01	2001/02E	2002/03E	2003/04E
EBIT	39.9	39.9	35.9	40.0	46.3	50.9
Change	**+10.5%**	**+0.1%**	**–10.1%**	**+11.3%**	**+15.9%**	**+9.8%**

Source: CLS estimates

In view of the extremely healthy balance sheet – estimated gearing of 36.1% at 30th June 2002 vs 38.8% at 30th June 2001 – and in spite of exceptional costs relating to provisions for currency depreciation in Argentina (€900,000 in 1H), as well as the collapse of a US distributor, **the group is expected to achieve attributable net profit of €21.8m, close to the level achieved in 1999/2000, with EPS up 13.3% from €5.99 to €6.79.**

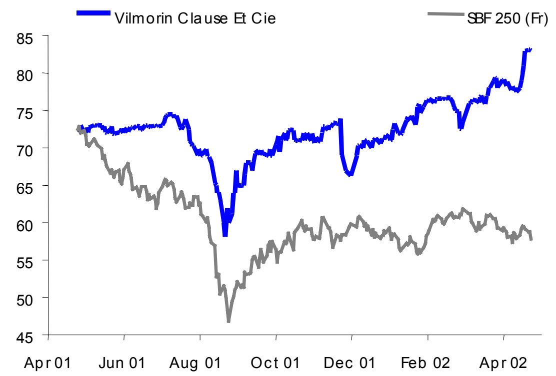
Yield and growth

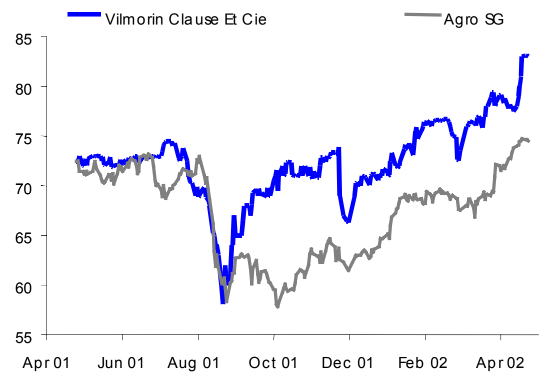
Vilmorin Clause et Cie celebrates 10 years on the stock market in November 2003. During this time, the shares' stock market status has varied between **defensive** (regular high yield of 5.1% on average, over 6% in the last few years) and **growth**. However, the latter status has not been recognised as growth has been regular and therefore concealed.

Over the period from 1991 to 2002E, average sales and operating profit growth should be +10%, with a few rare blips. There has been no fall in sales over the period and just two falls in operating profit over 11 years.

Recent performance

Share price performance





Source: JCF

Since 1st January 2002, the shares have risen by 20% in absolute terms, outperfoming the benchmark indices of the SBF 250 (–8%) and the SM index (+8%), as well as the Food Manufacturing index (see CLS French Mid Cap Stock Guide[1]). The shares' relative performance compared with the SBF 250 index over one year is +47%.

Relative and absolute performance

Although performance was affected by the events of September 2001, which also coincided with the first publication of disappointing results, the shares have made a strong recovery, regaining the characteristics of a more defensive stock. This is true with regard to the main market indices, as well as a sample of shares in the food manufacturing sector, which includes growth stocks but is dominated by defensive stocks – eg Bonduelle, Pasquier. Over one year, and more specifically since September 2001, **the Vilmorin Clause et Cie shares have outperformed the sector index by around 15%.**

A stock of the times

This performance fits in with investor interest in more traditional shares, such as companies in the new Next Prime segment, which offer the impressive performance highly sought after since the start of the year.

