Price: **EUR 57.6**
June 29, 2006

Target price: EUR 63.0

CAC 40	4 880
DJ STOXX50:	3 510
Reuters:	VILM.PA
Bloomberg:	RIN FP

Multiples

	06/05	06/06e	06/07e	06/08e
P/E	14.1	15.7	16.7	14.3
Net. yield (%)	3.4%	3.5%	2.8%	3.3%
FCF yield (%)	4.6%	7.8%	4.1%	5.8%
P/Book value	1.5	1.7	1.3	1.2
EV/Sales	1.2	1.2	1.3	1.2
EV/EBITDA	6.9	6.4	7.1	6.4
EV/EBIT(recur)	12.2	10.8	13.7	11.8

Per share data

EUR	06/05	06/06e	06/07e	06/08e
EPS (AANP)	3.38	3.59	3.44	4.02
%Change	1.1%	6.3%	-4.2%	17.0%
EPS (ANP)	3.38	4.16	3.44	4.02
%Change	6.8%	23.3%	-17.4%	17.0%
Dividend	1.62	1.96	1.62	1.89
Book value	31.42	33.97	44.32	46.73

Income statement

(EUR m)	06/05	06/06e	06/07e	06/08e
Sales	489.4	499.5	958.3	988.5
%Change	0.2%	2.1%	91.8%	3.1%
Op.profit(recur.)	46.5	56.3	87.9	100.1
%Change	-8.3%	21.1%	56.0%	13.9%
Op.profit(EBIT)	43.7	56.3	87.9	100.1
Attr. net profit	32.3	39.8	46.1	53.9
Adj. attr. NP	32.3	34.3	46.1	53.9

Financial data

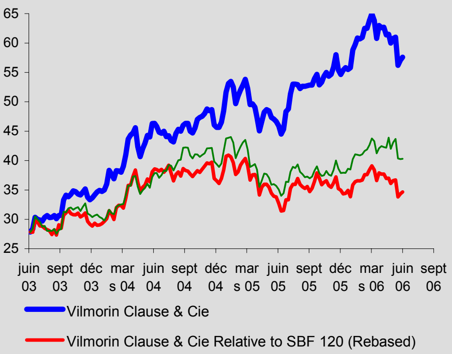
	06/05	06/06e	06/07e	06/08e
ROCE bef. Tax	10.2%	12.7%	10.9%	8.5%
ROCE after Tax	7.5%	8.5%	7.4%	5.8%
ROE	11.2%	11.0%	10.0%	8.8%
FCF	21.1	41.9	31.8	44.4
Net debt	79	34	380	358
Gearing	23.2%	9.3%	51.3%	46.0%
Net Debt/EBITDA	1.0	0.4	2.3	1.9
EBITDA/interest	ns	34.1	13.3	15.4

Performance

	1 mo	3 mos	12 mos
Absolute perf.	-4.0%	-11.1%	25.0%
Perf./country	0.99	0.94	1.08
Perf./DJ sector	0.96	0.92	1.14

Liquidity

Market Cap.	771
EV	1 183
No. of shares (m)	13.4
avg.volume /d	243
Groupe	78.6%
Free Float	21.4%
Auto-contrôle	0.1%



Vilmorin

Food products - France

Recommendation: **Add (2)**

New dimension, new growth momentum

Integration of Limagrain's field seeds business will enable Vilmorin to benefit from new growth drivers and provide significant leverage for improvement in margins.

A key player

Already world market leader in the fruit and vegetable seeds market, this move will strengthen Vilmorin's market share and make it **a key player**. As world market leader in fruit and vegetable seeds for trade and consumers and world No. 2 in the trade fruit and vegetable seeds market, the company is now **world No. 4 in all types of seeds combined** (field seeds and fruit and vegetable seeds), one of the market leaders in Europe and No. 4 in North America.

Thanks to its presence in the main markets, high quality genetic portfolio and large size – as a result of many years' R&D investment – and a unique business culture able to attract new skills, **Vilmorin is an increasingly coveted key player.**

Role of unifier and counterbalance

In addition to the successful integration of the field seeds business, Vilmorin intends to benefit from the strong growth of the GM market in the US over the last 10 years, followed by Asia and Europe in the long term. Furthermore, it faces the **short-term challenge of becoming No. 3 in the sector**, with the desire to step up its international expansion, particularly in Asia. This market is still highly fragmented – with the top 10 companies controlling 58% of the global market – and is likely to see further concentration given the high number of family-owned seed producers, to the benefit of Vilmorin, which acts as a counterbalance to the current market leaders. Finally, R&D partnerships (KWS in the US, Keygene in fruit and vegetable seeds and Biogemma in field seeds) should also enhance the quality of its genetic portfolio.

Doubling in size

The integration of the field seeds business will almost double the company's size, with **target sales of € 1bn within the next two years**. Vilmorin's operating profit is also expected to increase by nearly 80% between now and 2007-08. **We therefore project operating profit of € 88m in 2006-07 and € 100m in 2007-08 vs. an estimated € 56m to June 30, 2006, corresponding to CAGR of more than 30% over the period.**

Dilutive impact in the short term but a number of drivers for improvement in margins

The integration of the field seeds business is expected to have a dilutive impact of 13% on 2006-07 EPS (estimate of € 3.44 vs. € 3.95 previously), with a more or less neutral impact the following year. However, the company should benefit from a number of drivers for improvement in margins, with **target operating margin of over 11% in 2009-10 vs. 9% in 2006-07, corresponding to average improvement of 70 basis points a year.** Our target price of € 63 reflects this integration in the short term, while we remain confident about the company's ability to improve its **rates of return** rapidly **(ROE and ROCE of over 10%) and generate high free cash flow (over € 50m, long-term free cash flow yield of over 6%).**

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RECOMMENDATIONS

Our system of recommendations reflects expected absolute returns in local currencies on a 12–month time horizon:

BUY (1)	=	expected return above 15%
ADD (2)	=	expected return between 0% and 15%
REDUCE (3)	=	expected return between 0% and -–15%
SELL (4)	=	expected return worse than -15%

Note: We draw the reader´s attention to the fact that Oddo Midcap has signed a Liquidity Agreement with the company, whereby it has agreed to produce and distribute financial research on the company at least once a year, depending on relevant news. Although Oddo Midcap has undertaken to submit this research to the company prior to its distribution, it will not be bound in any way by any observations made by the company.

Contents

MIDCAP

A NEW DIMENSION

Markets: five-fold increase in the target market ($ 20bn)

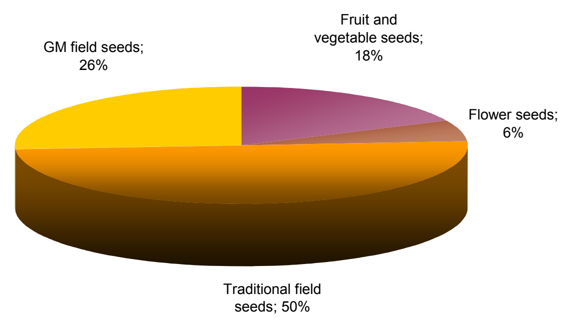
The proposed integration of Limagrain's field seeds business into Vilmorin Clause & Cie – soon to be known as Vilmorin – will enable the company to target a much larger market, with an estimated value of $20bn (distribution value of $ 30bn).

Market growth from $ 3.7bn to $ 20bn

Access to a 5x larger market

The global seeds market – covering all types of seed – is divided into a number of categories, including fruit and vegetable seeds ($ 3.7bn), flower seeds and field seeds (around $ 15bn), two-thirds of which relates to so-called traditional crops and the remainder to GM crops (around $ 5.25bn).

SEEDS: GLOBAL MARKET



SOURCE: VILMORIN

At present, it is impossible to estimate the size of the GM fruit and vegetable seeds market, which is currently marginal. Only the US and South America currently produce fruits and vegetables of this kind (for crops), while they are prohibited in Europe, with the exception of Spain and limited cultivation in France (planned 5,000 hectares in 2006).

Growing GM market

Furthermore, despite the reluctance towards GM in Europe, **this currently accounts for 26% of the seeds market, exceeding fruit and vegetable seeds, which account for 18% of the total market worldwide**. This relates primarily to crops produced in the US, which offer high value-add and therefore a predominant proportion of value.

The seeds market is a highly international market, with Europe representing the largest market with an estimated distribution value of $ 6.2bn, followed by the US ($ 5.7bn) and Asia. The Chinese market is estimated to be worth $ 3bn, while the Japanese market is focused mainly on fruit and vegetable seeds, representing a target market worth $ 2.5bn. These main countries account for nearly 60% of the global market.

The main growth markets are primarily in Asia, with growth of 13.4% over the period from 2000-05, corresponding to a **CAGR of 2.5%**, as well as in Latin America, with growth of 16.7% over the same period, corresponding to a CAGR of **just over 3%.** Brazil and Argentina are the largest markets – worth $ 1.5bn and $ 0.9bn respectively. Including these two countries, this covers two-thirds of the global seeds market.

