ODDO MIDCAP

Equity Research - France / Europe

Vilmorin

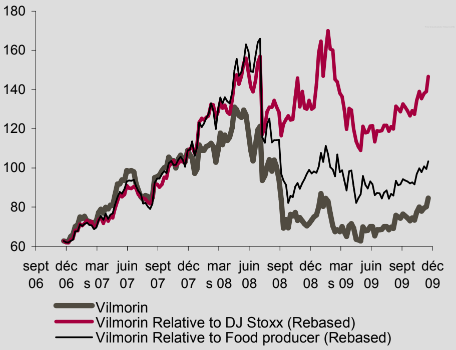
Food products - France

Add (2)

Company report

PRICE (17/12/2009)	**84.53 EUR**
TARGET PRICE	**90.00 EUR**

DJ Stoxx	209
Food producer	183
Reuters:	VILM.PA
Bloomberg:	RIN FP



Multiples

	06/09	06/10	06/11e	06/12e
P/E	20.3	19.3	17.5	15.7
Net. yield (%)	2.2%	2.2%	2.3%	2.4%
FCF yield (%)	1.6%	2.2%	3.6%	5.8%
P/Book value	1.7	1.7	1.6	1.5
EV/Sales	1.5	1.5	1.4	1.3
EV/EBITDA	7.4	7.0	6.5	5.8
EV/EBIT(recur)	14.3	13.3	12.1	10.9

Per share data

EUR	06/09	06/10	06/11e	06/12e
EPS (AANP)	4.00	4.38	4.82	5.37
% Change	-11.9%	9.4%	10.0%	11.5%
EPS (ANP)	3.96	4.36	4.83	5.43
% Change	19.6%	10.2%	10.7%	12.3%
Dividend	1.77	1.86	1.95	2.05
Book value	47.60	50.20	53.17	56.64

Income statement

(EUR m)	06/09	06/10	06/11e	06/12e
Sales	1 002	1 055	1 100	1 154
% Change	11.7%	5.3%	4.3%	4.9%
Op. profit (recur.)	105.1	117.0	127.6	138.1
% Change	-11.5%	11.3%	9.0%	8.3%
Op. profit (EBIT)	107.9	117.0	127.6	138.1
Attr. net profit	53.0	58.4	64.7	72.7
Adj. attr. NP	53.0	58.4	64.7	72.7

Financial data

	06/09	06/10	06/11e	06/12e
ROCE bef. Tax	9.5%	9.8%	10.3%	10.9%
ROCE after Tax	7.2%	7.3%	7.7%	8.2%
ROE	8.5%	8.9%	9.3%	9.9%
FCF	17.4	24.4	41.0	66.2
Net debt	378	388	373	334
Gearing	50.1%	48.7%	44.1%	37.1%
Net Debt/EBITDA	1.9	1.8	1.6	1.3
EBITDA/interest	7.6	8.1	8.4	9.5

Performance

	1 mo	3 mos	12 mos
Absolute perf.	4.9%	12.6%	19.9%
Perf./country	0.98	0.95	1.83
Perf./DJ sector	1.04	1.01	1.17

Liquidity

Market Cap.	1 132
EV	1 543
No. of shares (m)	13.4
Groupe Limagrain	71.5%
Free Float	28.5%

A hungry world

After a disappointing year in 2008-09, Vilmorin is expected to return to earnings growth of at least 10% this year, with favourable trends in vegetable seeds (higher margins), an upturn in sales in Central and Eastern Europe, and low stock levels in corn. In the medium term, the growth drivers for commercial seeds remain solid (economic, environmental and demographic aspects), but required sustained investment in R&D. The group's strategy of forming partnerships and taking a selective approach is effective for the time being but in the long run sector consolidation could continue, accentuating synergies and bringing its budgets into line with those of the industry top three.

Return to earnings growth this year

Following a 15% drop in operating profit in 2008-09 (loss of sales in Eastern Europe, sharp increase in R&D costs, weaker performance of Hazera), Vilmorin is expected to return to EBIT growth of around 8-9% and net profit growth of around 10-12% this year. Despite continuing difficult market conditions due to cereal prices, which despite a rebound are still well below the peak levels of 2008, sales are expected to increase by around 5% like-for-like and at constant exchange rates, driven by very favourable trends for vegetable seeds – which generate twice the margin of field seeds – as well as recouping sales of at least € 15m lost in Eastern Europe, a continuing positive price effect at AgReliant as a result of new GM seeds being launched on the market and a gradual return to a more favourable trend for corn (low stock levels).

R&D: medium-term growth driver

Growth should remain robust in the medium term at 4-5% in vegetable seeds and probably over 5% in field seeds (effect of GM seeds), although with greater volatility relating to fluctuations in cereal prices. The drivers underlying growth in demand for commercial seeds – to the detriment of farm seeds – are: i) economic factors (e.g. the yield for GM corn is at least 30% higher than for standard corn); ii) environmental factors, as the new seeds can reduce irrigation and use of phytosanitary procedures (which should be cut back by 50% in France by 2018); iii) demographic factors, with the expected growth in the world population likely to result in an increase of 50-70% in food production between now and 2050. In the light of these factors, it is crucial that the seeds going on the market are constantly improved, which is achieved by spending more on R&D, forming partnerships and through acquisitions in order to increase access to the genetic portfolio. This could also in the medium term lead to further consolidation in the sector, so that Vilmorin brings its R&D budget (€ 121m) into line with that of the industry top three (around € 600m for Monsanto and around € 300m for Pioneer and Syngenta).

Restoring status

Having underperformed the market, the stock is gradually returning to form. This recovery should continue in correlation with improvement in news flow. The subject of sector consolidation could also boost the share price. We have raised our EBIT estimates by around 10% and our target price from € 82 to € 90 (DCF and peer comparison valuation).

How we differ from the consensus

- Our estimates are slightly higher than the consensus, with EBIT of € 117m for 2009-10 and € 127.6m for 2010-11 vs. the consensus of € 112m and € 121m.

Next event: Q2 sales on 9 February after market close

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Stockmarket Recommendations

Our stockmarket recommandations reflect the **ABSOLUTE** change expected in the share price from a twelve month perspective (in local currencies).

BUY (1) :	expected increase of more than 15%
ADD (2) :	expected increase of 0-15%
REDUCE (3) :	expected decrease of 0-15%
SELL (4) :	expected decrease of more than 15%

Contents

STRONG GROWTH DRIVERS FOR COMMERCIAL SEEDS

Commercial seeds respond to economic concerns...