[1] Bonduelle, Brioche Pasquier, Evialis, Fleury Michon, LDC, Laurent Perrier, Sabaté Diosos, Tonnelleries François Frères, Vranken Monopole

Share price target raised

We expect the shares to continue to perform well in view of the group's fundamentals and forthcoming news flow, and have revised our earnings estimates upwards. **We predict EPS growth of +13.4% to 30th June 2002, followed by +27.7% the following year.**

Earnings growth/EPS

	2000/01	2001/02E	2002/03E	2003/04E
Attrib net profit	€17.6m	€21.8m	€27.3m	€31.3m
Chg.	–22.4%	+23.8%	+25.2%	+14.6%
EPS *	€5.99	€6.79	€8.67	€9.94
Chg.	–17.3%	+13.4%	+27.7%	+14.6%
CAGR		+16.2%	+15.4%	

** Before goodwill and exceptionals*

Source: CLS estimates

€107 or CAGR of 16%

We predict a **CAGR of 16.2% over the period from June 2001 to June 2005** and 15.4% over the period from June 2002 to June 2006. The latter forecast is more modest, as it does not reflect the recovery expected this year. The medium–term trend should result from regular growth in sales volumes and the group's ability to improve margins (see above) by eliminating loss centres and obtaining plant breeders' rights.

In view of these factors, **our share price target is now €107, corresponding to upside potential of 29%.** This new target, compared with our previous targets of €80–97, is based on our upgraded earnings sequence (particularly CAGR), and our valuation methods, which reveal a premium in relation to comparables.

■ Peer comparison

Undemanding valuation

We used the food manufacturing sample given in our CLS French Mid Cap Stock Guide. In the past, we usually extended the comparison to include pharmaceuticals and agro–chemicals shares (Novartis–Syngenta, Monsanto, Dupont since the acquisition of Pioneer Seeds for seed crops), as well as more direct comparables (Seminis, Sakata). However, for the current year, we have only used the sample of shares in the food manufacturing sector.

This is justified given that: (i) the multiples of agro–chemicals shares are of little relevance; (ii) there are a number of special situations for health or pharmaceuticals shares, whose multiples are difficult to transpose; and (iii) multiples are also difficult to interpret for competitors, such as Sakata (2002/03E P/E of over 40x).

Although, Seminis has hitherto played the role of agitator in a US–dominated market, the company's stock market performance shows some instability, given the sharp fall in the share price ($3.04 vs a flotation price of $15 in June 1999) and multiples that are unmeaningful due to previous losses. Seminis has published 1H results showing sales growth of 3.8% at constant exchange rates, as well as an improvement in gross margin from 60.3% to 62.7%. Meanwhile, operating margin rose to over 11%, compared with 3.3% last year. However, there is no appropriate consensus, other than certain multiples (2001/02 market cap/sales of 0.36x) for a group in the process of recovery.

Over the last few months, the food manufacturing sector has presented a defensive profile that can also be applied to Vilmorin.

Comparisons

	—P/E—		—P/E rel—		—P/CF—		—P/sales—		—EV/Sales—		—EV/EBIT—		—EV/EBITDA—	
	2002E	2003E	2002E	2003E	2002E	2003E	2002E	2003E	2002E	2003E	2002E	2003E	2002E	2003E
Sample	11.4	10.0	0.7	0.8	7.97	6.62	0.82	0.76	0.63	0.56	9.3	7.8	6.0	5.3
Vilmorin	9.6	8.3	0.57	0.60	6.7	6.0	0.58	0.56	0.80	0.75	7.9	7.0	7.7	6.8
€m														288
€														90

Source: CLS estimates

The multiples used reveal a discount to the sample, with the exception of 2002E and 2003E EV/sales. Furthermore, the average valuation of nearly €300m does not reveal any major disparity according to the multiples used. **However, this method gives a share price target of €90, which we consider to be modest, as it does not reflect the specific qualities of the group in relation to the sample**. Extending the comparison to a larger sample of shares (see above) would boost the valuation but would also take into account characteristics such as the weighting of R&D and capitalising on several years of expertise.

