CREDIT LYONNAIS SECURITIES
Midcap

Vilmorin Clause & Cie

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

BUY
€79.5

Update

Next event: **4Q sales - 05/08/03**

Mkt cap: **€254m**
Net debt 2003E: **€58m**
Book value per share 2003E: **€86.54**

Range (12m): **€92.5-71.0**
Av. daily volume: **1,500**
Free float: **27%**

Rel perf/SBF 250 (%):
1m **+6**
3m **-3**
12m **+41**

Abs perf (%):
1m **+8**
3m **+4**
12m **-4**

Vilmorin vs SBF 250 (1 year)

Source : Datastream

Perennial growth

- **Favourable news flow.** Despite unfavourable exchange rates which wiped €18m off sales at the 9-month stage (estimated full-year effect €25m), the main subsidiaries are expected to deliver good performance, both in terms of sales **(growth of 5%-7%)** and profitability (consolidation in Trade margins and recovery in Consumer margins). **We are looking for a 0.7-point gain in operating margin (from 9.4% to 10.1%) and a 17.2% rise in restated 2002/03 EPS.**

- **New challenges.** Asia is one of the group's main priorities with, as a first step, the consolidation of holdings in Mikado and Kyowa. Talks are currently in place to secure majority control of the Israeli subsidiary, which would give the group **world leadership in the tomato market, one of the main vegetable/fruit markets.** Another important development is the confirmation of agreements in R&D, which will be the main driver of medium-term growth.

- **Upside of between 20% and 30%.** Based on average sales growth of 4%-5% and growth of over 12% in EPS, the shares offer good upside potential given: 1/ **the performance differential** with respect to comparable players; 2/ **undervalued intangible assets** (brands, patents, genetic bases); 3/ a healthy balance sheet, reinforced **by durable generation of FCF (€20m on average)**. Further developments should reinforce Vilmorin's status as world leader, all segments combined.

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	12.5	7.1	4.0
2003E	431.0	49.8	22.5	7.43	3.52	10.7	6.3	4.4
2004E	448.9	54.4	25.6	8.11	4.01	9.8	5.5	5.0
2005E	468.3	60.1	29.0	9.18	4.54	8.7	4.8	5.7

** Before exceptionals and goodwill*

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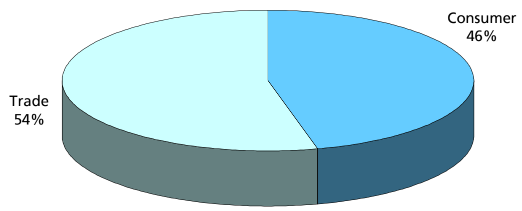
28th May 2003

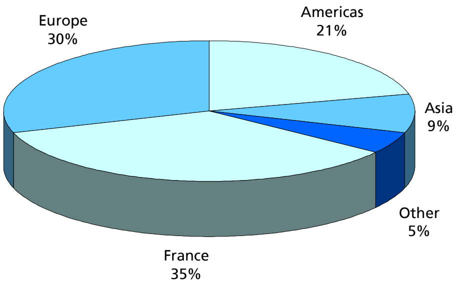
Profit and loss account 2002-05E

Year to June (€m)	2002	2003E	2004E	2005E
Sales	**430.1**	**431.0**	**448.9**	**468.3**
% change	+2.9	+0.2	+4.2	+4.3
Labour cost	-115.7	-113.4	-116.2	-119.1
EBITDA	**45.9**	**49.8**	**54.4**	**60.1**
EBITDA margin (%)	+10.7	+11.6	+12.1	+12.8
Depreciation & provisions	-9.9	-10.2	-10.5	-10.8
Other items	4.9	4.5	3.5	2.0
EBIT	**40.9**	**44.1**	**47.4**	**51.3**
Net interest charge	-8.7	-5.7	-5.5	-4.8
Earnings before tax	32.2	38.4	41.9	46.5
Tax	-10.9	-13.5	-14.9	-16.0
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	-0.3	-0.3
Attributable net profit	**20.0**	**22.5**	**25.6**	**29.0**
Adjusted profit before tax	31.1	37.2	40.7	45.3
Adj attributable profit	**20.2**	**23.7**	**25.9**	**29.3**
Tax rate (%)	33.8	35.3	35.5	34.4
Average workforce (unit)	2,857	2,800	2,870	2,942
Number of shares (m)	3	3	3	3
EPS reported (€)	**6.27**	**7.05**	**8.02**	**9.08**
EPS adj before goodwill (€)	6.34	7.43	8.11	9.18
Goodwill per share (€)	0.09	0.09	0.09	0.09
CFPS (€)	20.23	9.48	8.35	9.78
Free CFPS (€)	17.41	6.33	5.49	6.91
Book value per share (€)	82.75	86.54	91.00	96.28
Net dividend (€)	3.15	3.52	4.01	4.54

