CREDIT LYONNAIS SECURITIES
Midcap

Vilmorin Clause & Cie

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

BUY
€87.95

Hazera acquisition

Next event: **4Q sales – 05/08/03**

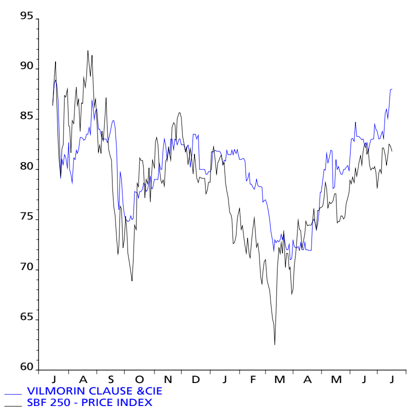
Market cap: **€280m**
Net debt 2004E: **€78m**
BV/share 2004E: **€91.38**

Range (12m): **€88.9-71.0**
Av. daily volume: **1,200**
Free float: **30%**

Rel perf/SBF 250 (%):
1m **+6**
3m **+11**
12m **+8**

Abs perf (%):
1m **+6**
3m **+22**
12m **+2**

Vilmorin vs SBF 250 (1 year)



Source: Datastream

New growth momentum

- **Stronger positioning.** The acquisition of a majority stake in Hazera has provided Vilmorin Clause & Cie (VCC) with a **2nd–place ranking worldwide (vs No 3) in the trade market**, and has strengthened its overall world leadership in the combined consumer and trade markets. Furthermore, by catering for both the fresh and industrial markets, the group has become the leader in the tomato segment (approximately 10% of consolidated sales), which is the biggest and the most profitable market in the fruit & vegetable sector.
- **Immediate earnings enhancement.** After two tough years, Hazera should again show profitability levels close to those of VCC, with **earnings enhancement of 6–10%** in FY03/04. This acquisition, financed through the group's own cash–flow, will have only a minor impact on gearing (23.5% vs 20.7% previously). We now have EPS growth assumptions of over **15% for 2003/04 (at €8.50) and +13.1% for 2004/05 (€9.61).**
- **Resources still intact for further acquisitions.** In view of the current environment within the sector: i) the leader (Seminis) is in difficulty (a change in its shareholding); ii) other players are remaining discreet (Syngenta); and iii) the market is extremely fragmented, VCC undoubtedly has a federating role to play in order to ensure sustained growth. Furthermore, the group clearly has the necessary financial resources to do so (gearing close to 20%). **Our new target price is €101, giving upside of 15%.**

Year to June	Sales (€m)	EBITDA (€m)	Attrib net profit (€m)	EPS * (€)	Net div (€)	P/E (x)	EV/ EBITDA (x)	Net yield (%)
2002	430.1	45.9	20.0	6.34	3.15	13.9	7.7	3.6
2003E	431.0	49.8	22.3	7.37	3.50	11.9	6.9	4.0
2004E	498.9	63.9	26.1	8.50	4.09	10.4	5.6	4.7
2005E	519.8	69.7	29.7	9.61	4.65	9.1	5.0	5.3

** Before exceptionals and goodwill*

This is a translation of a report in French dated 16th July 2003.

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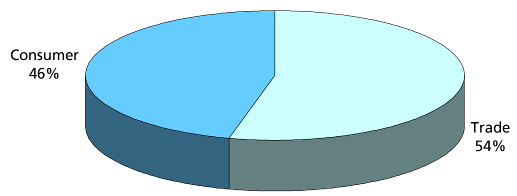
22nd July 2003