The European and North American markets are more mature. However, the company has established solid market share over the last five years in segments including the most dynamic market of GM crops.

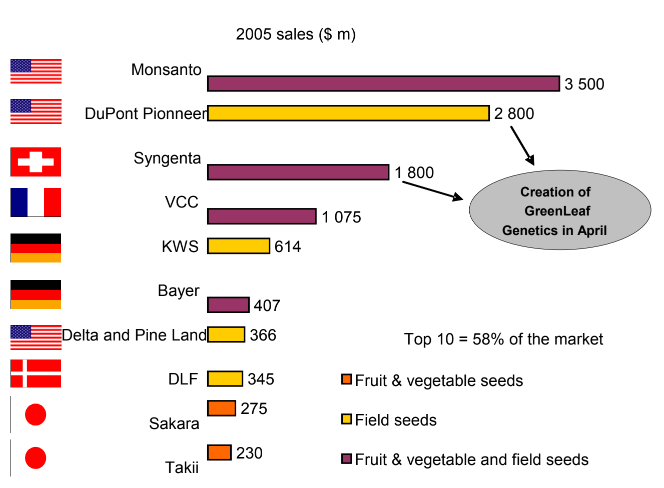
International competition

While the fruit and vegetable seeds market has seen the return or growth in momentum of agrochemicals companies over the last few months (see our report of May 2, 2005) with the acquisition of Seminis – the world's leading trade fruit and vegetable seeds company – by Monsanto, Vilmorin faces similar competition in both fruit and vegetable seeds and field seeds.

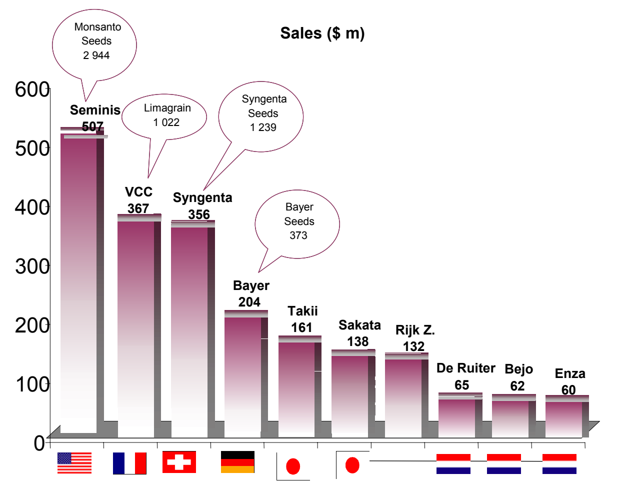
➢ Predominant weighting of agrochemicals companies

With the exception of DuPont/Pioneer, which is present only in field seeds, Vilmorin was already in competition with Monsanto (world market leader), Syngenta (world No. 3) and Bayer (world No. 4 in fruit and vegetable seeds and No. 6 in all types of seed).

INTERNATIONAL COMPETITION: FRUIT & VEGETABLE AND FIELD SEEDS



FRUIT & VEGETABLE SEEDS



SOURCE: VILMORIN ESTIMATES

The seeds market is dominated by agrochemical companies, **with Monsanto as undisputed market leader, generating sales of around $ 3.5bn from seeds, around 15% of which comes from fruit and vegetable seeds (Seminis), representing 17.5% of the global market (production value).** DuPont/Pioneer is world No. 2, generating $ 2.8bn solely from field seeds. This constitutes a new competitor for Vilmorin with the integration of the field seeds business.

Vilmorin: world No. 4, well ahead of other companies

Vilmorin is therefore world No. 4 behind Syngenta ($ 1.8bn, with 19% from fruit and vegetable seeds). Until now, it has been world market leader in fruit and vegetable seeds for the consumer and trade markets and world No. 2 in the trade market alone. Following the integration of Limagrain's field seeds business, it will become world No. 4, well ahead of other companies (KWS and Bayer, world No. 5 and 6 respectively).

The market comprises mainly agrochemicals companies, which in the past have opted for a "stop and go" strategy towards the seeds sector and are currently attempting to enhance their presence in this sector, as demonstrated by Monsanto and Syngenta. This interest may be justified by a number of factors, including:

Durable presence for agrochemicals companies?

- The need to find new growth drivers (growth of the seeds market vs. decline in herbicides);
- Access to new high added-value developments, including GM products;
- Competitive pressure so as not to be left behind by their main competitors.

Within this sector, family-owned companies tend to have a marginal presence or be restricted to certain market segments – e.g. Takii and Sakata in Japan for fruit and vegetable seeds, as well as the main Dutch companies.

➢ A long period of consolidation

Sector consolidation has been an ongoing process. In parallel, the level of entry barriers requires a long-term investment cycle.

In the trade fruit and vegetable seeds market alone, Vilmorin has gradually climbed the ranks from world No. 5 to world No. 2 through acquisitions (including Clause Harris Moran, Israeli company Hazera etc.) in the space of around 10 years.

Increases in market share through acquisitions and organic growth (creation of new varieties)

As regards the field seeds the market, **the company is currently No. 1 in Europe with 20% market share in the main crops, including maize and corn (10% for sunflowers).** The acquisition of Advanta Europe (excluding sugar beet) in February 2005 enabled the company to increase its market share in Europe. In the US, thanks to a partnership with German company KWS, Vilmorin has **doubled its market share from 3% to 6%** and is currently market No. 4.

Its main competitors have adopted the same acquisitions strategy, such as Monsanto and Syngenta. Monsanto acquired Seminis from US private equity firm Fox Paine in early 2005. Previously, Monsanto carried out a number of other acquisitions, in particular in the area of field seeds (Channel Bio, Dekalb etc.) and cotton seeds (Emergent etc.). Meanwhile, Syngenta has strengthened its position as world No. 3 with the acquisition of Garst and Golden Harvest (maize and soybean).

Continuing market consolidation…

The market is becoming increasingly concentrated. The top five companies currently control around three-quarters of the fruit and vegetable seeds market. The top 10 companies control 58% of the market for all types of seeds (fruit and vegetable seeds and field seeds). **The "big four" (Monsanto, DuPont/Pioneer, Syngenta and Vilmorin) make up around 46% of the market.**

... in favour of agrochemicals groups and "pure play" companies

This fundamental trend is expected to continue, hence the more aggressive strategy adopted by Vilmorin, which does not want to be left behind by the main agrochemicals companies. Alongside KWS – which is also its partner in AgReliant Genetics, a 50/50 joint venture for the development of Limagrain's field seed activities in the US - Vilmorin is the only specialist seeds company that is not family-owned, while other companies are present in other sectors. Seeds account for 55% of sales for Monsanto, 22% for Syngenta, 10% for DuPont and 1% for Bayer.

Motivations

The announcement of the plan to integrate Limagrain's field seeds business may have given rise to certain doubts about its relevance and the strategy pursued until now, focusing on developing a world market-leading position in the buoyant and lucrative segment of field seeds.

In reality, several factors justify this decision, which is a major move as it changes the company's structure.

Competitive pressure

The decision to transfer Limagrain's field seeds business may initially be regarded as **a defensive strategy** in view of the development of the competitive climate.

Competitors with considerable striking power

International competition in this market, as discussed above, creates competitive pressure, amplified by the arrival or growth in momentum of **companies with considerable resources for expansion.**

This is true in terms of both research and development resources and financial resources, judging by acquisition multiples. Over the last few years, **acquisition multiples have frequently been around 3-4x sales for field seeds and 2-3x sales for fruit and vegetable seeds.**

More precisely, Seminis was acquired by Monsanto at a price representing nearly 3x sales and 16x EBIT, corresponding to an enterprise value of $ 1.4bn. This is substantially higher than the cost of the acquisition of Seminis by US private equity firm Fox Paine two years earlier, at 1.5x sales and 10x EBIT!

In general, R&D budgets represent 12-13% of sales. This is a significant amount considering the size of competitors ($ 200-400m vs. € 35m for Vilmorin before the integration of Limagrain's field seeds business).

The acquisition of Seminis probably triggered or accelerated this decision, considering that some of Seminis' assets could be of interest to Vilmorin. The acquisition of the world's leading trade fruit and vegetable seeds company and the cost of the acquisition have stemmed any vague desires for rapid growth through acquisitions in this market segment.

The desire not to be left behind and the will to attain critical mass in order to increase R&D resources in an increasingly international market therefore justify this decision.

R&D synergies

R&D is the key success factor for seed producers, justifying their high R&D budgets. Remember that R&D into the generation of new plant varieties contributes to the creation of a genetic portfolio, which constitutes the **key asset** and the basis of the wealth of seed producers. **The real discriminating factor is the company's performance in developing new varieties. The genetic portfolio therefore constitutes a dissuasive entry barrier given the time needed to develop new plant varieties.**

In general, it takes 10 years to develop a new plant variety and market it through conventional plant breeding (fixed lines after seven years and hybrids after 10 years).

Development time could be reduced to seven years by using biotechnologies such as molecular marking and genome studies[1].

Vilmorin has also established a number of partnerships, both private (e.g. with Keygene, Biogemma) and public (Génoplante with INRA, CNRS etc.).

