BRYAN, GARNIER & CO

INDEPENDENT RESEARCH UPDATE

31st May 2016

Luxury & Consumer Goods

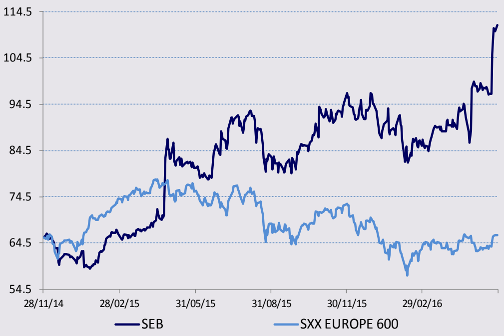
Groupe SEB

The kitchen is now bigger and well-equipped!

FVEUR125 vs. EUR102 (price EUR111.60) **BUY**

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	111.6 / 78.3
Market capitalisation (EURm)	5,599
Enterprise Value (BG estimates EURm)	7,775
Avg. 6m daily volume ('000 shares)	49.60
Free Float	47.7%
3y EPS CAGR	25.1%
Gearing (12/15)	17%
Dividend yield (12/16e)	1.48%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (€m)	4,770	5,333	6,414	6,729
EBIT (€m)	396.60	474.28	621.98	669.02
Basic EPS (€)	4.14	5.19	7.18	8.12
Diluted EPS (€)	4.14	5.19	7.18	8.12
EV/Sales	1.24x	1.46x	1.19x	1.09x
EV/EBITDA	13.8x	15.3x	11.5x	10.3x
EV/EBIT	14.9x	16.3x	12.2x	10.9x
P/E	26.9x	21.5x	15.5x	13.7x
ROCE	12.8	8.6	10.7	11.4



We are revising up our assumptions following the M&A fever that marked SEB over the last two weeks, with the acquisition of two German groups: EMSA (2015 sales of EUR92m) and WMF Group (2015 sales of EUR1.061bn). Considering limited risks surrounding these deals (excellent track record with M&A, very low cost of financing) and significant accretive impacts expected in 2017, we are clearly confident on the group's outlook! Buy recommendation confirmed and FV raised to EUR125 vs. EUR102.

- **With WMF SEB enters a new era!** Thanks to its largest acquisition in its history (EV: EUR1.710bn), first and foremost, SEB takes over the undisputed **global leader in Professional Coffee Machines** (~28% market share), which is a fast-growing (sales CAGR 13-15 of 10.4%) and very profitable product category. Secondly, SEB strengthens its **leadership in cookware** as WMF held the #1 position in the German market, and thanks to the addition of EMSA, this country will become one of the group's top 3 markets in Small Domestic Equipment by 2017.

- **Significant accretive impact on our 2017 estimates.** Should WMF be consolidated from Q4 16, it should bring: **(i)** a positive scope effect of ~21% on top line, **(ii)** an accretive impact of ~24% on the adjusted EBITDA and ~20% on EPS. We are all the more comfortable with these assumptions that they are based on a cautious synergy plan: no sales growth acceleration (+3-4%) and limited synergies of EUR10m in 2017e (BG ests) and EUR40m p.a. by 2020 (SEB and BG ests).

- **What else? Still a robust sales and earnings momentum for SEB stand-alone.** The nice start to the year illustrated the group's proven business model: a proactive innovation policy drives the price-mix and the premiumisation of the market, whilst SEB's presence in every product category and its multichannel strategy enable the group to constantly benefit from the main drivers that fuel the global SHA market (e.g.: online sales, Home Care, Home Comfort, etc.). Consequently over 2016-18 SEB stand-alone should maintain a mid single-digit organic growth and improve its profitability thanks to "self-help" tailwinds (volume impact, pricing power, efficiency gains, etc.) that should more than offset the adverse FX impact.

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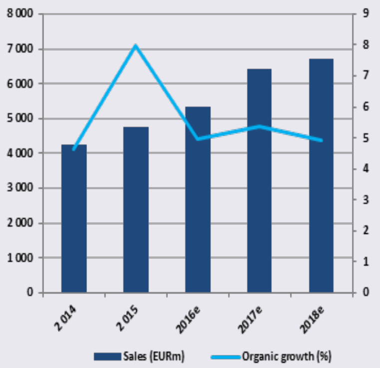

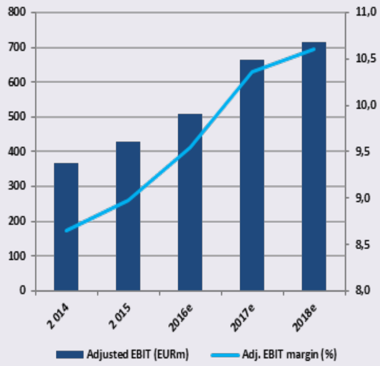

Company description

With 2015 sales of EUR4.8bn, Groupe SEB is the global leader in the Small Household Appliances market that is split into two complementary sectors: 1/ Small Domestic Appliances (~70% of total sales) and 2/ Cookware (~30% of total sales). The global Small Household Appliances market is growing at an average of 5%, driven by 1) slight growth in value, propelled by numerous innovations in mature countries and 2) strong growth in emerging countries, thanks to a catch-up effect and the rising middle-class. Groupe SEB is the best positioned to capitalise on this thanks to its portfolio of strong brands, a policy of active innovation and its exposure to emerging countries (~46% of sales), notably China (~21% of sales).