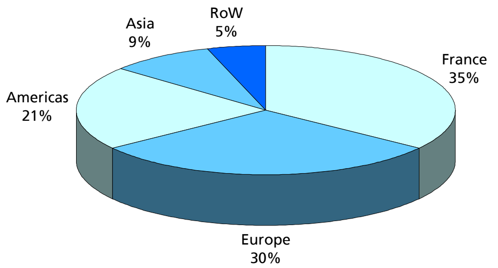
Profit and loss account 2002–05E

Year to June (€m)	2002	2003E	2004E	2005E
Sales	**430.1**	**431.0**	**498.9**	**519.8**
% change	+2.9	+0.2	+15.8	+4.2
Labour cost	–115.7	–113.4	–123.6	–126.7
EBITDA	**45.9**	**49.8**	**63.9**	**69.7**
EBITDA margin (%)	+10.7	+11.6	+12.8	+13.4
Depreciation & provisions	–9.9	–10.3	–15.4	–15.9
Other items	4.9	4.5	3.0	2.0
EBIT	**40.9**	**44.0**	**51.5**	**55.8**
Net interest charge	–8.7	–5.8	–7.0	–6.7
Earnings before tax	32.2	38.2	44.5	49.1
Tax	–10.9	–13.5	–16.2	–17.2
Net associates after tax	0.1	0.0	0.0	0.0
Minorities	–1.2	–1.2	–1.2	–1.2
Joint venture income	0.0	0.0	0.0	0.0
Exceptional items	0.1	–0.9	0.0	0.0
Goodwill amortisation	–0.3	–0.3	–1.0	–1.0
Attributable net profit	**20.0**	**22.3**	**26.1**	**29.7**
Adjusted profit before tax	31.1	37.0	43.3	47.9
Adj attributable profit	**20.2**	**23.5**	**27.1**	**30.7**
Tax rate (%)	33.8	35.3	36.4	35.1
Average workforce (unit)	2,857	2,800	3,050	3,126
Number of shares (m)	3	3	3	3
EPS reported (€)	**6.27**	**7.00**	**8.18**	**9.30**
EPS adj before goodwill (€)	6.34	7.37	8.50	9.61
Goodwill per share (€)	0.09	0.09	0.31	0.31
CFPS (€)	20.23	9.46	1.14	11.50
Free CFPS (€)	17.41	5.26	–2.31	7.74
Book value per share (€)	82.75	86.48	91.38	96.91
Net dividend (€)	3.15	3.50	4.09	4.65

Sales by activity



Sales by region



Cash flow statement 2002–05E

Year to June (€m)	2002	2003E	2004E	2005E
EBITDA	**45.9**	**49.8**	**63.9**	**69.7**
Exceptional items	0.1	–0.9	0.0	0.0
Change in working capital	38.2	–0.3	–37.1	–9.0
Provisions & other items	0.0	0.0	0.0	0.0
Operating cash flow	**84.2**	**48.6**	**26.9**	**60.6**
Net interest	–8.7	–5.8	–7.0	–6.7
Tax paid	–10.9	–13.5	–16.2	–17.2
Capital expenditure	–9.1	–12.5	–11.0	–12.0
Free cash flow	**55.5**	**16.8**	**–7.4**	**24.7**
Dividends	–10.0	–10.0	–11.2	–13.0
Acquisitions/disposals	–3.5	0.0	–21.0	0.0
Shares issued	0.0	0.0	0.0	0.0
Other (currency etc)	–3.0	4.5	22.7	2.0
Change in net cash	**39.0**	**11.3**	**–16.8**	**13.7**

Balance sheet summary 2002–05E

Year to June (€m)	2002	2003E	2004E	2005E
Fixed assets	**96.2**	**97.2**	**102.8**	**99.9**
Goodwill & intangibles	91.8	91.5	102.5	101.5
Non monetary working cap	179.1	179.4	216.5	225.6
Net cash/(debt)	**–72.8**	**–61.5**	**–78.3**	**–64.7**
Provisions & others	11.3	10.6	10.6	10.6
Shareholders' funds	**283.0**	**296.1**	**332.9**	**351.8**
Minorities & preference	19.1	20.3	41.5	42.7
Ord shareholders' equity	263.9	275.8	291.4	309.1

Investment ratios 2002–05E

Year to June	2002	2003E	2004E	2005E
P/E before goodwill (x)	**13.9**	**11.9**	**10.4**	**9.1**
Reported P/E (x)	14.0	12.6	10.7	9.5
P/CF (x)	4.3	9.3	77.1	7.6
P/BV (x)	1.1	1.0	1.0	0.9
Net yield (%)	3.6	4.0	4.7	5.3
EV/sales (x)	0.8	0.8	0.7	0.7
EV/EBITDA (x)	**7.7**	**6.9**	**5.6**	**5.0**
EV/EBIT (x)	8.6	7.8	7.0	6.2
ROE (%)	7.6	8.7	9.6	10.2
ROCE (%)	10.5	12.0	13.0	13.1
Gearing (%)	25.7	20.8	23.5	18.4
Payout (%)	50.2	50.0	50.0	50.0

Company data

Shareholders	70%	Groupe Limagrain Holding
	30%	Free float
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		Daniel Jacquemond (FD)
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Source for all tables on this page: Company data/Credit Lyonnais Securities

Our system of recommendations reflects expected absolute returns in local currencies on a 6–month time horizon:

BUY	=	expected return above 15%
ADD	=	expected return between 0% and 15%
REDUCE	=	expected return between 0% and –15%
SELL	=	expected return worse than –15%