In addition to acquisitions, the company's main competitors are also forming partnerships in order to strengthen their presence in development activities.

Following the announcement of the integration of the field seeds business into Vilmorin, DuPont/Pioneer and Syngenta – world No. 2 and No. 3 respectively – announced the creation of a joint venture to out-license maize and soybean proprietary breeding material.

Vilmorin: R&D budget trebled

Currently, this agreement relates only to the US and Canadian markets. The aim is to create an entity with the largest genetics library in the world, benefiting both of the companies involved, as well as all seed producers. **This initiative reflects not only the strategic importance of R&D but also the need to combine efforts in this area. The aim is also gradually to counter or weaken the dominant position of Monsanto, particularly in GM products.**

The integration of the field seeds business into Vilmorin will favour the near-trebling of the company's R&D budget from € 35m at present to around € 100m. In addition, although they are already coordinated, current development projects at both Vilmorin and Limagrain could be optimised. This strengthening of resources supports the strategy of alliances and partnerships, such as the joint venture between Limagrain and KWS in field seeds activities in the US.

Growth drivers

Also an aggressive strategy

This transfer of assets also forms part of **an aggressive strategy**, with management looking to benefit from new growth drivers. While the fruit and vegetable seeds market still offers potential for growth in markets such as Asia in the trade segment, the grouping together of the different segments will provide access to new outlets.

[1] Genome studies and molecular marking, in parallel with conventional plant breeding, are used to develop new plant varieties

➢ Satisfying global demand for food

Global demand for food is continuing to increase due to the growing population and, in particular, the steady reduction in the amount of cultivable land. This is particularly true in Asia due to the growth of China and India, while the industrialisation of these countries is reducing the amount of cultivable land. China is currently losing 500,000 hectares of cultivable land a year. One of the responses to this phenomenon is to increase yields.

Satisfying global demand for food remains a challenge, while worldwide corn stocks represent just two months of global consumption.

➢ Growth boosted by GM seeds

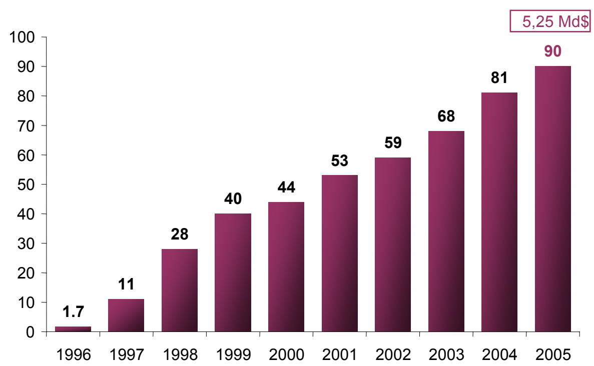
In order to respond to problems such as yields and resistance to disease, the use of GM seeds has seen extremely strong growth, mainly in the US.

GM seeds: CAGR of 15%

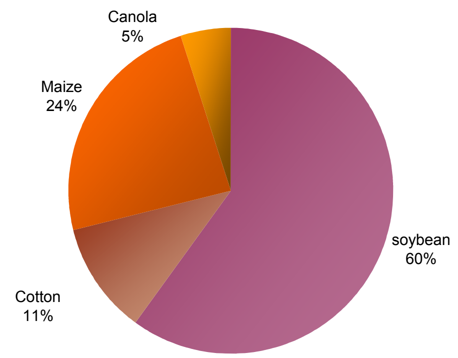
In the space of 10 years, the market has continued to grow and is currently worth $ 5.25bn, or around 26% of the global seeds market. Excluding the early years (1996-97), **the GM seeds market has grown by an average of around 14-15% a year.**

GM crops currently represent around 100 million hectares in the US, while they are almost non-existent in Europe, particularly in France (5,000 hectares in 2006).

GM SEEDS: CULTIVABLE LAND WORLDWIDE



BREAKDOWN BY VARIETY IN 2005



SOURCE: COMPANY

➢ New applications with renewable raw materials

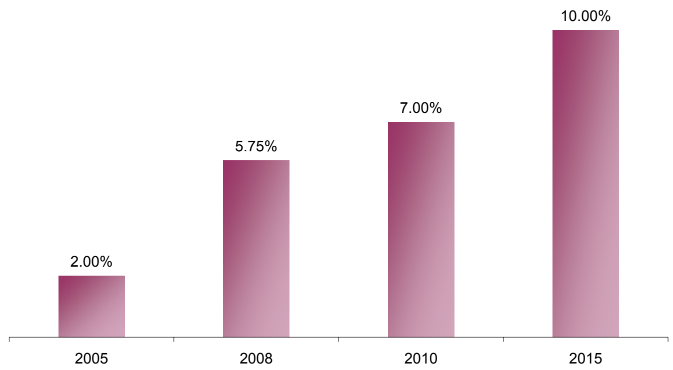
The problem of energy prices constitutes a new major challenge. Rising fuel prices have brought the issue of biofuels back to the public's attention, with the use of diester or ethanol.

Medium-term growth driver: biofuels

The French government is believed to be close to approving the development of this new fuel source, which would authorise the development of biofuel made of 85% bioethanol and 15% petrol. This biofuel would be made using major crops such as corn, sugar beet, rapeseed or sunflower. The US is also shifting towards the development of new fuel sources (e.g. green energy programmes).

In France, the target is for fuels to contain 5.75% biofuels in 2008 vs. 2% in 2005, rising to 7% in 2010 and 10% in 2015 (Source: Agritel).

BIOFUEL TARGETS



SOURCE: AGRITEL

Attaining these targets assumes significant additional available land (6 million hectares in France for biofuels between now and 2010), compared with around 5 million hectares currently used for the cultivation of corn for food purposes.

This trend should therefore favour an increase in field seed prices, paving the way for a new upward cycle. For example, in the wake of the escalation in commodities prices, trading activity on commodity derivatives markets in the US has increased substantially, resulting in an 8% increase in corn prices since mid-May.

Better risk diversification

The aim of this move is also to improve the company's risk diversification in terms of regions, R&D efforts, production cycle and operations, with a lower WCR for field seeds.

The field seeds production cycle is shorter than that of fruit and vegetable seeds. In addition, WCR is dependent on the level of seeds in storage, as well as sales. Overall, the relative weighting of WCR is lower compared with fruit and vegetable seeds.

Global acquisitions, creating stronger negotiating power

In an internationally expanding market, the new entity will look to draw on effects of scale.

As the world's fourth-largest listed seed producer, the company will have greater striking power. In addition, the new entity will become a key player and increasingly sought after by other seed producers due to its high market share. Unlike Monsanto, DuPont and Syngenta, the new entity will remain accessible to smaller operators in the sharing of R&D. For the new Vilmorin, effects of scale will also help it to attract new talents.

Targets

Becoming a key player: market No. 3

Already world market leader in fruit and vegetable seeds (consumer and trade), world No. 2 in the trade segment and world No. 4 in fruit and vegetable seeds and field seeds, **Vilmorin's aim is to become market No. 3.**

Target: world No. 3 through acquisitions

This should become concrete over the next few years, through the redeployment of activities within the company (consumer for fruit and vegetable seeds, generation of synergies following the integration of Advanta, growth in momentum in the US etc.), as well as probable acquisitions.

There are several possible drivers:

- Vilmorin is looking to buy out the minority interests of Israeli company Hazera (37%), having acquired the majority stake (55%) in 2003-04. 100% control would enable Vilmorin to benefit fully from the Israeli company's presence in the trade fruit and vegetable seeds market, in particular in tomato seeds;

- The seed market (fruit and vegetables and field seeds) is highly fragmented outside the top four players. Therefore, companies such as KWS, Bayer and DLF could group together in order to optimise effects of scale.

  KWS's 50% stake in AgReliant (field seed activities in the US) – owned jointly with Vilmorin – could develop into an alliance between the two shareholders;

- Finally, in addition to the top 10 players, a large number of mainly family-owned companies operate in this market. Over 40% of the market ($ 20bn) is controlled by a large number of small operators, many of which have no successors in place.

Gains in market share: stronger presence in the US (field seeds) and penetration of the Asian market

Market share increased from 3% to 6% and then 10%

Vilmorin's presence in the US field seeds market is relatively recent (since 2000), resulting from the partnership with KWS. With 6% market share in the US vs. 3% in 2000 – making it the fourth-largest company in the US – the company is looking to increase its market share, **with a short-term target of 10%.**

The company has a very limited presence in Asia, which represents a large market (China and India). Although a significant part of the Asian field seeds market is not accessible (non-wholesale seeds), its potential is still considerable.

GM seeds: a growth driver

The inescapable development of GM products constitutes a growth driver for the company. With 90 million hectares currently under cultivation, this market is expected to continue to grow, with – according to ISAAA – a target of 150 million hectares by 2010. **This represents a CAGR of over 10%, compared with 1-2% for traditional seeds.**

The US is expected to continue to spearhead the growth of the GM market (55% of current cultivated land).

