AgroGeneration (+)

Initiation of coverage

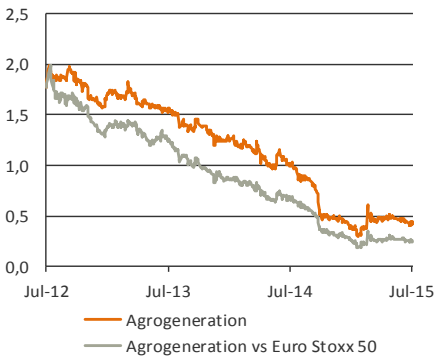
Opinion	BUY
Target price	€ 0,74
Potential	+72%

in € / share	2014	2015e	2016e	2017e
diluted EPS	-0,24	-0,02	0,10	0,13
Chg 1 year	n.s.	n.s.	n.s.	0,32
Revisions	*n.s.*	*n.s.*	*n.s.*	*n.s.*

ISIN	FR0010641449
Ticker	ALAGR:FPPA
DJ sector	Food Products Industry

Price	€0,4
Nb of shares (m)	92,4
diluted nb of shares (m)	211,5
Market cap (m€)	40
Float (m€)	8

	1m	3m	1 year
Absolute chg	-8,5%	-6,5%	-57,0%
Relative chg	-13,9%	-1,8%	-71,9%



12/31/2013	2014	2015e	2016e	2017e
PE	n.s.	n.s.	4,4x	3,3x
EV/CA	1,9x	1,9x	1,4x	1,1x
EV/EBITDA	6,0x	5,9x	4,2x	2,8x
EV/EBITA	9,4x	7,6x	5,1x	3,4x
FCF yield	0,2x	0,3x	0,5x	0,7x
Yield	0,0x	0,0x	0,0x	0,0x
Net debt/EBITDA	3,8x	1,8x	1,0x	0,4x

ReGeneration

AgroGeneration is now a completely different company compared to two years ago, before its reverse takeover by Harmelia. This deal led to the creation of an entity with up to 120,000 hectares of farmland in operation in fertile zones with favourable hydrometric conditions in Ukraine, which is above the critical mass. The financial restructuring at the beginning of 2015 resolved the company's debt problems linked to the economic situation in Ukraine following the conflict in Donbass and the rapid decline in commodity prices in mid-2013. This restructuring has given the company the resources needed to pursue its strategy of rational growth. While there are still risks here, we currently believe that the creation of a leader in farming in Ukraine with good operating performances is a wager worth taking. We are initiating coverage of the stock with a BUY rating and a target price of €0.74.

- AgroGeneration is a farming company that leases land in Ukraine, principally from private owners. It then sows, applies crop treatments, harvests and sells the crops. The company has twelve major farms with over 10,000 hectares each that produce cereals and oilseed crops. Ukraine has many strengths in the agricultural products area, such as the quality of its soil, a qualified, inexpensive workforce and satisfactory infrastructures. AgroGeneration perfectly controls its business model and has highly rigorous management processes. This enables it to show above average yields and significant margins.
- Since the merger of the former AgroGeneration and Harmelia, two outside factors have weighed on the new company. The conflict in Ukraine continued until the signing in February 2015 of the Minsk 2 agreement, which partially resolved the situation here. This conflict led to a severe deterioration in the economic situation, with a steep fall in the local currency (the hryvnia) that continued until the beginning of 2015. At the same time, agricultural commodity prices continued their decline that began in mid-2013. The political situation now appears to have stabilised and agricultural commodity prices are close to a floor.
- AgroGeneration's financial situation was hard hit by these two factors as well as the high debt linked to the financial structure adopted at the time of the merger of the former AgroGeneration and Harmelia. This explains the financial restructuring at the beginning of 2015. This should nevertheless not hide the fact that the company is showing satisfactory results on the operating level, with an EBITDA margin above 30% This margin should improve rapidly when commodity prices turn up again. While the 2015 results will continue to be penalised by crop prices, cash generation should be positive and contribute to a further improvement in the company's financial situation. The net debt should decrease and reach a positive cash situation of €45m at the end of 2019.
- It is difficult to find companies similar to AgroGeneration given that the majority of farming companies operate in other countries or are vertically integrated. It is for this reason that we prefer using a DCF valuation that better takes into account the intrinsic characteristics of the company and its ability to generate cash. Our target price of €0.74/share takes into account the dilution linked to the OSRANE convertible bond issue.

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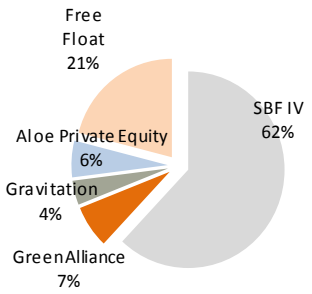
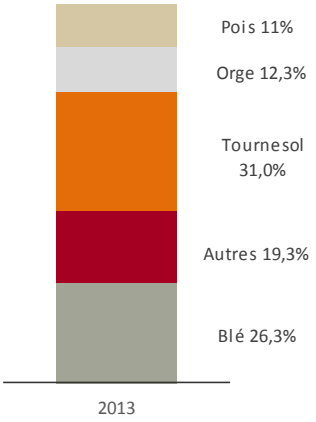
Financial Data

Shareholders	
SBF IV	62%
GreenAlliance	7%
Gravitation	4%
Aloe Private Equity	6%
Free Float	21%



Répartition des récoltes 2014	
Wheat	0,0%
Sunflower	8,1%
Barley	6,3%
Peas	31%
Others	54,6%



Data per share	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
published EPS	n.a.	n.a.	-0,05	-0,24	-0,10	0,17	0,25	0,33	0,41
diluted EPS	n.a.	n.a.	-0,05	-0,24	-0,02	0,10	0,13	0,17	0,20
Var/consensus	n.a.	n.a.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Net asset	n.a.	n.a.	0,79	0,07	0,75	0,93	1,17	1,50	1,91
Dividend	n.a.	n.a.	0,00	0,00	0,00	0,00	0,00	0,00	0,00

Valuation ratios	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
P/E	n.a.	n.a.	n.s.	n.s.	n.s.	4,4x	3,3x	2,6x	2,1x
VE/Revenue	n.a.	n.a.	3,6x	1,9x	1,9x	1,4x	1,1x	0,7x	0,3x
VE/EBITDA	n.a.	n.a.	n.s.	6,0x	5,9x	4,2x	2,8x	1,8x	0,8x
VE/EBITA ajusted	n.a.	n.a.	n.s.	9,4x	7,6x	5,1x	3,4x	2,2x	1,0x
op. before BFR FCF yield	n.a.	n.a.	n.s.	0,2x	0,3x	0,5x	0,7x	1,0x	1,2x
operational FCF yield	n.a.	n.a.	0,0x	0,3x	0,4x	0,5x	0,6x	0,9x	1,1x
Yield	n.a.	n.a.	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

EV (€m)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
Share price in €	*n.a.*	*n.a.*	*1,5*	*0,9*	*0,4*	*0,4*	*0,4*	*0,4*	*0,4*
Capitalization	*n.a.*	*n.a.*	*123,3*	*46,0*	*39,7*	*39,7*	*39,7*	*39,7*	*39,7*
Net debt (OSRANE incl.)	*n.a.*	*n.a.*	*71,6*	*77,2*	*82,4*	*74,0*	*59,7*	*38,8*	*0,0*
Minorities	*n.a.*	*n.a.*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
Provisions	*n.a.*	*n.a.*	*0,7*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
Others	n.a.	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EV	**n.a.**	**n.a.**	**195,5**	**123,2**	**122,1**	**113,7**	**99,4**	**78,5**	**39,7**

P&L (€m)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
Revenue	n.a.	32,8	53,7	64,6	64,4	78,8	94,2	112,2	121,3
chg.	n.a.	n.s.	*63,7%*	*20,3%*	*-0,3%*	*22,3%*	*19,5%*	*19,2%*	*8,0%*
EBITDA	n.a.	8,6	-9,8	20,4	20,9	27,4	35,0	44,1	50,0
EBITA ajusted	**n.a.**	**-1,4**	**-16,8**	**13,1**	**16,0**	**22,1**	**28,9**	**36,3**	**41,6**
chg.	***n.a.***	***n.s.***	***n.s.***	***n.s.***	***+22%***	***+38%***	***+30%***	***+26%***	***+15%***
EBIT	n.a.	-1,4	-16,8	13,1	16,0	22,1	28,9	36,3	41,6
Financial result	n.a.	-0,4	-3,5	-36,2	-25,1	-6,1	-6,1	-6,0	-3,6
Taxes	n.a.	-0,3	-0,2	0,0	0,0	0,0	0,0	0,0	0,0
Minorities	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net profit	n.a.	-2,2	-20,5	-23,1	-9,1	16,0	22,8	30,3	38,0
Net profit corrected	**n.a.**	**-2,2**	**-20,5**	**-23,1**	**-9,1**	**16,0**	**22,8**	**30,3**	**38,0**
chg.	***n.a.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***+42%***	***+33%***	***+25%***

Cash flow statement (€m)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
Net profit	n.a.	4,9	-22,6	-23,1	-9,1	16,0	22,8	30,3	38,0
Depreciations & amortizatior	n.a.	-3,7	-9,2	-7,3	-4,8	-5,2	-6,1	-7,8	-8,4
Other non cash items	n.a.	-5,7	2,6	27,0	17,5	0,0	0,0	0,0	0,0
op. before BFR FCF	**n.a.**	**2,9**	**-10,8**	**11,2**	**13,2**	**21,3**	**28,9**	**38,1**	**46,4**
Change in WCR	n.a.	-4,5	13,5	0,9	3,5	-3,3	-3,6	-4,2	-2,1
operational FCF	**n.a.**	**-1,6**	**2,7**	**12,1**	**16,7**	**17,9**	**25,3**	**33,9**	**44,3**
Acquisitions/cessions	n.a.	-0,4	-4,3	-3,0	-4,3	-9,5	-11,0	-13,0	-5,5
Capital increase	n.a.	5,0	0,1	0,1	45,2	0,0	0,0	0,0	0,0
Dividends	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Others	n.a.	-0,5	-0,8	-11,0	-50,8	-0,6	-0,6	-0,6	-0,6
published FCF	**n.a.**	**2,6**	**-2,3**	**-1,8**	**6,8**	**7,9**	**13,7**	**20,3**	**38,2**

Balance sheet (€m)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
Current assets	n.a.	27,5	94,3	63,6	89,8	94,1	99,0	104,2	101,3
WCR	n.a.	21,7	45,0	22,2	47,6	51,4	56,3	61,5	58,6
Equity group share	n.a.	26,8	28,4	20,2	16,7	20,1	23,6	27,8	29,9
Minorities	n.a.	55,1	51,1	6,6	69,4	85,5	108,3	138,5	176,6
Provisions	n.a.	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net debt	**n.a.**	**0,0**	**0,7**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
with cash	*n.a.*	*-1,0*	*71,6*	*77,2*	*37,1*	*28,7*	*14,4*	*-6,5*	*-45,3*

Financial ratios (%)	2011	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
EBITDA/Revenue	n.a.	26,3%	n.s.	31,6%	32,4%	34,7%	37,1%	39,3%	41,2%
EBITA/Revenue	n.a.	n.s.	n.s.	20,3%	24,9%	28,1%	30,7%	32,4%	34,3%
NR corrected/Revenue	n.a.	n.s.	n.s.	n.s.	n.s.	20,3%	24,2%	27,0%	31,3%
WCR /Revenue	n.a.	81,8%	53,0%	31,3%	26,0%	25,5%	25,1%	24,8%	24,7%
ROCE excl. Incorp/ GW	n.a.	-4,3%	-21,6%	21,3%	27,2%	35,3%	43,5%	51,5%	57,3%
ROE corrected	n.a.	n.s.	n.s.	n.s.	n.s.	18,8%	21,0%	21,9%	21,5%
Net debt/Total equity	n.a.	-1,8%	140,2%	1175,0%	53,5%	33,6%	13,3%	-4,7%	-25,7%
Net debt/EBITDA (en x)	n.a;	-0,1x	n.s.	3,8x	1,8x	1,0x	0,4x	-0,1x	-0,9x

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Table of Contents

1 – A new AgroGeneration

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AgroGeneration results from the reverse takeover of AgroGeneration by Harmelia

AgroGeneration is now a completely different company compared to two years ago prior to its reverse takeover by Harmelia. Agreed to on 3 May 2013 with a binding term-sheet and completed on 11 October 2013, this reverse takeover led to the creation of an entity of up to 120,000 hectares of farmland operated in Ukraine, which is above the critical mass. The company's management is made up of individuals based in Ukraine who understand how the country works and speak the language. The financial restructuring completed at the beginning of 2015 enabled the company to resolve its debt problems linked to the economic crisis resulting from the conflict in the Donbass and the rapid decline in agricultural commodity prices. Following this restructuring, AgroGeneration is now positioned as one of the leading farming companies in Ukraine with the ability to pursue a strategy of rational growth here.

