

AgroGeneration (+)

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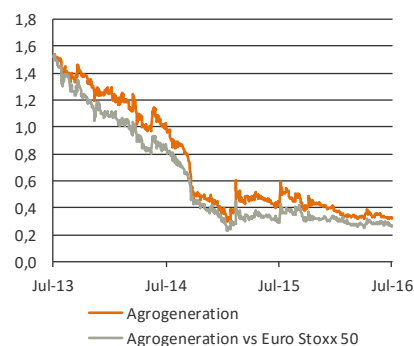
Opinion	BUY
Target price	0,71€ vs 0,68€
Potential	+115%

in € / share	2015	2016e	2017e	2018e
diluted EPS	-0,01	0,04	0,09	0,12
Chg 1 year	n.s.	n.s.	+125,4%	+43,2%
Revisions	n.s.	+28,6%	+24,2%	-22,2%

ISIN	FR0010641449
Ticker	ALAGR:FPPA
DJ sector	Food Products Industry

Price	€0,33
Nb of shares (m)	98,5
diluted nb of shares (m)	212,1
Market cap (m€)	33
Float (m€)	28

	1m	3m	1 year
Absolute chg	-2,9%	+0,0%	-25,0%
Relative chg	-3,0%	+5,8%	-6,4%



	déc-31	2015	2016e	2017e	2018e
PE	n.s.	8,3x	3,7x	2,6x	
EV/CA	2,2x	1,6x	1,1x	0,7x	
EV/EBITDA	6,3x	5,5x	3,4x	2,0x	
EV/EBITA	11,1x	8,3x	4,5x	2,4x	
FCF yield	0,1x	0,1x	0,3x	0,4x	
Yield	0,0x	0,0x	0,0x	0,0x	
Net debt/EBITDA	1,8x	1,6x	0,6x	-0,1x	

Future harvests

In our research of last July, we highlighted the changes effected since the merger of AgroGeneration and Harmelia in 2013 and especially the excellent cost control in a difficult environment due to the highly deteriorated situation in Ukraine and the very low price for agricultural commodities. FY2015 strengthened AgroGeneration's ability to post solid results in this context. Though no significant improvement is expected during the current year, we are seeing the beginning of a recovery in agricultural commodity prices from 2017, which, coupled with completely controlled costs, will have a positive impact on the results. BUY rating with a share price objective of €0,71 (vs €0,68).

- The situation in Ukraine is slowly changing geopolitically. The Minsk 2 agreements were extended one year and the status quo will likely continue, since the different parties have trouble finding common ground. In spite of this, the economic situation is gradually stabilizing. Since the Ukrainian government has shown its willingness to fight corruption, the IMF will continue to finance the country. The local currency is stabilised and inflation has dropped substantially.
- This deteriorated economic situation has substantially impacted the Ukrainian banking and financial system, limiting liquidity. AgroGeneration needs short-term loans to finance its working capital requirements during its crop year. The Ukrainian bank Alfa-Bank finances a large portion of the required \$35 million, while other banks are beginning to lend. At the same time, AgroGeneration sells part of its harvests through future contracts to limit the amount of its crop loans.
- The second external factor affecting AgroGeneration is continued low prices for agricultural commodities. Whereas we anticipated a rebound starting in 2016, commodity prices declined at the beginning of the year. A rebound is inevitable over the medium-term due to demand that should grow, but in the short-term the supply remains abundant due to good harvests everywhere in the world the past few years.
- To cope with this situation, which remains difficult, AgroGeneration is optimising its cost structure. FY2015 showed its capacity to generate satisfactory results in spite of the continuing decline in commodity prices. The current year should record similar trends. This optimized cost structure will encourage a rebound in results as soon as agricultural commodity prices start to move upwards.
- Assuming that the agricultural commodity prices will rebound by 2020 to a level equal to that of 2013 (before the drop) and integrating the positive leverage effect related to controlled costs, we adjust our 2016 and 2017 forecasts with 2016 revenue of €62.4m (vs. €58m) and 2017 revenue of €75.6m (vs. €70m) and 2016 EBIT of €11.7m (vs. 12.5m) and 2017 EBIT of €19.3m (vs. €16.5m). Our valuation based on a DCF goes from €0.68 to €0,71.
- Another way to take a position in AgroGeneration is the OSRANE convertible bond issued at the beginning of 2015. It offers an 8%/year interest rate payable twice a year (1 April and 1 October) and will be reimbursed with 192 new shares on 1 April 2019. OSRANE holders can convert their bonds in advance with each dividend payment, bearing in mind that they benefit from a bonus of four shares/OSRANE for each remaining quarter. The OSRANE is trading at €73.

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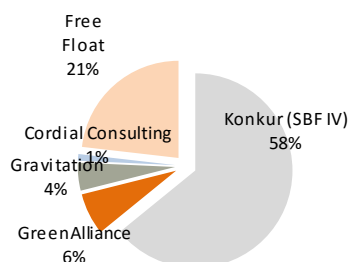
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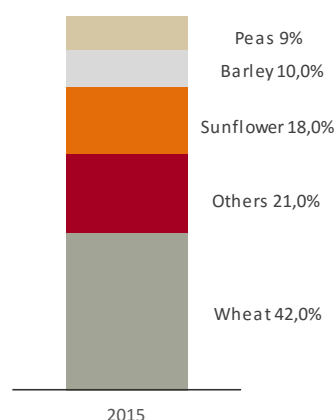
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Financial data

Shareholders	
Konkur (SBF IV)	58%
GreenAlliance	6%
Gravitation	4%
Cordial Consulting	1%
Free Float	21%



Répartition des récoltes 2015 (ha)	
Wheat	42,0%
Sunflower	18,0%
Barley	10,0%
Peas	9,0%
Others	21,0%



2015

Data per share	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
published EPS	-0,05	-0,24	-0,08	0,04	0,14	0,23	0,33	0,21
diluted EPS	-0,05	-0,24	-0,01	0,04	0,09	0,12	0,17	0,21
<i>Var/consensus</i>	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Net asset	0,79	0,07	0,71	0,74	0,89	1,11	1,45	0,87
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

Valuation ratios	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
P/E	n.s.	n.s.	n.s.	8,3x	3,7x	2,6x	1,9x	1,5x
EV/Revenue	3,6x	1,9x	2,2x	1,6x	1,1x	0,7x	0,4x	-0,1x
EV/EBITDA	n.s.	6,0x	6,3x	5,5x	3,4x	2,0x	0,8x	-0,1x
EV/EBITA ajusted	n.s.	9,4x	11,1x	8,3x	4,5x	2,4x	1,0x	-0,1x
op. before BFR FCF yield	n.s.	0,2x	0,1x	0,1x	0,3x	0,4x	0,6x	0,8x
operational FCF yield	0,0x	0,3x	0,0x	0,1x	0,2x	0,3x	0,5x	0,7x
Yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

EV (€m)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Share price in €	1,52	0,92	0,44	0,32	0,32	0,32	0,32	0,32
Capitalization	123,3	46,0	91,2	67,9	69,8	69,8	69,8	69,8
Net debt (OSRANE incl.)	71,6	77,2	35,5	29,3	16,5	-4,2	-33,9	-78,2
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0
Provisions	0,7	0,0	0,2	0,2	0,2	0,2	0,2	0,2
Others	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0
EV	195,5	123,2	126,9	97,3	86,4	65,7	36,1	-6,2

P&L (€m)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Revenue	53,7	64,6	58,9	62,4	75,6	88,1	102,9	114,9
<i>chg.</i>	63,7%	20,3%	-8,9%	6,1%	21,0%	16,7%	16,7%	11,7%
EBITDA	-9,8	20,4	20,0	17,8	25,5	33,5	43,7	51,9
EBITA ajusted	-16,8	13,1	11,4	11,7	19,3	27,4	37,6	45,8
<i>chg.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>-13%</i>	<i>+2%</i>	<i>+65%</i>	<i>+42%</i>	<i>+37%</i>	<i>+22%</i>
EBIT	-16,8	13,1	11,4	11,7	19,3	27,4	37,6	45,8
Financial result	-3,5	-36,2	-19,6	-8,0	-5,1	-5,0	-4,9	-0,1
Taxes	-0,2	0,0	0,2	0,0	0,0	0,0	0,0	0,0
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0
Net profit	-20,5	-23,1	-7,9	3,6	14,2	22,4	32,7	46,6
Net profit corrected	-20,5	-23,1	-7,9	3,6	14,2	22,4	32,7	46,6
<i>chg.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>+289%</i>	<i>+58%</i>	<i>+46%</i>	<i>+40%</i>

Cash flow statement (€m)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Net profit	-22,6	-23,1	-7,9	3,6	14,2	22,4	32,7	46,6
Depreciations & amortization	-9,2	-7,3	-7,0	-6,2	-6,2	-6,2	-6,2	-6,2
Other non cash items	2,6	27,0	6,5	0,0	0,0	0,0	0,0	0,0
op. before BFR FCF	-10,8	11,2	5,6	9,8	20,4	28,5	38,9	52,8
Change in WCR	13,5	0,9	-4,2	-1,4	-5,1	-4,8	-5,7	-4,6
operational FCF	2,7	12,1	1,4	8,4	15,3	23,7	33,2	48,2
Acquisitions/disposals	-4,3	-3,0	-2,6	-2,2	-2,5	-3,0	-3,5	-3,9
Capital increase	0,1	0,1	1,9	0,0	0,0	0,0	0,0	0,0
Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Others	-0,8	-11,0	-2,2	-1,2	-1,2	-1,2	-1,2	-1,2
published FCF	-2,3	-1,8	-1,5	5,0	11,6	19,5	28,5	43,1

Balance sheet (€m)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
Current assets	94,3	63,6	81,4	77,5	73,8	70,7	68,0	65,8
WCR	45,0	22,2	43,1	38,6	35,0	31,8	29,2	26,9
Equity group share	28,4	20,2	38,8	40,2	45,3	50,1	55,8	60,4
Minorities	51,1	6,6	69,5	73,1	87,3	109,7	142,4	189,0
Provisions	0,0	0,0	0,2	0,2	0,2	0,2	0,2	0,2
Net debt	71,6	77,2	35,5	29,3	16,5	-4,2	-33,9	-78,2

Financial ratios (%)	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
EBITDA/Revenue	n.s.	31,6%	34,0%	28,6%	33,7%	38,0%	42,5%	45,2%
EBITA/Revenue	n.s.	20,3%	19,4%	18,7%	25,5%	31,0%	36,5%	39,8%
NR corrected/Revenue	n.s.	n.s.	n.s.	5,8%	18,8%	25,4%	31,8%	40,6%
WCR /Revenue	53,0%	31,3%	66,0%	64,4%	59,9%	56,8%	54,2%	52,6%
ROCE excl. Incomp/ GW	-21,6%	21,3%	14,8%	14,8%	22,9%	30,8%	39,7%	46,1%
ROE corrected	n.s.	n.s.	n.s.	5,0%	16,3%	20,4%	23,0%	24,7%
Net debt/Total equity	140,2%	1175,0%	51,1%	40,1%	18,9%	-3,8%	-23,8%	-41,3%
Net debt/EBITDA (en x)	n.s.	3,8x	1,8x	1,6x	0,6x	-0,1x	-0,8x	-1,5x

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1 – Two risks still present but limited

The situation in Ukraine and the price of commodities penalised AgroGeneration in 2015

Two ongoing external factors affected AgroGeneration in 2015. On the one hand, the difficult political situation contributed to the deterioration of the country's economy and to a sharp fall in the local currency and above all an increased scarcity and an increased cost of bank loans. On the other hand, agricultural commodity prices continued to fall. These two factors are stabilizing in 2016 and should no longer penalise AgroGeneration significantly in the future, even if the risk isn't nil.