In the developed nations, market share in Europe is expected to increase gradually as a result of favourable decisions by the European Commission. The cultivation of certain varieties of transgenic corn has already been authorised.

Finally, Asia – in particular China and India – is likely to be one of the main purveyors of growth in GM seeds. China, which is currently the world's largest producer of transgenic cotton, is soon expected to authorise the distribution of transgenic rice to meet the country's food needs (20% of the world's population with 8% of arable land).

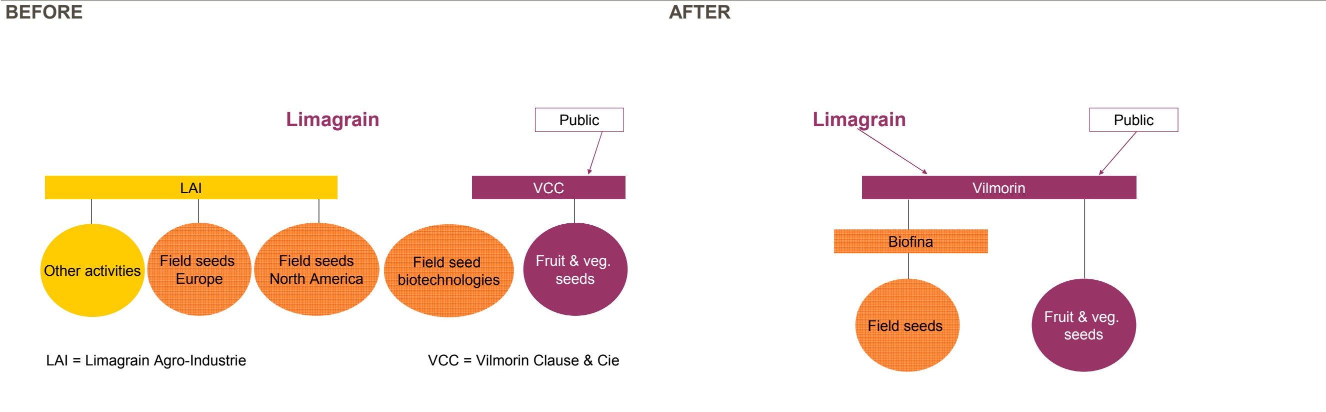
A NEW GROUP OR RENEWAL

Terms of the transfer of assets

The transaction concerns the transfer of the field seeds business previously controlled by LAI (Limagrain Agro-Industrie), which itself is controlled by Limagrain.

Vilmorin will therefore control all field seeds and fruit and vegetable seeds activities and change its name to VILMORIN & Cie.

New organisational structure



SOURCE: VILMORIN

The assets transferred comprise field seeds operations in Europe and North America, as well as R&D activities currently controlled by Limagrain via GLH and Limagrain Agro-Industrie. A new structure, Biofina, has been created in order to group together the activities transferred to Vilmorin. Biofina is therefore 100% controlled by Vilmorin.

However, Vilmorin previously owned and will continue to own 80% of the European operations grouped together within Limagrain Verneuil Holding (LVH), with the remainder held by 11 agricultural cooperatives.

Furthermore, the North American operations – grouped together within Limagrain Genetics Inc and Limagrain Genetics Corp – **are jointly owned (50/50) with KWS and will therefore be proportionally consolidated into Biofina.**

Finally, Biofina controls 55% of R&D activities (Biogemma), with the remainder owned by various structures including Unigrains, Sofiprotéol etc.

As a result, minority shareholders will have a much greater weighting on the P&L (perhaps double) and the balance sheet (around € 140m vs. less than € 50m previously).

Assets transferred

➢ European operations (Limagrain Verneuil Holding, LVH)

At June 30, 2005, European operations represented sales of nearly € 310m. **LVH is the No. 1 corn seed producer in Europe, No. 2 in maize and No. 3 in the sunflower market.** Maize accounts for around 60% of European sales, with the other main crops being corn (8%[2]) and rapeseed (around 6%).

Sales of € 340m in Europe in 2006-07

The acquisition of Advanta in February 2005 enabled the company to strengthen its presence in the Northern European corn market and achieve greater penetration of the sunflower market. **It currently has market share of 20% in Europe.**

The other key players present in this market are RAGT and KWS in corn. Pioneer is market leader in maize. Finally, Syngenta are Monsanto market No. 1 and No. 2 respectively in sunflower seeds.

KEY PLAYERS

Very solid competitive positioning in strategic crops…

	N° 1	N° 2	N° 3	N° 4
Small grain cereals	**Limagrain Verneuil Holding**	RAGT	KWS	Desprez
Maize	Pioneer	**Limagrain Verneuil Holding**	KWS	Monsanto
Sunflower	Syngenta	Monsanto	**Limagrain Verneuil Holding**	Euralis

… and establishing its position in rapeseed

Target: To establish market share of over 20% in these crops

SOURCE: VILMORIN

➢ North American operations

With total 2004-05 sales of close to $ 200m, the company is ranked No. 4 in North America, specialising in maize and soybean. It first penetrated the North American market in 2000 with the creation of AgReliant in partnership with German company KWS (50/50). 74% of sales come from maize.

The alliance with KWS allows the two companies to combine their efforts. Furthermore, AgReliant is developing its R&D programme with the help of its two main shareholders - KWS and Limagrain. As a result, the majority of seeds (estimated 70%) are developed from the company's own genetics database. In the long term, this represents a favourable margin mix. **As regards GM seeds, the company uses the GM breeding material developed by companies such as Monsanto in exchange for royalty payments.**

Market share doubled in five years to the detriment of market leader Pioneer

The market is relatively concentrated, with the top five companies controlling 70% of the market. Although it is market leader with 33% market share, Pioneer is currently affected by the more aggressive investment strategy of its competitors (Monsanto and Syngenta) and its market share has fallen by 14% over the last five years. Against this backdrop, Limagrain/KWS has gradually managed to strengthen its presence by doubling its market share in five years.

[2] Excluding royalty payments

R&D activities

Biogemma groups together the company's R&D activities and has a budget of € 12m. R&D concerns genome studies, molecular marking and transgenesis.

The sharing of R&D efforts will therefore be optimised with the current reorganisation of R&D sites (closure of two laboratories, transfer of skills) and closer ties between Biogemma and Keygene, a biotech company specialising in fruit and vegetable seeds.

Terms

Limagrain's stake in Vilmorin to increase by 8.6%

In concrete, **the assets to be transferred represent a value of € 241.2m,** corresponding to a capital increase of € 58.3m and a contribution premium of € 182.9m, **with the creation of 3,824,878 new shares. The number of shares will therefore increase by 40% to 13,391,857 shares.**

The value of assets represents a ratio of 2.5x between field seeds operations and the current market capitalisation of Vilmorin, which currently comprises only fruit and vegetable seeds operations. In addition, Vilmorin will acquire debt of less than € 300m, including € 115m relating to the acquisition of Advanta, € 122m relating to the creation of the new entity (Biofina) and € 42m relating to operations.

After the transfer of assets, parent company Limagrain's stake in Vilmorin will increase from 70% to 78.6%.

Change of size

The company will almost double in size. **The 2007-08 sales target is now € 1bn vs. € 500m to June 30, 2006.**

Set to double in size, with fruit and vegetable seeds representing 55% of sales and field seeds 45%

Currently, fruit and vegetable seeds account for 100% of Vilmorin's business (60% trade and 40% consumer). After the integration of the field seeds business, **fruit and vegetable seeds will account for just 55% of sales, with field seeds making up the remaining 45%** (based on our 2006-07 estimates). Europe will also represent the majority of sales (68% on a pro forma basis), with North America representing 22% and Asia just 5%.

The new assets will be consolidated as of July 1, 2006, the start of the new financial year. We have made the following assumptions:

PROJECTED SALES

(€ m)	2004-05	2005-06e	2006-07e	2007-08e	2008-09e	2009-10e
Fruit & veg.	**489.6***	**503.5**	**532.3**	**548.4**	**566.0**	**584.3**
% change	+2.8%	+1.1%	+5.7%	+3.0%	+3.2%	+3.2%
% of total	100%	100%	55%	55%	55%	55%
O/w trade	301.8	344.0	369.4	382.4	396.8	411.7
% change		+13.9%	+7.4%	+3.5%	+3.7%	+3.7%
O/w consumer	196.2	159.5	162.7	165.9	169.2	172.6
% change		-18.7%	+2.0%	+1.9%	+1.9%	+2.0%
Field seeds	**385.5**	**n.m.**	**430.0**	**444.1**	**460.2**	**477.0**
% change				+3.2%	+3.6%	+3.6%
% of total			45%	45%	45%	45%
O/w Europe	308.2	n.m.	340.0	350.2	360.7	371.5
% change				+3.0%	+3.0%	+3.0%
O/w North America	77.3	n.m.	90.0	93.9	99.5	105.5
% change				+4.3%	+5.9%	+6.0%
Consolidated sales* **	**498.0****	**503.5****	**962.3**	**992.5**	**1,026.2**	**1,061.3**
% change		+1.1%	+91.1%	+3.1%	+3.4%	+3.4%