Improving yields and reducing inputs

Seed purchases make up around 10-12% of a farmer's operating costs. The yield and quality of the seeds used are essential, as this enables the farmer to increase production. For example, the yield for GM corn seeds is estimated to be at least 30% higher than that achieved by a conventional seed. Furthermore, depending on the seeds' characteristics, they can help to reduce the use of inputs such as fertiliser and pesticides, for example, and limit irrigation thanks to greater resistance to drought.

Overall, seed quality is therefore key for the farmer and this is explains the growing use of commercial seeds to the detriment of farm seeds (self-produced).

UTILISATION RATE OF COMMERCIAL SEEDS

	2007
Corn	65%
Wheat	34%
Rice	20%
Vegetable seeds	50%

SOURCE: RABOBANK 2007

… environmental concerns

Cutting use of fertilisers and phytosanitary procedures and reducing irrigation are major ecological concerns. While these are still just wishes for the time being rather than real obligations, it is highly likely that more restrictive regulations will be introduced gradually, as demonstrated by the "**Ecophyto 2018**" plan. This plan, implemented in France after the *Grenelle de l'Environnement* environmental talks of September 2007, aims to **cut use of phytosanitary procedures by 50% between now and 2018 at the latest.** In addition, 53 molecules used in phytosanitary products and considered the most dangerous are likely to be banned.

This measure has not yet been rolled out in Europe, but legislation is currently under discussion and could come into force in early 2011. These laws concern for example reducing use of "substances of concern", implementing more stringent criteria for the approval of phytosanitary products, including the exclusion of certain substances, protecting the aquatic environment and drinking water or banning use of pesticides in public areas.

Overall, **it therefore seems clear that use of phytosanitary procedures will be more tightly regulated** and that the alternatives offered by seeds that are more resistant to insects or disease will be more in demand.

The EU's position regarding GMOs:

Following the de facto moratorium on approvals of biotech products since 1999, legislation changed in 2002 with the introduction of EC Directive 2001/18 regulating: 1) "deliberate release into the environment of genetically modified organisms for R&D purposes"; 2) the placing of GMOs and derivative products on the market.

GMO MARKET BY VALUE

Field trials are therefore subject to an assessment of health and environmental risks by France's Commission du Génie Biomoléculaire (CGB) and have to receive the prior approval of the Ministry of Agriculture or equivalent in the country concerned. Lastly, they must be preceded by a public consultation.

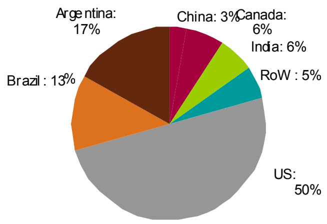
As regards the placing of GMOs on the market, only Monsanto's Mon810 corn (insect resistant) is currently authorised for cultivation. At present, it is cultivated mainly in Spain with 79,000 hectares (around 100,000 hectares in Europe) and around 24 million hectares are cultivated worldwide with the insect-resistant trait (Monsanto's technology is most widely used). Other authorisations concern either trials within the framework of R&D programmes or authorisations of GM products for food and feed within the context of imports.

GMOs: a future in Europe, but when?

All in all, while Europe is not entirely closed off to GMOs, their use and cultivation is currently very limited and tightly regulated. However, the need to reduce inputs and water consumption and improve yields could lead to a change of stance in the long term, even though it is still fairly uncertain when this will be and the timing will be down to politics.

GMOS: MAIN PRODUCERS (in Mha)

Source: ISAAA 2009



A necessity to deal with the world's growing population

According to the FAO, between now and 2050 (or even 2040 according to other estimates), the world population will grow by one-third to 9 billion people compared with 6.8 billion at present.

This growth is likely to be accompanied by an increase of nearly 50% in demand for cereals for human and animal consumption to 3 billion tonnes compared with 2.2 billion tonnes at present, with an even more significant increase of 70% for other foods (animal production, dairy products, vegetable oils).

Furthermore, if we add growth in demand for agro-fuels, the increase in demand for cereals is likely to be even sharper.

Increasing yields: a pressing obligation

The FAO projects that 90% (80% in developing countries) of growth in agricultural production should come from an increase in yields and exploitation rates, and 10% from the expansion of cultivated land.

Cultivated land is expected to increase by 70 million hectares, equal to barely 5% of the current level (1.4 billion hectares, source: FAO), with an increase of 120 billion hectares in developing countries offsetting the reduction of 50 million hectares in developed countries.

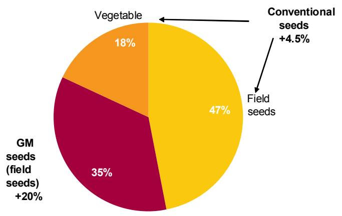
Growth outlook for the seeds market

The global seeds market (vegetable seeds and field seeds) has grown by an average of 6% a year since 2002 (source: P. McDougall) and is worth $ 26bn. In 2008, it saw particularly brisk growth of 19%. This was due to a number of factors:

- a third wave of price rises in field seeds in spring 2009 (e.g. +6% for corn in Europe) following two 10% rises in 2007 and 2008;
- the continuing favourable impact of the growing share of GM seeds (greater value creation);
- the increase in cultivated land for wheat and barley in particular (i.e. +3% corresponding to an additional 8 million hectares).

SEEDS MARKET

Source: Philips McDougall



Historic average growth of 6%

The segment that has seen the strongest growth is GM seeds, with average growth of 20% between 2003 and 2008, compared with an average of 4.5% for conventional seeds.

The vegetable seeds market was worth an estimated $ 4.7bn in 2008, with very strong growth of 19% relative to 2007 (source: FAO and Philips McDougall) following growth of 2.5% in 2007. Once again, this robust growth is due to price rises and an improved mix.

In the medium term, growth in vegetable seeds is expected to reach around 4-5%, driven by steady growth in the consumption of vegetables and by a favourable price effect, with new varieties regularly receiving approval.

The field seeds market should also see robust growth in the medium term, thanks in particular to the continuing growing share of GM seeds and regular renewals of authorisations for conventional seeds. However, the trends are likely to be more erratic depending on the development of cereal prices, which can result either in arbitrage between different crops, as is seen regularly in the US between soybean and corn crops, or greater use of farm seeds when prices are low.