1.1 Stabilised country risk and a slow economic turnaround

Ukraine's political and economic situations are closely related. The substantial deterioration in the economic situation in 2013, while the level of corruption was high, led to the fall of the pro-Russian President Yanukovich and a rapid deterioration in the political situation. This situation led to the annexation of Crimea and the conflict in the Donbass, which in turn accelerated the deterioration in the economic situation in 2015. The beginning of 2016 shows a stabilisation in the situation and the ongoing support of the IMF.

1.1.1 A fragile but stabilised situation.....

Driven by a deteriorated economic situation and by a very high level of corruption, the Ukrainian crisis began in November 2013 following the Ukrainian government's decision not to sign the association agreement with the European Union. Huge demonstrations broke out, which led on 22 February 2014 to the flight and then destitution of the president, Viktor Yanukovich, who was replaced by Oleksandr Turchynov until the elections of June 2014 and the election of Petro Poroshenko. A new government was established.

In response, Crimea proclaimed its independence and voted, via an illegal referendum, to be united with Russia, thereby causing an international diplomatic crisis. At the same time, protest demonstrations by anti-government groups occurred in the Ukrainian regions of Donetsk and Lugansk in Donbass. They escalated into a form of armed conflict, at the initiative of the Russians, which was partially resolved on 12 February 2015 by the Minsk 2 agreements, which called for a cease fire while confirming the Ukrainian frontiers.

These agreements, which call for restoring of borders followed by local elections in Donbass, were supposed to terminate at the end of 2015, but were extended to the end of 2016. They call for restoring Ukraine within its borders while the question of Crimea remains outstanding. They are generally respected, though isolated fighting breaks out regularly, adding to the death toll.

Nevertheless, the separatists hold an advantage in the zones they occupy and elections seem hard to implement without neutral observers. The pro-Russian zones remain unstable and Russia continues to use this to make its voice heard in the region.

None of the parties involved in the Minsk 2 agreements would benefit by seeing things worsen. The risk of a new deterioration in the geopolitical situation is limited, even if for now there is no apparent solution. Europe would like to settle the situation because the sanctions against Russia are costly but it is difficult to do it at the expense of Ukraine.

It is likely that the status quo will continue, i.e., a stalemated conflict with none of the parties involved able to make a move.

The geopolitical situation remains fragile

1 – Two risks still present but limited

1.1.2 which has a major impact on the economic situation....

If the risk of a new deterioration in the geopolitical situation is unlikely, all of the events have had very negative impacts on Ukraine's economic situation.

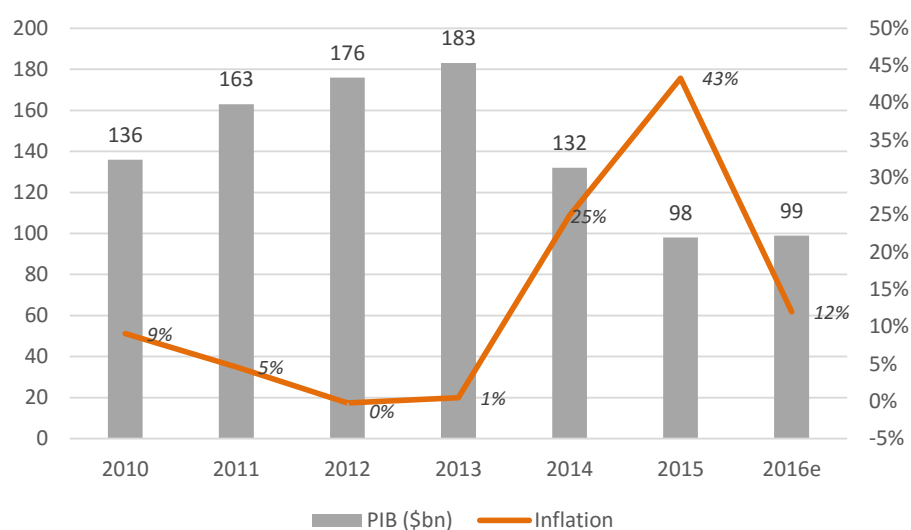
▪ Impact on GDP and inflation

The political changes and, in particular, the deterioration in relations with Russia have hindered the economy. GDP fell 25.7% to \$98 billion in 2015. Weak growth of 1% to 2% is projected for 2016. Inflation should be contained to about 12%.

The political crisis has affected the mining sector and access to energy. More than 60 mines have had to cease operations and 35 other mines are controlled by separatist rebels. In the energy sector, Ukraine has accepted to reimburse its gas debt to Russia and has transitioned to a prepayment system. Energy prices increased +56% in May 2014 and +285% in April 2015.

The crisis had a major impact on the Ukrainian economy

Change in GDP and inflation in Ukraine



Source : index.minfin.com.ua

Debt has risen to 95% of GDP. The economic crisis has also had a profound social impact with an increase in the unemployment rate (9.4% in 2014 and 9.8% in 2015).

▪ Impact on exchange rates

From 1 January to 31 December 2014, the Ukrainian hryvnia fell 49% against the dollar. This decline continued in 2015 with a drop of -25%. In 2016, after another fall of approximately -10% in January, the exchange rates have been relatively stable, as the hryvnia has risen from its lowest levels in February and March.

1 – Two risks still present but limited

Change in the exchange rate between the euro and the hryvnia



Source: Exchange Rates

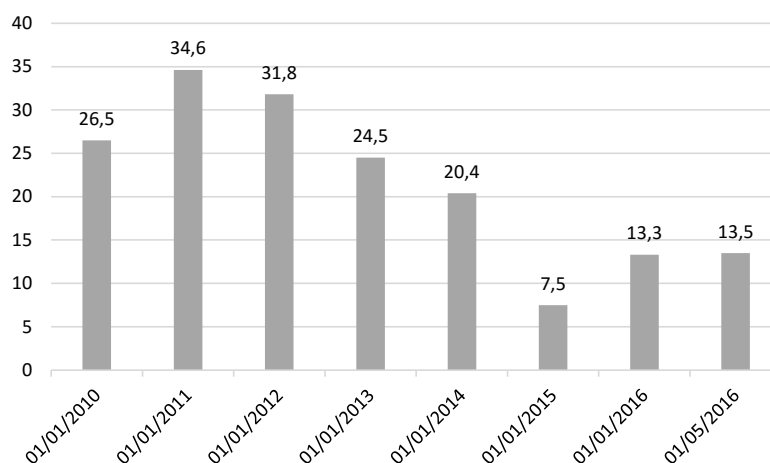
Impact on liquidity

The national bank of Ukraine has implemented restrictions on foreign currency purchases on the interbank market and imposed the mandatory conversion of revenues in foreign currencies into Ukrainian hryvnia. The international rating agencies have lowered the rating of Ukrainian sovereign debt. The combination of these events has resulted in a deterioration in liquidity and a tightening of credit conditions, when credit is available.

Ukraine's international reserves, which decreased rapidly due to the crisis, started to turnaround at the beginning of 2016.

The crisis had a major impact on liquidity in Ukraine

Change in Ukraine's international reserves (\$ billions)



Source: National Bank of Ukraine

1 – Two risks still present but limited

This has created a liquidity crisis in the Ukrainian banking sector for dollar denominated loans and a decrease in funding.

Ukraine's financial and banking infrastructures are less developed and less regulated than in other countries. 72 banking institutions failed during the crisis, which has appreciably reduced the banking system's funding capabilities.

Furthermore, foreign financing and domestic savings are limited. Consequently, companies are confronted with major liquidity problems.

The IMF's financing is important to stabilise the situation

- **IMF's major role**

The improvement in the Ukrainian situation is largely due to a 4-year \$17.5 billion aid plan granted by the IMF in March 2015 so Ukraine could cope with the economic recession and separatist insurrection in Donbass (financing of military operations and loss of control of industrial regions in the East). This aid was conditioned on implementing economic reforms and anti-corruption measures. It involved a third line of credit. The two previous plans of \$16.4 billion (2008) and \$15.1 billion (2010) had been interrupted precisely because the reforms required by the IMF had not been implemented.

The IMF paid \$6.7 billion of this plan in 2015. At the end of 2015, the IMF disregarded the rule prohibiting it from financially assisting a nation that had defaulted via-a-vis another country (Ukraine had not reimbursed \$3 billion of debt it owed Russia).

But, in February 2016, the director of the IMF, Christine Lagarde warned that it would be difficult to continue to finance Ukraine without "significant efforts" by Kyiv to combat corruption and reform the governance.

After long discussions and the arrival of a new government, with the outgoing Prime Minister Arseniy Yatsenyuk being replaced by Volodymyr Groysman, the IMF announced in May that it had concluded a preliminary agreement with the authorities on a roadmap leading to the resumption of aid (release of a new \$1.6 billion loan in July 2016).

1.1.3 ... and on AgroGeneration

The change in the situation in Ukraine impacts AgroGeneration at two levels: the geopolitical risk that can hang over the company's daily operational activity in the very hypothetical issue that the farms could end up in the conflict zone and especially the effect of the economic crisis, which results from this deteriorated political situation.