Hazera: reinforced world leadership

The acquisition of a majority interest in the seed manufacturer **Hazera** has significantly boosted Vilmorin Clause & Cie's worldwide market share. It has strengthened **(i) its role as challenger in the trade segment, and (ii) its overall leadership in the combined consumer and trade markets.**

World No 2 (vs No 3) in the trade market

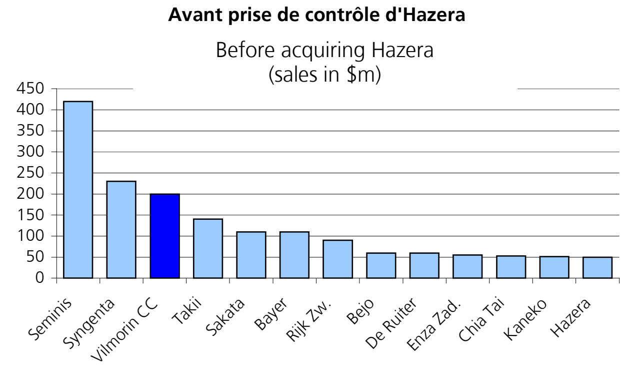
With sales close to €50m, Hazera was, up until now, the 13th biggest seed manufacturer in the world trade market behind Seminis, Syngenta, Vilmorin Clause & Cie, Takii and Sakata. By acquiring Hazera, the group has overtaken Syngenta and moved into **second place worldwide.** Overall (ie in the combined trade and consumer markets), the group has strengthened its position as world No 1.

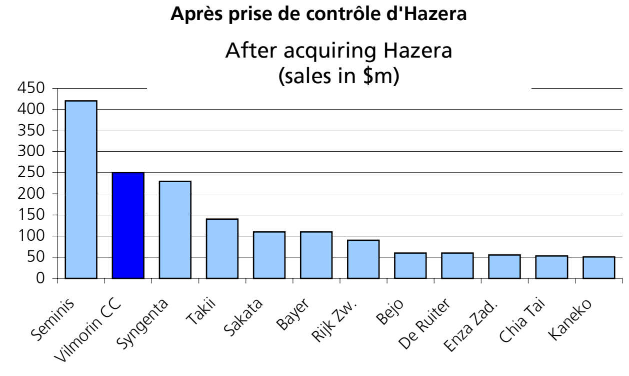
The challenger on its way to becoming world leader in the trade segment

Aside from this ranking, it is also important to note that the group's presence **in the tomato market** has been significantly strengthened. It is **now the sector leader** with sales of nearly $50m (approximately 10% of consolidated sales). With the group essentially present in the industrial tomato market, this takeover is highly strategic, as Hazera has a strong presence in the fresh tomato segment.

Following this transaction, Vilmorin Clause & Cie becomes one of the rare entities to be both exclusively present in the seed market (Syngenta's seed activity can only represent 7 to 10% of global sales) and undeniably profitable (especially when compared with Seminis' substantial losses). **On the basis of profitability criteria alone, therefore, the group is undoubtedly the world leader.**

Principal world players in Professional Vegetable Seeds





Source: Company

Hazera's markets

Hazera Genetics has several sites throughout the world and much of its business is conducted within the Mediterranean basin. The company generates 23% of its sales in Israel (20% exc. Field Crop Seed - this market is essentially concentrated on home territory). Italy, Spain, Morocco and Turkey represent nearly 40% of the company's business and the remainder (39%) is split between countries further afield (Mexico and a subsidiary in China that the group has owned for the past 5/6 years).

The group's presence has been strengthened on the international front

Hazera is one of the principal players in the tomato market (62% of its sales) but the company is also present in other segments, such as peppers, onions and melons etc with a diversification for historic reasons into the Field Crop Seed segment (including wheat and cotton for 14% of sales). This division is unlikely to be developed (or even kept on) within the new group's consolidation scope. A merger with Limagrain's Field Crop Seed activity could be a possibility, but in reality VCC's parent company does not seem to be envisaging such a move.

Synergies with VCC

Since the acquisition of a minority interest (12.5%) in Hazera in 1998, the two entities have been able to develop a certain number of strategic alliances, including joint research programmes, exchanges of technology and the exploitation of additional distribution networks. These alliances will of course continue and indeed will be intensified.