STEPPING UP R&D INVESTMENT

The significance of R&D can be measured as the impact on sales of the proportion of **sales of approved new varieties ("*Certificat d'Obtention Végétal*"), representing 87% of vegetable seeds sales and two-thirds of field seeds sales.**

RESEARCH BUDGETS OF MAIN SEED PRODUCERS

€m	2008 sales	Seeds sales	Sales breakdown	Total R&D	Seeds R&D	Main areas of research
Monsanto (USA)	7,577	4,246	Corn 2,361 Soybean 783 Cotton 300 Vegetables 496 Other: 306	653	600	Field seeds: Corn, soybean and cotton, sugar cane and recently wheat Fruit and vegetables: tomatoes, peppers, cucumbers Specific varieties: rapeseed, sugar cane, wheat Fertilisers/treatments: soybean, corn, cotton
Pioneer (USA)	5,301	2,280	Corn 1,855 Other seeds 424	461	300	Cereals: corn, rice, soybean, wheat Oils: sunflower, rapeseed Other: millet, alfalfa, inoculants, sorghum (herbaceous)
Syngenta (Switzerland)	7,749	1,628	Corn & soybean 693 Field seeds 308 Flowers 225 Other 402	680	300	Crop protection: insecticides, fungicides and herbicides Seeds: field seeds, vegetables and flowers Biotech/genomics
Vilmorin	1,001.7	1,001.7	Field seeds 499 Vegetable 409.7 Consumer 91.7		121	Wheat, corn, rapeseed and sunflower Vegetables
KWS (Ger)	717	717	Sugar beet 229 Corn 380 Cereals 85 Other 23	107	107	
Bayer (Ger)	32,918	452		649	95	Rapeseed Rice Cotton Vegetables
Dow AgroScience (USA)	3,027	336		873		Seeds and traits: corn and cotton Rape and sunflower Corn and rapeseed traits for animal feed
Sakata (Jap)	341	341			27	Vegetables Flowers
DLF (Dan)		302			nm	Phytogenesis Biotechnology (since the 1990s)
Takii (Jap)		276			nm	

Overall, the various seed producers' research budgets can be put into four categories: the first of around € 600m with Monsanto, which is well ahead of the others in GM corn in particular; the second of around € 300m with Pioneer and Syngenta; the third of around € 100m with Vilmorin; and the fourth with less than € 50m.

Field seeds: selectivity and partnerships

The field seeds business - for Vilmorin, chiefly corn, small-grain cereals such as wheat, sunflower and rape - has formed part of Vilmorin since 2006-07 and generated sales of € 499m in 2008-09 (50% of sales).

With some of its competitors benefiting from much larger R&D budgets (see table on the last page), Vilmorin's research and development strategy is based on a selective approach and the formation of numerous partnerships in order to pool costs and benefit from external expertise.

The company has therefore determined five main areas for research in field seeds: i/ traditional research into corn; ii/ identifying second-generation traits in corn; iii/ developing a hybrid wheat and a GM wheat; iv/ improving rape seeds; v/ developing new sunflower varieties.

Traditional research into grain corn for Southern Europe

Vilmorin is market leader in corn silage in Europe ahead of KWS, Pioneer and Syngenta. However, it is ranked No. 4 behind Pioneer, Monsanto and KWS in grain corn, which is much more lucrative. Over the last few years, Vilmorin has invested in researching ways of improving grain corn - such as earlier crops - with the aim of moving up to market No. 3 and then No. 2. In order to achieve this, it uses the extensive genetic resources of AgReliant (non-GM), with seeds that seem highly suitable for the southern European market (including the south of France). This market currently represents 9 million hectares compared with 40 million for the US market, where the seed market is worth around € 1.1-1.2bn.

Development of new traits in corn

In corn, Vilmorin is not looking to compete directly with Monsanto, which has had the main traits since 1997-98 (resistance to insects and herbicides) and controls around 80% of the market in these traits.

Monsanto has around 20 GM traits for corn at different stages of development and dedicates 9-10% of its annual sales to R&D, i.e. € 600m for seeds. Its main areas of research are resistance to drought, optimising use of nitrogen and developing second-generation products that increase the number of modified genes in order to minimise the risks of resistance and increase yields. The last product launched by Monsanto was SmartStax, a multi-trait (8) GM crop for corn combining various properties in terms of resistance to insects and herbicides, based on a technology developed by Monsanto in partnership with Dow Chemical. Vilmorin already uses Monsanto traits (via licence agreements) and within subsidiary AgReliant - of which it owns 50% with German company KWS - sells corn and soybean seeds in the US, Canada and, to a lesser extent, Spain.

Vilmorin therefore bases its research on developing complementary traits with the aim of combining them with Monsanto's existing traits. These complementary or second-generation traits on which Vilmorin's research is based focus on improving: i/ resistance to water stress; ii/ yields; iii/ nitrogen absorption; iv/ the quality and level of proteins.

On the market within five to six years

In this area, Vilmorin believes that it is in a position to offer products derived from its research within five to six years.

Vilmorin's main strengths within the framework of this research are:

- **its partnership with Biogemma** in research into resistance to water stress, which it aims to launch in 2015;
- a current project concerning the development of an **insect resistance trait for the European market**. As we stated above, Vilmorin is not looking for this kind of trait for the US market given Monsanto's front-running position in this area. However, in Europe, given the different genetics of seeds suited to European crops, this research makes sense. This trait could be launched by 2016-17, provided that the European market becomes more open to GM crops by then;
- **the company's genetic portfolio in Europe.** Developing a trait is not enough; the company then needs to be able to combine this trait with genetic resources and manage registering the trait.
- **the company's market share** in Europe: No. 4 in grain corn and No. 1 in corn silage, and in the US No. 4 with AgReliant, which controls 7% of the market behind Monsanto (33%, Dupont/Pioneer 30% and Syngenta 9%).

Overall, Vilmorin's strategy in this area is based more on a fit with Monsanto's technologies than on direct competition.

Development of hybrid wheat and GM wheat

As was the case for corn 40-50 years ago, wheat is an autogamous species, which means that the seeds reproduce from the original seed and can therefore be produced directly by the farmer.

This explains the small proportion of commercial wheat seeds, which currently stands at 34% (just 20% in the US), compared with for example 65% for corn.

Wheat: the world's most widely cultivated cereal

A hybrid comes from crossing two species: A + B gives C, which has an additional property relative to its "parents"; however, reproducing C from itself will result in the degeneration of the seed. That is why in the case of hybrid seeds, the producer needs to use commercial seeds and buy new seeds each year.