- **No impact on the daily operational activity**

As we mentioned in our previous study, AgroGeneration is present in zones far removed from the conflict, even if at the beginning of 2014 some farms near the East cluster (Kharkiv) were temporarily close to the combat zones. Today the risks are excluded and all AgroGeneration farms continue their activity normally.

The crisis has no impact on AgroGeneration's operational activity

1 – Two risks still present but limited

- **Different impacts of the variations in exchange rates**

The variations in exchange rates had impacts at several levels:

- ✓ Debt, which is primarily in dollars, resulted in significant foreign exchange losses in 2014 and 2015. Part of these losses will have no impact on cash. This concerns in particular inter-company loans, which are not intended to be reimbursed. On the other hand the losses related to bank loans will generate a cash loss when they are reimbursed if the hryvnia has not recovered, which seems unlikely. Since the credits granted by Alfa-Bank are revolving credits, there was no cash impact from the loss recorded on the 2015 income statement.

The fall in the hryvnia had a negative impact on 2015 results

AgroGeneration exchange losses in 2014 and 2015 (€k)

	2014	2015
Losses related to bank loans and other debt	9 086	5 502
Losses related to the inter-company loans and at interests	5 774	3 716
Losses related to the redemption of Konkur bonds with OSRANE		1 641
Unrealised foreign exchange gains/losses	14 860	10 859
Realised foreign exchange gains/losses	12 316	2 491
Total foreign exchange gains/losses	27 176	13 350

Source: Company

- ✓ Operations, where a drop in the hryvnia had a favourable impact. Sales are denominated in dollars, but some costs are paid in hryvnias (most salaries and land leases), even if other costs (phytosanitary products, seeds and fertilizers) are partially paid in dollars. Since export sales are made at higher prices, the impetus to increase these sales should have a positive impact. It is interesting to note that there is a kind of natural "hedge," such that the favourable exchange impact on EBITDA from a fall in the hryvnia offsets the "cash" loss on the debt.
- ✓ Concerning operations, one should also take into account the impact of the variation of the dollar against the euro. Indeed, since most invoices are issued in dollars, if the dollar appreciates vis-à-vis the euro, this has a positive impact on the sales whereas the costs are in hryvnia, which amounted to €2.9 million in 2015. But this phenomenon should not be repeated in 2016 where we might even see a slightly negative impact.

1 – Two risks still present but limited

■ Measures to limit the liquidity risk

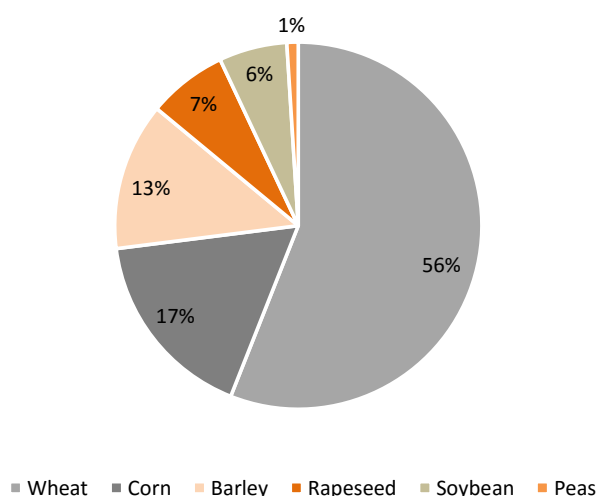
One of the characteristics of agricultural production is its seasonality. Costs and WCR reach their peak in the spring, before the harvest. Cash inflows are concentrated in the second half of the year, after the harvest. For the two last crop years, \$35 million had to be obtained to finance this WCR.

To deal with this problem, AgroGeneration resorted to several solutions.

- ✓ Today Alfa-Bank, an Ukrainian bank with finances most of AgroGeneration's crop loans in the form of a \$35 million revolving credit allocated in successive 15% tranches.
- ✓ The willingness to turn to other banks, especially subsidiaries of French banks. Crédit Agricole has started to lend to AgroGeneration again, even if the amounts in play remain limited (on the order of €3 million).
- ✓ The increase in export sales makes it possible to increase future sales. On the 2016 harvests, 35% should be realised on exports, including \$10 million already sold to Quadra Commodities and \$2.5 million to Kernel. The forward contracts mean market and price conditions can be optimised. Ukraine's VAT subsidies on non-exported harvests have been eliminated, which also explains the desire to export more. The group would like to eventually realise 50% of its sales in exports.

To limit its liquidity problems, AgroGeneration makes forward sales

2015 breakdown of exports by type of crop (% of tons)



Source: Company

- ✓ Lastly, increase equities and working capital. This has already been completed via the issue of OSRANE bonds and should continue through the transfer of profits to reserves.

1 – Two risks still present but limited

Agricultural commodity prices continued to fall in 2015

1.2 Commodity prices close to a floor

Over the long-term, all of the fundamentals argue in favour of an increase in demand for agricultural commodities and therefore an increase in their prices, since supply is insufficient to satisfy demand. But, in the short-term, these prices remain depressed and have dropped sharply due to a substantial increase in supply, sustained by excellent harvests around the world. However, we believe that after two years of sharp decreases, prices are close to a low point and should gradually turn around at different rates depending on the crops.

1.2.1 Long-term trends in favour of an increase in demand and prices....

Agricultural commodity prices result from an equilibrium between supply and demand. Yet, several underlying trends argue in favour of an increase in demand for agricultural materials.

- **Population growth**

The world population should reach 9 billion inhabitants by 2050 vs. 7 billion today. In addition, it will be necessary to do a better job of feeding people, given that more than one tenth of the current population is underfed. All things considered, in the coming decades it will be necessary to feed an additional population equivalent to eight times the current population of the United States.

- **The increase in revenue per inhabitant**

If today developing countries are the main players in the growth in consumption per inhabitant, the growth in revenue per inhabitant of emerging economies will be triple that of developed nations and lead to an increase in their demand for meat, milk products and vegetables, which will require more intensive use of the land.

- **High-speed urbanisation**

The world urban population should increase 20% over the next decade, primarily due to the expansion of cities in developing countries. The lifestyle of urban populations stimulates food consumption per inhabitant. Furthermore, the diversion of water and land for urbanisation purposes affects the sustainability of traditional farming activities.

1.2.2 ...and an expected decrease in supply

The supply of agricultural commodities should decrease due to:

- **A worldwide shortage of arable land**

This is related to the population growth and the increased urbanisation. According to FAO estimates, worldwide availability of arable land per inhabitant decreased from approximately 0.4 hectares in 1962 to less than 0.2 hectares today. These land limitations mean that future increases in the agricultural supply will come primarily from increases in productivity.

Food habits are not the same in cities

1 – Two risks still present but limited

- **Slowdown in the growth of agricultural productivity**

Agricultural productivity will continue to be a driving factor in agricultural commodity production, but it is already in a slowdown phase due to:

- ✓ the lack of fertile land, with newly cultivated land offering lower productivity;
- ✓ increased competition for water, with cities demanding increasing amounts with the rise in urbanisation;
- ✓ climate change, which according to IPFRI will be a major challenge for sustainable growth in productivity and yields in the agricultural sector.

- **Environmental degradation**

Pollution and erosion limit the potential for higher yields and gains in agriculture.

Since there is little potential for supply growth in developed countries, a majority of the new demand for agricultural commodities will have to be met by suppliers in the emerging markets. According to the FAO, whereas net world agricultural production should increase nearly 2% per year until 2019, it forecasts that production in OECD countries will only increase 1%.

The annual growth in agricultural production in Ukraine is estimated at 3%, the second highest growth rate in the world after Brazil.

1.2.3 Volatile short-term agricultural commodity prices

In spite of the favourable long-term outlook, short-term agricultural commodity prices result from an equilibrium between supply and demand in a thin market, since a very limited portion of these commodities are traded on world markets. With the slightest incident that causes a modest variation in supply, prices fluctuate substantially (King's law).

- **Supply is determined by the seasonality of production:** this seasonality entails a time lag between demand and supply. The agricultural producer can only adapt its level of production to market demand after the fact;
- **World agricultural markets are thin:** less than 20% of world cereal production (wheat, rice, corn) is traded on world markets; the rest is consumed in the producing countries. As a comparison, the proportion would be approximately 66% for oil. In the event of a 5% decline in world cereal production, the producing countries give priority to their domestic market and take this 5% from the quantities intended for export, which has a major effect on the prices set by world trading markets. Conversely, if a country's supply exceeds its domestic consumption as at present, especially in the United States, prices drop. This thinness amplifies the effects of a production variation in a major exporting country on the price of the agricultural commodity concerned;

The supply of agricultural commodities should decrease

1 – Two risks still present but limited

- **Demand is price inelastic** because basic food products are non-substitutable staple products. On the contrary, supply can see sharp variations related to climate conditions and plant diseases or conversely, as since 2013, excellent harvests around the world.
- **The ‘financialization’ of agricultural commodities has accelerated** over the past 10 years (forward contracts, derivative products, options) and increased the volatility of prices since the middle of the 2000s..

And yet since mid-2013 several factors have contributed to the slump in agricultural commodity prices:

- **An increase in supply**

No unpredictable weather conditions have affected crops and harvests have been excellent in the United States. Agricultural producers, attracted by the very high prices reached in 2011-2012, increased the planted areas. Harvests were abundant and stocks were high at the end of 2015, especially for wheat and corn;

- **World economic growth down**

World economic growth has averaged 3% for the past 7 years, i.e., 1 point less than during the preceding years, which has resulted in a slower increase in demand for agricultural products, even if the fast-growing Asian countries will continue to represent the largest share of additional consumption, while the demographic and revenue growth in Africa will result in an increase in total consumption. The strong growth in demand from China at the beginning of the 2000s has slowed down as domestic production has taken over;

- **Stagnating demand for biofuels**

The emergence of biofuels and other industrial uses has played a major role in the growth in demand for cereals during the last decade. The use of cereals like corn to manufacture biofuels nearly tripled between 2004 and 2014. The quantity of cereals other than wheat used to produce biofuels increased nearly 40% during this decade. The drop in the price of oil resulted in a decrease in the growth of biofuels. It is limited primarily to the portion of ethanol (made from corn) in E10 fuels.