1.1 Formed from the merger of Harmelia and the former AgroGeneration

Even if it has retained the name of AgroGeneration, the new entity is the result of the merger of Harmelia and AgroGeneration that was completed on 11 October 2013. In reality, this deal constituted a reverse takeover of AgroGeneration by Konkur, the principal shareholder of Harmelia, with the merger having been effectuated by the transfer of Harmelia shares to AgroGeneration, with Konkur then becoming the majority shareholder of AgroGeneration. Following this deal and the financial restructuring at the beginning of 2015, the stakes of the former AgroGeneration shareholders have been heavily diluted. These individuals no longer occupy operational positions in the new structure.

1.1.1 AgroGeneration

AgroGeneration (previously Agrofuel) was founded in March 2007 on the initiative of Charles Beigbeder (founder of the online broker Selftrade and the alternative electricity operator Poweo). Its first activity involving the production of biofuels in order to benefit from the development of renewable energies. From the very start, the group sought to secure its upstream supplies (oilseed crops) by leasing farmland.

The upstream development was entrusted to Charles Vilgrain, who focused on the Black Sea basin for two principal reasons: the presence of the black earth (Chernozem), which is considered to be the most fertile in the world, and the presence of a qualified workforce that has maintained genuine agricultural expertise.

AgroGeneration focused on a single country, Ukraine, as the investment cost was lower due to agrarian laws. The objective was not to create a landbank in order to speculate on the rise in land prices but instead to purchase farms including their corporate rights to land leases

The former AgroGeneration was founded in 2007 on the initiative of Charles Beigbeder

The company gradually bought farms in the northern part of Ukraine, reaching six in mid-2014 at the time of the merger with Harmelia. These farms represented 50,000 hectares of farmland: 9,000 hectares in the Sumy region in the east (one farm), 12,000 hectares in the Zhytomir region in the centre (two farms) and 29,000 hectares in the Lviv and Ternopil regions in the west (three farms). The gradual takeover of this farmland enabled an improvement in yields, which rose from 2.2 metric tons per hectare in 2008 to 4.1 metric tons per hectare in 2012, with production rising from 20,000 metric tons to 207,000 metric tons over this period thanks to the acquisition of new farms.

At the end of 2008, the downstream biofuel activity was shut down due to oil price trends and the amount of investments needed (several tens of millions of euros), with the company then focusing exclusively on the production and sale of agricultural products (cereals and oilseed crops).

In 2010, AgroGeneration moved into Argentina. However, having failed to attain critical mass here, the company exited from this business in mid-2014 following its merger with Harmelia.

1 – A new AgroGeneration

1.1.2 Harmelia

Harmelia was founded in 2010 by the US fund SigmaBleyzer IV. This fund was set up in 1994 by Michael and Lev Bleyzer, two brothers from Ukraine. After having emigrated to the United States, they have returned to their country of origin through their investment funds, whose portfolios include 100 companies. These funds target investments in Eastern European countries, Kazakhstan and Texas in assets that are either in turnaround phases or in difficulty. They currently have $1bn in assets under management through six investment vehicles.

Harmelia rapidly became the largest farming company in the Kharkiv region in northeast Ukraine. It developed without debt and had $120m in equity funds at the time of its merger with AgroGeneration.

Harmelia was founded in 2010 by the US fund SigmaBleyzer

At the time of the merger, Harmelia controlled c.a. 70,000 hectares of farmland, produced 190,000 metric tons of harvests and had storage capacity of 126,000 metric tons and six farms in the eastern portion of the country around Kharkiv.

1.2 A group with critical mass

The merger enabled the new company to exceed critical mass, which is estimated to equal 100,000 hectares of farmland. The new company is the no. 6 player in Ukraine in terms of pure crop production and among the 10 first players in the agricultural sector. It has:

- 12 farms with total controlled area of c.a. 120,000 hectares of farmland in Ukraine
- Over 400,000 metric tons of production volume of cereals and oilseed crops
- Storage capacity of around 200,000 metric tons that enables it to preserve the quality of harvests and to optimise sale prices
- 1,471 employees and up to 173 seasonal workers during the harvest season. Around 100 persons are employed in central services: land, administrative and financial (including the payment of salaries) management. Over 1,300 persons are employed on the farms. There are few seasonal workers, as expertise is important here. All the personnel is Ukrainian. At each farm, there is a managing director, a chief agronomist, an engineer, an accountant, machine operators often specialised by machine (seeders, combines etc.-) and persons assigned to the storage activities as well as land lease managers and security.

AgroGeneration exceeds the critical mass estimated at 100 000 hectares of farmland

The group cultivated 110,000 hectares in 2013 and 103,000 hectares in 2014 and should cultivate around 108,000 hectares in 2015.

On the operating level, the merger of the two companies allowed the sharing of expertise in terms of productivity as well as substantial economies of scale in terms of overhead costs.

The new company has two centres of operations (one in Kharkiv and the other in Lviv), with central offices in Kiev.

1.3 New management

The management of the new company is based in Ukraine and speaks Ukrainian, something that was not the case with the former AgroGeneration. The majority of persons making up the management team were either born or spent the large part of their careers in the region. This provides them with good knowledge of the country and good understanding of how it works.

The majority of the executives come from SigmaBleyzer, whose strategy involves buying companies in turnaround phases. This familiarity with companies in difficulty has enabled management to rapidly optimise the functioning of the new company by significantly reducing costs and optimising the selection of seeds by region.

1 – A new AgroGeneration

John Shmorhun, the CEO of AgroGeneration, was previously an executive at DuPont, where he worked for over 18 years in Ukraine and Russia managing agricultural activities. As regional director, he supervised DuPont's activities in Russia, Ukraine and the CIS zone for eight years. Prior to this appointment, he steered the creation of DuPont Ukraine as general manager and supervised DuPont's agrochemical activities from 2003 to 2008. John Shmorhun joined SigmaBleyzer in 2009 as head of investments in the agriculture sector. Initially based in Kharkiv, he is now based in Kiev following the merger of Harmelia and AgroGeneration.

The management comes from SigmaBleyzer

John Shmorhun is assisted by:

- Serguey Bulavin, senior vice-president of the Ukrainian subsidiaries and COO. He comes from Kharkiv and was previously vice-president at SigmaBleyzer in charge of investment development.
- Olena Levchenko, director of the Ukrainian subsidiaries and chief financial officer. She also comes from Kharkiv and joined SigmaBleyzer in 1995 as head of accounting for SigmaBleyzer Ukraine. She has occupied posts in several group subsidiaries in the accounting and then finance areas.
- Kateryna Konashchuk, vice-president in charge of commercial. She is also Ukrainian and joined Harmelia at the end of 2011 as head of trade. She has over four years of experience in agricultural products marketing and international commerce.

The makeup of the company's board of directors also demonstrates the predominant role of persons coming from SigmaBleyzer. Following the merger of Harmelia and AgroGeneration, corporate governance was changed from a structure with a supervisory board and an executive board to that of a board of directors, which at the time had 11 members, including five representatives of the original shareholders.

This was changed in April 2015 to reflect the substantial dilution of the stakes held by the original shareholders following the financial restructuring at the beginning of the fiscal year. Four board members representing the original shareholders (Charles Beigbeder, Constantin Pellissier, Jean-Pascal Tranié and Charles Vilgrain) stepped down at this time.

Only one board member comes from the former AgroGeneration

Only one board member (Guillaume James) now comes from the former AgroGeneration. The six other board members all know Ukraine very well: Lev and Michael Bleyzer along with Valery Dema were born in Ukraine, John Shmorhun (an American of Ukrainian heritage) has worked here for over 20 years, Neal Sigda spent several years in Russia and Pierre Danon knows the country through his role as president of the board of the cable operator Volia.

This highlights the radical change in the corporate governance of AgroGeneration since its merger with Harmelia.

1.4 A cleaned-up balance sheet

The two merged companies had different balance sheet structures. AgroGeneration had financed its growth through debt (two listed debt issues) while Harmelia had a much more prudent balance sheet strategy, estimating that given the intrinsic uncertainties of farming, it was preferable to have a solid equity base.

In addition to the intrinsically high debt level of the former AgroGeneration, SigmaBleyzer lent $40m to the new structure in order to balance the merger parities so as to avoid excessive dilution of the shareholders of the former AgroGeneration.

1 – A new AgroGeneration

As a result of these two factors, the debt following the merger of the two companies reached €78.8m at yearend 2013, corresponding to gearing of 154%.

The sharp deterioration of the economic situation and the steep drop in the local currency (the hryvnia) led to a substantial decline in shareholders equity from €51m at yearend 2013 to €6.6m at yearend 2014, corresponding to gearing of 1,175%.

As this situation was untenable, the group launched a financial restructuring while attempting to treat the different stakeholders fairly. It was for this reason that, instead of simply transforming the Konkur debt into shares, a broader transaction was adopted: an issue of OSRANE convertible bonds with preferential subscription rights potentially totalling €67.5m. Both the shareholders and the bondholders were treated fairly in this transaction.

The OSRANE convertible bond issue improved AgroGeneration financial structure

This issue was guaranteed on the level of €57.6m by the holders of the listed bonds, the single holder of unlisted bonds (Konkur) and the shareholders, including Konkur, the majority shareholder with a 62% stake. At the same time, the group raised €1.9m in cash.

As this issue is accounted for as 25% debt and 75% equity, the gearing was significantly reduced to 65%. The long term debt / EBITDA ratio is close to 1x and the debt / EBITDA ratio is less than 3x.

1.5 A rational growth strategy

AgroGeneration's strategy is based on a desire to grow in a rational manner. Management is conscious of the fact that certain Ukrainian competitors have grown too quickly, as integrating new acquisitions takes time. The principal strategic priorities are:

- Maintaining EBITDA at least equal to that in 2014 based on the existing scope of operations over the short term, even if agricultural commodity prices continue to fall. In order to attain this objective, the group will not focus exclusively on lifting yields given that continuous seeking to boost yields leads to using more inputs, something that could weigh on margins. Attention will be paid to the cost of purchases as well as other costs, notably administration and SG&A;
- An improvement in EBITDA margins at the farms in the West (around 20%) in order to lift them to the level in the East (around 30%), notably through a reduction in input costs;
- Development of the trade team in order to develop exports sales of the group's own harvests as well as those of other producers;
- Essentially organic growth over the short term through the signing of new leases around existing farms or, if the opportunity presents itself, the purchase of a farm. Organic growth could boost the company's size to above 150,000 hectares of farmland in the five coming years;
- Reinforcement of drying and storage capacities, above all in the West;
- The longer term goal is to build a group operating 300,000 hectares of farmland in Ukraine. This will involve a policy of purchasing other Ukrainian agro-holdings. The trend is for the consolidation of farmland by taking advantage of still existing attractive opportunities. Two bad years due to the conflict in the Donbass and the low agricultural commodity prices are further increasing the number of opportunities. The majority of the major players are currently experiencing financial difficulties. This favours sector consolidation.

AgroGeneration's strategy is based on a desire to grow in a rational manner

The group may be interested in expanding into new activities such as vegetables and livestock breeding or vertical integration through processing (oil etc.).

2 – Two risks now under control

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The situation in Ukraine and the decline in agricultural commodity prices penalised the group

Since the merger of AgroGeneration and Harmelia, two outside factor have penalised the new company. This explains how it found itself in a strained financial position and was obliged to proceed with the issue of OSRANE convertible bonds at the beginning of 2015. The conflict in Ukraine, which began in reality in March 2014, worsened until the signing in February 2015 of the Minsk 2 agreement, which partially normalised the situation. This conflict led to a sharp deterioration of the economic situation in Ukraine and a steep fall in the local currency, the hryvnia. At the same time, agricultural commodity prices continued their decline begun in mid-2013. Even if conditions will probably not improve significantly over the short term, the situation appears to have stabilised at a low level and should no longer significantly penalise AgroGeneration in the future, even if the risk here is not zero.

2.1 An agricultural commodities market near a low

While all the fundamentals argue in favour of a strong increase in demand for agricultural commodities and therefore higher prices, the sharp increase in supply (supported by very good harvests on the worldwide level) are preventing this over the short term. We nevertheless estimate that following two years of steep drops, prices are close to a low.