Sales by activity



Geographical sales split



Cash flow statement 2002-05E

Year to June (€m)	2002	2003E	2004E	2005E
EBITDA	**45.9**	**49.8**	**54.4**	**60.1**
Exceptional items	0.1	-0.9	0.0	0.0
Change in working capital	38.2	-0.3	-7.4	-8.0
Provisions & other items	0.0	0.0	0.0	0.0
Operating cash flow	**84.2**	**48.6**	**47.0**	**52.0**
Net interest	-8.7	-5.7	-5.5	-4.8
Tax paid	-10.9	-13.5	-14.9	-16.0
Capital expenditure	-9.1	-9.1	-9.1	-9.1
Free cash flow	**55.5**	**20.2**	**17.5**	**22.0**
Dividends	-10.0	-10.0	-11.2	-12.8
Acquisitions/disposals	-3.5	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0
Others (currency etc)	-3.0	4.5	3.8	3.1
Change in net cash	**39.0**	**14.7**	**10.1**	**12.4**

Balance sheet summary 2002-05E

Year to June (€m)	2002	2003E	2004E	2005E
Fixed assets	**96,2**	**94,0**	**91,5**	**88,6**
Goodwill & intangibles	91,8	91,5	91,2	90,9
Non monetary working cap	179,1	179,4	186,8	194,9
Net cash/(debt)	**-72,8**	**-58,1**	**-48,0**	**-35,6**
Provisions & others	11,3	10,6	9,8	9,1
Shareholders' funds	**283,0**	**296,3**	**311,7**	**329,7**
Minorities & preference	19,1	20,3	21,5	22,7
Ordinary shareholders' equity	263,9	276,0	290,2	307,0

Investment ratios 2002-05E

Year to June	2002	2003E	2004E	2005E
P/E before goodwill (x)	**12.5**	**10.7**	**9.8**	**8.7**
Reported P/E (x)	12.7	11.3	9.9	8.8
P/CF (x)	3.9	8.4	9.5	8.1
P/BV (x)	1.0	0.9	0.9	0.8
Net yield (%)	4.0	4.4	5.0	5.7
EV/sales (x)	0.8	0.7	0.7	0.6
EV/EBITDA (x)	**7.1**	**6.3**	**5.5**	**4.8**
EV/EBIT (x)	8.0	7.1	6.4	5.6
ROE (%)	7.6	8.8	9.1	9.8
ROCE (%)	10.5	12.1	12.9	13.8
Gearing (%)	25.7	19.6	15.4	10.8
Pay out (%)	50.2	50.0	50.0	50.0

Company data

Shareholders	73%	Groupe Limagrain Holding
	27%	Public
Management		M. Pierre Lefebvre (Administrator MD) M Daniel Jacquemond (Fin Dir)
Address		4, quai de la Mégisserie 75 001 PARIS Tel: 04 73 63 41 95 Fax: 04 73 63 41 80

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%

Contents

Recent results

Recent good figures undermined by forex losses

Vilmorin Clause et Cie will not be spared by the problems facing most highly internationalised companies with significant exposure to the dollar. Some 20% of sales are dollar denominated (the group is also active in the UK and Japan), so it has been hit by the falling dollar, as seen in the 9-month sales.

These were down 1.7% (€319.6m vs €325.3m) on current exchange rates, but **rose 2.4% on comparable exchange rates** (+6.1% after factoring in a change in accounting treatment for the US subsidiary Ferry Morse).