Priority given to R&D

The takeover will consequently offer:

- **An improved positioning in the tomato market** (both fresh and industrial). The tomato market is one of the biggest and most profitable fruit & vegetable segments,
- **The integration of a predominantly international structure** (20% of sales in Israel vs. 100% a few years ago) thereby reinforcing the international presence of Vilmorin Clause and Cie (two-thirds of its sales were generated outside France prior to the acquisition of Hazera),
- **Access to Israeli public research** ensuring the future development of new varieties.

Although management has not put a figure on the impact of these synergies, they should reflect the development of the strategic alliances. An optimisation of costs can now be envisaged with regard to both research and production. This will not involve staff cuts (there are currently no plans for such a measure) but rather an optimisation of the research programmes and more priority given to the relationship that already exists between the two entities. Moreover, the group will be able to capitalise on Hazera's genetic bank resources (including access to germplasm), thereby enhancing the potential for creating new varieties.

On account of the fact that the two entities have been in partnership for five years now, the financial impacts of these synergies should become apparent in the very near future. Furthermore, the takeover should not have an adverse impact on the group's business overall, as is frequently the case with merger operations.

Earnings enhancement from 2003/04

Initial reports suggest that the contribution could be a positive one from the very first year of consolidation (2003/04 on a full–year basis). These forecasts do not reflect the potential impacts of the synergies mentioned above.

Hazera: a profitable group

Although recent years have clearly been very difficult (fiscal 2001 and 2002), the company has generated high levels of profitability in the past and is capable of reproducing these levels in the near future.

A very profitable company

During the period 1995/1999 (ie when VCC acquired its initial holding), Hazera had a net margin of close to 10% (!) on sales of €60m. This was largely due to the company's positioning in the buoyant and profitable tomato market, and to the development of a slow ripening variety. This variety, however, was negatively impacted by the appearance of a virus, which allowed competitors to re–gain their lost ground over the period 2000/02. Hazera has recently started to win back market share and should, according to current forecasts, soon be showing **operating profitability of close to 10%.**

Hazera data

(€m)	1995/99	2000	2001	2002	2003E
Sales	60.0	51.9	43.3	47.1	50.3
Ebit		6.1	–5.4	0.8	5.4
Op margin		**11.8%**	**–12.5%**	**1.7%**	**10.7%**
Net profit	6.0	3.8	–6.3	0.1	3.4
Cash flow		–3.2	2.1	6.1	5.8

Source: Company

These perfromances are not so much the result of restructuring programmes, but rather the fruit of a cost structure that should bring about a rapid improvement in margins as a result of a volume effect. In view of staff numbers at the Israeli company (250 people), **the sales/staff ratio reflects a good level of productivity** (>€150 K per person) compared to the VCC group's other subsidiaries (< €150 K per person). Moreover, on account of the fact that R&D costs are similar (approximately 12 to 13% of sales) and that financial costs are low (no debt between now and June 2004), the net operating profitability will show an improvement.

Earnings enhancement from year 1

The terms of the acquisition reveal **an acquisition price of $24m, ie approximately €21m** for 42.4% of the capital, in other words a global valuation of nearly **€50m, representing 1x estimated 2003 sales.**

Acquisition of Hazera

	P/Sales	P/Ebit	P/Net profit
2003E	1x	9.2x	14.7x
VCC valuation	0.65x	6.3x	11.9x

Source: Crédit Lyonnais Securities Midcap

A fair price

This indicative valuation reveals reasonable ratios, which in turn reflect a smooth takeover. Moreover, these ratios compare favourably with the price of the entry ticket, ie the acquisition of the initial holding of 12.5% (€22.6m ie a very similar amount but for 12.5% of the capital, representing a global valuation of €180m!).

This valuation also reflects, in our view, the low level of the group's valuation. Don't forget, moreover, that the group has now incorporated a whole range of additional skills.

The financial structure remains very healthy

This acquisition has been financed out of the group's own cash–flow, and its gearing will only show a slight deterioration as a result. Indeed, whereas gearing is estimated at nearly 21% for the end of FY03 (ie 30 June), it is likely to be close to 23% at 30th June 2004. The net increase in the group's debt position (€16m) can be largely attributed to the debt generated by the acquisition itself (Hazera has a very low level of debt).