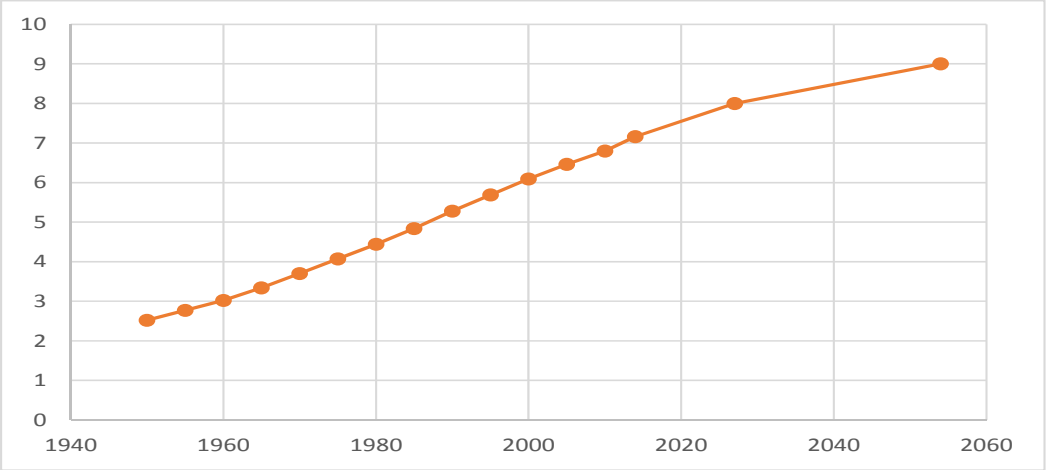
2.1.1 Despite expected growth in demand …

Several factors argue in favor of a positive trend in agricultural commodity prices:

❖ Population growth

The world population should reach over nine billion persons by 2050 compared to seven billion at present. In addition, it will be necessary to better feed the over one tenth of the current population that is undernourished. In total, it will be necessary to feed an additional population equal to eight times the current population of the United States over the coming decades.

The world population should reach over nine billion persons by 2050



Source: statistiques-mondiales.com

❖ Growth in per capita income

The developing nations are the principal source of the growth in per capita consumption. The growth in per capita income in the emerging markets should be three times higher than in the developed nations. When the populations in emerging markets become wealthier, they consume more meat, dairy products and vegetables, whose production requires more intensive use of farmland.

2 – Two risks now under control

The FAO estimates that in order to respond to dietary changes in the developing nations, meat production will have to double by 2050 compared to its current level. This means that the production of soybeans, corn and other forms of livestock feed will have to double also.

❖ The use of agricultural products in the production of biofuels

The continued growth in demand for biodiesel and bioethanol explains a significant portion of the increase in world demand for corn, sugarcane and vegetable oil, which are used in the production of biofuels. Increasing amounts of farmland will be diverted to non-food crops, leading to a tightening in supply and higher food prices over the coming years and decades.

Several factors argue in favor of a positive trend in agricultural commodity prices

Principal uses of world cereal production

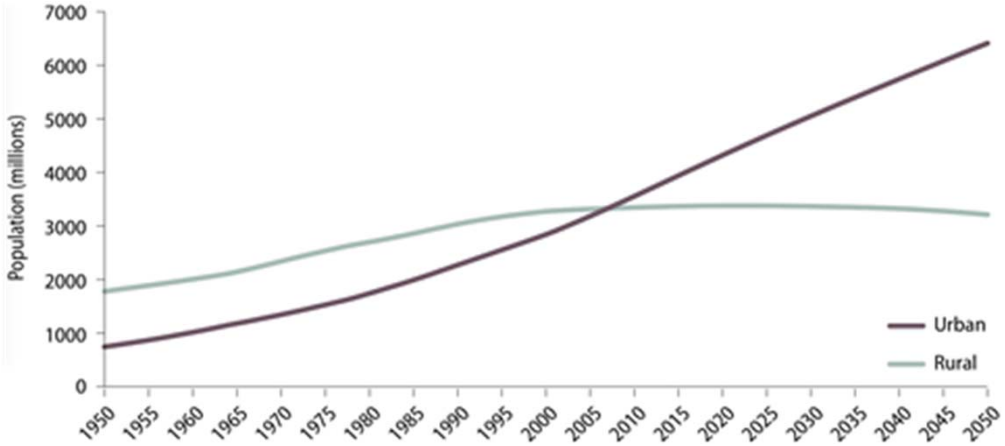
	2014 real	2020 forecasts
Food products	50%	48%
Feed for animals	39%	36%
Biofuels	2%	7%
Others	9%	9%

Source : FAO

❖ Galloping urbanisation

The worldwide urban population should increase by 20% over the coming decade, principally due to the growth of cities in developing nations. The lifestyles of urban populations stimulate per capita food consumption. Additionally, diverting water and land for urban development is affecting the sustainability of traditional farming methods.

Worldwide urban and rural population trends



Source : United Nations 2014

The combination of these factors argue in favour of strong growth in demand for agricultural commodities. According to EBRD estimates, these trends imply that world agricultural production should increase by 70% over the next 40 years. Supplying increased amounts of agricultural products will be a major challenge.

2 – Two risks now under control

2.1.2 … And an expected drop in supply …

For its part, the supply of agricultural commodities should fall because of:

❖ The worldwide shortage of arable land

This shortage is linked to population growth and increased urbanisation. According to FAO estimates, the worldwide availability of arable land per capita has fallen from around 0.4 hectares in 1962 to less than 0.2 hectares at present. This reduction in arable land signifies that the increase in future agricultural supply should principally come from increased productivity.

❖ The slowdown in the rise in agricultural productivity

The supply of agricultural commodities should fall

Even if the increase in productivity should continue to drive growth in agricultural commodities production, this increase is already slowing due to:

- The lack of fertile land, with newly cultivated land featuring lower productivity
- Increased competition for water, with cities demanding increasing amounts with the rise in urbanisation
- Climate change, which according to the IPFRI represents a major challenge in terms of sustainable growth in productivity and yields in the agricultural sector.

❖ Environmental degradation: Pollution and erosion limit the potential for higher yields and gains in the agriculture sector.

Given that there is little potential for supply growth in the developed nations, a majority of the new demand of agricultural commodities will have to be met by suppliers in the emerging markets. According to the FAO, while net world agricultural production should increase by nearly 2% per year through 2019, production in the OECD countries is forecast to grow by only 1%. For its part, annual growth in agricultural production in Ukraine is estimated at 3%, the second highest growth rate in the world after Brazil.

2.1.3 … Agricultural commodity prices are highly volatile

Agricultural commodity prices are set by establishing an equilibrium between supply and demand. The principal reasons for the high volatility in prices are:

❖ Agricultural products supply is partially determined by the seasonal nature of production. This seasonality implies a lag between supply and demand. As such, agricultural producers can only adapt their production levels to market demand after a delay.

❖ The tight nature of world agricultural markets. Less than 20% of world production of cereals (wheat, rice, corn) is traded on world markets, with the rest consumed in the producing countries. In comparison, this percentage is around 66% for oil. In this context, in case of a 5% fall in world cereals production, the producing countries privilege their domestic markets and subtract this 5% reduction from the quantities destined for export. This potentially has a very major effect on the prices set on the world markets. The effect is the opposite if a country exceeds its domestic consumption, something that is notably being seen at present in the United States. This multiples the effects of a variation in production in a major exporting countries on the price of the agricultural commodity in question.

❖ Demand is inelastic compared to the price, as basic foods products are essential goods for which there are no substitutes. In contrast, sharp swings in supply can be seen linked to weather conditions or plant diseases or, in contrast, to very good harvests throughout the world, as have been seen since 2013.

2 – Two risks now under control

Additionally, the financialisation of agricultural commodities has gathered pace over the last ten years with the creation of derivative products (futures and options). These derivative products are traded either on organised markets or over the counter.

Commodity-related transactions on the financial markets have developed rapidly since the 2000s, particularly on the OTC markets. According to the European Commission, investments by institutional investors on basic products derivatives markets rose from €13bn in 2003 to between €170bn and €205bn in 2008.

The volatility of commodities prices has increased significantly since the middle of the 2000s. This has caused problems for consumers and players on the production chain. Peaks in volatility were seen in certain commodities during the food crises in 2007-2008 and 2010-2011.

Agricultural commodity prices are set by establishing an equilibrium between supply and demand

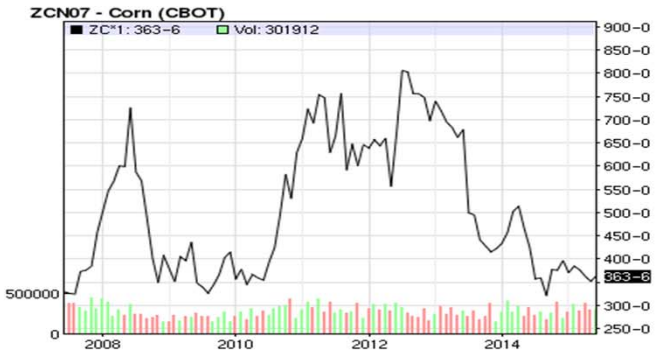
The strong growth in demand from China at the beginning of the 2000s had contributed to the strong increase in agricultural commodity prices.

Commodity prices have fallen sharply since mid-2013. Crops did not suffer any weather damage and the harvests were very good in the United States, without any major incident in any zone. Additionally, agricultural operators, whose appetites were whetted by the very high prices reached in 2011-2012, had increased the amount of land under cultivation. Harvests were therefore more than just abundant. While the Ukrainian crisis temporarily lifted agricultural commodity prices in 2014, the reality of more than just abundant production caused prices to plunge starting in the summer. In total, 2013 and 2014 saw very good harvests, leading to a sharp decline in prices.

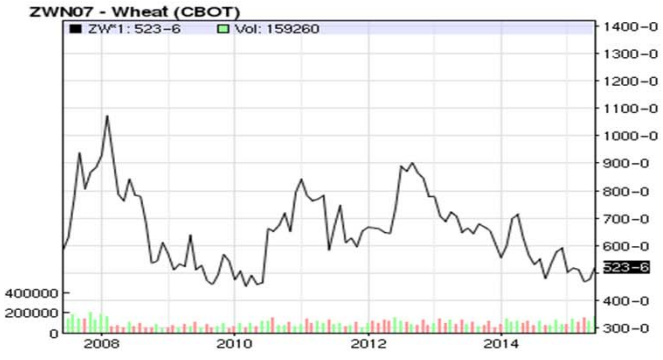
This trend will probably continue over the coming months, with harvests once again being good everywhere in the world in 2015. Over the longer term, we believe that a recovery in agricultural commodity prices is inevitable, as it is unlikely that harvests will remain good throughout the world and the factors shaping demand discussed above are quite real.

Corn, wheat and soybean prices on the Chicago Board of Trade over eight years

Corn price



Wheat price



Soybean price

Source : Nasdaq

2 – Two risks now under control

2.1.4 Impact on AgroGeneration

AgroGeneration was essentially affected by the fall in commodity prices in 2013, at the time of merger, when the rapid decline prevented it from adjusting its costs.

The price of agricultural commodities has remained low since mid-2013

While prices have remained low since mid-2013, they have nevertheless been relatively stable. At the same time, the company has taken measures to adapt its costs to the new price context. This adjustment in costs will continue as long as commodity prices do not rally, with AgroGeneration's goal being to maintain a level of EBITDA similar to that in 2014 as long as commodity prices don't increase.

In order to protect itself against fluctuations in commodity prices, AgroGeneration hedges a portion of its production through forward sales, the one reliable hedging strategy in Ukraine. The objective is to hedge 30-40% of its production prior to harvest by selling at a price above budget. However, as a result of the situation in Ukraine and uncertainties concerning commodity prices, the number of forward buyers has fallen significantly.

French farmers hedge 70-80% of their harvests. However, the tools used are different, with a higher correlation to the financial markets. Agricultural commodity prices are set either on the CBOT in Chicago or the MATIF in Paris, markets for which exist futures and options. AgroGeneration makes some use of these instruments. The former AgroGeneration attempted to use futures in 2010 but lost money, as it was unable to offset the rise in physical prices. AgroGeneration can use options as a form of insurance.

The trend in agricultural commodity prices is leading the company to avoid building up inventories. As in 2014, the entire harvest in 2015 should be sold.

2.2 A stabilised country risk

The situation in Ukraine deteriorated sharply in 2014

The situation in Ukraine deteriorated sharply in 2014 but has stabilised since the signing of the Minsk 2 agreement, with the separatists retaining their prerogatives in the zones that they occupy. The situation in these pro-Russian zones remains unstable and Russia should make use of this to exert its presence in the region. Russia does not want to see NATO on its borders, something that would constitute a casus belli. If the United States or Russia avoid exacerbating the situation, the status quo will likely be maintained, even if regular flare-ups would be seen and continue to have a negative media impact.

2.2.1 Historical background

Ukraine existed briefly as an independent state before 1991:

- Prior to the Russian revolution in 1917, the space occupied by the current Ukraine was occupied by several provinces (none of which was called Ukraine) within the empire created by Moscow.
- In 1921, the Bolsheviks set up a Ukrainian Soviet Socialist Republic, a simple administrative subdivision of the USSR, a move that cemented Ukraine as a political entity - a Republic.
- The independent Ukraine of 1991 is this Ukrainian Soviet Socialist Republic as restructured by Stalin in 1945. It combines three regions with different histories. Crimea was attached to this republic in 1954 but historically belonged prior to Russia to Crimean Tartars who were a large part of the population of Crimea before Stalin exiled them in the 1930's. The combination of regions that do not have the same religion (with three different Orthodox churches) and do not speak the same language is not obvious. In the last published census (2001), 29% of the inhabitants indicated that Russian was their native language. This percentage rose to 69% in the Donbass, the region in which the current conflict is taking place. This percentage fell to 42%-48% in the South and the East and was significantly lower in the other regions.