The interest for Vilmorin lies in:

- **the size of the wheat market**, which is the world's most widely cultivated cereal, representing 225 million hectares vs. 157 million hectares for corn and 96 million hectares for soybean (sources: USDA, Eurostat);
- **the need to increase yields** due to the decline in global stocks and yields being affected by more limited use of fertilisers. Overall, wheat producers are exerting pressure to develop a GM or even hybrid wheat, although a hybrid seed is of less interest due to the impossibility of using farm seeds;
- **the possibility of licensing traits obtained** (with regard to GM seeds), generating a new source of revenue.

Vilmorin's aim is to launch a hybrid wheat by 2018-20

The company's strengths in relation to this development are:

- **an extensive genetic portfolio** (which includes a number of genetic lines) from the pooling of the genetic resources of Limagrain and Nickerson (acquired in 1990) for over 10 years;
- **strong positions**, already No. 1 in Europe with 19% market share (KWS No. 2, 11%), while the enlarged EU is the largest wheat production region (35% of land vs. 15% in North America in 2008);
- **a partnership with Australian Grain Technologies** (in which Vilmorin holds a 32% stake); Vilmorin works exclusively with Australia's leading seed company, which has very strong expertise in wheat;
- partnerships in China with universities and in India with Avesthagen;
- **the recent partnership agreement with Californian company Arcadia Biosciences**, aiming to develop and market wheat optimising use of nitrogen by using technologies developed by Arcadia.

Vilmorin currently sells very few of its wheat seeds directly but receives royalties (€ 44.6m in 2008-09, mainly for wheat). As farmers produce their seeds themselves, since 2000, checks have been performed by seed manufacturer associations, which collect licence fees from producers depending on the seeds produced and land cultivated.

The company is also involved in research into rice, with the aim - as with wheat - of developing a hybrid rice (not very developed at present). The products already on the market are developed by LPHT. This is a matter of using Vilmorin's network in China to speed up sales, then extending sales to all of Asia. This research is conducted via partnerships with LPHT and Avesthagen.

In addition, research projects into rape are also in progress. Vilmorin is No. 1 in this market (Europe: 20% of rape production) with 9% market share, and has increased its market share thanks to launches over the last three years of species resulting from the research programmes initiated six years ago.

Lastly, in the sunflower market - from which Monsanto has withdrawn - Vilmorin is world No. 4 and European No. 2 (15% market share). The group has a very strong genetic portfolio, mainly thanks to the partnership with Soltis (joint venture between Vilmorin and Euralis), which fuels possibilities for new seeds by increasing the number of possible combinations thanks to the combination of the two companies' genetic portfolios.

R&D PARTNERSHIPS

	Keygene	Biogemma	AGT	Avesthagen
Start date and % stake	2001, 25%	Created in 2000, 55%	32% (second-largest shareholder)	Since 2006, 4.6%
Other partners	Enza Zaden (Nl), Rijk Zwaan (Nl) and Takii (Jap)	Euralis,RAGT, Sofiprotéol and Unigrains	GRDC (Australian wheat producers) and universities	Biomérieux, Cipla, Nestlé, Goidrej, Danone
Sector	Vegetable genomics	Field seeds biotechnology (Europe)	Partnerships in wheat	Plant biotechnology, India
Headcount	125 people	80 people	n.m.	20 people in biotech
Net value on Vilmorin's balance sheet	3.3	30.8	6.1	5

SOURCE: VILMORIN, COMPANY WEBSITES

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Overall, we believe that Vilmorin's strategy of targeting its areas of research and developing partnerships is entirely fitting. However, given the size of the research budgets of some of its competitors such as Monsanto, Pioneer and Syngenta - which are at least double that of Vilmorin - it seems likely that the company will continue to seek out alliances. We believe that Vilmorin has a number of scenarios in order to continue to increase its critical mass in research:

- **Continuing with the current strategy,** although limiting the increase in R&D expenditure to € 10-15m a year so as not to penalise margins too much in the short term;
- **Acquiring a company specialising in biotechnologies,** which would be likely in the short term to have a dilutive impact on earnings and presents an attractive but difficult to quantify outlook as the products resulting from research are not sold.
- **Joining forces with a competitor** such as KWS (Vilmorin already has ties with KWS as part of the AgReliant joint venture) or Bayer's subsidiary. KWS currently has a market capitalisation of around € 820m and EV of € 720m compared with € 1,132m and € 1,543m for Vilmorin. A merger with KWS would probably be financed largely by shares given Vilmorin's additional debt capacity of around € 300m (gearing of 100%). Together, they would generate total sales of around € 1.8bn and EBIT of € 200m excluding synergies (10% = estimated € 20m), with an R&D budget of € 230m, and complementary positions particularly in sugar beet. However, a partnership or even a link-up between Vilmorin and KWS would be likely to arouse the interest of Bayer, which could want to play a role in a merger of this kind. In this case, questions would arise about what role Bayer would be willing to play.

Vegetable seeds: a more dominant competitive position

World No. 2 in vegetable seeds

In vegetable seeds (2008-09 sales of € 410m, 41% of sales), Vilmorin is world No. 2 behind Monsanto (2009 sales of € 577m) since it acquired Seminis in 2005 (acquisition price of $ 1.4bn, equal to. 16x adjusted EBIT) and Dutch company De Ruiter in 2008 (acquisition price of £ 800m, equal to 5x sales and 15x EBITDA).

Vilmorin is present in 30 different varieties and world market leader in tomatoes (fresh, excluding canned) and one of the top three in cabbages, melons, carrots and peppers.

Given the large number of varieties in which the company is present (around 30, with around 15 resulting in R&D), research is much more fragmented.

GM vegetable seeds are not widely developed and are likely to develop primarily in Asia, particularly India, which suffers from very serious problems with parasites. The current research challenges relating to vegetable seeds concern mainly in-depth knowledge of the plant genome by means of **molecular marking**. Vilmorin has four specialist molecular marking centres - two in France, one in the US and one in Israel - focusing mainly on biotech research in order to develop as many synergies as possible.

Furthermore, Vilmorin has held a stake in Keygene since 2000 alongside Takii, Rijk Zwaan and Enza Zaden, also giving it access to an extensive database with, for example, shared research programmes into biotechnologies applied specifically to vegetable seeds, including molecular marking.