Agricultural commodity prices result from an equilibrium between supply and demand in a thin market

1 – Two risks still present but limited

- Expected change by type of crop
 - ✓ Cereals

Cereal prices have dropped significantly

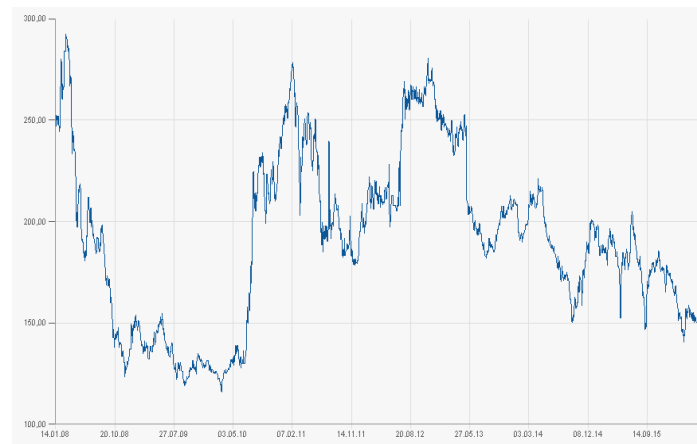
The 2014 and 2015 crop years were characterised by abundant supply. Successive record harvests in the United States and higher than average yields pushed cereal stocks to record levels, which lowered prices at the beginning of 2016 to the lowest levels seen over these past years.

Change in wheat and corn prices over 1 and 5 years

Wheat price (one year)



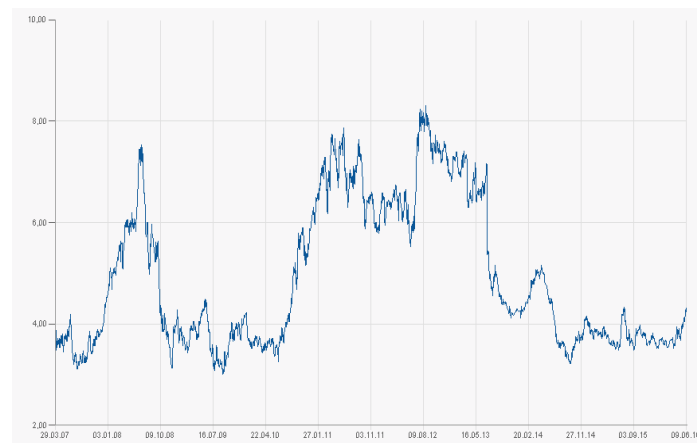
Wheat price (5 years)



Corn price (one year)



Corn price (5 years)



Source : finances.net

Wheat prices should remain under pressure, as the excellent harvests expected in the United States, Europe and Russia offset the declines in Brazil and Mexico. Year-end stocks have been revised upwards by 21 million bushels to 1050 million, the largest stock in 29 years.

On the other hand, corn should benefit from the unfavourable outlook in Brazil due to the drought, which has affected some zones and the cold that has settled into the Parana region. In France, the bad weather conditions have impacted crops. In the United States, farmers are keeping a watchful eye on El Nino.

Barley remains stable while the weather conditions in Europe are not favourable.

1 – Two risks still present but limited

According to the FAO, by 2024 world cereal consumption should grow by 388 million tonnes to 2,786 million tonnes. Wheat consumption should increase 13% while continuing to be used primarily for human consumption. The use of wheat in animal feed should increase in China, Russia and the European Union. The other cereals are primarily intended for animal feed and represent more than two thirds of the increase in world consumption. All in all, cereal trading should grow slightly faster than production (1.6% annually vs. 1.3%).

Ultimately, the change in prices will be determined by whether unfavourable climate events occur in producing regions.

✓ Oilseeds

Oilseed prices also decreased in 2014 and 2015

Like cereals, the 2014 and 2015 crop years were favourable to world oilseed production, which led to record levels and falling prices. Soy production increased faster than rapeseed and sunflower seed production.

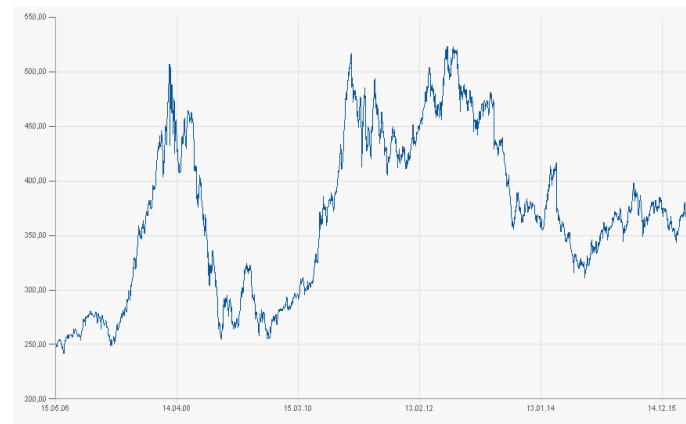
Trends are more favourable in 2016. Rapeseed benefits from less production in Canada. Soy is favoured by fewer farms in Brazil, USA, Uruguay and China. Otherwise, the sharp increase in palm oil prices affected by El Nino has favoured the increase in oilseed production. India is currently faced with problems in oilseed cultivation and could become a major importer.

Change in rapeseed and soy prices over 1 and 5 years

Rapeseed price (one year)



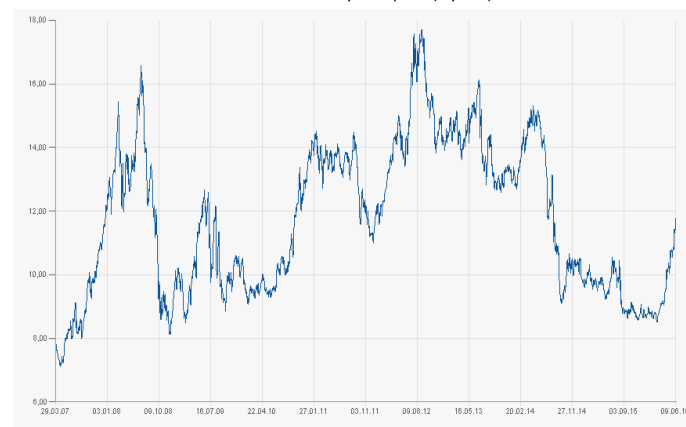
Rapeseed price (5 years)



Soybean price (one year)



Soybean price (5 years)



Source : finances.net

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1 – Two risks still present but limited

Given the low stock levels, prices could climb rapidly in case of unfavourable weather conditions.

1.2.4 Impact on AgroGeneration

AgroGeneration has been impacted by the fall in commodity prices, primarily in 2013 at the time of the merger, when the drop was rapid, which didn't give it time to adjust its costs. Since then the ongoing retreat in commodity prices continued to penalise the group's revenues in 2014 and 2015, a trend that should continue in 2016.

To protect itself against fluctuations in commodity prices, AgroGeneration covers a portion of its production through forward sales, the only reliable method in Ukraine. The objective is to cover 30 to 40% of the production before the harvest by selling at a price higher than the budget. AgroGeneration's trading teams look for opportunities to take advantage of any price increases. As we mentioned in 1.1.3, AgroGeneration has already presold \$12.5 million of its 2015/2016 harvest.

A French farmer covers 70 to 80% of his harvest, but the tools used are different with a stronger correlation with the financial markets. The agricultural commodity prices are set either on the CBOT in Chicago or on the MATIF in Paris, both markets with futures and options.

The change in agricultural commodity prices encourages the company not to build up stocks. In 2014 and 2015 a large portion of the harvest was sold. However in 2015 a portion was kept for the company's own seed needs.

AgroGeneration has been impacted since 2013 by the fall in agricultural commodity prices

2 – Costs under control to prepare the future

2.1 What are the main costs?	p.18
2.1.1 Land rental	p.18
2.1.2 Inputs	p.19
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2 – Costs under control to prepare the future

In order to manage the external factors mentioned in the first section, AgroGeneration has implemented strict cost controls. This made it possible for the company to publish satisfactory operating results in 2015, in especially unfavourable business conditions. Furthermore, having optimised all of the costs it controls, the group will benefit from a significantly favourable leverage effect as soon as agricultural commodity prices turn around.

2.1 What are the main costs?

AgroGeneration is a large-scale producer of agricultural commodities, which sows, applies crop treatments, harvests and sells its crops. The company is organised into large farms of more than 10,000 hectares, which is larger than the largest farms in the USA or Canada. This model was initially developed by the Kolkhozes.

Its main costs are land rental, salaries and inputs.

2.1.1 Land rental

AgroGeneration farms land it rents. The company rents the lands it farms from individuals and, to a lesser extent, the State. The fields are very large and can belong to 100 landowners. The company processes a little more than 35,000 land leases with terms varying from 1 to 20 years for lands rented from individuals and from 1 to 40 years for lands rented from the State. These leases have fixed rents.

AgroGeneration's lease registration situation (2014)

	Number of leases	Acreage (ha)	% (in ha)
Registration completed	36 306	106 640	89%
of which State land	675	11 575	10%
of which Private land	35 631	95 065	79%
Registration in process	1 556	13 360	11%
Total	37 862	120 000	100%

Source : Company

Leases expire and are renewed on a regular basis. To handle this process AgroGeneration has a dedicated team that manages leases based on a database listing their characteristics. It constantly takes measures to attract new individual landowners, by consulting the leases registered in the land register and looking to see whether the lands are close to its farms.

The company pays special attention to the lands it will cultivate. Each new farm should offer the ability to farm at least 5,000 to 10,000 hectares, unless it is close to one of AgroGeneration's farms. In order to obtain effective management structures, the farms located in the same region are grouped into clusters. This makes it possible to create regional platforms in order to encourage the continued expansion and reproduction of the model.

Within a cluster, the most attractive lands for expansion are the neighbouring lands because they offer the most efficient and least costly means of expanding its activities. To do this, AgroGeneration acquires contiguous farms, restructures them so they can be operated as a single operational unit and the operating costs reduced, particularly by pooling the agricultural machinery. The lands must be easy to service by road or train and a soil audit is carried out systematically.

The farms are grouped optimally into one or more operational centres serving as central administration points for warehousing inputs and spare parts, maintenance, contractual services, transportation and logistics services.

The main costs are land rental, salaries and inputs

Leases are renewed on a regular basis

2 – Costs under control to prepare the future

The grouping of lands into clusters favours economies of scale and reduces average operating costs. Once a critical threshold is reached, a warehousing centre can be developed or acquired, equipped with good road and rail connections and a maintenance centre to maintain all kinds of farms and machinery. This is done within a radius of 50 to 100 km, depending on access roads.

Lease costs increased 20% in 2015 and should track inflation in the coming years.