2 – Two risks now under control

- 2014 saw an escalation in the protest and political troubles that had begun at the end of 2013. In particular, the president and the majority of the members of the government were dismissed by the parliament in February 2014 after having refused closer ties with the European Union and a new government was set up. However, in reality, the principal reason for this upheaval of the high level of corruption among the country's leaders.
- The new president Petro Porochenko was elected on 25 May 2014. Crimea very rapidly and illegally joined Russia following an illegal referendum and demonstrations led by anti-government groups took place in the Ukrainian regions of Donetsk and Luhansk (Donbass) starting in March 2014. These demonstrations escalated into a form of an armed conflict instigated by Russia that was partially resolved under the Minsk 2 agreement.

The conflict was partially resolved under the Minsk 2 agreement

2.2.2 What is the outlook here?

The situation in Ukraine has reached a kind of equilibrium at present, even if it remains fragile. The Minsk 2 agreement installed a ceasefire that has been respected in general. However, isolated flare-ups are continuing to add to the casualty lists on an almost daily basis. Each of the parties are attempting to defend their own interests:

- Ukraine, partially supported by the United States, would like to obtain more weapons in order to be able to defend itself against the separatist rebels in the east of the country.
- The European Union is seeking to limit the conflict while supporting Ukraine. It is not in favour of a military action and has limited itself to sanctions against Russia that have been extended in June. The EU also wants Ukraine to implement more drastic anti-corruption measures, constitutional and judicial reforms and transparency in terms of the energy sector and the public finances. Assistance from the EU and the IMF depend on these actions being taken.
- Russia does not want NATO on its borders and is afraid of being swamped by European products through Ukraine due to its own free trade agreement with Kiev.

The Minsk 2 agreement installed a ceasefire while confirming Ukraine's borders. Nevertheless, the situation remains tense in Donbass, where the pro-Russian separatists continue to violate agreements and resume combat. Russia will use this situation as a way to maintain the pressure on Ukraine in order to prevent NATO from installing infrastructures too close to the border. Nevertheless, an equilibrium has probably been found here, as none of the parties has an interest in seeing an open conflict, even if sporadic flare-ups should continue.

2.2.3 Impact on AgroGeneration

The situation in Ukraine is affecting AgroGeneration on two levels: the potential risk for the company's day to day operations if its farms find themselves in conflict zones and, most importantly, the impact of the economic crisis resulting from this eroded political situation.

- Zero impact on AgroGeneration's operations

  The company operates in zones that are distant from the conflict, even if the farms coming from Harmelia are closer. Limited incursions were temporarily seen near the southernmost farm in Kharkiv (near Slavyansk). However, there is no longer any risk here. Operations were not affected and all of the farms have been able to operate normally since the beginning of the conflict.

2 – Two risks now under control

The problems in Ukraine don't weigh on AgroGeneration's operations….

Area of military conflict (Donbass)

Area where Agrogeneration is present ex-Agrogeneration's farms Harmelia's farms

Source : Company, Invest Securities

As the situation is returning to normal, the problems in Ukraine should not weigh on AgroGeneration's operations.

❖ The impact of the country's economic and political fragility, leading to the devaluation of the hryvnia

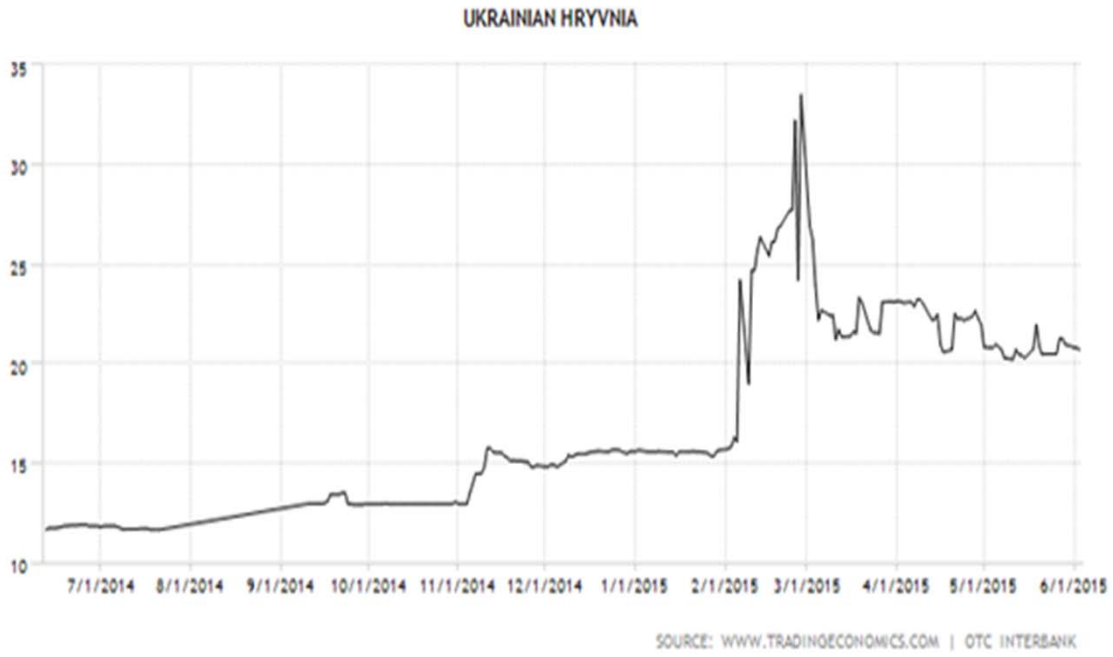
In economic terms, the hryvnia has fallen by nearly 60% since the beginning of the conflict. This has had a substantial impact on borrowings in euros, with a cash loss on crop loans (loans in dollars, converted into hryvnias and repaid in dollars at the end of the season). This was seen in AgroGeneration's 2014 results. The economic situation has also weakened local banks, which had up until now provided working capital financing (crop loans), at the same time financing offered by international establishments has fallen significantly.

The conflict also led to a 25-30% increase in the costs of oil, phytosanitary products, seeds and imported fertilisers, even if this factor is offset by the fact that AgroGeneration's sales are essentially in dollars.

2 – Two risks now under control

… but have weakened Ukraine's economic situation and its currency

Hryvnia vs. euro since the beginning of 2014



In conclusion, even if the conflict doesn't have a direct impact on AgroGeneration's business, the economic situation should not improve in 2015 which will continue to weigh on the cost of the crop loans.

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3 – Excellent business skills

3 – Excellent business skills

AgroGeneration is a farming company that leases land in Ukraine, principally from private owners. It then sows, applies crop treatments, harvests and sells the crops. The company has twelve major farms with over 10,000 hectares each that produce cereals and oilseed crops. Ukraine has many strengths in the agricultural product areas, such as the quality of its soil, a qualified, inexpensive workforce and satisfactory infrastructures. AgroGeneration perfectly controls its business model. This enables it to develop yields above the average in Ukraine. The group is continuing to work on the improvement of its processes and costs.

3.1 A farming company

AgroGeneration is a large scale producer of agricultural commodities…..

AgroGeneration is a large scale producer of agricultural commodities that sows, applies crop treatments, harvests and sells the crops. The company operates large farms with over 10,000 hectares, larger sizes than those found in the United States and Canada. This model had been initially developed by the kolkhozes (Soviet era cooperative farms).

AgroGeneration operates 12 farms totalling c.a. 120,000 hectares, including 42,000 hectares located in the black earth region in north-western Ukraine and up to 80,000 hectares in eastern Ukraine. AgroGeneration does not own the land, manages lease contracts with an average duration of 10.5 years, with rent paid to each of the owners or to the local authorities.

3.1.1 Cereals and oilseed crops

The company focuses on cereals (wheat, corn and barley (leading producer of malt barley)) and three oilseed crops (sunflowers, rapeseed and soybeans). The company also produces legumes such as peas and chickpeas.

… and operates 120,000 hectares of land

Crops are diversified in order to respect basic agronomic principles, notably crop rotation. Land is rotated every four or five years, as oilseed crops should not be planted too often. The order of rotation is generally barley, rapeseed, wheat, corn and then sunflowers.

Rapeseed is essentially cultivated in the west given that winter conditions are too harsh in eastern Ukraine.

3.1.2 Two crops per year

As in France, there are two sowing periods per year, referred to as winter or spring crops:

- The winter crops are sown in year N-1: wheat in September and rapeseed at the beginning of August. This also concerns winter barley to a certain extent. These crops grow during the autumn. In the winter, the crops are covered by snow during their growth, with the snow protecting them when the temperatures fall to between -15 and -20 C°. When the snow melts, fertiliser is applied. The crops are harvested in July of year N.
- The spring crops (soy, sunflowers, barley, peas, rapeseed and corn) are sown at the end of March and in April of year N. These crops are harvested from the beginning of July to November in year N.

Regardless of whether they are winter or spring crops, harvests always take place in year N.

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3.1.3 The need for all inputs

Inputs include all the products used for the harvests, be they the seeds themselves or products needed to favour crop growth. The principal inputs are:

- Seeds: AgroGeneration makes 80% use of certified seeds purchased from major companies such as Limagrain, Pioneer, Syngenta and Monsanto. All seeds are non-GMO. For wheat, barley and peas (which are not hybrids), it is possible to reuse a portion of the seeds coming from their plots or the seeds purchased a year earlier. In contrast, corn and rapeseed are hybrids (need to make crossings). This is therefore not possible here.
- Phyosanitary products (herbicides, insecticides, fungicides). The former AgroGeneration purchased branded products instead of generics. Harmelia has more confidence in proven generics. It is for this reason that the new company makes increasing use of generics for basic products including herbicides and insecticides, but usually not for fungicides, which may cost less but can be less effective and leave traces in the soil. The real expertise in obtaining good yields involves the choice of the period of application.

Inputs include all what is used for the crops

- Fertilisers: organic or mineral substance, often used in mixtures, designed to provide plants with supplementary nutritional elements in order to improve their growth and increase the yield and quality of crops. Fertilisers are principally made up of nitrogen (N), phosphorus (P) and potassium (K), leading to the term NPK fertilisers. The differentiating factor involves the doses.

The cost model associated with a Ukrainian farm is principally a direct cost model (between 40% and 50% of a farm's average revenues) principally made up of inputs. Input costs are higher in the West than the East due to the difference in crops between these two zones. As such, crops in the West (corn, rapeseed) require costly seeds and substantial amounts of fertilisers. In contrast, crops in the East use less expensive seeds (wheat, peas) and less fertilisers (sunflowers, peas), but more chemical treatments (sunflowers).

3.1.4 Drying and storage: important steps before commercialisation

Once the crops are harvested, they must be dried and stored. Storage is an important part of the value chain as it enables the company to benefit from periods of rising agricultural commodity prices by waiting before selling a portion of the harvest.

Storage enables to wait before selling a portion of the harvest

At 158,000 metric tons, Harmelia's storage capacity was greater than the former AgroGeneration (78,500 metric tons).

Horizontal storage facilities with a capacity of 117,000 metric tons are located on the farms and are used to store small quantities of cereals for short periods. AgroGeneration currently owns five grain elevators with a capacity close to 120,000 metric tons.

Over the short term, the company wishes to increase its capacities in drying and then storage with new silos, as it is often obliged to make use of outside facilities featuring high costs. Its objective is to develop modern silos, keeping in mind that only four farms currently have vertical silos close to railways. Certain farms are far from railways. However, it is possible to have silos in a different location than the farms. The company also uses silo bags for temporary storage of grain. The company can provide contract processing services for third parties.

A small €1.3m acquisition was made at the beginning of 2015 in order to increase the company's storage capacities. The acquired company, Agroholding Tornado, owns a grain elevator with storage capacity of 39,100 metric tons, with railhead, and enough land for additional vertical and horizontal storage capacity.

3 – Excellent business skills

3.2 A favourable environment for farming

Farming in Ukraine benefits from several positive factors. The country has a good location, good infrastructures and an inexpensive, qualified workforce. It has substantial and good quality arable land. Finally, the climate is favourable towards the North (both east and west), the zones in which the company operates.

3.2.1 A country with numerous strong points

The Ukrainian environment has numerous strong points

Even if recent events have tended to make us forget, Ukraine has numerous strong points, notably:

- A favourable geographical situation between Europe and Asia that gives it a competitive advantage in terms of exports to its principal markets, the Middle East, Northern Africa and the European Union. In 2013, up to 76% of cereal production in Ukraine was exported to Europe, the CIS countries, the Middle East and Northern Africa.
- Sufficiently developed infrastructures to support agricultural production and exports. The most utilised network for freight is the railways, which rank 25th out of 104 countries worldwide in terms of the quality of infrastructures (source: world competitiveness report 2014-2015). Ukraine also has 14 seaports and 11 river ports and can transport nearly 33 million metric tons of cereals and oilseed crops per year.
- Relatively low labour costs. In H1 2014, average monthly salaries in the agricultural sector were 30% lower than the worldwide average (source: earthobservations.org, ceryc.eu, eea.europa.eu). Additionally, the workforce is well trained, with one of the highest levels of enrolment in higher education in the world (13th out of 141 countries).