Overall, the two main keys to success in vegetable seeds are:

- **molecular marking** (which speeds up the development of a new seed considerably, saving at least three years) by specifically targeting the seeds to be crossed thanks to knowledge of their markers and therefore potentially their qualities. In this area, Vilmorin benefits from a full range of tools by means of its own centres and via Keygene;
- **its extensive genetic portfolio.** The richer a company's portfolio, the more likely it will be able to come up with relevant combinations. Vilmorin - which is present all over the world - has developed its presence in this area by integrating a number of companies and therefore has a very large portfolio.

An ever-increasing budget

Vilmorin has stepped up its investment since 2008-09, spending € 120.6m on research compared with € 105m in 2007-08. In 2009-10, its budget is expected to grow by a further € 15m. Overall, 14.7% of seeds sales (excluding wholesale and garden products) is therefore invested in research and development, with around 30% dedicated to biotechnologies and 70% to conventional research. Research is divided equally between field seeds and vegetable seeds.

Including its various partnerships, Vilmorin estimates its actual research budget at € 180m.

Estimated 12% increase in R&D budget followed by 8% a year

On an accounting basis, expenses are lower due to the inclusion of a tax credit (€ 21.9m in 2008-09) and depreciation of these expenses over a number of years. Total net research and development expenses came to € 83.8m in the 2008-09 consolidated financial statements vs. € 75.2m in 2007-08.

The company planned to increase its R&D budget by a further € 15m to € 135m in 2009-10, and we have factored an increase of 12% to € 93.7m into our estimates. Thereafter, the budget is likely to increase at a more moderate rate (estimate of 8% a year), with possible arbitrage within vegetable seeds. Of the 30 varieties in the company's portfolio and developed by means of R&D, some are less of a priority and could be subject to arbitrage.

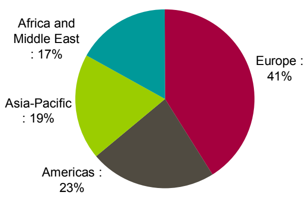
RETURN TO EARNINGS GROWTH

Vegetable seeds: medium-term operating margin of 20%

Vilmorin is world No. 2 in vegetable seeds. In 2008-09, it generated sales of € 410m in this business line, an increase of 5.7% or 3.3% like-for-like.

The vegetable seeds business was reorganised in 2007-08 around four business units that operate autonomously, particularly in terms of R&D. However, in biotechnology, programmes are conducted in concert and headed up by a shared team.

2008-09 SALES BREAKDOWN BY REGION



Source : Vilmorin

The group's four business units all have a global presence apart from Mikado Kyowa, which focuses on Asia:

- Clause /Harris Moran Seeds: main region: Europe, US and Mexico;
- Vilmorin: main region: Europe;
- Hazera Genetics /Nickerson Zwaan, main region Northern Europe, Mediterranean and Asia via Hazera's Chinese subsidiary;
- Mikado Kyowa = Asia.

The group has a diversified geographical presence, which means that it is not very sensitive to uncertainties relating to the weather.

Deterioration in operating margin in 2008-09

Over the last five years, the vegetable seeds business has seen organic growth of an average of 3.2%. In 2008-09, it was exactly in line with this level at 3.3%.

However, the business line's operating margin deteriorated from 18.2% to 16.8% due to three main factors:

- Difficulties encountered on the implementation of the Hazera-Nickerson Zwaan merged business unit, which temporarily disrupted business but which have now been resolved.
- Hazera-Nickerson Zwaan sustained a 4% fall in sales due to difficulties in the Turkish market (which serves Eastern European countries) as a result of unfavourable exchange rates and more intense competition from the group's other subsidiaries in tomatoes (which generate very high margins).
- Lastly, operating margin was also affected by the 11% increase (on a consolidated basis) in R&D costs.

We expect organic sales growth of 4.7% for the current year, followed by around 4% in subsequent years. This relates primarily to improvement in the business mix by means of innovation. However, volumes outside Asia (9% of vegetable seeds including Asia-Pacific) have seen limited growth.

Favourable effect on margins of innovations pipeline

This indicates slight acceleration in growth relative to the historic average. Vilmorin will benefit from the arrival of products resulting from the increased research and innovation efforts of the last few years (the development period for a vegetable seed is seven years with biotechnologies such as molecular marking, or 10 years without such techniques).

With this particularly dense innovation pipeline, the company is confident that it will be able to achieve operating margin of 20% in vegetable seeds within the next three to five years, with approved new varieties accounting for 90% of sales. This has a significant impact on margins. An approved new variety generates gross margin of 60-80% vs. 15-20% without approval. Improvement in sales of 1 percentage point would therefore theoretically increase consolidated gross margin by 0.5 percentage points.

Operating profit growth of 8-9% a year

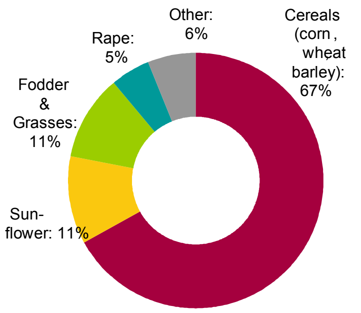
We therefore expect operating profit growth of around 8-9% a year for the vegetable seeds business.

The garden products business is still part of the group, which failed to find a suitable way of withdrawing from this activity. Growth is likely to be moderate at around 2% a year with operating margin of around 5%, which corresponds to the margin the group would have generated in 2008-09 adjusted for the catch-up effects of depreciation charges. However, we believe that the business is still fairly likely to be sold in the medium term.

Field seeds: structurally more erratic development

The field seeds business has formed part of the Vilmorin group since 2006-07. Its development has been more erratic than that of the vegetable seeds business, with greater sensitivity to the development of commodities prices, global stock levels and cultivated land. In addition, these factors are interdependent:

LVH:
SALES BREAKDOWN BY VARIETY
SOURCE: VILMORIN



- **Cereal cultivated land in Europe (60 million hectares): back to normal after two very brisk years.** Cereals account for 67% of LVH's sales, with even greater exposure if we include wheat seeds for which the group receives royalty fees.

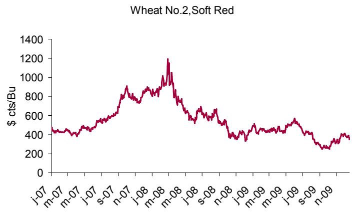
  Growth in cultivated land has been unusually brisk over the last two years (5-6%), driven in particular by the reduction and the disappearance of fallow land (3 million hectares in 2006) and rising cereal prices. In total, cultivated land used for cereal crops has grown by 5-6% over the last two years. The situation is expected to return to normal with more limited volume growth of around 2% a year, more in keeping with historic growth rates.