2.1.2 Inputs

Inputs include everything used for the harvests, including seeds and everything needed to favour crop growth. These include primarily:

- Seeds: AgroGeneration uses 80% of certified seeds purchased from major corporations like Limagrain, Pioneer, Syngenta and Monsanto. All of these seeds are non-GMO. For wheat, barley and peas, which are not hybrids, the company can re-use a portion of the seeds from its parcels (which AgroGeneration did in 2015) or seeds purchased a year earlier. However, corn and rapeseed are hybrids (which must be cross-bred) and thus can't be reused.
- Phytosanitary products: weed killers, insecticides and fungicides. AgroGeneration uses generic products for the basics like weed killers and insecticides, but not for fungicides, which would cost less but would be less effective and leave traces in the soil. The real expertise in obtaining good yields lies in the choice of the application period.
- Fertilizers: organic or mineral substances, often used in mixtures designed to provide plants with supplementary nutritional components to improve their growth and increase crop yield and quality. They are comprised primarily of nitrogen (N), phosphorous (P) and potassium (K), leading to the term NPK fertilizers. The differentiating factor lies in the dosages.

The direct cost model used of an Ukrainian farm is for a large part made of inputs (between 40% and 50% of a farm's average revenues). Input costs are now similar in the East and in the West.

Changes in AgroGeneration's inputs costs depend on many factors:

- The number of hectares cultivated.
- The price of agricultural commodities, considering that there is a strong correlation between the two, manufacturers of phytosanitary products and fertilizers adjust to changes in their customers' revenues.
- The choice to prioritize the gross margin and EBITDA per hectare and the notion of yield. Consequently, the company optimises its inputs and may prefer lower yields with fewer inputs if substantial input costs are required to increase yields. For the 2014/2015 harvest, very few inputs were used. The current harvest should see the use of more inputs.

Inputs include everything that is used for the harvests....

.... their cost is correlated with the number of hectares cultivated and the price of agricultural commodities

2 – Costs under control to prepare the future

2.1.3 Personnel costs

AgroGeneration had 1,431 employees at the end of 2015. Their number was reduced in 2015 and in 2016, but may seem high. It should be noted that on its farms, AgroGeneration needs personnel to cultivate its lands, and to watch over them. This is essential in Ukraine where thieves steal part of the harvest in the middle of fields where theft is not detected.

Personnel costs amount to about 11% of AgroGeneration's revenues. Their trend is linked to:

Personnel costs are related to changes in the hryvnia rate

- Changes in the number of hectares cultivated.
- Changes in the hryvnia/euro exchange rate, since salaries are paid in hryvnias. The fall in this currency explains to a large extent the decline in the cost of personnel, which is expressed in euros in the company's financial statements. Stabilisation of the local currency precludes any further decline of this magnitude in salaries.
- Inflation in Ukraine, which is decreasing but still remains high (12% expected in 2016).

Changes in personnel costs

	2014	2015	2016e	2017e	2018e	2019e	2020e
Number of employees	1 479	1 431	1 431	1 534	1 598	1 663	1 727
Hectare/employee	67	74	77	79	78	78	78
Euros/employee	41 948	41 267	43 625	46 679	49 013	50 974	53 013
Wages/employee	5 390	4 560	4 788	5 314	5 527	5 748	5 978
Total wages (€m)	8,0	6,6	7,4	8,7	9,5	10,2	11,0

Source: Company, Invest securities

2.1.4 Other costs

Other costs borne by AgroGeneration are:

- Petrol, whose costs are tied to changes in the price of oil, currency exchange rates and the number of hectares cultivated;
- The maintenance related to the number of hectares cultivated and changes in the hryvnia exchange rate.

2.1.5 Expected changes in costs

Based on our estimates of cost breakdown, we believe that they should change as follows:

Changes in AgroGeneration's costs

€m	2014	2015	2016e	2017e	2018e	2019e	2020e
Seeds and chemicals	-9,1	-8,2	-9,0	-10,4	-11,5	-12,6	-13,6
Fertilizers	-13,7	-11,2	-12,5	-14,4	-16,2	-17,9	-19,5
Leases	-5,1	-4,0	-4,8	-5,0	-5,3	-5,6	-6,0
Fuel	-7,1	-6,8	-5,8	-6,1	-6,4	-6,7	-7,1
Maintenance	-5,2	-5,0	-5,1	-5,4	-5,7	-6,0	-6,4
Total	-40,2	-35,2	-37,1	-41,3	-45,1	-48,9	-52,6

Source: Invest Securities

2 – Costs under control to prepare the future

2.1.6 Investments limited to machinery

AgroGeneration's CAPEX is primarily comprised of investments in machinery. This machinery is of good quality, supplied by Western manufacturers and equipped with GPS sensors so work parameters can be recorded and tracked in a database in real time. This machinery is used extensively, harvesting from 1,200 to 1,500 hectares vs. 500 hectares in France.

CAPEX were extremely limited in 2015, since major investments were made in 2011 and the useful life of the machinery is around 10 years.

When commodity prices start to rise again, AgroGeneration will invest in storage units, which can be used to optimise sales during times of high commodity prices.

CAPEX are limited to machinery

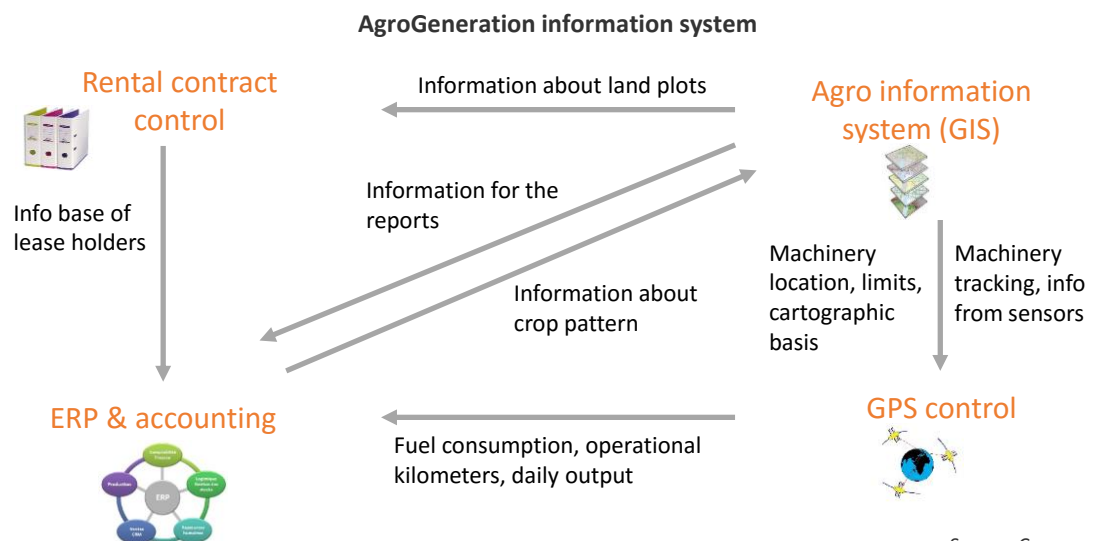
2.2 Rigorous management

Given the contingencies related to farming agricultural land and agricultural commodity prices that remain very low, AgroGeneration has implemented rigorous management processes.

2.2.1 Formalising management policy

Formalising the management policy is based on:

- Implementing two clusters that the activities are managed from.
- Highly effective soil analysis, treatment methods and technologies in order to test the soil fertility and to optimize the production.
- Modern machinery (John Deere, Case, New Holland, etc.).
- Central control systems in each group of farms with :
 - ✓ daily field management;
 - ✓ A GPS map of all the cultivated land;
 - ✓ all machinery equipped with GPS;
 - ✓ a set of forecasting, analysis and control tools and processes for operations at each of its farms.



Source: Company

2 – Costs under control to prepare the future

In order to limit the negative impact of the fall in agricultural commodity prices, AgroGeneration:

- reduced the cost of purchases, especially the cost of inputs, which has to be perfectly controlled to protect the EBITDA;
- analyses the distribution of harvests in order to have the maximum amount of crops with high EBITDA. Thus in the West corn, for which the price has dropped substantially, has been partially replaced by soy and sunflowers. The cultivation of peas, which can fix nitrogen and also have a high EBITDA, is also favoured. For crop selection, AgroGeneration can rely on both local and Western expertise. The company centralises certain administrative duties and, in the field, introduces new agricultural techniques by relying on technical specialists and agronomists. Five-year crop rotation, accompanied by a better soil preparation system has been implemented in AgroGeneration's farms based on calculations of crops' potential yields.

The main operational improvements in terms of management already implemented are:

- Improvements in accounting in order to bring the existing methods into compliance with local legal and income tax return obligations.
- Budget improvements and the implementation of a standardised budget approval process.
- Significant progress in terms of centralised purchasing and sales.
- Progressive land use and the implementation of modern agricultural technologies.
- The implementation of a centralised accounting system, integrated operations and machine monitoring (GPS tracking and fuel level sensors).

Many improvements have been implemented to improve management

2.2.2 High yields

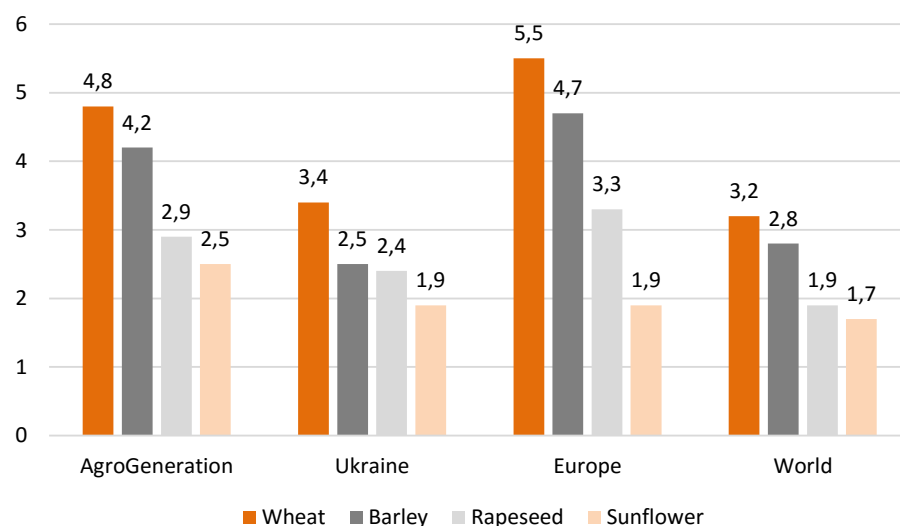
AgroGeneration has higher yields than the average yields in Ukraine after just a few years of operation: from 30 to 40% for cereals and 10 to 40% for the other crops.