3.2.2 Favourable land for agriculture

Land devoted to agriculture makes up a substantial portion of total land in Ukraine at 41.6 million hectares out of a total surface of 57.9 million hectares. Arable land, i.e. planted with temporary crops along the lines of AgroGeneration's operations, represents 32.5 million hectares.

Arable land represents 56% of total acreage of earth

Structure of the earth in Ukraine

	Million hectares	%
Total acreage of the country	60,4	
Total acreage of earth	57,9	100%
Agricultural land	41,6	72%
of which arable land	32,5	56%
of which prairies and pastures	7,9	14%
dont autres	1,2	2%

Source : Ukrainian national land committe

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Ukraine is one of the four countries in the world (along with Bangladesh, Denmark and Moldavia) where arable land makes up over 55% of total land. Given its size, Ukraine has more arable land than any other country in Europe with 32.5 million hectares representing 11.7% of arable land in Europe and 56.2% of total land in Ukraine. The amount of arable land in Ukraine is nearly 5x greater than in Italy and 3x greater than in Germany. Ukraine has 0.71 hectares of land per inhabitant vs. 0.26 for the EU 27.

Additionally, the arable land in Ukraine is characterised by the presence of black earth (chernozem) that is favourable for agricultural development given that it retains humidity and has high organic matter. Ukraine has nearly a third of the world's black earth. This black earth represents nearly 60% of cultivated land in Ukraine.

Arable land is divided in four parts. One part (7m hectares) is cultivated by companies such as AgroGeneration, an experienced farming company that uses new technologies. A second part is exploited by farmers (15m hectares). A third part is owned by the Government (5m hectares).

In total, 27m of 32m hectares are cultivated meaning that 5m hectares of arable land are not cultivated at all. Land must be worked in order to increase yields. Production reaches its stride after four to five years, when the soil begins to be properly nourished. The size of fields is largely greater than what is seen in the rest of the world.

Field size is higher than in the rest of the world

Average sizes throughout the world (hectares)

Part of the World	Country	Average size of the fields (hectares)
Asia	India	1,0
	Thailand	3,4
America	Canada	63,4
	Brasil	65,0
Europe	Ireland	3,9
	France	7,1
	Italy	7,5
	Hungary	9,0
	United Kingdom	12,0
	Ukraine	100-150
	European average	05-10

Source : earthobservations.org, ceryc.eu, eea.europa.eu

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3.2.3 A favourable climate

Ukraine's climate is favourable for agriculture, principally in the north, which benefits from good rainfalls. The southern zone is drier, thereby requires crop irrigation. This was done in the time of the USSR, but is costly.

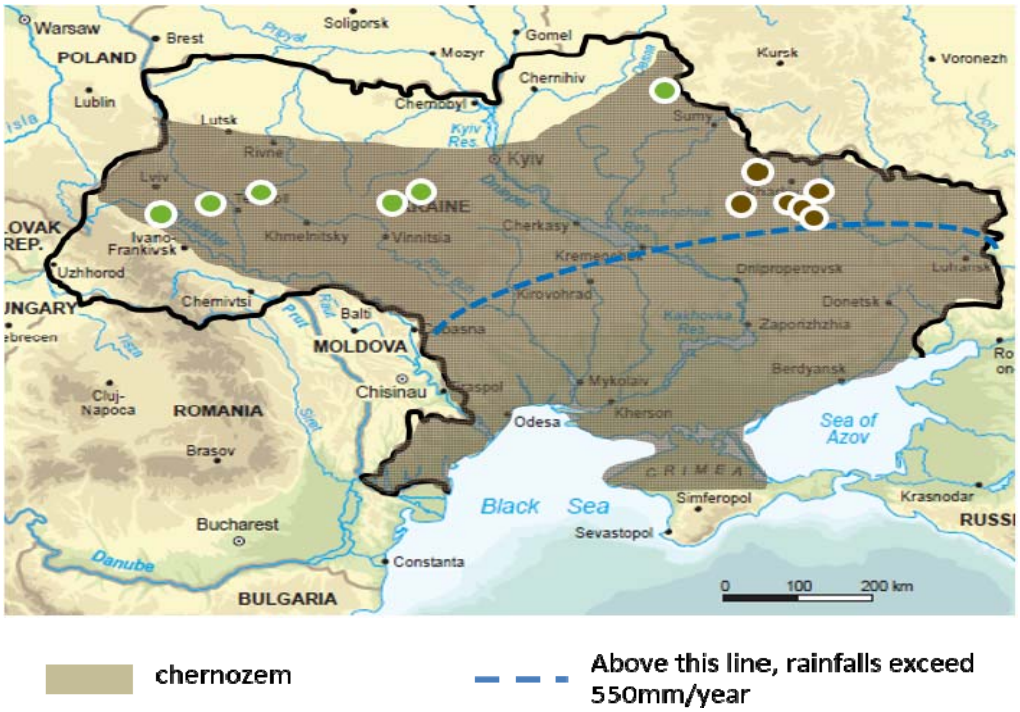
AgroGeneration is positioned in those regions of Ukraine that, in addition to their soil quality, have rainfalls above 150 mm per year.

All of AgroGeneration's land is well located, except for the southern zone, where rainfall is limited. This makes irrigation necessary, as was the case in the time of the USSR, leading to significant costs.

The former AgroGeneration's land was found in more humid zones than that of Harmelia. The complementary nature of these zones reduces the new company's climate risk and enables it to diversify its harvests, with corn and rapeseed in the west and wheat in the east.

AgroGeneration is positioned in regions that have rainfalls above 150 mm per year

Presence of black earth and rainfalls at AgroGeneration's farms



Source : AgroGeneration, Invest Securities

3 – Excellent business skills

3.3 Good control over the business model

3.3.1 A business model based on leased land

AgroGeneration farms lease land that it exploits from individuals and, to a lesser extent, the Ukrainian government. The fields are very large and can belong to 100 owners. The company has a little over 35,000 leases running from one to 20 years for land leased from individuals and from one to 40 years for land leased from the government. The leases are set on a fixed basis.

AgroGeneration relies on a team dedicated to the management of leases

Registration status of AgroGeneration leases

	Number of leases	Acreage (ha)	% (in ha)
Registration completed	36306	106640	89%
of which State land	675	11575	10%
of which Private land	35631	95065	79%
Registration in process	1556	13360	11%
Total	**37862**	**120000**	**100%**

Source : Company

Leases therefore expire and are renewed on a regular basis. In this regard, AgroGeneration relies on a team dedicated to the management of leases based on data listing their characteristics. This team constantly takes measures of the cadastre registered leases to ensure that they are located in farmland areas and is always working to attract new landowners around the company's farms.

AgroGeneration pays particular attention to the land that it will cultivate. Each new farm must involve the exploitation of at least 5,000 to 10,000 hectares unless they are located close to clusters. The new lots must be located within a maximum perimeter of 20-50 km around the principal farm in order to allow the shared use of agricultural machinery. The land must be easily accessible by road or by train and a systematic audit of the soil quality is conducted.

3.3.2 High performance machines

The agricultural machinery undergoes extensive use, harvesting from 1200- 1,500 hectares vs. 500 hectares in France. It is therefore necessary to have good quality machinery. This machinery comes from Western manufacturers in the majority of cases and is equipped with GPS sensors that allow the recording and monitoring of working parameters on a real time basis majority.

AgroGeneration owns 75% of its equipment, which is depreciated over 5-7 years. The remaining 25% is financed through leasing agreement with Italian and Austrian establishments, local subsidiaries of international groups.

As of end 2014, AgroGeneration had 1,217 owned or leased machines.

Machinery is of good quality and from Western manufacturers

Agricultural machinery park

Machine type	Manufacturer	Number of units
Self-propelled machines		
Tractors	Case, fendt, MTZ, KhTZ, MF, others	276
Combine harvesters	John Derre, New Holland, Case	76
Sprayers	Case, Joh Deere, Berthoud, Tecnoma	18
Trucks	MAN, KAMAZ, GAZ, SAZ, ZIL	208
Cars	VAZ, Renault, Chevrolet, autres	125
Mounting and lasting machines		
Seeders	Horsch, Kinze, Great Plains, autres	102
Sprayers	Hardi, Berthoud, Tecnoma, autres	41
Fertilizer spreader	Rauch, Kuhn, autres	58
Ploughs	Horsch, Gregoire Besson, autres	202
Lopping machines	John Deere, New Holland, Fantini, Case, autres	111

Source : company

3 – Excellent business skills

3.3.3 Semi-intensive agricultural techniques based on a cluster model

AgroGeneration's operating model is based on a standard operating model of around 10,000 hectares in order to promote economies of scale. In order to obtaining effective management structures, the farms located in a single region are grouped into clusters. This allows the creation of regional platforms that favour the continued expansion and reproduction of the model.

Within a cluster, the most attractive land in terms of expansion is neighbouring land, as it constitutes the most efficient and least expensive way to expand the company's activities. To this end, AgroGeneration takes over farms immediately next to each other and then restructures them in order to operate them as a single entity and reduce operating costs.

Farms in a single region are grouped into clusters

The farms are grouped in an optimal manner into one or several operational centres that serve as central administrative points for the warehousing of inputs and spare parts, maintenance, contractual services, transportation and logistical services.

The group of land into clusters favours economies of scale and lowers average operating costs. Once critical mass is obtained, it is possible to develop or purchase a central storage centre with good road and rail connections and a maintenance centre of the upkeep of all the farms and machinery. This involves a radius of 50-100 km depending on the road access.

3.3.4 High yields

Over the long term, the company wishes to apply cutting edge agricultural technologies and reduce its costs by focusing on the most appropriate crops and the improvement of yields. Crop rotation over five years accompanied by a better tilling has been implemented at AgroGeneration's farms on the basis of calculations of the potential yields for basic crops as well as agronomic profitability experiments.

AgroGeneration's yields are above the average for Ukraine. Its average cereal yields exceeds the Ukrainian averages by 30-40%. Yields for the other crops are 10-40% higher than the Ukrainian averages after only a few years of operations.

These yields are not comparable to those seen in France, where the CAP paid subsidies by metric ton of products, thereby pushing farmers to attain high yields of 10-11 metric tons / hectare. These yields are now falling, with subsidies now paid per hectare.

Yields in Ukraine range between 1,5-8 metric tons per hectare depending of the culture. Beyond this level, the metric ton is more expensive to produce. The approach is different for French farmers, who have small farms. Additionally, the weather risk is greater. In France, the variation in yields does not exceed 15% at most, while this variation can reach 60% in Ukraine. It is therefore not useful to seek overly high yields, as the harvest may not be good.

As AgroGeneration does not target the same yields as obtained in France, its methods are therefore adapted to semi-intensive agriculture, which involves:

Yieds are above Ukrainian yields

- Agricultural technologies allowing the production of the most appropriate crops and improvements in yields. The choice of crops is made through an interactive process in which the farm managers indicate a proposed crop / required inputs mix. This data is then upstreamed to the economist, who crosses these figures with the overall database covering all the farms. This enables the optimization of harvests by hectare. Several iterations take place between the farms and the economist in order to optimise the anticipated yields per hectare and to improve them.
- Crop rotation over five years in order to optimise margins. For example, sunflower plantings were expanded in 2014, as they generated higher margins. It was no longer possible to replant sunflowers on the same land the next year. They were therefore replaced by wheat.

3 – Excellent business skills

- Controlled use of inputs. Semi-intensive agriculture requires less inputs (fertiliser, phytosanitary products) than in Western Europe. Ukraine's black earth allows this. It is sometimes preferable to have slightly lower yields if the cost of inputs can be significantly reduced.
- The use of the best quality fertilisers, seeds and agricultural products in order to optimise yields.

AgroGeneration's has no objective regarding yields as it favours EBITDA per hectare. Yields have risen over recent years and the potential for further improvement is now limited. Improvement in profitability will come for the optimisation of production: inputs, agricultural practices and cost reductions.

Certain yields for the former AgroGeneration were higher (corn and soybean for example) than those of Harmelia principally due to its presence in better zones. However, wheat and sunflower yields in the East (Harmelia perimeter) are normally higher.

AgroGeneration favours EBITDA/hectare

AgroGeneration is more focused on EBITDA per hectare (or cash per hectare) than on yields. If the additional input costs is too high to reach a targeted yield, the group will favour cash per hectare.

3.3.5 Rigorous management

AgroGeneration is able to rely on both local and Western European expertise. The company centralises certain administrative functions and introduces new agricultural techniques in the field with the help of technical specialists and agronomists.