  In the US (96 million hectares for all varieties): cultivated land used for corn crops (81% of AgReliant's sales, including 85% in GM seeds) remained stable in 2009 following a fall of 8% in 2008 and an increase of 25% in 2007.

  Cultivated land used for soybean (17% of sales, including 97% in GM seeds) increased slightly in 2009 following growth of 19% in 2008. We do not expect a significant increase in cultivated land in 2009-10, even though the initial indications concerning low corn stocks (see after) are fairly encouraging.

- **The development of cereal prices.** Following an explosion in 2007-08, prices dropped sharply in the first half of 2009. **Prices are now tending to stabilise** at low levels for wheat and have improved slightly since the autumn for corn.

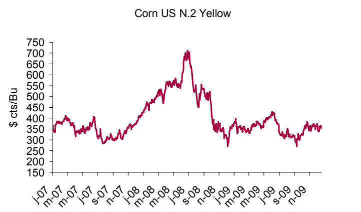
It is very difficult to predict the development of cereal prices, particularly because in addition to measurable factors such as stock levels, speculation amplifies changes in prices.



Source : Datastream

- **High stock levels in wheat and low levels in corn.** In terms of stock levels: the situation seems rather different for wheat and for corn. After a very strong wheat harvest in 2009 (666 million tonnes), exceeding consumption significantly (643 million tonnes, source: USDA), worldwide stocks are believed to exceed 185 million tonnes, an increase of 13% vs. 2008-09, and at a record level equal to 29% of consumption.

  However, global corn consumption is expected to rise by over 3.7% to more than 800 million tonnes, driven in particular by the 14% increase in requirements for ethanol production and exceeding production, despite a record level of 792.5 million tonnes. Worldwide stocks are therefore expected to decrease by 7% to 136 million tonnes, equal to just 17% of consumption, with a potential impact of tensions in corn prices



Source : Datastream

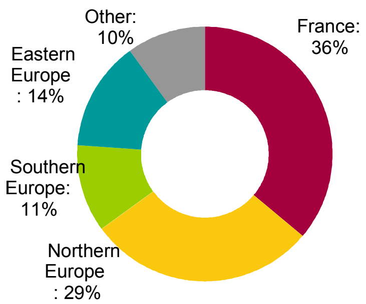
Economic indications point to a favourable trend for corn, which is fairly encouraging given Vilmorin's high level of exposure to the cereal.

Vilmorin's field seeds business comprises two main subsidiaries: European subsidiary Limagrain Verneuil Holding (in which Vilmorin holds an 80% stake, with the remaining 20% belonging to 11 farming cooperatives) and AgReliant, which operates in the North American market and is 50%-owned by Vilmorin alongside German company KWS.

Having been penalised by its exposure to Eastern European countries in 2008-09, LVH is expected to return to growth this year.

Following very strong growth in 2007-08 (+23% like-for-like and at constant exchange rates), LVH generated sales of € 364m, down 5% like-for-like and at constant exchange rates due to a 40% drop in sales in Eastern Europe (estimated shortfall of € 30m). The company had decided to reduce its exposure to the region given the solvency risk of certain operators.

LVH: SALES BREAKDOWN BY REGION (EXCL. ROYALTIES)
SOURCE: VILMORIN



For the next three years, we expect volume growth of 2% a year with a zero price effect in 2009-10 due to the low level of cereal prices, followed by an increase of 2-3% a year. Furthermore, in 2009-10, the company is expected to recoup at least € 15m of the € 30m of sales lost in Eastern Europe and will consolidate Belgian corn and wheat seed distributor Clovis Maton (sales of € 15m, 30 employees).

AgReliant: continuing very favourable price effect

Despite robust sales growth of 23% like-for-like and at constant exchange rates in 2007-08, AgReliant achieved further very strong growth of 14% in 2008-09 with a very favourable price effect (around +20% on our estimates) resulting from the higher proportion of sales from GM seeds, which largely offset the decline in volumes (estimated at -6%).

The improved price-mix effect looks set to continue for the next few years (estimate of +5-7%), benefiting in particular in 2009-10 from the favourable impact of the launch of the new seed under the Monsanto SmartStax multi-trait (8) GM licence. In addition, in view of the aforementioned factors concerning corn stocks, volumes could gradually increase again (up 1% in 2009-10, followed by growth of 3-4%).

Continuing strong price-mix effect

We therefore expect organic growth of 5-6% the field seeds business, driven by a price-mix effect at AgReliant and a gradual ramp-up in volumes in corn in particular..

Note that Q1 (just 9% of the division's sales) was very encouraging, with organic growth of 25.7% driven by a very strong rape harvest and an early harvest of small-grain cereals.

Overall, after the contribution from the field seeds business deteriorated in 2008-09 due higher R&D costs and above all the loss of sales of € 30m in Eastern Europe, we do not expect much of a rebound in 2009-10. The majority of sales should be generated in Q3 (57%) and at this stage we have very few indications, apart from the solid level of early payments (for corn activities in the US), which is fairly reassuring. However, we do not have any visibility on the development of seed prices in Europe, particularly corn, which could be affected by continuing low prices. In wheat as well, it is still not known how use of farm seeds by farmers will develop.

The division should see more significant improvement in operating margin from 2010-11 as a result of robust growth, further improvement in the price-mix effect and weaker growth in R&D costs. In the long term, the group is aiming for operating margin of around 10% excluding GM seeds, or 15% including GM seeds resulting from its research.