Cost linked to dollar: €18m in sales

Sales trends

(€m)	6 mths	9 mths	Annual
Consumer	66.5	158.3	199.5
Chg	-3.6%	-0.1%	+1.7%
LfL structure and exchange rates	**+10.3%**	**+9.3%**	**+9.2%**
Trade	84.4	161.1	231.5
Chg	+1.8%	-2.2%	-1.0%
LfL structure and exchange rates	**+6.9%**	**+3.4%**	**+3.2%**
Consolidated	**151.0**	**319.6**	**431.0**
Chg	-1.4%	-1.7%	+0.2%
LfL structure and exchange rates	**+8.3%**	**+6.1%**	**+6.0%**

Crédit Lyonnais Securities Midcap estimates

The fall in the dollar (sales shortfall estimated at €18m at the 9-month stage) actually conceals **good economic performance from the various subsidiaries.**

Consumer division: the French and other European subsidiaries delivered steady sales except for **Flora Frey** (German subsidiary) which had to deal with a tougher market and less favourable weather conditions. **Oxadis,** the main subsidiary, delivered growth of almost 5% after 9-months (satisfactory autumn flower-bulb harvest and excellent spring sales season for the seeds division).

Catch-up effect in 4Q

The appreciable differential between real growth of sales and restated growth primarily reflects the setting up of new sales procedures for the two major customers of the US subsidiary **Ferry Morse,** ie WalMart and Home Depot[1]. This differential stood at €7.4m at end-March 2003 and will be totally absorbed by the end of the year. This will have the effect of boosting reported 4Q sales in the consumer division - we are now looking for reported growth of close on 19%.

The Trade division performed well too: the main subsidiaries delivered growth of between 4% and 7% for the first 9 months of the year, a performance achieved by the European subsidiaries **(Vilmorin, Clause/Tézier)** as well as the US subsidiary **(Harris Moran).**

Confirmation of dynamic professional sales

The US subsidiary Harris Moran posted steady sales growth **(+7% in dollars),** making it one of the best Trade subsidiary performers, with steady trends in the fresh produce market and a satisfactory order book for the processing industry (canners etc).

[1] Completed sales basis with sales of merchandise booked on sale to end consumer rather than on delivery to the distributor

Conversely, the Japanese subsidiary **Kyowa** was hit once again by a drastic slowdown in sales (-8% at comparable exchange rates, -16% at current exchange rates) due to a fairly sharp fall in its trading branch (plastic supplies accounting for two-thirds of sales) and depreciation of the yen.

Sales flat given an exchange loss estimated at €25m

Altogether, we have been more cautious in terms of our full-year sales forecasts (year ending 30th June), not because of any weakness in demand (quite the contrary), but due to continuing negative exchange trends (euro at $1.15). **We believe that the falling dollar will wipe €25m off sales over the full year** (vs €18m after 9 months), or almost 6% of sales.

New sales estimates (excluding services)

(€m)	2001/02	2002/03E	2003/04E	2004/05E
Previous	430.1	444.0	463.0	483.0
Chg	+2.9%	+3.2%	+4.2%	+4.3%
New	**430.1**	**431.0**	**448.9**	**468.3**
Chg.	**+2.9%**	**+0.2%**	**+4.2%**	**+4.3%**

Crédit Lyonnais Securities Midcap estimates

Improvement in profitability confirmed

First-half results give a first indication of possible full-year trends, although should be analysed with caution given seasonal bias[2]. This year will probably not prove to be an exception: an improvement in operating margins is already evident in the first half of the year.

First-half operating profit

(€m)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03E
1H	**-16.4**	**-11.4**	-9.8	**-15.9**	**-14.4**	**-13.1**
2H	52.5	51.2	49.7	51.8	55.3	57.2
Annual	**36.1**	**39.9**	39.9	**35.9**	**40.9**	**44.1**

Crédit Lyonnais Securities Midcap estimates

Improvement in 1H profitability despite a change in accounting methods

With an operating loss down to €13.1m from €14.4m last year, the group has posted an improvement in trading margin in parallel with the higher proportion of sales coming from new variety creation (above 80%) and tight control of the main cost items including personnel expenses. This improvement is further strengthened by a lower level of provisions booked for inventory thanks to good harvests in the autumn.