Given the uncertainties relating to farming and the continued very low agricultural commodity prices, it is important for AgroGeneration to have rigorous management processes. As long as agricultural commodity prices remain unchanged, the cost of purchases must be controlled perfectly in order to maintain EBITDA. Additionally, the breakdown of harvests is analysed in order to have a maximum amount of crops with high EBITDA. As such, in the West, corn (whose price has fallen sharply) has been partially replaced by soybeans and sunflowers. Peas, which are nitrogen-fixing and also have high EBITDA, are also being privileged.

In order to formalise its new management policies, the company has put into place a range of forecasting, analysis and operating control tools and processes at each of its farms. Some of these processes are based on the Lean Six Sigma management system, which aims to improve the quality and effectiveness of processes. All of this is used to allow very precise monitoring of the operations, budget, agronomy and finances.

Improvements have been made in logistics, notably as concerns the supply of tyres and filters. This has led to a significant fall in inventories.

AgroGeneration has rigorous management processes

The principal improvements already made in terms of operating management are:

- Improvements on the accounting level in order to bring existing accounting methods into line with legal obligations and local tax declarations;
- Improvements in the budget level and adoption of a standardised budget approval process;
- Significant progress in the centralisation of purchases and sales;
- Improved land use management and adoption of modern agricultural techniques;
- Adoption of a centralised accounting, integrated operations and machine monitoring (GPS tracking and fuel sensor) systems.

4 – A healthier financial situation

4 – A healthier financial situation

AgroGeneration's financial situation was hit hard by the economic crisis in Ukraine and the fall in commodity prices. This came on top of the high debt linked to the financial structure adopted at the time of the merger of the former AgroGeneration and Harmelia. All this led to the financial restructuring at the beginning of 2015. Nevertheless, these difficulties should not mask the fact that the company has shown satisfactory results on the operating level despite the continued depressed commodity prices. Thanks to good cost control, the company should maintain an EBITDA margin above 40% (vs 31.6% in 2014). Even assuming prices far below those in 2013, a recovery in agricultural commodity prices starting in 2017 would favour earnings growth and accelerated cash generation.

4.1 Gradual recovery in revenues

AgroGeneration's revenues depend on its production of agricultural commodities

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

- The total number of hectares exploited by AgroGeneration, keeping in mind that all the land is not cultivated as fallow land represents 2-5% of the land. This is a variable that AgroGeneration can control and is decreasing. In addition, each year, the company gests new leases which costs are included in capex.
- The breakdown of cultivated land by crop, keeping in mind that rotation is effectuated each year to avoid soil depletion. This is a choice made by AgroGeneration, which seeks to optimise its margins.
- The yields per hectare. While yields have risen over recent year, they should not be pushed too far, as they could lead to substantial additional input costs. This factor partially depends on AgroGeneration's choices in terms of inputs, but also on weather conditions. AgroGeneration will favour the EBITDA per hectare to the yield per hectare.
- The price per metric ton for crops, which is set by the markets on which AgroGeneration has no influence.

Forecasts therefore depend on agricultural commodity prices, an exogenous factor that is difficult to forecast over the short term. Since mid-2013, agricultural commodity prices have fallen quickly and sharply due to abundant harvests throughout the world. It is currently difficult to forecast the short-term outlook, even if poorer harvests are expected in India and Russia due to droughts and in the United States due to heavy rains in certain regions. The El Niño phenomenon could produce drought conditions in certain regions. However, this has not been confirmed as of now. The prices went up during the past weeks but it is impossible to say if this trend will last.

Given the population growth, rapid urbanisation and increased per capita wealth, we believe that a recovery in commodity prices is inevitable over the medium term.

In our model, we have not assumed increases in prices in agricultural commodity prices in 2015 and have used current prices. In 2016, we have assumed that the prices will come back to their 2014 level. We then forecast a gradual recovery between 2017 and 2019 and assume that as of the end of 2019, prices will have recovered half of their losses between 2013 and 2015, corresponding to growth of around 6% per year. This is an imperfect but cautious way to model a rebound in prices. It is virtually certain that a rebound will be seen before 2019 (less favourable weather conditions for harvests on the worldwide level, increase in demand etc.). However, this will probably be more brutal and more significant.

4 – A healthier financial situation

From 2016, new leases will be signed

From 2016, we have taken in account a growth in the number of hectares harvested as new leases will be signed, which is included in our capex.

Concerning the breakdown of crops, we have not assumed any significant change compared to 2015 except for growth for sunflower, rapeseed and soybean compared to wheat and to corn starting in 2016.

As prices are set in dollars, we have assumed a stable euro/dollar exchange rate compared to current levels. We have also assumed that yields will slightly increase for wheat, corn, sunflower and soybean.

We have also assumed that all of the production will be sold. While this should be the case this year, if the price of agricultural commodities rises, a portion of the production will probably be stored.

In 2015, we are expect a slight sales decrease (-0,2%) due to a further drop of commodity prices. In 2016, revenues should increase mainly because commodity prices should reach the same level as in 2014. From 2017, revenues should benefit from an expected rebound of commodity prices. The increase of the number of hectares harvested should also have a positive impact on sales.

Based on these assumptions, our production and revenue forecasts are the following:

4 – A healthier financial situation

We have assumed an increase in agricultural commodity prices from 2017

	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Hectares controlled	63 410	120 000	120 000	120 000	129 040	140 802	155 177	155 177
Growth		*89%*	*0%*	*0%*	*8%*	*9%*	*10%*	*0%*
Hectares harvested	50 598	109 981	103 366	107 500	121 297	133 761	147 418	147 418
Split/crop (ha)								
Wheat	12 880	38 314	27 144	45 150	46 093	48 154	50 122	48 648
Rapeseed	7 051	9 221	6 485	8 600	10 917	12 039	13 268	13 268
Barley	9 238	7 069	12 729	10 750	12 736	14 848	16 511	16 658
Corn	10 036	23 814	8 400	7 525	7 278	7 357	8 108	8 108
Sunflower	2 819	16 308	32 043	17 200	21 834	26 752	32 432	33 906
Peas		8 738	11 452	9 675	10 917	12 039	13 268	13 268
Soybean	4 935	4 829	4 018	7 525	10 917	12 039	13 268	13 268
Others	3 639	1 688	1 094	1 075	606	535	442	295
In percentage								
Wheat	25%	35%	26%	42%	38%	36%	34%	33%
Rapeseed	14%	8%	6%	8%	9%	9%	9%	9%
Barley	18%	6%	12%	10%	11%	11%	11%	11%
Corn	20%	22%	8%	7%	6%	6%	6%	6%
Sunflower	6%	15%	31%	16%	18%	20%	22%	23%
Peas	0%	8%	11%	9%	9%	9%	9%	9%
Soybean	10%	4%	4%	7%	9%	9%	9%	9%
Others	7%	2%	1%	1%	1%	0%	0%	0%
Yields (t/ha)								
Wheat	4,3	4,8	5,2	4,9	5,3	5,4	5,5	5,6
Rapeseed	2,6	2,3	2,9	2,7	2,9	3,0	3,1	3,2
Barley	3,7	3,6	4,7	4,6	4,7	4,7	4,7	4,7
Corn	8,0	5,6	6,5	6,5	7,1	7,4	7,7	7,8
Sunflower	2,0	2,3	2,5	2,5	2,6	2,7	2,8	2,9
Peas		1,6	2,2	2,2	2,2	2,2	2,2	2,2
Soybean	1,9	1,6	1,8	1,8	1,9	2,1	2,2	2,3
Others	1,7	9,8	11,6	11,6	11,5	11,5	11,5	11,5
Average	4,1	4,0	3,9	4,0	4,1	4,1	4,1	4,2
Production (tons)								
Wheat	55 261	183 787	142 054	221 235	244 293	260 032	275 672	272 429
Rapeseed	18 491	20 906	18 682	23 220	31 659	36 116	41 130	42 456
Barley	33 945	25 441	60 248	49 450	59 860	69 783	77 601	78 294
Corn	79 792	133 872	54 571	48 887	51 673	54 441	62 432	63 242
Sunflower	5 536	37 858	79 840	42 856	56 767	72 231	90 810	98 328
Peas	0	13 866	25 640	21 661	24 017	26 485	29 189	29 189
Soybean	9 402	7 768	7 287	13 647	20 742	25 281	29 189	30 516
Others	6 048	16 616	12 642	12 422	6 975	6 153	5 086	3 391
Total	208 475	440 114	400 964	433 379	495 985	550 522	611 108	617 845
Average price (inc VAT)								
Wheat			164	152	164	173	183	193
Rapeseed			322	330	322	337	353	369
Barley			145	134	145	156	167	179
Corn			135	135	135	143	151	160
Sunflower			312	339	312	332	352	374
Peas			200	200	200	210	221	232
Soybean			416	348	416	439	462	488
Others			200	200	200	200	200	200
Production value (Inc VAT)								
Wheat			23,3	33,6	40,1	45,1	50,5	52,7
Rapeseed			6,0	7,7	10,2	12,2	14,5	15,7
Barley			8,8	6,6	8,7	10,9	12,9	14,0
Corn			7,4	6,6	7,0	7,8	9,4	10,1
Sunflower			24,9	14,5	17,7	24,0	32,0	36,8
Peas			5,1	4,3	4,8	5,6	6,4	6,8
Soybean			3,0	4,8	8,6	11,1	13,5	14,9
Others			2,5	2,5	1,4	1,2	1,0	0,7
Production (inc VAT)			**81,1**	**80,6**	**98,5**	**117,7**	**140,3**	**151,6**
Production (excl VAT)			**64,6**	**64,4**	**78,8**	**94,2**	**112,2**	**121,3**
VAT (20%)			16,5	16,1	19,7	23,5	28,1	30,3

4 – A healthier financial situation

4.2 Stable margins over the short term

AgroGeneration's margins are shaped by the following factors:

- Trends in commodity prices which we have taken into account in our revenues forecasts.
- Trends in input prices which are linked to changes in the number of hectares harvested and the inflation rate which we have estimated at 5%.
- Changes in salaries which are correlated to the number of hectares harvested assuming that only half of the employees are directly dedicated to cultures. We also assume that salaries increase by 5% each year.
- Changes in other charges : rents and fuel which are linked to the number of hectares harvested and the inflation rate.
- Exchange rate trends vs. the euro. The prices of agricultural commodities, inputs and energy (corresponding to 70% of costs) are set in dollars. The remaining costs (principally lease payments and labour costs) are in hryvnias.

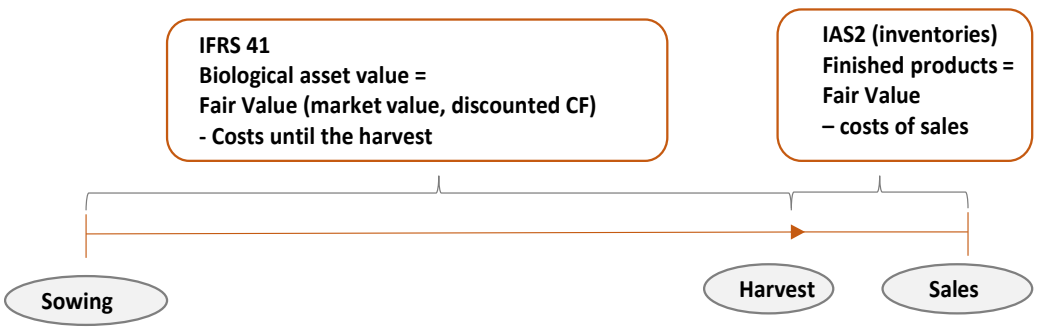
Costs increase are linked to inflation, new hectares harvested and commodity prices

The other factors affecting the P&L statement are:

- The biological assets, corresponding to plants cultivated in anticipation of future sales (i.e. the plants in the ground). The IFRS standards (IFRS 41) seek to best establish the fair value of crops. A valuation is made up until the harvest. As such, at each close of a reporting period, the biological assets are recorded at their fair value reduced by sale costs on the date of the harvest. The valuation of biological assets varies as a function of weather conditions, potential yields and price variations. Any changes in these parameters have a significant impact on the P&L statement. In 2014, if the assumptions made by AgroGeneration had varied by 10%, the impact on the fair value of the biological assets and therefore the group's gross profit would have equalled €2.921m.

  The agricultural products harvested by the company are no longer recorded as biological assets, but instead as finished products. They are accounted for in inventories (IAS2) as "finished products" and valued at the lower of their fair value at the time of harvest or their net realisable value. This net realisable value-based valuation is presented in the form of a write-down or write-up of inventories ("change in the fair value of finished products"). These inventories are held up until sale.

Valuation of biological assets and finished products



In the end, the P&L statement will be impacted by the variation in the fair value of biological assets and finished products. If there are no sharp swings in agricultural commodity prices between 31 December and the moment at which the production is sold, the variations in the prices of biological assets listed on the P&L statement will be limited.