These yields are not comparable to those seen in France, where the CAP paid subsidies per tonne of produce, which pushed farmers to high yields of 10 to 11 tonnes/hectare. These yields are starting to fall, since the subsidies are now given per hectare.

Ukrainian yields are from 1.5 to 8 tonnes per hectare depending on the crop. Climate risk is greater. In France, variation in yields doesn't exceed 15%, whereas in Ukraine it can reach 60%. Consequently, it isn't useful to seek overly high yields because the harvest may not be good.

2 – Costs under control to prepare the future

Comparison of average historical yields over 3 years (tonnes/hectare)



Source: Company

EBITDA or cash/hectare are prioritised over yields

AgroGeneration's objective is more focussed on EBITDA per hectare (or cash per hectare) than on yields. If the additional cost of inputs is too high to reach a given yield, the cash per hectare will be prioritised.

2.3 Ambitious projects

AgroGeneration has ambitious objectives over the next 2 to 5 years, based on agricultural commodity price trends. The group would like to become one of the biggest and most efficient players in Ukraine with high-quality storage assets and infrastructures. Its goal is to have the financial resources to finance the WCR related to its harvests without having to rely on banking institutions as is presently the case.

Thanks to the gradual improvement of its financial situation, AgroGeneration is beginning to cautiously plan expansion opportunities in Ukraine. The Ukrainian crisis and low agricultural commodity prices have created opportunities by weakening many less well managed companies in the sector.

Nevertheless, in the short-term, the group's room to manoeuvre remains limited (see 3.3) but it could improve significantly as soon as agricultural commodity prices start to rise.

The additional investments the group would like to make are in related areas. The aim is to integrate vertically and horizontally through investments in:

- New farms (already operational) and their dedicated infrastructures, including their lease portfolio.
- The modernization and development of storage infrastructures to support the activity. These acquisitions will be substantial once agricultural commodity prices start to rise so sale prices can be optimised.
- Other related agricultural activities like processing, trading or logistics.

3– Results dependent on commodity prices

3.1 Revenues that are turning around	p.25
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3.3 Cash generation favourable to improving the financial situation	p.29
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3– Results dependent on commodity prices

AgroGeneration's financial situation was substantially impacted by the economic crisis in Ukraine and the fall in commodity prices. In addition, it had high debt, which explains the financial restructuring carried out at the beginning of 2015. FY2015 strengthened AgroGeneration's ability to publish solid results in this difficult context. Though no significant improvement is expected in the current reporting period, any upturn in agricultural commodity prices would allow a strong rebound in results due to the major leverage effect created by strict cost control. We have assumed that after 4 years agricultural commodity prices would return to their 2013 price levels before they dropped. We believe this is reasonable because, after 3 years of good harvests around the world, unpredictable weather conditions impacting supply are likely in the years to come.

Revenues depend on the quantity of agricultural commodities produced and their price

3.1 Revenues that are turning around

AgroGeneration's revenues depend on its production of agricultural commodities. This production depends on several factors:

- The total number of hectares farmed by AgroGeneration, considering that all of the hectares are not farmed because fallow lands represent 2 to 5% of the land. AgroGeneration controls this factor, which is decreasing. Moreover, the group can sign new leases whose primary impact on the financial statements can be found in the variation of WCR. We have assessed these signatures at 5,000 hectares/year.
- The distribution of cultivated lands by crop, considering that crop rotation is practised every year to avoid depleting the soils. AgroGeneration chooses this rotation to optimise its margins. Given the very unfavourable changes in corn and wheat prices, the group has decreased their share in the harvests in favour of oilseeds (soy and especially sunflowers). Sunflower crops cannot be planted several years in a row on the same land, but just one year every three or four years, which means that the percentage of land allocated to sunflowers should be between 25% and 30% now that the post-merger crop rotation has been normalised.
- The yields per hectare, which have increased these past years, but which have not been pushed too hard to avoid generating substantial supplementary input costs. This factor is partially dependent on AgroGeneration's choices but also varies based on unpredictable weather conditions. The group prioritises gross margin and EBITDA per hectare over yield.
- The average price per tonne per crop, which is set by the markets and over which AgroGeneration has no influence. They have fallen sharply since 2013 and it is very difficult to make forecasts on these supply markets where a small variation in quantities produced can result in substantial price volatility. If phenomena like El Nino and El Nina should have an influence on prices, this hasn't really happened until now.

The main assumptions retained for our model are :

- After FY2016 when they will still be depressed, agricultural commodity prices will gradually recover, reaching in 2020 the level they had before the 2013 fall, which represents growth of about 12% per year. We believe this is reasonable in that continued good harvests worldwide seem unlikely over the medium-term. This assumption remains unpredictable and depends on uncontrolled external factors such as weather conditions.

3– Results dependent on commodity prices

Starting in 2016 the company should sign new leases

- No significant change in the crop distribution in 2016 from 2015 apart from an increase in sunflowers and soy, which will partially replace wheat and especially corn, which have low margins.
- A slight increase in yields for wheat, corn, barley, sunflowers and soy in 2016. Thereafter, we have included a new slight increase only for wheat, corn and soy with yields for wheat and corn which remain lower than in 2014.
- A stable euro/dollar exchange rate vis-à-vis current levels, with prices denominated in dollars.

In 2016, we expect an increase in revenues (+6.1%) related to the optimisation of crops and especially to the increase in sunflowers whose yield is higher. The price trends remain rather unfavourable even if rapeseed and barley prices may turn around slightly.

From 2017, we expect agricultural commodity prices to rebound, which coupled with the slightly increased land areas under cultivation should favour increased revenues.

Based on these assumptions, our production and sales forecasts are summed up in the following table.

3– Results dependent on commodity prices

Estimate of AgroGeneration's revenues

	2014	2015	2016e	2017e	2018e	2019e	2020e
Hectares controlled	120 000	120 000	120 000	125 000	130 000	135 000	140 000
<i>Growth</i>	0%	0%	0%	4%	4%	4%	4%
Hectares harvested	103 366	108 000	110 000	117 500	122 200	126 900	131 600
Split/crop (ha)							
Wheat	27 144	45 360	36 300	38 775	40 326	41 877	41 877
Rapeseed	6 485	8 640	5 500	5 875	6 110	6 345	6 345
Barley	12 729	10 800	11 000	11 750	12 220	12 690	12 690
Corn	8 400	5 400	5 500	5 875	6 110	6 345	6 345
Sunflower	32 043	19 440	29 700	31 725	32 994	34 263	34 263
Peas	11 452	9 720	11 000	11 750	12 220	12 690	12 690
Soybean	4 018	7 560	8 800	9 400	9 776	10 152	10 152
Others	1 094	1 080	2 200	2 350	2 444	2 538	2 538
In percentage							
Wheat	26%	42%	33%	33%	33%	33%	33%
Rapeseed	6%	8%	5%	5%	5%	5%	5%
Barley	12%	10%	10%	10%	10%	10%	10%
Corn	8%	5%	5%	5%	5%	5%	5%
Sunflower	31%	18%	27%	27%	27%	27%	27%
Peas	11%	9%	10%	10%	10%	10%	10%
Soybean	4%	7%	8%	8%	8%	8%	8%
Others	1%	1%	2%	2%	2%	2%	2%
Yields (t/ha)							
Wheat	5,2	4,1	4,3	4,5	4,7	4,8	4,8
Rapeseed	2,9	2,6	2,5	2,7	2,7	2,7	2,7
Barley	4,7	4,2	4,8	4,8	4,8	4,8	4,8
Corn	6,5	4,9	5,6	5,7	5,9	6,0	6,1
Sunflower	2,5	2,5	2,5	2,5	2,5	2,5	2,5
Peas	2,2	1,9	2,2	2,2	2,2	2,2	2,2
Soybean	1,8	1,5	1,7	1,8	1,8	1,9	1,9
Others	11,6	13,9	13,9	13,9	13,9	13,9	13,9
Average	3,9	3,5	3,6	3,7	3,8	3,8	3,8
Production (tons)							
Wheat	142 054	188 000	156 090	174 488	189 532	201 010	201 010
Rapeseed	18 682	22 560	13 750	15 863	16 497	17 132	17 132
Barley	60 248	45 120	52 800	56 400	58 656	60 912	60 912
Corn	54 571	26 320	30 800	33 488	36 049	38 070	38 705
Sunflower	79 840	48 880	74 250	79 313	82 485	85 658	85 658
Peas	25 640	18 800	24 200	25 850	26 884	27 918	27 918
Soybean	7 287	11 280	14 960	16 920	17 597	19 289	19 289
Others	12 642	15 040	30 637	32 726	34 035	35 344	35 344
Total	400 964	376 000	397 487	435 046	461 735	485 331	485 966
Average price (inc VAT)							
Wheat	164	130	104	125	149	179	215
Rapeseed	322	310	329	355	384	414	447
Barley	145	115	118	136	157	182	209
Corn	135	110	110	126	145	166	191
Sunflower	312	385	363	391	422	455	490
Peas	200	254	249	262	275	289	303
Soybean	416	400	396	416	438	460	483
Others	200	200	185	200	200	200	201
Production value (Inc VAT)							
Wheat	23,3	24,4	16,2	21,7	28,3	36,0	43,2
Rapeseed	6,0	7,0	4,5	5,6	6,3	7,1	7,7
Barley	8,8	5,2	6,2	7,7	9,2	11,1	12,8
Corn	7,4	2,9	3,4	4,2	5,2	6,3	7,4
Sunflower	24,9	18,8	26,9	31,0	34,8	39,0	42,0
Peas	5,1	4,8	6,0	6,8	7,4	8,1	8,5
Soybean	3,0	4,5	5,9	7,0	7,7	8,9	9,3
Others	2,5	3,0	5,7	6,5	6,8	7,1	7,1
Production (inc VAT)	81,1	70,6	74,9	90,7	105,8	123,4	137,9
Production (excl VAT)	64,6	58,9	62,4	75,6	88,1	102,9	114,9
VAT (20%)	16,5	11,8	12,5	15,1	17,6	20,6	23,0

We have assumed that agricultural commodity prices will rebound starting in 2017

Source: Company, Invest securities

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3– Results dependent on commodity prices

3.2 Margins that will improve with agricultural commodity prices

The main factors impacting AgroGeneration's margins are:

- The commodity price trend we took into account in our revenue forecast.
- The cost trend that we mentioned in 2.1, which is primarily related to the variation in the number of hectares cultivated, the exchange rate and the agricultural commodity price trend.
- The biological assets (IFRS 41), which are cultivated plants for future sale (i.e., plants in the ground that must be accounted for as close as possible to the fair value of the crops). The valuation is made up to the harvest. Thus, at each closing date, the biological assets (in this case primarily winter seeds) are recognised at their fair value less the sales costs up to the harvest date. The value of biological assets varies based on weather conditions, potential yields and prices. Any change in these parameters has a significant impact on the income statement. At 31 December 2015, if AgroGeneration's assumptions had varied 10%, the impact on the biological assets' fair value and therefore on the group's gross margin would have been €2.715 million;
- The disappearance of VAT-related operating subsidies. Until 2014, the company held the VAT it collected to reduce the VAT it paid to its suppliers and then kept the balance. This mechanism was eliminated as part of the austerity measures required by the IMF. In 2014 AgroGeneration received €6.4 million of subsidies. This amount fell to €3.4 million in 2015 and should be minimal in 2016 (estimated at €0.5 million) before disappearing in 2017. AgroGeneration partially offsets this shortfall by exporting more since export prices are higher.
- Depreciation, which decreases slightly despite lower CAPEX on the short term due to long depreciation periods (around 10 years) for agricultural machinery. The latter was substantially renewed in 2011.