However, we note that the change in sales procedures mentioned above substantially depressed 1H profitability given the lower level of sales invoiced (reminder €6.7m). Hence, restated for this factor, **EBIT would have come to –€8.7m vs. -€13.1m, a differential of €4.4m.**

Operating margin

(%)	2001/02	2002/03E	2003/04E	2004/05E
1H	-9.4%	-8.7%		
2H	19.5%	19.9%		
Annual	**9.4%**	**10.1%**	**10.4%**	**10.8%**

Crédit Lyonnais Securities Midcap estimates

[2] approximately one-third of sales generated in the first half of the year

Today, all the indicators look to confirm our anticipation of an improvement in full-year margins, especially given that the weather variable tends to be favourable, a factor confirmed during April and the first part of May.

The professional division will continue to be the main contributor but the home garden division will make up some of its lag.

Operating margin by division

	2001/02	2002/03E	2003/04E	2004/05E
Ebit (€m)	40.9	44.1	47.4	51.3
Margin	**9.4%**	**10.1%**	**10.4%**	**10.8%**
Trade	16.1%	17.1%	17.1%	17.3%
Consumer	2.3%	2.9%	3.8%	4.2%

Crédit Lyonnais Securities Midcap estimates

Homogeneous contributions from the professional division

A major contributor to the improvement in Trade margins **(estimated at 1 point)** is the fact that the comparative weight of new variety creation has been kept up **at over 81%.** In addition, the strong sales figures delivered by the main Trade subsidiaries (Vilmorin and Clause/Tézier) reinforce their respective contributions. The Clause/Tézier merger should generate cost savings and better coverage of fixed costs. Despite the depreciation of the dollar, the US subsidiary, Harris Moran, will make a positive contribution, with competitive conditions (Seminis) less tough than last year.

Confirmation of recovery in the Consumer division

The recovery observed in the Consumer division since last year should be confirmed this year **(0.6 point gain in operating margin)** with good results from the US and UK subsidiaries. This division enjoyed a good season, in the mail-order segment and others. The only negative point would be the German subsidiary, which is still struggling with the problem of a high breakeven point in a tough market (bi-polarisation unfavourable to the mid-market positioning of Flora Frey). The division's main subsidiary, Oxadis in France, should confirm an operating margin of between 4.5% and 5%.

Globally, the group should be able to raise margins by almost 1 point. **We are looking for a 0.7 point gain from 9.4% last year to 10.1%.**

The balance sheet is healthy (debt down by almost €20m at the end of the first half) which keeps interest expense under control (control of WCR), **and we believe that net profit could reasonably be expected to rise 12.5% to €22.5m (vs. €20m).**

EPS growth

	2001/02	2002/03E	2003/04E	2004/05E
Attrib net profit (€m)	20.0	22.5	25.6	29.0
EPS* (€)	6.34	7.43	8.11	9.18
Chg	+5.6%	+17.2%	+9.3%	+13.1%

**EPS restated for goodwill and exceptionals*
Crédit Lyonnais Securities Midcap estimates

New sources of growth

Growth based on acquiring additional skills

The group's market share (world leader all segments combined and No. 3 worldwide in the Trade segment) is based on know-how built up over the decades, through **internationally known brands** but also **substantial barriers to new entrants** due to high R&D expenditure.

Research is a lynchpin of perennial growth for the group

As we mentioned above, Trade margins are protected by the **high proportion of new varieties** stemming from R&D carried out by the group over many years. This work aims at developing new varieties to meet the expectations of Trade and Consumer users. Creation of new varieties involves using genetic bases, which undoubtedly constitute the group's main intangible asset.

Perennial growth requires ongoing R&D expenditure (12% to 13% of Trade division sales) just like pharmaceutical companies, which explains the importance of relations between Vilmorin Clause & Cie and the parent company Limagrain. It is also reflected in acquisitions of know-how, as for instance the acquisition of a stake in the Dutch company Keygene.

Through this acquisition, the group obtained a strategic tool in the field of **biotechnology and plant genomics,** with the aim of accelerating the process of developing new varieties. By using molecular marking technology, the group can save itself three years of development, bringing the length of the whole procedure down to seven years.

This operation is just one example - Vilmorin is also keen to acquire brands (eg Geissler, Van Den Berg) or distributors with the aim of strengthening its market share. It recently (March 2003) acquired a distributor in Mexico so as to reinforce its presence (22% market share vs 13%) and narrow the lead between it and the leader Seminis.

Hence Vilmorin's growth is based on acquiring skills (technology), brands and networks that capitalise on its know-how and help optimise distribution.