SOURCE: ODDO MIDCAP ESTIMATES
* IFRS **FIELD SEEDS ACTIVITIES NOT CONSOLIDATED *** INCLUDING SERVICES

The new configuration will be relatively evenly balanced between the fruit and vegetable seeds business and the field seeds business. We have made fairly conservative assumptions as follows:

- **For the fruit and vegetable seeds business**, growth of just over 3%, with an increase of close to 4% for the trade segment and 2% for the consumer segment. **The company's strategy is still to optimise the development of new varieties through renowned brands and clearly identified subsidiaries** (Vilmorin/Nikerson, Clause/Tézier and also Harris Moran in the US, Hazera for operations in Israel and Kyowa/Mikado[3] for operations in Japan etc.). Trade activities should therefore continue to spearhead the company's expansion. In the consumer segment, it will pursue a strategy of improving margins at German subsidiary Flora Frey, among others, resulting in more modest sales growth (around 2%);

- **For the new field seeds business**, the company will continue to pursue a geographically-led approach, with Europe and the US being the two main regions. Our assumptions are based on management's guidance of 3% growth for the European market and at least 5% for North America. The stronger growth of the North American market relates to further gains in market share, with a target of doubling market share from 6% to 10% within the next four years. In addition, Vilmorin should benefit from the more robust growth of the GM market, although this is unlikely to affect its European operations before 2009 or even 2010;

- **As regards the currency impact**, **15% of the company's sales are sensitive to the impact of the dollar** (6% for fruit and vegetable seeds and 9% for field seeds). We have assumed a euro/dollar exchange rate of \$ 1.28 for 2006-07 and \$ 1.30 for 2007-08 vs. \$ 1.22 for the year ended June 30, 2006.

Dilutive impact in the short term

Dilutive impact of 13% in 2006-07

In addition the doubling the company's size, the integration of the field seeds business is likely to have a dilutive impact in the first year of consolidation from July 1, 2006.

Negative impact in the short-term to allow for future growth

This relates mainly to:

- Payment for this business via **a 40% increase in the number of shares** (estimated value of € 241.1m). A total of 3,824,878 new shares will therefore be issued, bringing the total to 13,391,857;

- The consolidation of a new business line, which will initially generate **lower margins** than the rest of the company. On a pro forma basis as at June 30, 2005, the new entity generated operating margin of 7.7% vs. 8.9% for Vilmorin (under IFRS) or close to 10% adjusted for exceptional items;

- **A more heavily geared balance sheet,** with estimated debt of € 279m (pro form) as at June 30, 2005 vs. € 79m for Vilmorin, resulting in higher financial expenses;

[3] Recent acquisition of a 54% stake in Mikado

- **A higher proportion of minority interests,** with 20% of LVH - the structure comprising the European field seed operations – is controlled by 11 cooperatives. Although the European operations currently make a significant contribution to earnings, the relative weighting of minority shareholders will increase (around 10% of earnings in the new scope of consolidation vs. 7% previously).

We expect a negative impact of around 13% in 2006-07 and just 4% in 2007-08 (variable depending on the assumptions made).

EPS

(€)	2005-06e	2006-07e	2007-08e
New EPS	**3.59**	**3.44**	**4.02**
Old EPS	3.59	3.95	4.18
Dilution		**-13%**	**-4%**
& change	+6.3%	-4.3%	+16.8%
CAGR		**+8.2%**	

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

Our assumptions

The assumptions made in relation to the integration of the field seeds business are deliberately conservative in view of the following factors:

- The pro forma figures to June 30, 2005, make it difficult to analyse the profitability of the assets to be transferred, as these assets have been affected by significant changes in the scope of consolidation (Advanta in Europe in February 2005, Producers Hybrids in the US in December 2004). **Furthermore, operating margin of 7.7% achieved to June 30, 2005, cannot be extrapolated.**

- The pro forma figures to December 31, 2005, are even less relevant in validating our estimates given the highly seasonal nature of the business. Around one-third of sales are generated in H1, resulting in operating and net losses over this period – even though this has not been as evident over the last few years for the fruit and vegetable seeds business. **The operating loss of € 45.8m to December 31, 2005, is therefore not significant.**

Integration of a new business line with operating margin of 6%

- We have assumed operating margin of around 6% for the field seeds business, with around 7% for European operations and just over 2% for North American operations. These assumptions are in line with the pro forma performance to June 30, restated for the consolidation of Advanta. Consolidated over 4.5 months in 2004-05, Advanta distorts analysis of operating margin as this includes the most fruitful months in terms of sales and earnings. Adjusted for sales of € 68m and EBIT of € 11m, operating margin in Europe would have been 7.2%, with overall operating margin of 5.9%.

  However, the restructuring measures implemented in 2005-06 (e.g. reducing the headcount by around 40%) for a probable cost of around € 20m (recognised in 2005-06 and therefore not impacting the first year of consolidation) should generate synergies or cost savings of € 12m as of 2006-07. **If this were the case, our EBIT estimate for the field seeds business could be increased by around € 5m. However, we have opted to spread out the impact over subsequent years.**

Synergies spread out over two years, providing leeway

- Another new factor is the higher financial charge (estimated at € 12-13m) due to the acquisition of debt with the assets. A total of 40% of the debt acquired (around € 280m) relates to the acquisition of Advanta, with the remaining 60% relating to the financing of the normal business cycle, given the relatively high absolute WCR (€ 150m).

- The proportion of minority interests is expected to double in absolute terms (estimated € 5m) due to LVH's shareholding structure. However, management's desire to acquire an additional 37% of Israeli subsidiary Hazera, bringing its total stake to over 90%, would help to reduce the proportion of minority shareholders, resulting in a neutral impact (not factored in at present).

Projected sales of € 962m and EBIT of € 88m (up 56%)

For 2006-07, we project **sales of € 962m** (vs. € 503.5m to June 30, 2006) and **operating profit of € 88m** (vs. € 56.3m to June 30, 2006), corresponding to **operating margin of 9.1% (vs. 11.2%) and net profit of € 46m.**

2006-07 ESTIMATES

(M€)	2005-06e	2006-07e Fruit & veg. seeds	2006-07e Field seeds	2006-07e Consolidated
Sales*	**503.5**	**532.3**	**430.0**	**962.3**
% change	+2.8%	+5.7%	n.m.	+91.1%
Gross margin	52.1%	52.5%	46.5%	49.8%
Operating profit	**56.3**	**61.9**	**26.0**	**87.9**
% change	+28.8%	+10.0%	n.m.	+56.1%
Operating margin	**11.2%**	**11.6%**	**6.0%**	**9.1%**
Attrib. net profit	**39.8**	**-**	**-**	**46.0**
% change	+23.2%			+15.5%

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES
* INCLUDING SERVICES

The integration of the field seeds business is likely to have a significant impact on the balance sheet, with a sharp increase in intangible assets (weighting of goodwill and other trademarks, patents etc.), estimated at € 480m as at December 31, 2005, €256m in shareholders' equity, €100m in minority interests, € 279m in net debt and € 150m in WCR.

BALANCE SHEET

(€ m)	Pro forma Biofina June 30, 2005	2005-06e Vilmorin	2006-07e Vilmorin
Intangible assets	**555**	**259**	**834**
Net WCR	151	177	339
Shareholders' equity	**256**	**325**	**593**
Minorities	100	43	146
Net debt	**279**	**34**	**380**
Gearing	**78%**	**9%**	**51%**

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

We expect gearing of 51% in 2006-07. Despite this increase, the company's debt capacity should remain intact (around € 300m), in line with the previous balance sheet.

Leverage for margins

This change of configuration should also be considered in parallel with the numerous drivers for improvement in margins.

These drivers relate to both the old scope of consolidation (Vilmorin Clause & Cie) – in particular the consumer division – and newly transferred assets, with the restructuring efforts implemented in Europe and buoyant market conditions in North America.

Three main factors are expected to drive improvement in margins.

European field seeds operations

European field seeds operations currently constitute the main contributor in terms of both sales (80% of field seeds sales) and earnings (over 90% of earnings to June 30, 2005).

The company, which is present in strategic types of cereals and market leader in small grain cereals, has been able to increase its market share with the integration of Advanta. This should enable it to strengthen its position in maize, as well as sunflower seeds.

Synergies, growth, proprietary genetic database => improvement in operating margin of 200 basis points in 2007-08 and 100 basis points in subsequent years

However, this structure has required restructuring efforts, including a major redundancy plan. The effects of these cost-cutting measures should be seen in 2006-07 and subsequent years (expected synergies of € 12m).

The Eastern European market should also constitute a priority target (Hungary, Ukraine etc.), with the development of the GM market – which is currently in its early stages – expected to boost growth as of 2009-10.