The other factors influencing the income statement are:

- Fixed agricultural tax: the tax base is not based on EBIT, but rather on a very low percentage (approximately 0.45% from 1 January 2015) of the land register value of the rented lands. In practise, AgroGeneration does not pay corporate income tax.
- The exchange losses due to the fall of the hryvnia mentioned in 1.1.3, since the debt is primarily denominated in dollars and euros. In 2014 and 2015, these losses were quite substantial, but did not substantially impact cash. Currency exchange losses should be lower in 2016, since the hryvnia is only down 8% vs the dollar (9% vs the euro) from the beginning of the year and has recovered from its lowest levels in February and March. Since AgroGeneration's financial situation has stabilised, the exchange losses will primarily concern the Alfa-Bank loan (\$35 million), if it is not revolved.

The increase in costs includes inflation, the increase in the number of hectares cultivated and the increase in commodity prices

3– Results dependent on commodity prices

These factors lead us to the following provisional income statement:

Forecast AgroGeneration income statement

€m	2014	2015	2016e	2017e	2018e	2019e	2020e
REVENUE	64,6	58,9	62,4	75,6	88,1	102,9	114,9
Change in fair value of finished goods and fair value adjustment at the harvest date	1,4	1,2	1,2	1,2	1,2	1,2	1,2
Change of fair value of biological assets	0,7	4,8	5,1	5,9	6,2	6,5	6,5
Raw materials, purchases services and leasing	-42,9	-35,2	-37,1	-41,3	-45,1	-48,9	-52,6
VALUE ADDED	23,9	29,7	31,6	41,3	50,4	61,7	70,0
	37,0%	50,5%	50,7%	54,7%	57,2%	60,0%	60,9%
Personnel costs	-8,3	-6,6	-7,4	-8,7	-9,5	-10,2	-11,0
Operating subsidies	6,3	3,4	0,5	0,0	0,0	0,0	0,0
Other expenses	-1,5	-6,4	-6,9	-7,2	-7,4	-7,7	-8,0
EBITDA	20,4	20,0	17,8	25,5	33,5	43,7	51,9
<i>EBITDA margin</i>	<i>31,6%</i>	<i>34,0%</i>	<i>28,6%</i>	<i>33,7%</i>	<i>38,0%</i>	<i>42,5%</i>	<i>45,2%</i>
Depreciations	-7,3	-8,6	-6,2	-6,2	-6,2	-6,2	-6,2
Provisions	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total depreciations and provisions	-7,3	-8,6	-6,2	-6,2	-6,2	-6,2	-6,2
EBIT	13,1	11,4	11,7	19,3	27,4	37,6	45,8
<i>EBIT margin</i>	<i>20,3%</i>	<i>19,4%</i>	<i>18,7%</i>	<i>25,5%</i>	<i>31,0%</i>	<i>36,5%</i>	<i>39,8%</i>
Financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial expenses	-8,9	-7,9	-5,2	-5,1	-5,0	-4,9	-0,1
Other financial expenses and exchange impact	-27,3	-11,7	-2,8	0,0	0,0	0,0	0,0
Financial net expenses	-36,2	-19,6	-8,0	-5,1	-5,0	-4,9	-0,1
CURRENT INCOME	-23,1	-8,2	3,6	14,2	22,4	32,7	45,6
Income Tax	0,0	0,2	0,0	0,0	0,0	0,0	0,0
Profit after tax of discontinued operations	1,4	0,0	0,0	0,0	0,0	0,0	0,0
NET INCOME	-21,7	-7,9	3,6	14,2	22,4	32,7	46,6
<i>Net margin</i>	<i>-33,5%</i>	<i>-13,5%</i>	<i>5,8%</i>	<i>18,8%</i>	<i>25,4%</i>	<i>31,8%</i>	<i>40,6%</i>
ADJUSTED NET INCOME	-21,7	-7,9	3,6	14,2	22,4	32,7	46,6

The EBITDA margin should exceed 30% from 2017

We estimate that EBITDA margins should increase from 2017 due to increasing agricultural commodity prices, reaching 45,2% in 2020. Good cost control will result in a major leverage effect on margins as soon as prices start to rebound.

3.3 Cash generation favourable to improving the financial situation

3.3.1 The positive impact of the OSRANE bond issue.....

Following the Harmelia and AgroGeneration merger at the end of 2013, debt was €78.8 million, for a gearing ratio of 154%. This was partially due to the fact that Konkur (SBF IV) had issued \$40 million of debt in favour of the new structure to balance the parities at the time of the merger. Furthermore, the former AgroGeneration had financed its growth through debt and had net debt of €14.3 million at the end of 2012.

The sharp deterioration in the economic situation and the fall of the hryvnia contributed to a sharp decrease in equity from €51 million at the end of 2013 to €6.6 million at the end of 2014, for a gearing ratio of 1175%.

Since the situation was not sustainable, the group launched a financial restructuring at the beginning of 2015 by issuing €59.8 million of OSRANE bonds. The interest payments on this issue are recognised as debt and the principal as equity. An additional three million OSRANE bonds were issued at the end of 2015 to an American investor in order to continue consolidating AgroGeneration's financial position in a difficult environment.

The OSRANE bond issue turned around the group's financial situation

3– Results dependent on commodity prices

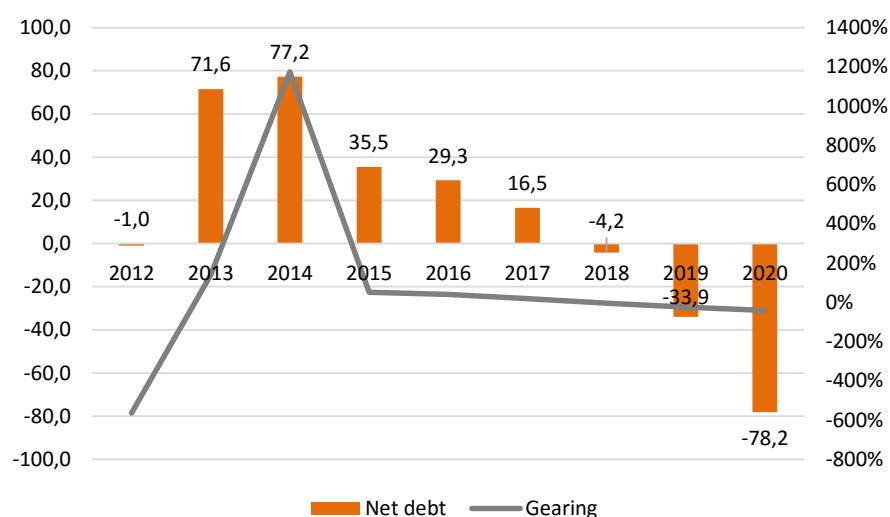
Long-term assets were revalued in 2015

Moreover, the company's long-term assets were written down €44.9 million in 2013 and €22.2 million in 2014, which had an impact on the group's equity. In 2015, an independent expert reappraised its tangible assets at €38.2 million, broken down into a of €39.9 million increase in the fair value of certain assets (especially the agricultural machinery), which was added directly to equity, and a €1.6 million decrease in other assets, which was expensed in the income statement.

These two movements significantly decreased the gearing ratio, which was just 73% at the end of 2015.

The debt with the EBRD (€6.3 million) was also renegotiated with deferred reimbursements from 2016, but at an increased rate (from 8% to 8.5%).

Variation in the net debt and gearing ratio



3.3.2 ...strengthened by positive cash generation

If we include all of the financial costs in the FCF calculation, it was negative in 2015. On the other hand, if we only include the financial costs related to financing the WCR (crop loans mainly with Alfa-Bank), namely €4.1 million, the FCF would be positive (€3.6 million).

The group's good operational performance will favour a return to positive free cash flow generation from 2016, thanks to :

- improved self-financing capacity, due to the positive results and lower exchange losses than in 2015;
- WCR variation that should be less than in 2015, which was marked by a major increase in stocks (€3.3 million) as the group kept its seeds for future sowings;
- investments (primarily agricultural machinery and new leases), which should remain limited in the short-term, since a large portion of the stock of machinery was renewed in 2011 and it has an estimated useful life of 10 years.