The difficulties of the world leader Seminis, which have often been commented on, could result in a recomposition of the sector. The Mexican group is currently the object of a recovery plan by the US investment fund, Fox Paine. This plan could involve staggered disposals, which might be of interest to Vilmorin Clause & Cie. Seminis's profitability improved appreciably in 2002, but at the end of the first calendar quarter of 2003, sales were comparatively flat, with the group having halted its policy of dumping.

Asia: an important source of new growth

Vilmorin does not have strong positions in Asia but is keen to boost its presence in this region which is seen as **dynamic and highly profitable.** Penetrating this region is still difficult for cultural reasons, but also because of the existence of two major players, Takii and Sakata (sales of $143m and $115m respectively in seeds - No. 4 and 5 world-wide[3]).

Undeniable potential but the market is still a closed one

The group has been keen to develop positions in this market for several years and has gradually strengthened its positions (it has a 20% stake in Mikado's capital and a 40% stake in Kyowa). The Japanese market is particularly buoyant and profitable given the limited areas available for cultivation compared with the huge numbers of inhabitants.

A presence in Japan is also positive for development and exploitation of new varieties (eg bunching onion, daikon[4]) that might in the longer term find markets in other geographical regions.

Kyowa's current poor performance reflects development difficulties, although they can in part be blamed on the agricultural plastic supplies trading business which depresses overall performances.

Improving profitability will require a substantial reorganisation programme focusing on the sales networks, internal organisation and definition of the business portfolio. The group hopes to redeploy units between Mikado and Kyowa, for example by pooling research stations, which would allow tighter control of overhead costs. This project should take concrete form at end 2003/early 2004.

Closer links with the Israeli company Hazera

The group currently has a 12.5% stake in the capital of the Israeli company Hazera Genetics[5], **but is keen to acquire the 42.4% stake currently held by Polar Investments,** which wishes to pull out.

Motivations behind the deal

This deal, which is currently being discussed, would give Vilmorin Clause & Cie majority control **(54.9% of the capital)** without any obligation to launch a bid for the rest of the capital, given the existence of a shareholders' pact with Hazera's second shareholder (Kibbutzim, with 37%).

It is certain that this deal represents a genuinely good opportunity for Vilmorin, which from the time it acquired its initial stake sought to be involved in close collaboration with the Israeli company, including joint research programmes.

[3] behind Seminis, Syngenta and Vilmorin Clause & Cie
[4] a white radish. We note that broccoli was originally from Asia
[5] this is a cross-holding; Hazera also has stakes in the capital of the Vilmorin and Harris Moran subsidiaries

A number of advantages would accrue from taking control of Hazera:

1. Stronger positions in the tomato market.

2. Integration of a structure with a strong international presence, particularly strong in the Mediterranean basin.

3. **Access to Israeli state-funded research,** a source of future development for development of new varieties.

A strategic acquisition: access to the largest market

The tomato market is one of the largest and most profitable vegetable markets. The group has not hitherto enjoyed strong positions in this market, having focused primarily on other fruit and vegetables such as melons, cabbage, carrots, peppers and zucchini etc.

Hence, this operation would allow Vilmorin to integrate **one of the major players in the fresh tomato market** (60% of Hazera's sales, all tomato varieties combined), giving **Vilmorin world leadership in this market**. The group, which hitherto was primarily involved in the industrial applications segment of the tomato market[6], would then be active in both markets, ie fresh and industrial, for the different tomato varieties.

The terms of the deal

The price of market share

The terms of the operation have not yet been settled. However, the basis of the transaction would apparently be **€25m for 42.4% of the capital, or a global valuation of €59m (1.25x sales)** for an entity posting sales of €47.1m in 2002 but zero profits. This might look rather high but it should be seen in the light of several parameters:

1. The current transaction price is absolutely not comparable to the price paid in 1998. The initial stake of 12.5% was entered in the books at €22.6m, **ie a global valuation of €180m compared to €59m today!** This evidently reflects the price of initial entry, given the merits of the operation described above.

2. With a sales growth target of 10% in 2003 (€51.8m), the price would be equivalent to **1.1x sales** (1.25x on 2002 sales), which is quite reasonable in view of the advantages of this operation (world leadership in the tomato market, access to Israeli state-funded research etc). In addition, Hazera is active exclusively in the Trade segment, which means that its margins are higher.