The company benefits from high market share (20% for small grain cereals, 18% for maize and 10% for sunflower), as well as a **proprietary genetic database estimated at nearly 100%, with a significant impact on profitability.**

Anticipated synergies, further growth in regions such as Eastern Europe, optimisation of R&D with access to Advanta Europe's genetic database and, in the longer term, the growth in momentum of GM products, should allow for rapid and regular improvement in profit margins for the division. **Operating margin is expected to reach 11% within the next three to four years, similar to that generated by the fruit and vegetable seeds division. In the meantime, we project improvement of 200 basis points in 2007-08 and 100 basis points a year in subsequent years.**

EUROPEAN FIELD SEEDS OPERATIONS: OPERATING MARGIN

(€ m)	Pro forma June 30, 2005	2006-07e	2007-08e	2008-09e	2009-10e
Sales	308.2	340.0	350.2	360.7	371.5
Operating profit	**17.3***	**24.0**	**32.0**	**36.0**	**41.0**
% change			+33%	+12%	+14%
Operating margin	**7.2%**	**7.1%**	**9.1%**	**10.0%**	**11.0%**

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES
*EXCLUDING ADVANTA (€ 28.3M INCLUDING ADVANTA)

North American field seeds operations

This is currently the least profitable division (pro forma operating margin of less than 2% to June 30, 2005).

There are two main reasons for this:

- Firstly, the company entered the North American market six years ago, with the creation of a joint venture with German company KWS. Since then, it has invested in building its market share, which rose from 3% in 2000 to 6% in 2006. However, unlike the European business, the company's proprietary genetic database is still limited, particularly given Monsanto's strict monopoly in GM breeding. The company has to pay a high level of royalties to use non-proprietary genetic databases ($ 50-60m a year);
- Secondly, the company has to pay holding company costs – the amount of which is not disclosed – which are charged directly against the US business.

We believe that several factors should gradually help margins to improve:

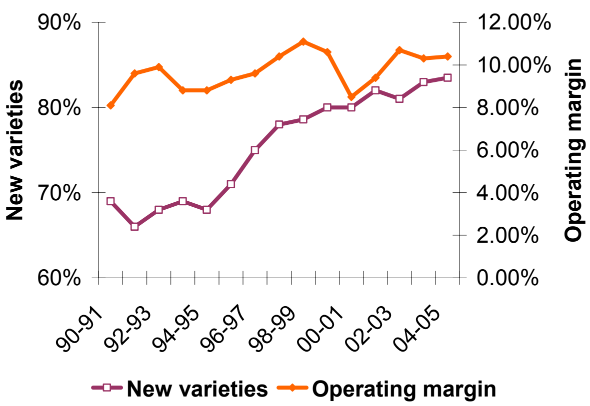
1- Improvement in new varieties

Target of 90%?

In keeping with the strategy for fruit and vegetable seeds, the company is focusing its R&D efforts on increasing the proportion of proprietary genetics – i.e. new varieties – over the coming years. New varieties account for an estimated 50% of field seeds in North America, compared with 100% for field seeds in Europe and 83.5% for fruit and vegetable seeds. Given the weighting of GM seeds in North America (around 55% of the market – 50% of the maize market and 90% of the soybean market) and Monsanto's predominant position, the rate of 50% is still relatively significant.

However, the company's strategy is to develop its own proprietary development technologies.

FRUIT & VEGETABLE SEED NEW VARIETIES – OPERATING MARGIN



SOURCE: COMPANY

The company currently generates 15% of hybrids using proprietary technologies and 50% with a parent technology from a proprietary line and a second from Foundation Seeds. It aims to increase the proportion of new varieties over the next 10 years.

A parallel can therefore be drawn with Vilmorin's situation in fruit and vegetable seeds 10 or 15 years ago. Over time, the company has invested continually to increase the proportion of new varieties, raise the entry barriers and improve its margins.

2- Continuing growth in momentum of GM seeds

Gains in market share will also be closely linked to the growth in momentum of GM seeds. Over the last few years, Monsanto has increased its market share by 38%, beating all other companies in the sector.

MARKET SHARE AND GROWTH 2000-05

(%)	Pioneer	Monsanto	Syngenta	AgReliant*
Market share	33.0%	17.6%	13.0%	5.5%
% change	**-14%**	**+38%**	**+53%**	**+83%**

SOURCE: COMPANY * VILMORIN

Changes in market share are closely linked to the quality of germplasm. Syngenta's strong growth reflects numerous acquisitions. The company's market share decreased by 2 percentage points over the period from 2000-05.

However, Syngenta is aiming to launch new GM products, which are currently awaiting approval and should be launched within the next three years. This will gradually call Monsanto's dominant position into question.

AgReliant pursues a similar strategy, having formed a partnership with KWS with the aim of doubling its market share

3- Reinforcement of distribution

Enhancement of coverage through distribution

Unlike the European market, the North American market has three distribution systems: the farmer-dealer network, direct sales and sales by retailers. In order to ensure better coverage, **Vilmorin has adopted the strategy of acquiring retailers**. The recent acquisition of Producers Hybrids has facilitated access to the area to the west of Mississippi.

Around 30% of the North American market is currently controlled by independent retailers, which could therefore be acquired to increase market share.

NORTH AMERICAN FIELD SEEDS OPERATIONS: OPERATING MARGIN

(€ m)	Pro forma June 30, 2005	2006-07e	2007-08e	2008-09e	2009-10e
Sales	78,2	90,0	93,9	99,5	105,5
Operating profit	**1,4**	**2,0**	**4,6**	**7,0**	**8,4**
% change			+130%	+52%	+20%
Operating margin	**1,8%**	**2,2%**	**4,9%**	**7,0%**	**8,0%**

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

Fruit and vegetable seeds for the consumer market

Vilmorin's original business line will not be left behind, with the continuation of efforts to boost the consumer fruit and vegetable seeds business. The company has withdrawn from the consumer market in the US and implemented restructuring efforts at German subsidiary Flora Frey, which should see a gradual return to breakeven between now and 2006-07 (vs. a loss of € 4m in 2004-05). We expect it to reach breakeven in 2007-08.

Consumer subsidiary Oxadis is therefore the benchmark model with target operating margin of 8% for the whole division. The company will focus on improving margins with strong sales growth. Sales are expected to be close to € 160m.

CONSUMER FRUIT AND VEGETABLE SEEDS: OPERATING MARGIN

(€ m)	2005-06e	2006-07e	2007-08e	2008-09e	2009-10e
Sales	159.5	162.7	165.9	169.2	172.6
Operating profit	**7.8**	**9.3**	**10.3**	**10.8**	**11.3**
% change	-	+19%	+11%	+5%	+5%
Operating margin	**4.9%**	**5.7%**	**6.2%**	**6.4%**	**6.5%**

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

Confirmed strengths

Asia constitutes a growth driver. Vilmorin currently has an entity to be formed from the merger between Kyowa and Mikado in Japan for fruit and vegetable seeds, as well as an office and two R&D sites in China.

Expanding in Asia is a lengthy process. Vilmorin has been present in Japan for a number of years but only recently took control of Mikado and has had an office in China for 10 years. The second stage is likely to be the grouping together of fruit and vegetable seed businesses in Japan and the acquisition of a field seeds producer in China.

Refocusing on the core business in terms of products and strengthening its presence in Asia

Vilmorin's scope of consolidation could also change in the near future, given the company's desire to reinforce its original expertise. **Management is looking to increase its stake Israeli subsidiary Hazera**, of which it currently owns 55%, by acquiring a further 37% of share capital. This would favour the reintegration of minority interests of € 2-3m.

The company could also **withdraw from non-core activities such as Advanta's feed grains and grass seed businesses** (around 15% of LVH's sales). This favours its position in higher value-added seeds, reduces its WCR and therefore allows for improvement in operating margin in the long term.

Finally, the excellent operating margin of the trade fruit and vegetable seeds business should be confirmed (14-15%), thanks to robust growth – double the rate of market growth – and the predominant weighting of new varieties (close to 85%), guaranteeing high entry barriers and margins. Vilmorin therefore has therefore benefited from its heavy investment over the last 20 years.

Summary projections

SUMMARY PROJECTIONS

(€ m)	2005-06e	2006-07e	2007-08e	2008-09e	2009-10e
Consolidated sales**	**503.5**	**962.3**	**992.5**	**1,026.2**	**1,061.3**
% change	+1.1%	+91.1%	+3.1%	+3.4%	+3.4%
Fruit & veg. seeds sales	503.5	532.3	548.4	566.0	584.3
% change	+1.1%	+5.7%	+3.0%	+3.2%	+3.2%
Field seeds sales		430.0	444.1	460.2	477.0
% change			+3.2%	+3.6%	+3.6%
Consolidated operating profit	**56.3**	**87.9**	**100.1**	**109.6**	**118.5**
% change	**+29%**	**+56%**	**+14%**	**+9%**	**+8%**
Operating margin	**11.2%**	**9.1%**	**10.1%**	**10.7%**	**11.2%**
Fruit & veg. seeds operating profit	56.3	61.9	63.5	66.7	69.1
Operating margin	11.2%	11.6%	11.6%	11.8%	11.8%
Field seeds operating profit		26.0	36.6	43.0	49.4
Operating margin		6.0%	8.3%	9.3%	10.4%
Pre-tax profit before exceptionals	53.6	75.2	88.0	98.1	107.9
Attributable net profit	**39.8**	**46.1**	**53.8**	**60.1**	**66.0**
% change	**+23%**	**+16%**	**+17%**	**+12%**	**+10%**

SOURCE: COMPANY –ODDO MIDCAP ESTIMATES
* 2005-06 EXCLUDING FIELD SEEDS
** INCLUDING SERVICES

After 2006-07, which will be the year of reference with the integration of the field seeds business, we project regular and reasonable sales growth of 3%, with operating margin for the fruit and vegetable seeds business remaining at a high level (11-12%) and recovery for the field seeds division.