3– Results dependent on commodity prices

AgroGeneration sources and uses of funds

Cash Flow Statement (EURm)	2014	2015	2016e	2017e	2018e	2019e	2020e
Net earnings	(23,1)	(7,9)	3,6	14,2	22,4	32,7	46,6
Depr. & Prov.	(7,3)	(7,0)	(6,2)	(6,2)	(6,2)	(6,2)	(6,2)
Other non cash impacts	27,0	6,5	0,0	0,0	0,0	0,0	0,0
Declared Cash Flow	11,2	5,6	9,8	20,4	28,5	38,9	52,8
Change in WCR	0,9	(4,2)	(1,4)	(5,1)	(4,8)	(5,7)	(4,6)
Operating Cash Flow	12,1	1,4	8,4	15,3	23,7	33,2	48,2
Capital Expenditure	(2,4)	(1,6)	(1,7)	(2,5)	(3,0)	(3,5)	(3,9)
<i>o/w maintenance</i>	<i>(2,3)</i>	<i>(1,6)</i>	<i>(1,7)</i>	<i>(2,5)</i>	<i>(3,0)</i>	<i>(3,5)</i>	<i>(3,9)</i>
Financial Investments	(2,0)	(1,1)	(0,5)	0,0	0,0	0,0	0,0
Assets sales	1,4	0,2	0,0	0,0	0,0	0,0	0,0
Investing Cash Flow	(3,0)	(2,6)	(2,2)	(2,5)	(3,0)	(3,5)	(3,9)
Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Rights' issue	0,1	1,9	0,0	0,0	0,0	0,0	0,0
Others	41,6	32,0	0,0	0,0	0,0	0,0	0,0
Debt repayment	(37,8)	(30,6)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)
Exchange rate gains/losses	(14,9)	(3,5)	0,0	0,0	0,0	0,0	0,0
Financing Cash Flow	(10,9)	(0,3)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)
Change in cash	(1,81)	(1,5)	5,0	11,6	19,5	28,5	43,1

Taking these different factors into account, we arrive at positive cash generation of €5 million in 2016 (including the financial cash flow).

FCF generation should increase over the coming years

Cash generation should increase over the coming years, which should make it possible to finance crop loans without resorting to high levels of short-term debt and to begin making acquisitions. The balance sheet should return to a net positive cash position from 2018, excluding acquisitions.

4 – Valuation of €0,71 per share

4.1 A DCF valuation of €0,71 per share	p.33
4.1.1 WACC of 20,42%	p.33
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4.3 A valuation of €0,71/share	p.36

4 – Valuation of €0,71 per share

Our valuation is based on a DCF. It is hard to find companies similar to AgroGeneration given that the majority of its peers operate in other countries or are vertically integrated. Our objective is based on a scenario which integrates agricultural commodity prices returning in 2020 to their price level before their fall in 2013. On that basis, our target price is €0,71.

Our valuation is based on a DCF

4.1 – A DCF valuation of €0,71 per share

5.1.1 WACC of 20,42%

The main assumptions used in the WACC calculation are:

- ❖ A “risk-free rate” of 16,5% which is the Ukrainian LT interest rates. In practise the country risk includes most of the risk that hangs over AgroGeneration;
- ❖ It is impossible to find a realistic measure of the market premium in the Ukraine. Consequently we have used the risk premium of the French market. We believe that this is realistic or even cautious given the high level of the “risk-free rate”. It has increased since our last report (6,47% vs 5,49%) mainly because of the Brexit;
- ❖ A Beta of 1 as, once again, the market sensitivity is included in our “risk-free rate”.

These assumptions give us a WACC of 20,42% above the WACC in our last report (19,75%).

WACC Calculation	
Market premium	6,47%
Risk free rate	16,50%
Beta	1,00
Cost of equity	22,97%
Cost of debt	9,83%
Income tax rate	0,00%
Net cost of debt	9,83%
Net debt	19,40%
Equity	80,60%

The WACC used is 20,42%

4.1.2. Assumptions

Our calculations are based on our forecasts through 2025.

To calculate the residual value, we used the 2025 revenues and applied an operating margin of 39,8%, similar to the 2020 margin.

The terminal growth rate is assumed to equal 1%.

The group does not pay taxes.

4 – Valuation of €0,71 per share

This leads us to the following forecasts:

€m	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Revenue	62,4	75,6	88,1	102,9	114,9	119,5	123,1	126,1	128,7	129,9
Growth	+5,0%	+21,0%	+16,7%	+16,7%	+7,0%	+4,0%	+3,0%	+2,5%	+2,0%	+1,0%
EBIT	11,7	19,3	27,4	37,6	45,8	47,6	49,0	50,2	51,3	51,8
Ebit margin	18,7%	25,5%	31,0%	36,5%	39,8%	39,8%	39,8%	39,8%	39,8%	39,8%
Depreciations and provisions	-6,2	-6,2	-6,2	-6,2	-6,2	-3,8	-4,5	-5,3	-6,0	-7,3
EBITDA	17,8	25,5	33,5	43,7	51,9	51,4	53,6	55,5	57,2	59,1
Income tax rate	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Theoretical income tax	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net operating CF	17,8	25,5	33,5	43,7	51,9	51,4	53,6	55,5	57,2	59,1
WCR change	-1,4	-5,1	-4,8	-5,7	-4,6	-4,8	-5,0	-5,1	-5,2	-5,2
% of revenue	2,2%	6,7%	5,5%	5,5%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
Investments	-1,7	-2,5	-3,0	-3,5	-3,9	-6,0	-6,3	-6,6	-6,9	-7,3
Operating free cash flow	14,8	18,0	25,7	34,6	43,4	40,6	42,3	43,9	45,1	46,6
Discount coefficient	0,93	0,77	0,64	0,53	0,44	0,37	0,30	0,25	0,21	0,17
Discounted operating free cash flows	13,7	13,8	16,4	18,4	19,1	14,8	12,9	11,1	9,4	8,1

4.1.3 – A valuation of €0,71 per share

Based on these different assumptions, and including the dilution related to the future conversion of the OSRANE bonds, our valuation equals €0,71 per share.

Our DCF is €0,71/share

Valuation (m€)	
Sum of discounted free cash flows	137,6
Terminal value	47,5
Enterprise value	185,1
Net debt	35,5
Equity value	149,6
Number of shares	212 071 388
Value/share (€)	0,71

4 – Valuation of €0,71 per share

4.1.4 Sensitivity analysis

If we focus on the values 0.5% above and below the assumed WACC and the terminal growth rates, a sensitivity analysis gives valuations ranging between €0,62 and €0,82 per share. This rather high sensitivity can be explained by the group's strong growth, with greater cash flows at the end of the period.

		Perpetual growth rate						
		-0,50%	0,00%	0,50%	1,00%	1,50%	2,00%	2,50%
W	18,92%	0,77	0,78	0,78	0,79	0,80	0,81	0,82
	19,42%	0,74	0,75	0,75	0,76	0,77	0,78	0,79
A	19,92%	0,71	0,72	0,73	0,73	0,74	0,75	0,76
C	20,42%	0,69	0,69	0,70	0,71	0,71	0,72	0,73
C	20,92%	0,66	0,67	0,67	0,68	0,69	0,69	0,70
	21,42%	0,64	0,64	0,65	0,66	0,66	0,67	0,67
	21,92%	0,62	0,62	0,63	0,63	0,64	0,64	0,65

4.2 A valuation of €0,47 by the market-based approach

We have also calculated a valuation by the market-based approach. We have attempted to find similar companies whose business is focused on farming. Many companies are vertically integrated in either cattle farming or poultry farming (Linás) or in the production of sunflower oil (Kernel) and food products (Linás). They can also operate in the logistics area, like Linás. Additionally, some companies operate in several countries (Linás). Black Earth is in the same business as AgroGeneration, but operates in Russia, where the company owns land rather than leasing it. We have excluded from our sample those Ukrainian companies involved only in poultry farming, since their business model is not identical to that of cultivating cereals and oilseed crops.

Our valuation is based on three types of multiples: revenues, EBITDA, EBIT and P/E ratios.

The different valuations obtained are shown in the following table:

	Capitalisation (€m)	2016	2017	2018	2016	2017	2018	2016	2017	2018
AdecoAgro	1 193	7,1 x	6,1 x	5,6 x	10,2 x	8,3 x	7,7 x	19,9 x	16,2 x	12,2 x
Black Earth Farming Ltd.	46	1,7 x	1,9 x	1,0 x	2,5 x	2,7 x	1,4 x	7,3 x	4,2 x	3,6 x
Linás Agrogroup AB	105	9,5 x	8,2 x	6,5 x	18,4 x	15,0 x	10,6 x	14,7 x	12,0 x	9,5 x
Kernel	1 076	3,9 x	3,2 x	2,6 x	4,9 x	3,9 x	3,1 x	5,0 x	5,0 x	4,5 x
Median		5,5 x	4,7 x	4,1 x	7,6 x	6,1 x	5,4 x	11,0 x	8,5 x	7,0 x
EV AgroGénération (€m)		98,4	118,6	136,3	88,5	118,1	147,0			
Equity Value (€m)		69,1	102,1	140,5	59,2	101,6	151,2	40,2	121,2	155,9
Average (€m)		104,0								
Value/Share (€)		0,49								

Source: FactSet, Invest Securities

4 – Valuation of €0,71 per share

We have not used the revenue multiples, because they do not take into account the fact that most companies operate in other businesses and different regions and therefore have different margins.

We have calculated the average for all listed companies active in farming in Eastern Europe. This gives us a valuation of €0,49 per share. If we only take in account the two stocks which have the same level of market capitalisation as AgroGeneration (Black earth Farming and Linas Agrogroup AB), this valuation is down to 0,47€.

The market-based approach gives a valuation of €0.47/share

	Market Capitalisation (€m)	EV/EBITDA			EV/EBIT			PE		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Black Earth Farming Ltd.	46	1,7 x	1,9 x	1,0 x	2,5 x	2,7 x	1,4 x	7,3 x	4,2 x	3,6 x
Linas Agrogroup AB	105	9,5 x	8,2 x	6,5 x	18,4 x	15,0 x	10,6 x	14,7 x	12,0 x	9,5 x
Median		5,6 x	5,1 x	3,7 x	10,5 x	8,8 x	6,0 x	11,0 x	8,1 x	6,5 x
EV AgroGénération (€m)		99,7	128,6	124,8	122,6	170,0	162,9			
Equity Value (€m)		64,3	93,2	89,3	87,1	134,5	127,4	40,2	115,4	146,5
Average (€m)		99,3								
Value/Share (€)		0,47								

Since these multiples are based on companies that are not directly comparable to AgroGeneration in terms of their business or margins (some of which are not present in the Ukraine and others are only present for a minor portion of their activities), we prefer not to use them.

4.3 A valuation of €0,71/share

Of the two methods used, we prefer the intrinsic DCF method, which does a better job of taking into account AgroGeneration's specific characteristics. The different comparable companies do not show the same characteristics as AgroGeneration.

We maintain our BUY recommendation with a €0,71/share target de price upgraded from €0,68/share.

Notes

Notes

Price change on 5 years (absolute and relative)



CONFLICT SCREEN

	Corporate Finance	Treasury stocks holding	Prior communication	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research contract
AgroGeneration	Yes	No	Yes	No	Yes	No	Yes

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