3. At the time of the initial acquisition, these were at **12%** (vs 4% to 5% for Vilmorin), with Hazera enjoying strong positions in the tomato market, including for instance, a new variety of tomato with a longer shelf life.

However, profitability has been buffeted in the last few years (2001 and 2002); the new tomato variety was affected by a virus which caused loss of market share. Things are now picking up and the company anticipates a return to profitability in 2003 (net margin of around 4%). What's more, stepping up research and sales cooperation agreements will encourage a return to historic levels of profitability, **which would tend to enhance earnings.**

[6] cf Tomatoes '786' for instance

Valuation

Structural strengths

Over and above the traditional valuation methods, which in good or bad times, systematically result in the shares trading at a discount compared to the quality of Vilmorin Clause & Cie's fundamentals, we should factor in the operations that the group is currently tackling, which reinforce **its status as a acknowledged leader in a resolutely international market.**

Perennial and profitable growth

These new developments mentioned above (capitalisation of R&D, which guarantees high entry barriers for new players, access to the Asian market which broadens the group's presence to include new sales regions other than Europe and then later the US, and finally the ongoing talks to acquire majority control of the Israeli company Hazera…) should guarantee **perennial growth** (+2% for the market, +5/7% for the group) along with **an improvement in profitability** (high contribution from the Trade segment, synergies between the professional and home garden segments, ROE close to 9%, ROCE close to 13%).

ROE/ROCE

(%)	2000/01	2001/02	2002/03E	2003/04E	2004/05E
ROE	7.6%	7.6%	8.8%	9.1%	9.8%
RoCE	9.4%	10.5%	12.1%	12.9%	13.8%

Crédit Lyonnais Securities Midcap estimates

The group has the means to finance growth

The group also has an already healthy balance sheet which is improving even further. **Gearing of 25.7% on 30th June 2002 is estimated to fall to under 20% on 30th June 2003.** True, the end of Vilmorin's financial year (end-June) corresponds to a period in which cash requirements tend to be low; still, this structural improvement in the balance sheet can also be observed in the intermediate period (1H balance sheet showing an €18m reduction in debt). This gives the group plenty of leeway to finance later developments, with the possibility of mixed financing (FCF, recourse to borrowing, raising cash on the market etc).

Gearing and interest cover

(€m)	2000/01	2001/02	2002/03E	2003/04E	2004/05E
Shareholders' funds	287.8	283.0	296.7	311.7	329.6
Net debt	111.8	72.8	58.1	48.0	35.6
Gearing	**38.8%**	**25.7%**	**19.6%**	**15.4%**	**10.8%**
Ebit/interest expense	**5.4**	**4.7**	**7.7**	**8.6**	**10.6**

Crédit Lyonnais Securities Midcap estimates

Despite some cyclical trends in consumption of cash (depending on production and delivery periods), the group maintains excellent interest cover.

Valuation methods

Target price between €94.6 and €103.6

The peer comparison approach is relatively unfavourable **(target price of €84.3)** given that the sample is based on midcap food manufacturing stocks. This is a default categorisation: if we were to take only stocks directly involved in production of seeds (Syngenta, Bayer Crop Science and Monsanto etc, but not Seminis and Sakata given that their multiples are not very relevant), the valuation would be more flattering **(€100.2).** However, these stocks are also active in other segments, which means that it is necessary to weight the valuation multiples.

Peer group of agri-food/chemical stocks[7]

	----P/E----		----P/E rel---		---P/CF---		--P/sales--		--EV/sales--		--EV/Ebit--		-EV/Ebitda-	
	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	03/04	02/03	¾
Food Manuf	9.9	8.6	0.8	0.9	7.0	6.0	0.37	0.35	0.51	0.46	7.9	6.9	5.2	4.6
Chemicals	16.5	14.4	1.0	0.95	6.0	5.3	0.83	0.76	1.10	0.99	12.6	10.2	5.9	5.1
Vilmorin	10.7	9.8	0.8	0.9	8.4	9.5	**0.59**	**0.56**	**0.72**	**0.67**	7.1	6.3	6.2	5.5

Crédit Lyonnais Securities Midcap estimates

The only other comparable pure player is Seminis, which given its earlier difficulties and recent recovery does not offer relevant multiples over the longer term. Conversely, ongoing talks for a possible takeover by the US investment Fund Fox Paine on the basis of $222m reflects the following multiples: around 0.5x 2002 sales and **1.4x enterprise value/sales** (reflecting the size of the group's debt).