Improvement of 70 basis points a year; CAGR of 10.5% for the next three years

Operating margin is expected to improve by 200 basis points in 2007-08, followed by improvement of 100 basis points a year, with average improvement of 70 basis points a year. Operating profit is therefore expected to increase by an average of 10.5% a year over the period from 2006-07 to 2009-10.

As regards the balance sheet and despite the temporarily high gearing (51% vs. 9% before the integration of the field seeds business), Vilmorin should be able to restore comfortable leeway quickly, thanks to:

- An active strategy of reducing or stabilising WCR. This should be seen more specifically in field seeds;
- Investment limited to € 30m, comprising € 20m relating to fruit and vegetable seeds and € 10m relating to field seeds. The capitalisation of R&D expenses – representing a budget of around € 60-65m – is unlikely to impact FCF generation;
- Average improvement in operating margin of 70 basis points a year.

Net profit CAGR of 13%

Net profit is therefore expected to increase by an average of 13% a year over the next three years from 2006-07 to 2009-10.

FCF GENERATION

(€ m)	2005-06e	2006-07e	2007-08e	2008-09e	2009-10e
EBITDA	**94.0**	**168.5**	**185.3**	**199.7**	**213.6**
WCR change	-4.0	-5.0	-10.0	-12.0	-12.0
Capex	-33.0	-95.0	-95.0	-95.0	-95.0
FCF	**42.0**	**32.0**	**44.0**	**55.0**	**61.0**
Equity	368	740	777	818	862
Net debt	34	380	358	329	307
Gearing	**9%**	**51%**	**46%**	**40%**	**36%**

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

The company should also be able gradually to improve its rates of return (ROE and ROCE) to return to the double-digit rates achieved before the integration of the field seeds business.

ROE/ROCE

(€ m)	2005-06e	2006-07e	2007-08e	2008-09e	2009-10e
ROE	11.0%	10.0%	8.8%	9.4%	9.7%
ROCE	12.7%	10.9%	8.5%	9.2%	9.8%

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

VALUATION

Target price of € 63, representing upside potential of 9%

Our target price of **€ 63** is based on a peer comparison valuation, a DCF valuation and a discounted earnings valuation approach.

By way of indication, we have also looked at acquisition multiples without factoring in this approach as such. Acquisition multiples are restricted to the valuation of the sales of target companies, Given Limagrain's long-term control of Vilmorin, we do not expect any changes in the shareholding structure – excluding potential dilution of the core shareholder in the long-term, which makes this approach less relevant.

Our various valuation approaches are based on the following assumptions:

- **Consolidation of the field seeds business as of July 1, 2006,** with the transfer of sales of € 430m, increasing equity by € 241m and providing additional debt of € 280m. We have not used the 2005-06 financial year ending June 30 as the reference year in our valuation models, even though definitive results are due for release in October 2006;
- **A dilutive impact of 13% for the year of consolidation** and 4% for the following year. We have deliberately adopted a conservative scenario, with operating margin of 6% for the new assets in 2006-07 and 8% in 2007-08;
- FCF generation of € 30-40m in the short term, then increasing by an average of € 10m a year;
- We have not factored further anticipated changes in the scope of consolidation into our assumptions (Hazera, feed grains etc.), **which could improve WCR and margins.**

A larger and more flattering peer comparison sample

We have adopted a similar approach, using two samples – one of food manufacturing midcaps and one of agrochemicals companies, which are Vilmorin's main competitors.

Target price of € 65

The first sample[4] presents the advantage of referring to the sector to which Vilmorin belongs – albeit by default – within the midcap segment. It also enables us to weight the multiples obtained from the second sample, which refer to considerably larger companies that generally generate much higher margins (operating margin of 15-16%).

The second sample[5] presents the advantage of comprising Vilmorin's main competitors, including the top three companies (respectively Monsanto, DuPont/Pioneer and Syngenta). However, this comparison is distorted by the diluted weighting of seed production businesses within these agrochemicals groups, such as Monsanto (seeds account for 55% of sales), Syngenta (22% of sales), DuPont (10%) and Bayer (1%). Only KWS and Delta & Pine are "pure play" companies like Vilmorin, with the exception that they are present only in field seeds.

PEER COMPARISON VALUATION

	2006-07 P/E	2007-08 P/E	2006-07 EV/sales	2007-08 EV/sales	2006-07 Mkt cap/sales	2007-08 Mkt cap/sales	2006-07 EV/op. profit	2007-08 EV/op. profit	2006-07 EV/ EBITDA	2007-08 EV/ EBITDA
Food manufacturers	15.3	13.7	1.58	1.43	1.13	1.03	11.4	10.2	8.4	7.6
Agrochemicals companies	16.2	14.2	1.22	1.12	1.58	1.56	10.4	7.8	7.6	6.0
Average	**15.7**	**13.9**	**1.40**	**1.27**	**1.35**	**1.29**	**10.9**	**9.0**	**8.0**	**6.8**
Vilmorin	**16.7**	**14.3**	**1.20**	**1.14**	**0.80**	**0.78**	**13.1**	**11.3**	**6.8**	**6.1**
Discount/premium	**+6%**	**+3%**	**-14%**	**-10%**	**-41%**	**-40%**	**+20%**	**+25%**	**-15%**	**-10%**

SOURCE: ODDO MIDCAP ESTIMATES

Vilmorin's multiples are more or less in line with those of its peers, with the exception of sales multiples. P/E multiples are fairly similar, as are operating profit multiples.

On the basis of sales, Vilmorin is trading at a considerable discount. The doubling of the company's size and gains in market share worldwide partly justify its lower valuation. However, given the temporarily less favourable mix, the stock seems fairly valued on the basis of operating profit ratios. Given the temporary dilutive impact, P/E multiples also seem in line.

On the basis of these two samples, we obtain a target price of € 65.

[4] Bonduelle, Fleury Michon, LDC, Laurent Perrier, Vranken, LDC, Rémy Cointreau etc.
[5] Monsanto, Du Pont, Syngenta, KWS, Bayer, Delta & Pine, Sakata etc.

DCF

Target price of € 67

We have made the following assumptions:

- **WACC of 6.6%,** based on a risk-free rate (10-year OAT of 4%), a risk premium of 5% and a neutral beta. We have also taken account of the new debt configuration, with gearing of 50%. We believe that this relatively modest WACC, which corresponds to the discount rate applied for the integration of the European field seed operations, is in keeping with the company's risk profile and solid market visibility in the medium term;

- **Operating profit CAGR of 10.5% for the next three years,** in line with our scenario, with operating margin remaining just above 11% in subsequent years at a growth rate of 4-5%. We have assumed a perpetual growth rate of 1.5%;

- We have assumed an **annual investment budget of € 30m** (€ 20m for fruit and vegetable seeds and € 10m for field seeds). We have included the capitalisation of R&D expenses (€ 60-65m) and taken into account a limited change in WCR. We have assumed a total budget of € 100m;

- **This gives free cash flow of € 40-50m.**

DCF VALUATION

	2006-07e	2007-08e	2008-09e	2009-10e	2010-11e	2011-12e	2012-13e	2013-14e	2014-15e	2015-16e
EBIT	**87.9**	**100.1**	**109.6**	**118.5**	**124.5**	**130.7**	**135.9**	**141.4**	**147.0**	**152.9**
Operating margin	9.1%	10.1%	10.7%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
Corporation tax	-24.1	-28.2	-31.5	-34.7	-42.8	-45.0	-46.8	-48.6	-50.6	-52.6
Depreciation and amortisation	-80.6	-85.2	-90.0	-95.1	-99.8	-104.8	-109.0	-113.3	-117.9	-127.6
Cash flow from operations	**144.4**	**157.1**	**168.2**	**178.9**	**181.5**	**190.5**	**198.2**	**206.1**	**214.3**	**222.9**
Capex/WCR change	-100.0	-100.7	-101.8	-102.1	-107.2	-112.5	-117.0	-121.7	-126.6	-131.6
Free cash flow	**44.4**	**56.5**	**66.4**	**76.9**	**74.3**	**78.0**	**81.1**	**84.4**	**87.8**	**91.3**

SOURCE: ODDO MIDCAP ESTIMATES

DCF ASSUMPTIONS

Discount rate	**6.6%**
Perpetual growth	**+1.5%**
Terminal value	€ 1,829m
Discounted terminal value	€ 906m
Discounted FCF	€ 513m
Net debt	€ 380m
Minorities	€ 146m
Enterprise value	**€ 893m**

SOURCE: ODDO MIDCAP ESTIMATES

We therefore obtain a target price of € 67.