Rebound in earnings from 2009-10

Pro forma	**2007-08 Pro forma**		**2008-09**		**2009-10**		**2010-11**		**2011-12**	**2007-08**
Vegetable seeds	*387.5*	*6.2%*	*409.7*	*5.7%*	*424.5*	*3.6%*	*441.5*	*4.0%*	*459.1*	*4.0%*
lfl/cer		*4.9%*		*3.3%*		*4.7%*		*4.1%*		*4.0%*
Garden products	*128.0*	*-9.7%*	*91.7*	*-28.4%*	*93.5*	*2.0%*	*95.4*	*2.0%*	*97.3*	*2.0%*
Field seeds	*502.5*	*16.4%*	*499.0*	*-0.7%*	*536.9*	*7.6%*	*562.9*	*4.8%*	*597.4*	*6.1%*
lfl/cer		*21,2%*		*-0,2%*		*+6,5%*		*+5,1%*		*+6,1%*
Consolidated sales	**1018.0**	**8.5%**	**1001.7**	**-1.6%**	**1055.0**	**5.3%**	**1099.9**	**4.3%**	**1153.9**	**4.9%**
lfl/cer		**13.4%**		**1.3%**		**5.2%**		**4.4%**		**4.9%**
Gross margin	461.2	45.3%	452.9	45.2%	480.6	45.6%	506.8	46.1%	535.0	46.4%
R&D	75.2	7.4%	83.8	8.4%	93.7	8.9%	101.2	9.2%	109.3	9.5%
Underlying op. profit	139.0		105.1		117.0		127.6		138.1	
Holding company	-11.3		2.8		0.0		0.0		0.0	
Consolidated op. profit	**127.6**		**107.9**		**117.0**		**127.6**		**138.1**	
Op. margin by division	**Pro forma 2007-08**	**Actual**	**2008-09**	**mop**	**2009-10**	**mop**	**2010-11**	**mop**	**2011-12**	**mop**
Vegetable seeds	*70.5*	*70.5*	*68.8*	*16.8%*	*75.6*	*17.8%*	*81.3*	*18.4%*	*87.7*	*19.1%*
Field seeds	*47.5*	*47.5*	*42.5*	*8.5%*	*43.4*	*8.1%*	*48.4*	*8.6%*	*52.6*	*8.8%*
Garden products	*12.4*	*0*	*3.2*	*3.5%*	*4.7*	*5.0%*	*4.9*	*5.1%*	*5.2*	*5.3%*
Holding companies	*-2.8*	*-2.8*	*-6.6*		*-6.6*		*-7.1*		*-7.5*	
Consolidated EBIT	**127.6**	**115.2**	**107.9**	**10.8%**	**117.0**	**11.1%**	**127.5**	**11.6%**	**138.1**	**12.0%**
Growth			-15%		8%		9%		8%	
Net financial items	-31.00		-26.60		-27.22		-28.3		-27,1	
Tax	-22.90		-20.00		-22.45		-24.8		-27,8	
Minority interests	-6.80		-7.20		-7.92		-8.7		-9.6	
Net profit	**44.3**		**53.0**		**58.4**		**64,7**		**72,7**	
% chg	**11%**		**20%**		**10%**		**11%**		**12%**	

To summarise, following a 15% fall in operating profit in 2008-09 (loss of sales in Eastern Europe, sharp increase in R&D costs and weaker performance of Hazera), we believe that Vilmorin should see a return to operating profit growth from 2009-10 despite continuing escalation in R&D costs. This growth is underpinned by the following factors:

- robust growth in vegetable seeds (which generate the highest margins);
- recouping at least € 15m of sales lost in Eastern Europe;
- a gradual return to a more favourable trend in corn, given very low stock levels.

In subsequent years, we expect operating profit growth of around 8-9%, with a more moderate increase in R&D costs (estimate of +8%) following two years of sharp rises and the continuing favourable effect of improvement in volumes and, more significantly, the price-mix effect (ramp-up of GM seeds at AgReliant, and sales of approved new varieties in vegetable seeds).

Net profit growth should be slightly stronger at 10-12% thanks to a moderate increase in financial expenses.

VALUATION: TARGET PRICE OF € 90

DCF valuation: € 90

We have made the following assumptions for our valuation:

- **a discount rate of 8.4%,** with a risk-free rate of 4.25%, a market premium of 6% and a beta of 1, cost of capital of 10.3% vs. cost of debt of 5% or 3% after tax;
- **long-term operating margin of 12.5% vs. 12% in 2011-12;**
- **perpetual growth of 2.5%.**

TABLEAU DE VALORISATION PAR LES FLUX

Year	Sales	EBIT	Op. margin	Theoretical tax	Depreciation	(WCR change)	Free CF	Discounted FCF
2009/10	1 055.0	117.0	11.1%	-22.4	104.0	147.0	51.6	49.5
2010/11	1 099.9	127.6	11.6%	-24.8	111.3	144.7	69.4	61.4
2011/12	1 153.9	138.1	12.0%	-27.8	119.1	136.2	93.3	76.2
2012/13	1 211.6	146.6	12.1%	-44.0	125.7	141.6	86.6	65.3
2013/14	1 272.2	155.2	12.2%	-46.6	132.6	147.3	93.9	65.3
2014/15	1 335.8	164.3	12.3%	-49.3	139.9	153.2	101.7	65.2
2015/16	1 402.6	173.9	12.4%	-52.2	147.5	159.3	110.0	65.0
2016/17	1 472.7	184.1	12.5%	-55.2	155.7	165.7	118.8	64.8
2017/18	1 546.3	193.3	12.5%	-58.0	164.2	172.3	127.2	64.0
2018/19	1 623.6	203.0	12.5%	-60.9	173.3	179.2	136.1	63.1
Total discounted FCF								616.7
Terminal value	1 688.6	211.1	12.5%	-52.8	180.2	186.4	152.1	1097.9
Valuation	1 738	Discount rate w/o premium		8.4%				
Net debt	378	Perpetual growth		2.5%				
Minorities and prov.	155							
Valuation (€m)	**1 205**	**Per share valuation (€)**		**€ 90**				

SOURCE: ODDO.MIDCAP

Peer comparison valuation € 89.7

	P/E				Ev/EBITDA				Ev/EBIT			
	2009	2010	201	2012	2009	2010	201	2012	2009	2010	201	2012
Bayer AG	15.4	13.6	12.1	11.0	8.5	7.6	6.7	6.0	14.7	12.0	10.3	8.8
Bayer CropScience Ltd	21.1	15.1	12.2									
Dow Chemical	56.7	20.1	10.8	11.0	9.3	6.7	5.1	5.6	20.0	12.0	8.5	8.2
Du Pont (Ei) De Nemours P-A	16.4	14.7	12.8	10.5	8.4	7.6	6.4	5.7	13.0	10.9	9.4	7.9
KWS Saat AG	17.8	15.9	13.7	12.4	7.1	6.9	6.0	5.3	9.2	8.5	7.2	6.6
Monsanto Company	18.8	25.2	18.9	15.4	11.0	13.2	10.3	8.3	12.7	16.3	12.3	9.4
Syngenta AG	18.0	15.7	14.0	13.1	12.1	10.2	9.2	9.1	15.0	12.4	11.1	10.4
Average multiples	20.3	15.6	13.4		8.8	7.8	6.8		13.1	11.1	9.5	
Per share valuation	**88.4**	**75.5**	**72.5**		**116.0**	**110.8**	**106.8**		**85.6**	**78.1**	**73.3**	

* BNA DILUÉS DES OCEANE

The average valuation for Vilmorin on the basis of the investment multiples of agro-chemicals companies comes to € 89.7.