4 – A healthier financial situation

Agricultural enterprises don't pay VAT and Income Tax in Ukraine

- The VAT. Ukraine has a VAT system similar to that in France, with a standard rate of 20%. The VAT system that agricultural enterprises can use is highly favourable, as the VAT received is retained by the company in order to enable it to deduct the amount of VAT paid to its suppliers. The balance of the VAT due is retained by the company. On AgroGeneration's balance sheet, the VAT is treated as an operating subsidy. There was talk of eliminating this tax advantage in 2014. However, the government has no interest in doing so, as agricultural exports are one of its principal sources of revenues.
- The fixed agricultural tax. This tax is not based on the company's profit before tax, but instead on a very low percentage (around 0.45% starting 1 January 2015) of the cadastral value of the leased land. In reality, AgroGeneration does not pay corporate income tax.
- Exchange rate losses linked to the fall of hryvnia, with the debt being principally denominated in dollars and euros. These exchange rate losses essentially concern crop loans, which total around €25m in 2015 and are repaid as crops are sold. We therefore estimate that they only run eight months. The exchange rate losses also involve intra-group loans totalling around €3m and the repayment of the Konkur debt in connection with the OSRANE convertible bond. This repayment was made at a higher dollar rate than at the time of its contracting in October 2013. In total, we estimate the exchange rate losses at €17.5m in 2015.

We expect an improvement of AgroGeneration's earnings thanks to :

- The sales increase expected from 2016,
- A tight cost control of inputs and salaries which which will favour an improvement of the EBITDA margin which should be above 40% in 2019. The inputs costs control will be high in 2015 to offset the slight sales decrease. We anticipate a €2m decrease.
- A significant decrease of the financial costs from 2016 even if they will continue to weigh on 2015 earnings due to exchange losses. The group should return to profitability at that time.

4 – A healthier financial situation

Forecast AgroGeneration P&L statement

€m	12/12	12/13	12/14	12/15e	12/16e	12/17e	01/18e	01/19e
REVENUE	**32,8**	**53,7**	**64,6**	**64,4**	**78,8**	**94,2**	**112,2**	**121,3**
Change in fair value of finished goods and fair value adjustment at the harvest date	8,0	2,1	1,4	1,4	1,4	1,4	1,4	1,4
Change of fair value of biological assets			0,7	0,7	0,9	1,1	1,3	1,4
Raw materials, purchases services and leasing	-33,6	-49,4	-42,9	-43,9	-52,0	-60,2	-69,7	-73,2
VALUE ADDED	**7,1**	**6,4**	**23,9**	**22,7**	**29,1**	**36,4**	**45,3**	**50,9**
Personnel costs	-7,3	-10,2	-8,3	-6,5	-7,5	-8,5	-9,6	-10,0
Opreating subsidies		2,7	6,3	6,3	7,7	9,2	10,9	11,8
Other income	8,3		0,0	0,0	0,0	0,0	0,0	0,0
Other expenses	0,5	-8,7	-1,5	-1,6	-1,9	-2,2	-2,5	-2,7
EBITDA	**8,6**	**-9,8**	**20,4**	**20,9**	**27,4**	**35,0**	**44,1**	**50,0**
EBITDA margin	*26,3%*	*-18,3%*	*31,6%*	*32,4%*	*34,7%*	*37,1%*	*39,3%*	*41,2%*
Reversal of provisions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Depreciations	-3,7	-7,0	-7,3	-4,8	-5,2	-6,1	-7,8	-8,4
Provisions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total depreciations and provisions	-3,7	-7,0	-7,3	-4,8	-5,2	-6,1	-7,8	-8,4
EBIT	**4,9**	**-16,8**	**13,1**	**16,0**	**22,1**	**28,9**	**36,3**	**41,6**
EBIT margin	*14,9%*	*-31,3%*	*20,3%*	*24,9%*	*28,1%*	*30,7%*	*32,4%*	*34,3%*
Financial income	0,0	0,0	0,0	0,1	0,2	0,3	0,5	0,9
Financial expenses	-0,4	-3,5	-8,9	-7,7	-6,3	-6,4	-6,6	-4,5
Other financial expenses and exchange impact	0,0	0,0	-27,3	-17,5	0,0	0,0	0,0	0,0
Financial net expenses	-0,4	-3,5	-36,2	-25,1	-6,1	-6,1	-6,0	-3,6
CURRENT INCOME	**4,5**	**-20,3**	**-23,1**	**-9,1**	**16,0**	**22,8**	**30,3**	**38,0**
Income Tax	-0,3	-0,2	0,0	0,0	0,0	0,0	0,0	0,0
Profit after tax of discontinued operations	0,7	-2,0	1,4	0,0	0,0	0,0	0,0	0,0
NET INCOME	**4,9**	**-22,6**	**-21,7**	**-9,1**	**16,0**	**22,8**	**30,3**	**38,0**
Net margin	*14,8%*	*-42,0%*	*-33,5%*	*-14,1%*	*20,3%*	*24,2%*	*27,0%*	*31,3%*

The 2012 figures reflect Harmelia alone. The 2013 figures are for Harmelia with the former AgroGeneration consolidated for three months, with the merger having taken place on 11 October.

4.3 Cash generation leading to balance sheet improvements

4.3.1 The positive impact of the OSRANE convertible bond issue…

The two merged companies had different financial structures. The former AgroGeneration had financed its growth through debt (two listed bond issues) while Harmelia had a much more cautious balance sheet strategy, estimating at given the intrinsic uncertainties of the farming business, it was preferable to have solid equity base. As such, at the end of 2012, the former AgroGeneration had net debt of €14.3m, including €12.7m of long-term financial debt, while Harmelia had net cash of €2.7m with only €2.4m of long-term financial debt.

Looking beyond the intrinsically high debt of the former AgroGeneration, SigmaBleyzer lent $40m to the new entity in order to balance the parities at the time of the merger and to avoid excessive dilution of the shareholders of the former AgroGeneration.

These two factors led to debt reaching €78.8m following the merger, corresponding to gearing of 154%.

The severe deterioration of the economic situation and the sharp fall in hryvnia led to a steep decline in shareholders equity from €51m at yearend 2013 to €6.6m at yearend 2014, corresponding to gearing of 1,175%.

4 – A healthier financial situation

As this situation was untenable, AgroGeneration proceeded with a financial restructuring while attempting to treat the different stakeholders (shareholders and bondholders) fairly. It was for this reason that, instead of simply transforming the Konkur debt into shares, a broader transaction was adopted: an issue of OSRANE convertible bonds with preferential subscription rights potentially totalling €67.5m.

This issue was guaranteed on the level of €57.6m by the holders of the listed bonds, the single holder of unlisted bonds (Konkur) and the shareholders, including Konkur, the majority shareholder with a 62% stake. At the same time, the group raised €1.9m in cash.

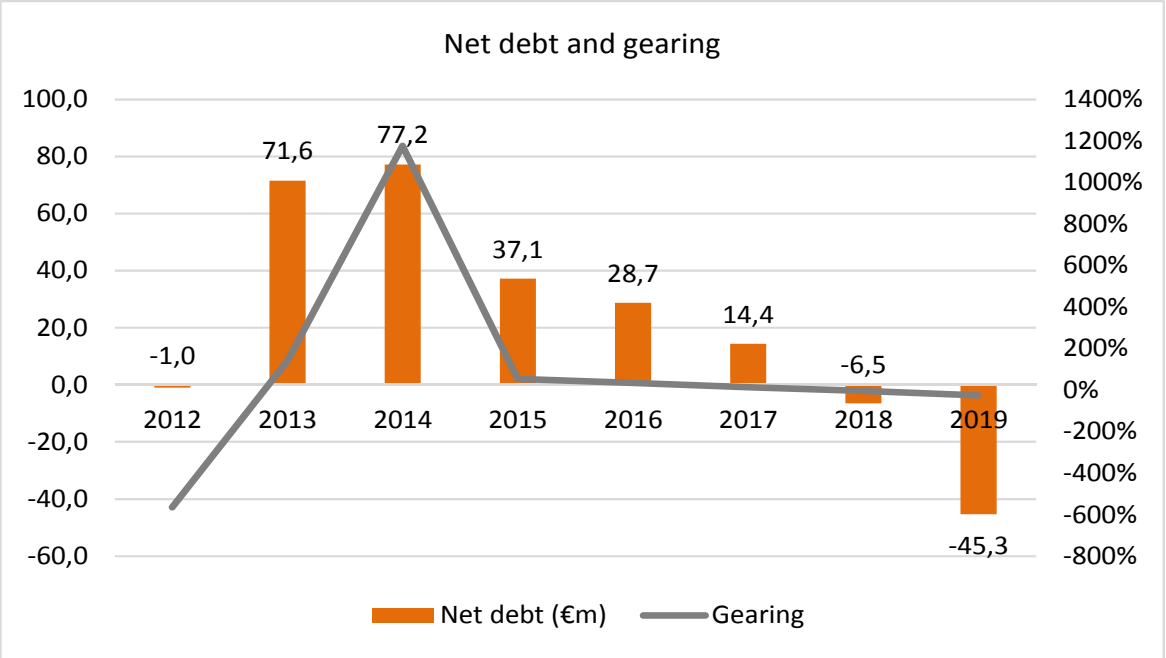
As this issue is accounted for as 25% debt and 75% equity, the gearing was significantly reduced to 65%. The long term debt / EBITDA ratio is close to 1x (1.04 as of end December 2015 based on our estimates) and the debt / EBITDA ratio is less than 3x (1.7 in 2015 based on our estimates).

The OSRANE convertible bond has improved the group's financial situation

The debt owed to the EBRD (€6.3m) was also renegotiated, with repayments spread out starting in 2016 but an interest rate rising from 8% to 8.5%. With the covenants problems having been resolved, this debt has been reclassified from short-term (as it had been categorised up to the end of 2014 due to the breach of covenants) to long-term.

Additionally, the company's long-term assets were written down by €44.9m in 2013 and €22.2m in 2014 with a resulting impact on shareholders' equity. The company commissioned a report by the BDO accounting firm that has already shown a positive variation of €26.8m that will be integrated into the 2015 financial statements. We have therefore taken this figure into account in our forecast yearend 2015 balance sheet. When combined with the impact of the OSRANE convertible bond issue, this will contributed to lifting shareholders equity to €69.9m vs. €6.6m at yearend 2014.

Taking in account these elements and the cash generation on the coming years, AgroGeneration's net debt change should be the following:



4 – A healthier financial situation

4.3.2 …bolstered by positive cash generation

AgroGeneration's good operating performances should lead to positive cash generation starting in 2015 despite an estimated €7.5m, impact of the exchange rate loss, with:

AgroGeneration should generate prositive cash from 2015

- A working capital variation that should have a positive impact due to a reduction in inventories linked to reduced use of inputs;
- Investments (essentially agricultural equipment and new leases) that should remain under control and which will be adjusted to the cash flow generation. As we expect a good operating performance, the cash should grow increasing the capacity of the company to sign new leases. We have assumed 35 177 new leases signed between 2014 and 2018. The group will stop to sign new leases thereafter;
- a small acquisition at the beginning of the year (Agroholding Tornado), with the €1.3m price to be paid over 2015 and 2016;
- the OSRANE convertible bond issue, listed at 25% debt and 75% equity. At the same time, we have taken into account the debts repaid in connection with the OSRANE issue, i.e. the two listed bonds and the Konkur debt.

AgroGeneration sources and uses of funds

Cash Flow Statement (EURm)	12/12	12/13	12/14	12/15e	12/16e	12/17e	01/18e	01/19e
Net earnings	4,9	(22,6)	(23,1)	(9,1)	16,0	22,8	30,3	38,0
Depr. & Prov.	(3,7)	(9,2)	(7,3)	(4,8)	(5,2)	(6,1)	(7,8)	(8,4)
Other non cash impacts	(5,7)	2,6	27,0	17,5	0,0	0,0	0,0	0,0
Declared Cash Flow	**2,9**	**(10,8)**	**11,2**	**13,2**	**21,3**	**28,9**	**38,1**	**46,4**
Change in WCR	(4,5)	13,5	0,9	3,5	(3,3)	(3,6)	(4,2)	(2,1)
Operating Cash Flow	**(1,6)**	**2,7**	**12,1**	**16,7**	**17,9**	**25,3**	**33,9**	**44,3**
Capital Expenditure	(4,2)	(4,1)	(2,4)	(3,5)	(9,0)	(11,0)	(13,0)	(5,5)
o/w maintenance	*0,0*	*(3,8)*	*(2,3)*	*(3,5)*	*(9,0)*	*(11,0)*	*(13,0)*	*(5,5)*
Financial Investments	0,0	(0,2)	(2,0)	(0,8)	(0,5)	0,0	0,0	0,0
Assets sales	3,8	0,0	1,4	0,0	0,0	0,0	0,0	0,0
Investing Cash Flow	**(0,4)**	**(4,3)**	**(3,0)**	**(4,3)**	**(9,5)**	**(11,0)**	**(13,0)**	**(5,5)**
Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Rights' issue	5,0	0,1	0,1	45,2	0,0	0,0	0,0	0,0
Others	2,1	12,8	41,6	14,4	0,0	0,0	0,0	0,0
Debt repayment	(2,6)	(13,6)	(37,8)	(57,7)	(0,6)	(0,6)	(0,6)	(0,6)
Exchange rate gains/losses	0,0	0,0	(14,9)	(7,5)	0,0	0,0	0,0	0,0
Financing Cash Flow	**4,5**	**(0,7)**	**(10,9)**	**(5,6)**	**(0,6)**	**(0,6)**	**(0,6)**	**(0,6)**
Change in cash	**2,6**	**(2,26)**	**(1,81)**	**6,8**	**7,9**	**13,7**	**20,3**	**38,2**

Taking these different factors into account, we arrive at positive cash generation of €6,8m in 2015.