Gearing

(%)	2001/02	2002/03 E	2003/04 E	2004/05 E
Before Hazera	25.7%	20.7%	15.4%	10.8%
After Hazera	25.7%	20.7%	23.5%	18.4%

Source: Crédit Lyonnais Securities Midcap estimates

Earnings enhancement of 6–10%

Finally, earnings enhancement should be significant from the very first year of consolidation (2003/04), as opposed to the rather neutral impact that we had initially expected. On the basis of an additional net contribution of €2m (including acquisition costs and goodwill), **earnings enhancement is likely to be nearly 10%.** Nevertheless, in light of the fact that our hypotheses were perhaps more ambitious in terms of earnings growth before the takeover of Hazera, **this impact is more likely to be around +6%.**

Impact of the consolidation of Hazera (2003/04)

(€m)	VCC old consol basis	Hazera	New entity
Sales	448.9	50.0	498/500
Ebit	46/47	5.3	51/52
Op margin	**10.2/10.6%**	**10.6%**	**10.2/10.4%**
Net profit bef GW	25.6	2.7	27.3/28.3
Net profit after GW	25.3	2.0	26.1/27.3
EPS	**8.03**		**8.50**
Earnings enhancement			**+6%**

Source: Crédit Lyonnais Securities Midcap estimates

Target: sales of €500m and Ebit of over €50m

The group is likely to generate sales of close to €500m from FY03/04 onwards and show operating margin of over 10%. Whilst management has regularly released sales growth targets of 5 to 7% at constant exchange rates (and +10% for earnings) these targets should be slightly improved on for the three fiscal years of 2003, 2004 and 2005. These simulations do not, moreover, incorporate the impacts of the new synergies created by the merger with Hazera.

Earnings and EPS estimates

(€m)	2001/02	2002/03E	2003/04E	2004/05E
Net profit before	20.0	22.3	25.3	28.7
Net profit after	20.0	22.3	26.1	29.7
EPS (€)	**6.34**	**7.37**	**8.50**	**9.61**
% chg	**+5.6%**	**+16.4%**	**+15.2%**	**+13.1%**
CAGR		**+13.7%**		

Source: Crédit Lyonnais Securities Midcap estimates

Resources intact for new acquisitions

As mentioned above, the impact on the balance sheet should be negligible with only a slight deterioration in gearing and a €12m increase in intangible assets (from a previous total of €92m). Although the acquisition price is globally in line with the net equity, the goodwill is in fact the result of the acquisition of the initial stake, now generating additional goodwill amortisation of €0.7m.

Three important factors characterise the sector

The group has plenty of room to manoeuvre should it wish to make any further acquisitions, although nothing seems to have been planned for the time being. The sector is currently characterised by the following three factors:

- **Seminis,** the leader, is facing financial difficulties and a change in its shareholding.
- **The market is relatively fragmented** (concentration of players with sales of between \$50 and \$100m).
- **Development opportunities in Asia.** The group is already present via two entities, Mikado and Kyowa.

We will not go back over the sources of growth outlined in our previous report (28th May 2003). VCC is likely to give priority to development possibilities in Asia whilst at the same time closely monitoring opportunities that might arise in connection with principal players such as Seminis. The latter, now under the control of the financiers Fox Paine, could eventually be broken up, thereby providing an opportunity for the group to strengthen its position in the trade segment and in certain geographical zones.

On the basis of its current gearing (approximately 20%), **VCC has,** even in the worst case scenario, **a debt margin of between €200m and €250m** to cover any large–scale acquisitions.

Improved valuation

Since our last report, the principal factors likely to influence the valuation have of course been the acquisition of Hazera, but also the management guidance of 30th June 2003, confirmed with the satisfactory performances seen in 4Q.

Target price of over €100

On the basis of the new 2003/04 estimates, we have **raised our target price by 7% to €101 (vs €94.6).**

Our methods and assumptions have remained exactly the same as before the takeover of Hazera. The earnings enhancement (+6%), the size effect (sales close to €500m) and the controlled level of debt are the principal factors that have contributed to this increase in our target price.

Summary

Method	**Per share before acquisition (€)**	**Valuation after acquisition (€m)**	**Per share (€)**
Peer comparison	84.3	277	86.7
Discounted earnings	88.0	291	91.2
Historic ratios	94.7	316	99.0
DCF	111.2	406	127.3
Summary	**94.6**	**322**	**101.1**
Upside			**+15%**

Source: Crédit Lyonnais Securities Midcap estimates

Our new target price represents an **upside potential of 15%,** based solely on traditional assessment methods. This is reinforced by the group's leadership status, which has been bolstered by the takeover.

Our **BUY** recommendation has therefore been reinforced, especially as our assumptions remain conservative and do not reflect all the synergies expected from the takeover. Moreover, in line with the approach adopted in our previous report, a better valuation of the group's intangible assets would give us a target price closer to €109.

Finally, our recommendation has above all been reinforced by the **VCC group's growth momentum,** its acquisition growth potential and its capacity to play a federating role within the sector, as has been the case over the last few years.

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