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Discounted earnings

Target price of € 57

This approach gives a target price of € 57 and is penalised by the difference in growth between the assumptions for our sample (11%, with 14% for agrochemicals companies) and for the company (8.4%). This takes into account the dilutive impact relating to a 40% increase in the number of shares.

Our WACC assumption is unchanged at 6.6%.

We have used 2006-07 as the reference year for our earnings estimates rather than 2005-06 given the importance of the change in scope of consolidation.

DISCOUNTED EARNINGS VALUATION

Sector assumptions		Comments
Required rate of return	9.0%	OAT rate 4.0% + market premium 5.0%
EPS growth	+11.0%	Sample
No. of periods	4	2005-06 to 2009-10
P/O	25%	
Company assumptions		**Comments**
Required rate of return	6.6%	WACC
Operating profit growth	+8.4%	Oddo Midcap estimates
No. of periods	4	2005-09
P/O	47%	
Sector P/E	16.6	Sample
2006/07e net profit	46.1	Oddo Midcap estimates

SOURCE: ODDO MIDCAP ESTIMATES

Summary

TARGET PRICE – VALUATION METHODS

Method	Valuation (€ m)	Per share (€)	Upside (%)
Peer comparison	873	65.2	+13%
DCF	893	66.7	+16%
Discounted earnings	764	57.0	-1%
Average	**843**	**63.0**	**+9%**

SOURCE: ODDO MIDCAP ESTIMATES

We therefore adopt a target price of € 63, representing upside potential of 9%.

The various methods used give relatively similar valuations.

However, this target price is a deliberately conservative, given the uncertainties relating to a major change in the scope of consolidation with the integration of the field seeds business in 2006-07.

The assumptions made in our estimates are also conservative.

Acquisition multiples

Acquisitions within the sector tend to take place in waves, depending on the strategies of seed producers, agrochemicals companies etc.

A number of acquisitions have taken place over the last two years, as was seen in the late 1990s, with a predominant presence for Monsanto. Although we have several references based on sales, we have little information about acquisitions relating to the profitability of the target companies.

As regards sales, we observe **an average acquisition multiple of around 1.6x in terms of enterprise value**. Multiples sometimes vary significantly. Recent acquisitions represent multiples of closer to **2x sales** (2.8x for the acquisition of Seminis). This trend also reflects the strategy of Monsanto, which tends to pay a premium systematically.

On the basis of a multiple of 1.6x 2006-07 sales, net debt of nearly € 380m and a minority discount of 20%, **we obtain a valuation of € 961m, corresponding to around € 72 per share.**

ACQUISITION MULTIPLES

	Valuation (€ m)
2006-07 sales	962
Acquisition multiple	1.64x
Valuation	1,581
Net debt	380
Minority discount	20%
Valuation after discount	961
Per share	**€ 72**

SOURCE: ODDO MIDCAP ESTIMATES

However, this theoretical approach is weighted by three factors:

- If we take into account certain multiples relating to profitability (EV/EBIT of 13-14x), we obtain a target price of around € 60;
- The premium paid by Monsanto for a number of acquisitions has a significant impact on our reference multiples. Vilmorin’s management refuses to overpay in this way at the risk that certain acquisitions may not go ahead;
- Finally, given the shareholding structure (controlled by Limagrain), it is unlikely that the company will be sold.

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Vilmorin Clause & Cie

Per share data	06/01	06/02	06/03	06/04	06/05	06/06e	06/07e	06/08e
Fully-diluted EPS bef. GW and non rec.items (AANP)	2.00	2.11	2.89	3.34	3.38	3.59	3.44	4.02
% change	-20.2%	5.6%	36.7%	15.7%	1.1%	6.3%	-4.2%	17.0%
Fully-diluted EPS (ANP)	1.84	2.09	2.43	3.16	3.38	4.16	3.44	4.02
% change	-27.8%	13.4%	16.0%	30.3%	6.8%	23.3%	-17.4%	17.0%
Dividends	1.05	1.08	1.27	1.53	1.62	1.96	1.62	1.89
Cash flow per share	1.62	2.76	3.19	3.97	7.49	8.27	9.84	10.83
Book value per share	27.85	27.58	27.98	29.09	31.42	33.97	44.32	46.73
No. of outstanding shares (m)	9.567	9.567	9.567	9.567	9.567	9.567	13.392	13.392
Fully-diluted no. of shares (m)	9.567	9.567	9.567	9.567	9.567	9.567	13.392	13.392

Income statement (EUR m)	06/01	06/02	06/03	06/04	06/05	06/06e	06/07e	06/08e
Sales	418.0	430.1	429.8	488.3	489.4	499.5	958.3	988.5
% change	12.3%	2.9%	-0.1%	13.6%	0.2%	2.1%	91.8%	3.1%
EBITDA	32.3	45.9	51.8	56.4	81.5	94.0	168.5	185.3
as a % of sales	7.7%	10.7%	12.1%	11.6%	16.7%	18.8%	17.6%	18.7%
Underlying operating profit	35.9	40.9	46.3	50.7	46.5	56.3	87.9	100.1
% change	-10.0%	13.8%	13.2%	9.6%	-8.3%	21.1%	56.0%	13.9%
as a % of sales	8.6%	9.5%	10.8%	10.4%	9.5%	11.3%	9.2%	10.1%
operating profit (EBIT)	35.5	40.6	45.8	49.0	43.7	56.3	87.9	100.1
as a % of sales	8.5%	9.4%	10.7%	10.0%	8.9%	11.3%	9.2%	10.1%
Net financial income/expense	-6.6	-8.7	-5.3	-2.7	2.0	-2.8	-12.6	-12.0
Earning before Tax	28.9	31.9	40.5	46.3	45.7	53.6	75.2	88.1
% change	-13.0%	10.3%	27.0%	14.4%	-1.4%	17.2%	40.5%	17.0%
Income tax	-9.1	-10.9	-12.1	-15.8	-11.8	-17.7	-24.1	-28.2
Equity-accounted income	-0.1	0.1	-0.1	1.1	0.9	0.9	0.0	0.0
Minority interests	-1.0	-1.2	-1.2	-1.4	-2.5	-2.5	-5.1	-6.0
Attr. Net Profit (ANP)	17.6	20.0	23.2	30.2	32.3	39.8	46.1	53.9
Adjusted Attr. Net Profit (EUR m) (AANP)	19.1	20.2	27.6	31.9	32.3	34.3	46.1	53.9
% change	-14.3%	5.6%	36.7%	15.7%	1.1%	6.3%	34.1%	17.0%

Cash flow statement (EUR m)	06/01	06/02	06/03	06/04	06/05	06/06e	06/07e	06/08e
Flows from operating activities	-27	65	12	32	54	75	127	139
o.w. WCR	-42	38	-18	-6	-18	-4	-5	-6
Capital expenditures	-11	-9	-16	-8	-33	-33	-95	-95
Free cash flow	-37	55	-4	25	21	42	32	44
investments (net)	-11	-4	0	-26	-4	17	0	0
Flows from investing activities	-22	-13	-16	-33	-37	-16	-95	-95
Dividends	-12	-10	-10	-12	-15	-15	-19	-22
New shareholders' equity	18	0	0	0	0	0	241	0
Flows from financing activities	6	-10	-10	-12	-15	-15	222	-22
Other Flows	24.9	-3.0	7.3	24.8	-12.9	1.4	-599.6	-0.9
Change in net cash	-18	39	-7	11	-11	45	-345	22

Balance sheet (EUR m)	06/01	06/02	06/03	06/04	06/05	06/06e	06/07e	06/08e
Intangible assets	92	91	91	117	173	173	654	654
Tangible fixed assets	100	55	55	67	84	62	125	135
Financial fixed assets	0	42	40	20	24	24	54	54
Working capital req. (WCR)	217	179	197	203	173	177	339	345
Total assets	410	367	384	408	453	436	1 173	1 188
Shareholders' equity	266	264	268	278	301	325	593	626
Minority interests	21	19	19	38	41	44	146	151
Provisions	10	11	17	23	33	33	53	53
Net debt	112	73	80	69	79	34	380	358
Total liabilities & shareholders' equity	410	367	384	408	453	435	1 173	1 188

Profitability	06/01	06/02	06/03	06/04	06/05	06/06e	06/07e	06/08e
FCF yield	-15.4%	23.7%	-1.5%	7.2%	4.6%	7.8%	4.1%	5.8%
ROCE (before tax)	9.4%	10.5%	12.3%	12.8%	10.2%	12.7%	10.9%	8.5%
ROCE (after tax)	6.5%	7.0%	8.7%	8.6%	7.5%	8.5%	7.4%	5.8%
ROE	7.6%	7.6%	10.4%	11.7%	11.2%	11.0%	10.0%	8.8%
Net Debt / EBITDA	3.5	1.6	1.5	1.2	1.0	0.4	2.3	1.9
EBITDA / interest coverage	4.9	5.3	9.8	20.9	ns	34.1	13.3	15.4