■ Discounted earnings

An unusual profile

This approach gives a much more ambitious share price target of **€107, corresponding to upside potential of 29%.** This can easily by justified by the characteristics of the Vilmorin group, which make it relatively unusual compared with other shares in the sector:

- Average EPS growth is relatively sustained (+16.2%), and compares favourably with that of the sector (+15%).
- **The required profitability 7.7%** is also favourable (vs 9.5% for the sector), while the group benefits from a healthy debt structure, a quality that is currently in demand given the number of insolvencies and cash risks, with low gearing of 36%.
- Finally, **the historically high payout (close to 45–50% on average)** is considerably higher than the sector average (25–30%), without hampering the group's growth strategy of acquiring market share and becoming world leader. **Although it is present only in the area of vegetable seeds, the group is in the position of a 'cash cow'.**

Discounted earnings		
Sector assumptions		**Comments**
Required profit margin	9.5%	OAT yield (5.22%) + market premium of 4.27(Source: CLS)
EPS growth	15%	Food manufacturing
No of years	4	2001–05
Payout	33%	
Entry P/E	13.1	2001/02 average
Exit P/E	9.6	
Company assumptions		**Comments**
Required profitability	7.7%	Corresponding to WACC (beta 1)
EPS growth	16.2%	2001–05
No. of years	4	
Payout	50%	
Entry P/E	15.4	
2001/02 net profit	22.2	CLS estimates
Valuation (€m)	**341**	
Per share	**€107**	

Source: CLS estimates

DCF

We consider this approach appropriate, given that the **group's structure allows for long–term free cash flow generation**. We have analysed a 10–year period, in view of the restraints that the group has to take into account concerning relatively long delays in R&D. A research cycle generally lasts six–eight years, including basic research and the launch period.

DCF										
(€m)	**2001/02E**	**2002/03E**	**2003/04E**	**2004/05E**	**2005/06E**	**2006/07E**	**2007/08E**	**2008/09E**	**2009/10E**	**2010/11E**
EBIT	40.0	46.3	50.9	53.4	56.1	58.9	61.8	64.9	68.2	71.6
Tax rate	10.8	11.5	12.5	18.4	19.3	20.3	21.3	22.3	23.5	24.6
Amortisation	10.6	10.9	11.2	11.7	12.3	12.9	13.6	14.2	14.9	15.7
Op. cash flow	**39.8**	**45.7**	**49.5**	**46.8**	**49.1**	**51.5**	**54.1**	**56.8**	**59.7**	**62.7**
Investment and WCR	20.3	18.2	18.5	19.5	20.4	21.5	22.5	23.7	24.8	26.1
Free cash flow	**19.5**	**27.6**	**31.0**	**27.3**	**28.7**	**30.1**	**31.6**	**33.2**	**34.8**	**36.6**
Sum of discounted CF	209.6									
Terminal value	646.1									
Disc. terminal value	301.3									
2000/01 debt	112.0									
Valuation	**399.0**									
Per share (€)	**125.0**									

Source: CLS estimates

A cash–generating machine

The assumptions used are conservative, with average operating profit growth of 5% over the next two years and controlled investment, resulting in free cash flow of €30–40m a year in the second half of the next decade.

Given the group's regular ability to generate free cash flow – unlike new companies, which are heavy cash consumers for the first few years – **the valuation is based on a fair contribution of the sum of discounted cash flow (41%) and discounted terminal value (59%)** – thereby further validating this approach compared with a valuation based exclusively on terminal value.

This results in a total valuation of nearly €400m, or €125 per share, corresponding to upside potential of 50%.

Historic multiples

Clear valuation deficit

It is interesting to take account of the group's historic multiples over the last seven years (1995–2001) in order to demonstrate its current undervaluation given that: (i) **it has changed dimension over this period**, with a global presence including Asia, and plays a consolidating role, having undertaken several acquisitions; and (ii) Vilmorin Clause et Cie presents characteristics such as **visibility, growth and yield**, which are currently highly valued and more in demand than over the last three years.

Main multiples

	Historic multiples 1995–2001	2001/02E	2002/03E	2003/04E
P/E	**13.4x**	12.2x	9.6x	8.3x
P/E relative	**0.82x**	0.65x	0.57x	0.60x
P/G	**1.01x**	0.75x	0.62x	0.75x
EV/sales	**0.91x**	0.85x	0.80x	0.75x
EV/EBIT	**9.23x**	9.34x	7.9x	7.0x

Source: CLS

Although the current year (ending 30th June 2002) is expected to make up for the poor performance of last year, current multiples do not reflect the expected rebound, still less the medium–term growth prospects.