Overall, the average of our valuations is **€ 90, which is our new target price** vs. € 82 previously.

Vilmorin

Per share data	06/05	06/06	06/07	06/08	06/09	06/10	06/11e	06/12e
Fully-diluted EPS bef. GW and non rec.items (AANP)	3.38	4.00	4.09	4.54	4.00	4.38	4.82	5.37
% change	1.1%	18.6%	2.3%	10.9%	-11.9%	9.4%	10.0%	11.5%
Fully-diluted EPS (ANP)	3.38	4.58	4.09	3.31	3.96	4.36	4.83	5.43
% change	6.8%	35.6%	-10.6%	-19.2%	19.6%	10.2%	10.7%	12.3%
Dividends	1.62	1.62	1.66	1.66	1.77	1.86	1.95	2.05
Cash flow per share	7.49	9.01	9.05	10.24	10.92	11.94	12.94	14.10
Book value per share	31.42	33.74	45.43	45.95	47.60	50.20	53.17	56.64
No. of outstanding shares (m)	9.567	9.567	13.392	13.392	13.392	13.392	13.392	13.392
Fully-diluted no. of shares (m)	9.567	9.567	13.392	13.392	14.354	14.354	14.354	14.354

Income statement (EUR m)	06/05	06/06	06/07	06/08	06/09	06/10	06/11e	06/12e
Sales	489.4	497.3	938.4	896.9	1 001.7	1 055.0	1 099.9	1 153.9
% change	0.2%	1.6%	88.7%	-4.4%	11.7%	5.3%	4.3%	4.9%
EBITDA	81.5	94.1	158.1	202.9	203.3	221.0	238.9	257.2
as a % of sales	16.7%	18.9%	16.9%	22.6%	20.3%	21.0%	21.7%	22.3%
Underlying operating profit	46.5	56.4	80.5	118.8	105.1	117.0	127.6	138.1
% change	-8.3%	21.3%	42.8%	47.5%	-11.5%	11.3%	9.0%	8.3%
as a % of sales	9.5%	11.3%	8.6%	13.2%	10.5%	11.1%	11.6%	12.0%
operating profit (EBIT)	43.7	55.5	95.0	115.2	107.9	117.0	127.6	138.1
as a % of sales	8.9%	11.2%	10.1%	12.8%	10.8%	11.1%	11.6%	12.0%
Net financial income/expense	2.0	-3.7	-19.8	-30.1	-26.6	-27.2	-28.3	-27.1
Earning before Tax	45.7	51.8	75.2	85.1	81.3	89.8	99.2	111.0
% change	-1.4%	13.3%	45.2%	13.1%	-4.5%	10.4%	10.5%	11.9%
Income tax	-11.8	-9.7	-17.2	-19.2	-20.0	-22.4	-24.8	-27.8
Equity-accounted income	0.9	1.6	-0.7	1.7	-1.1	-1.0	-1.0	-1.0
Minority interests	-2.5	-5.4	-2.5	-6.8	-7.2	-7.9	-8.7	-9.6
Attr. Net Profit (ANP)	32.3	43.8	54.8	44.3	53.0	58.4	64.7	72.7
Adjusted Attr. Net Profit (EUR m) (AANP)	32.3	38.3	54.8	60.8	53.0	58.4	64.7	72.7
% change	1.1%	18.6%	43.2%	10.9%	-12.8%	10.2%	10.7%	12.3%

Cash flow statement (EUR m)	06/05	06/06	06/07	06/08	06/09	06/10	06/11e	06/12e
Flows from operating activities	54	75	124	152	162	169	186	211
o.w. WCR	-18	-11	3	15	5	-2	0	9
Capital expenditures	-33	-33	-104	-110	-144	-145	-145	-145
Free cash flow	21	42	21	42	17	24	41	66
investments (net)	-4	17	-29	-63	-15	-10	0	0
Flows from investing activities	-37	-16	-132	-173	-159	-155	-145	-145
Dividends	-15	-15	-22	-22	-22	-24	0	0
New shareholders' equity	0	0	241	0	0	0	0	0
Flows from financing activities	-15	-15	220	-22	-22	-24	0	0
Other Flows	-12.9	-34.0	-487.4	64.8	-34.8	-1.0	-25.9	-27.1
Change in net cash	-11	10	-276	22	-54	-10	15	39

Balance sheet (EUR m)	06/05	06/06	06/07	06/08	06/09	06/10	06/11e	06/12e
Intangible assets	173	173	661	661	700	736	754	765
Tangible fixed assets	84	91	128	154	161	176	191	206
Financial fixed assets	24	24	54	54	83	83	83	83
Working capital req. (WCR)	173	184	251	236	226	228	228	219
Total assets	453	471	1 094	1 105	1 170	1 223	1 256	1 273
Shareholders' equity	301	323	608	615	638	672	712	759
Minority interests	41	48	97	124	116	124	133	143
Provisions	33	31	44	43	38	38	38	38
Net debt	79	69	345	323	378	388	373	334
Total liabilities & shareholders' equity	453	471	1 094	1 105	1 170	1 223	1 256	1 273

Profitability	06/05	06/06	06/07	06/08	06/09	06/10	06/11e	06/12e
FCF yield	4.6%	7.9%	2.2%	3.0%	1.6%	2.2%	3.6%	5.8%
ROCE (before tax)	10.2%	12.0%	12.1%	10.5%	9.5%	9.8%	10.3%	10.9%
ROCE (after tax)	7.5%	9.8%	9.4%	8.1%	7.2%	7.3%	7.7%	8.2%
ROE	11.2%	12.3%	11.8%	9.9%	8.5%	8.9%	9.3%	9.9%
Net Debt / EBITDA	1.0	0.7	2.2	1.6	1.9	1.8	1.6	1.3
EBITDA / interest coverage	ns	25.4	8.0	6.7	7.6	8.1	8.4	9.5

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