Cash generation should increase over the following years thanks to the improvement in operating performances, the variation in working capital that should become a use of funds but for only limited amounts and investments that should remain low. As a result, the balance sheet should shift to a positive cash position starting in 2018.

5 – Valuation of €0,74 per share

5 – Valuation of €0,74 per share

Our valuation is based on a DCF

Our valuation is based on two methods: a DCF valuation and peer comparisons. However, it is difficult to find companies similar to AgroGeneration to the extent that the majority of its peers operate in other countries or are vertically integrated. It is for this reason that we prefer using a DCF valuation. Our target price takes into account the dilution linked to the OSRANE convertible bond and equals €0.74/share.

5.1 A DCF valuation of €0,74 per share

5.1.1 WACC of 19,75%

Our principal assumptions in the calculation of the WACC are:

- A "risk-free rate" corresponding to the Ukrainian debt with the longest maturity (2023). The interest rate on this debt equals 19,1%. It includes most of the risk that weighs on AgroGeneration;
- It is impossible to find a realistic measure of the market premium in the Ukraine. We have therefore 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".
- A beta of 1.

These assumptions give us a WACC of 19,75%.

The WACC is 19,75%

WACC Calculation	
Risk free rate	0,60%
Market premium	5,49%
Risk free rate	18,80%
Beta	1,00
Cost of equity	**24,29%**
Cost of debt	9,15%
Income tax rate	0,00%
Net cost of debt	**9,15%**
Discount rate	**19,75%**

This WACC is close to the WACC of 19% used by AgroGeneration in its goodwill calculations.

5.1.2 Assumptions

- Our calculations are based on our forecasts through 2024.
- For the calculation of the terminal value, we have used the 2024 revenues and applied an operating margin of 34,3%, equivalent to the 2019 margin.
- The perpetual growth is assumed to equal 1%.
- AgroGeneration does not pay taxes.

This leads us to the following forecasts:

5 – Valuation of €0,74 per share

€m	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Revenue	64,4	78,8	94,2	112,2	121,3	127,9	134,8	142,0	149,4	156,8
Growth	*-+0,3%*	*+22,3%*	*+19,5%*	*+19,2%*	*+8,0%*	*+5,5%*	*+5,4%*	*+5,3%*	*+5,2%*	*+5,0%*
EBIT	16,0	22,1	28,9	36,3	41,6	43,9	46,3	48,7	51,3	53,8
Ebit margin	*24,9%*	*28,1%*	*30,7%*	*32,4%*	*34,3%*	*34,3%*	*34,3%*	*34,3%*	*34,3%*	*34,3%*
Depreciations and provisions	-4,8	-5,2	-6,1	-7,8	-8,4	-8,9	-8,4	-7,5	-6,3	-6,7
EBITDA	20,9	27,4	35,0	44,1	50,0	52,8	54,6	56,2	57,6	60,5
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	**20,9**	**27,4**	**35,0**	**44,1**	**50,0**	**52,8**	**54,6**	**56,2**	**57,6**	**60,5**
WCR change	3,5	-3,3	-3,6	-4,2	-2,1	-2,2	-2,3	-2,4	-2,6	-2,7
% of revenue	*-5,4%*	*4,2%*	*3,8%*	*3,7%*	*1,7%*	*1,7%*	*1,7%*	*1,7%*	*1,7%*	*1,7%*
Investments	-3,5	-9,0	-11,0	-13,0	-5,5	-6,1	-6,4	-6,7	-7,0	-7,4
Operating free cash flow	**20,8**	**15,1**	**20,4**	**26,9**	**42,4**	**44,6**	**46,0**	**47,1**	**48,0**	**50,5**
Discount coefficient	0,91	0,76	0,64	0,53	0,44	0,37	0,31	0,26	0,22	0,18
Discounted operating free cash flows	**19,0**	**11,5**	**13,0**	**14,3**	**18,9**	**16,5**	**14,3**	**12,2**	**10,4**	**9,1**

5.1.3 A DCF valuation of €0.74/share

Based on these different assumptions, our valuation equals €0.74 per share:

The DCF is 0,74€/share

Valuation (m€)	
Sum of discounted free cash flows	139,2
Terminal value	49,2
Enterprise value	188,4
Net debt	32,0
Minorities	0,0
Equity value	**156,4**
Number of shares	211 512 528
Value/share (€)	**0,74**

5.1.4 Sensitivity analysis

If we focus on values 0.5% above and below the assumed WACC and perpetual growth rate, a sensitivity analysis gives valuations ranging between €0.64 and €0.85 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%
WACC	18,25%	0,81	0,82	0,82	0,83	0,84	0,85	0,86
	18,75%	0,78	0,78	0,79	0,80	0,81	0,81	0,82
	19,25%	0,75	0,76	0,76	0,77	0,78	0,78	0,79
	19,75%	0,72	0,73	0,73	**0,74**	0,75	0,75	0,76
	20,25%	0,70	0,70	0,71	0,71	0,72	0,72	0,73
	20,75%	0,67	0,68	0,68	0,69	0,69	0,70	0,70
	21,25%	0,65	0,65	0,66	0,66	0,67	0,67	0,68

5 – Valuation of €0,74 per share

5.2 A valuation of €0.70 per share based on peer comparisons

No comparables have the same business model as AgroGeneration

We have also calculated a valuation based on peer comparisons. We have attempted to find peers whose business is focused on farming. Many companies are vertically integrated in either cattle farming (Trigon, Linas) or poultry farming (Linas, MHP) or in the production of sunflower oil (Kernel) and food products (Linas). They can also operate in the logistics area, like Linas. Additionally, certain companies operate in several countries (Trigon, Linas). Black Earth has 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, as the business model here is not identical to that of the raising of cereals and oilseed crops.

Our valuation is based on three types of multiples: revenues, EBIT, and P/E. The different valuations obtained are listed in the following table:

	Market	EV/CA			EV/EBIT			PE		
	Capitalisation (€m)	2015	2016	2017	2015	2016	2017	2015	2016	2017
AdecoAgro	1 051	2,3 x	2,0 x	1,8 x	10,6 x	8,9 x	7,2 x	20,8 x	14,1 x	18,3 x
Black Earth Farming Ltd.	82	0,8 x	0,8 x	0,8 x	5,5 x	4,5 x	4,4 x	7,4 x	6,3 x	8,9 x
Trigon Agri A/S	11	1,4 x	1,2 x	1,2 x	19,6 x	11,8 x	15,2 x			
Linas Agrogroup AB	109	0,3 x	0,3 x	0,3 x	13,3 x	8,4 x	6,6 x	10,8 x	7,1 x	6,2 x
KTG Agrar AG	101	1,9 x	1,8 x		14,2 x	12,6 x		10,4 x	7,0 x	4,9 x
MHP	1 062	1,7 x	1,4 x	1,2 x	5,6 x	4,8 x	4,2 x	5,9 x	4,4 x	3,5 x
Kernel	729	0,5 x	0,4 x	0,3 x	5,4 x	3,4 x	2,8 x	5,1 x	3,8 x	4,0 x
Average		**1,3 x**	**1,1 x**	**0,9 x**	**10,6 x**	**7,8 x**	**6,7 x**	**10,1 x**	**7,1 x**	**7,6 x**
EV AgroGénération (€m)		82,2	87,5	87,4	170,2	169,2	192,1	ns	134,2	194,6
Equity Value (€m)		45,1	58,7	72,5	133,0	140,4	177,2	ns	105,3	179,7
Average (€m)		172,0								
Value/Share (€)		0,81								

We have not used the revenue multiples, as they do not take into account the fact that the majority of companies operate in other areas and different regions and therefore have different margins.

Based on comparables, our valuation is 0,70€/share

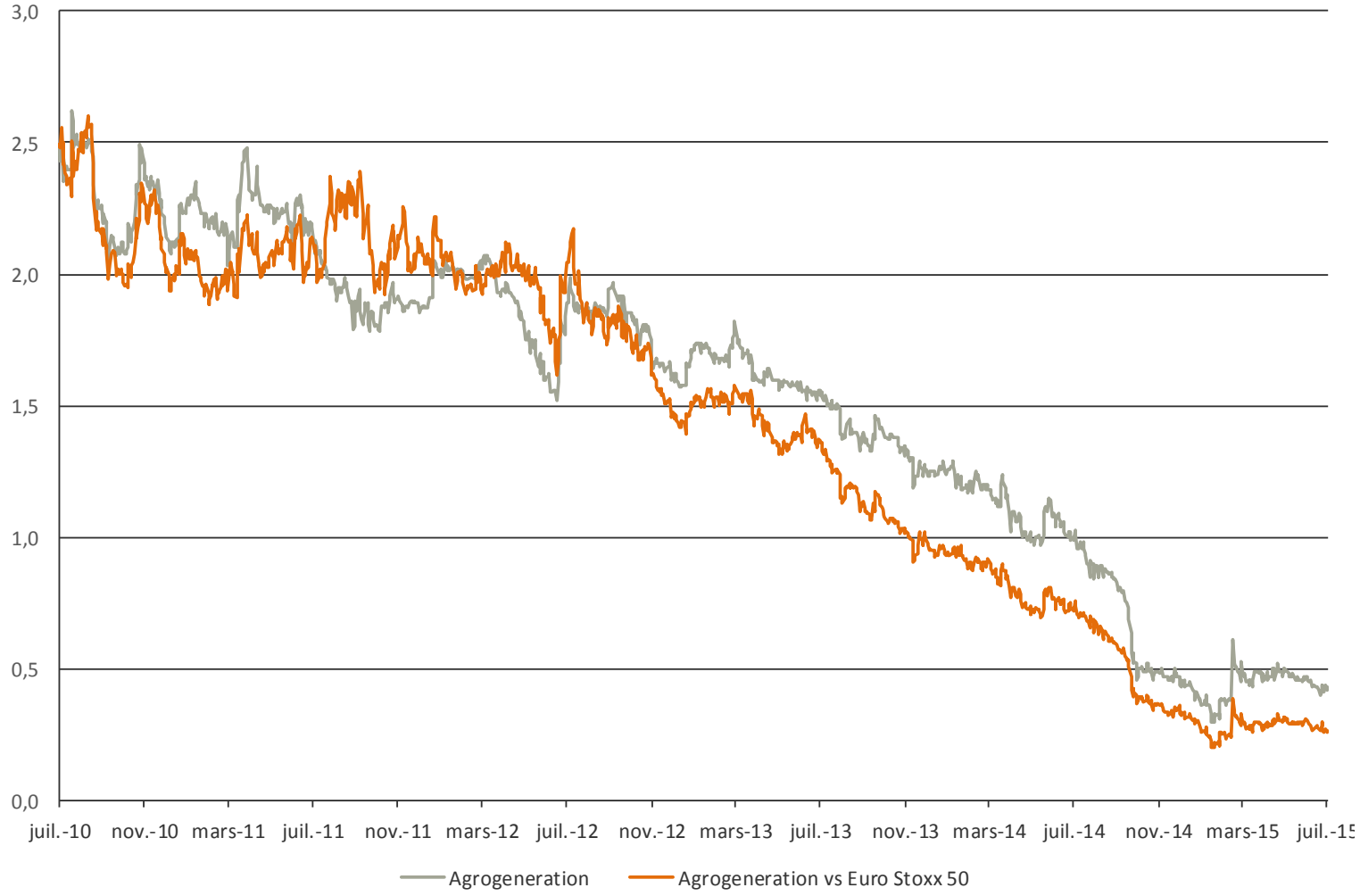
We have calculated the average for listed companies active in farming in Eastern Europe. This gives us a valuation of €0.81 per share to which we apply a 14% discount linked to the size discount Eric Eugène Grena's size discount model. This gives us a valuation of €0.70/share. If we exclude AdecoAgro, the only company that operates in other regions of the world, the valuation is roughly similar at €0.63 after applying a discount of 10%.

As these multiples come from companies that are not directly comparable to AgroGeneration in terms of their business or margins (with certain not present in the Ukraine and others for only a minor portion of their activities), we prefer not using them. The valuation obtained nevertheless serves to validate our DCF valuation, as it is not very different.

5.3 Valuation of €0.74/share

Of the two methods used, we prefer the intrinsic DCF method, which better takes into account the specific characteristics of AgroGeneration. The different peer companies do not show identical characteristics. We have therefore adopted a target price of €0.74/share. Even if we prefer not using it, the valuation based on peer comparisons lends support to this valuation.

Price change on 5 years (absolute ans 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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