€107 is not excessive

With a 2002/03E P/E of less than 10x, EV/sales of 0.8x and EV/EBIT of less than 8x, the multiples do not reflect the group's status as world leader or its levels of profitability (ROE of 9% and ROCE of nearly 11%). These low valuation multiples rather reflect its industrial qualities, with highly cyclical connotations, which do not correspond to the group's profile.

Transposing these historic multiples to the current year, and the next two years, gives **a share price target of €107**. Based on this target, the valuation would remain modest.

Based on a share price target of €107

	2001/02E	2002/03E	Historic multiples	2001/02E	2002/03E
Share price	€83	€83		€107	€107
P/E	12.2x	9.6x	**13.4x**	15.8x	**12.3x**
P/E relative	0.65x	0.57x	**0.82x**	0.83x	**0.73x**
P/G	0.75x	0.62x	**1.01x**	0.97x	**0.80x**
EV/sales	0.85x	0.80x	**0.91x**	1.02x	**0.96x**
EV/EBIT	9.34x	7.9x	**9.23x**	11.2x	**9.5x**

Source: CLS estimates

Intrinsic qualities

The summary of these various approaches gives a share price target of €107, which is equal to the valuation obtained using historic multiples. In reality, there is little dispersion between the various targets. The peer comparison method is the least flattering, but is counterbalanced by the more optimistic DCF approach.

Summary

	Market cap (€m)	Per share (€)
Peer comparison	288	90
Discounted earnings	341	107
Historic multiples	343	107
DCF	399	125
Summary	**342**	**107**
Potential		**+29%**

Source: CLS estimates

This target is validated by the group's often neglected intrinsic qualities, as well as its growth prospects, which remain intact in a market often considered to have reached maturity.

■ R&D strength

One of the group's main advantages is undeniably **the quality of its brands** (Vilmorin, Clause, Tézier etc), with strong reputations outside France (valuation of €41.4m at 31/12/01), as well as the high level of basic genetic resources, reflected in the accounts as intangible assets and representing all vegetable materials (asset value of €35m). Genetic research is one of the group's main strengths, as it favours the development of new vegetable species and new plant breeders' rights.

Valuation of research: €113

The alliance with Israeli company, Hazera, followed more recently by the acquisition of a stake in biotechnology company, Keygene, which specialises in the area of molecular marker services and provides **access to 12 years of genomic research**, strengthen the group's expertise and the quality of its basic and applied research, including synergies with parent company, Limagrain.

An approach based on the valuation of brands and genetic resources (the values previously indicated represent purely an accounting value) by means of buying back royalties, validates the two prior methods, and even gives a higher valuation, with a **target of €113.**

■ New acquisitions

New acquisitions could take place, while the group has already carried out large–scale deals with a considerable earnings–enhancing impact, especially Clause Harris Moran. A number of other less significant acquisitions, in terms of size, have also been carried out over the last few years – eg Poland, Green, Van Den Berg, Geissler – not forgetting the acquisition of a 40% stake in Japanese company Kyowa.

The group is continuing to pursue its aim of strengthening its presence in consumer activities. Its target is to expand its ranges and to establish a stronger geographical presence – eg in Italy – with a wider variety of distribution methods, including mail order, which represents 50% of sales of UK subsidiary Suttons.

Although it represents over 50% of the group's sales, the trade division will not be able to rest on its laurels. The difficulties currently facing Seminis could be the prelude to reorganisation of the sector. The Seminis group was created after a rapid series of acquisitions, such as that of Asgrow, Petoseed, Royal Sluis and a Korean business, and risks undergoing a crisis of growth.

Although the group is in the process of recovery, Seminis' new management could decide on a new direction, resulting in asset sales. In the light of this, Vilmorin could be vigilant in order to strengthen its US market share – **currently 10% vs 50% for Seminis**.

Strengthening its status as global market leader

The two growth drivers of consumer and trade activities will be maintained, though the question is frequently raised of the appropriateness of parallel growth. **In reality, the two divisions offer a good fit.** The apparently lower margins of the consumer division conceal synergies between the two profitable divisions. The group as a whole justifies its position as world leader, while its competitors are mostly present in only one of the two segments.

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