By way of comparison, Vilmorin looks to be appreciably undervalued on the basis of profitability alone.

Discounted earnings flows would allow us to factor in our assumptions of **average EPS growth of 12.4% for the period from 2002 to 2006** to be compared with an average of almost 10% for the sector. This throws up a slightly more ambitious target price of **€88**, which factors in a benchmark P/E for the food manufacturing sector (9.9x) that is not really applicable to the group. On the basis of an average P/E (food manufacturing and chemical players) of 13.2, the target price would be **above €100.**

If we look at historic multiples (average 1995-2002), the stock's discount becomes even more flagrant, with a target price **(€94.7)** similar to our global target price.

Historic multiples

	P/E	P/E rel	P/CF	P/sales	EV/sales	EV/Ebit	EV/Ebitda
Historic	13.3	0.8	9.3	0.65	0.89	9.1	8.4
Current	10.7	0.8	7.1	0.59	0.72	7.1	6.2

Crédit Lyonnais Securities Midcap estimates

These historic multiples call for two comments. They mostly correspond to an average between food manufacturing multiples and those of the seed specialists and/or chemical players included in the peer group. In addition, we believe that they constitute minimum levels given the status acquired by Vilmorin over the last few years.

Given its status as leader and its very steady performances, Vilmorin actually deserves a premium to the market, or a P/E relative closer to or higher than 1x.

[7] Food manufacturing peer group: Bonduelle, Brioche Pasquier, Fleury Michon, Laurent Perrier, LDC, Sabaté-Diosos, Vranken – Chemical peer goup: Syngenta, Bayer Crop Science, Monsanto.

Perennial generation of FCF

Finally, a classic DCF approach provides a target more in line with the group's characteristics **(€111.2),** ie **its capacity to generate FCF (€20m on average).** In addition, basing our argument on FCF generation over 10 years is ideal for reflecting the time it takes to develop new varieties. Moreover, the assumptions used are extremely conservative, i.e. a perpetual growth rate of 1% (required rate of return of 8.6%).

Combined valuation

Combined valuation

Methods	Valuation (€m)	Price per share (€)
Comparisons	269	84.3
Discounted earnings	281	88.0
Historic ratios	302	94.7
DCF	355	111.2
Synthèsis	**302**	**94.6**
Upside		**+19%**
Acquisition of royalties	355	111.4
R&D multiples	449	140.8
Synthesis	**330**	**103.6**
Upside		**+30%**

Crédit Lyonnais Securities Midcap estimates

Upside of between 20% and 30%

On average, our target comes out at €94.6, for upside potential of 19%. To better reflect the group's intrinsic qualities, we have used two other more asset-based approaches, which better reflect the value of intangible assets. These assets (brands, patents, genetic bases) are valued at book value without reference to their true market value.

The so-called royalty acquisition method makes it possible to evaluate the group's asset value, while straight valuation of the R&D budget (based on a ratio that is supposed to reflect development deadlines) reflects recurrent investment in fundamental and applied research.

These methods generate **a target price of over €100 (€103.6) or upside potential of 30%.** On this basis, the group would still display conservative multiples.

Multiples based on target prices

Target	------P/E------		------P/E rel------		------P/CF------		-----EV/sales-----		-----EV/Ebit-----	
(€)	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
94.6	12.7	11.7	0.93	1.05	8.5	7.7	0.83	0.78	8.2	7.4
103.6	14.0	12.8	1.02	1.15	9.3	8.5	0.90	0.84	8.8	7.9

Crédit Lyonnais Securities Midcap estimates

These multiples are even more attractive given that Vilmorin's growth prospects should be confirmed by favourable news flow as we go forward.

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We draw the reader's attention to the following Credit Lyonnais Securities Midcap has concluded liquidity agreements with Vilmorin Clause & Cie in which it has undertaken to produce and distribute research reports on the company, depending on news flow but at least once a year, and to send such reports to the company before publication. However, Credit Lyonnais Securities Midcap shall in no way be bound by any comments the company may make. The company were therefore sent a copy of this report before publication.