Income Statement (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenue	4,161	4,253	4,770	5,333	6,414	6,729
Change (%)	*2.5%*	*2.2%*	*12.1%*	*11.8%*	*20.3%*	*4.9%*
Gross Profit	1,618	1,614	1,808	2,048	2,489	2,611
Operating margin	410	368	428	509	664	713
Change (%)	*-1.2%*	*-10.3%*	*16.3%*	*19.0%*	*30.4%*	*7.4%*
EBIT	373	335	397	474	622	669
Financial results	(54.9)	(49.0)	(47.8)	(45.1)	(60.3)	(45.0)
Pre-Tax profits	309	265	324	392	538	604
Tax	(87.2)	(71.2)	(82.4)	(102)	(145)	(163)
Minority interests	(21.9)	(23.6)	(35.2)	(32.4)	(35.6)	(37.4)
Net profit	200	170	206	258	357	404
Change (%)	*2.9%*	*-14.9%*	*21.2%*	*25.3%*	*38.4%*	*13.0%*
Cash flow Statement (EURm)						
Operating cash flows	460	429	517	450	585	643
Change in working capital	16.0	26.3	69.3	72.2	138	40.4
Capex, net	116	188	134	160	192	202
Financial investments, net	28.3	165	81.3	2,002	32.1	33.6
Dividends	73.6	78.0	85.0	76.5	82.0	89.5
Other	86.0	8.9	10.0	0.0	0.0	0.0
Net debt	415	452	315	2,176	2,036	1,758
Free Cash flow	328	215	314	218	254	400
Balance Sheet (EURm)						
Cash & liquid assets	426	514	1,015	(845)	(705)	(428)
Other current assets	1,624	1,815	1,888	2,089	2,476	2,589
Tangible fixed assets	486	587	597	597	597	597
Intangible assets	448	512	545	2,255	2,255	2,255
Other assets	537	543	591	591	591	591
Total assets	3,521	3,971	4,635	4,687	5,213	5,604
LT & ST debt	842	966	1,331	1,331	1,331	1,331
Other liabilities	1,147	1,281	1,397	1,554	1,854	1,942
Shareholders' funds	1,532	1,725	1,908	1,802	2,029	2,331
Total liabilities	3,521	3,971	4,635	4,687	5,213	5,604
Capital employed	2,013	2,222	2,316	4,099	4,237	4,278
Financial Ratios						
Gross Margin (% of sales)	38.89	37.95	37.90	38.40	38.80	38.80
Operating margin (% of sales)	9.86	8.65	8.97	9.55	10.36	10.60
EBIT margin (% of sales)	8.97	7.87	8.32	8.89	9.70	9.94
Tax rate	28.23	26.90	25.47	25.99	27.00	27.00
Net margin (% of sales)	4.80	4.00	4.32	4.84	5.57	6.00
ROE (after tax)	14.86	11.95	13.16	17.63	20.50	19.74
ROCE (after tax)	13.30	11.01	12.76	8.56	10.72	11.42
Gearing	27.10	26.22	16.52	121	100	75.43
Pay out ratio	33.63	41.26	36.68	31.35	24.72	24.30
Number of shares, diluted	48,919	49,190	49,707	49,707	49,707	49,707
Data per Share (EUR)						
EPS	4.08	3.46	4.14	5.19	7.18	8.12
Restated EPS	4.08	3.46	4.14	5.19	7.18	8.12
% change	*1.7%*	*-15.4%*	*19.9%*	*25.3%*	*38.4%*	*13.0%*
BVPS	31.32	35.06	38.38	36.26	40.81	46.90
Operating cash flows	9.40	8.73	10.39	9.05	11.77	12.93
FCF	6.71	4.38	6.31	4.38	5.11	8.06
Net dividend	1.39	1.44	1.54	1.65	1.80	2.00

Source: Company Data; Bryan, Garnier & Co ests.

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1. 2016: A "transforming" year!

1.1. What about SEB stand-alone? Organic growth of "around 5%" is achievable in 2016

1.1.1. Q1 2016: a nice start to the year…

Despite an unexpected sales decline in North America (-12.4%), the group achieved 5.1% organic growth, in line with expectations. We can shine a spotlight on several positive trends:

(i) **Western Europe remained healthy:** in almost all markets, SEB experienced a positive price-mix effect, driven by innovation and premium products such as the *Cookeo* (multicooker), the *Cuisine Companion* (cooking food processor) or the *Optigrill* (smart automatic grill). This good performance was also supported by marketing campaigns. Key markets such as France (+5%), Germany, Spain or Italy remained well-oriented while the UK was softer after several years of growth.

(ii) **Strong momentum in China:** the Small Household Appliances market (SHA) benefits from structural drivers (e.g.: emerging middle-class, shift to a more consumption-driven model) and the rapid penetration of the online channel (~30% of the market, same weight for Supor). Here again, the price-mix is higher as Supor increases the value-added of its product offering to gain market share.

(iii) **Resilient activity in Brazil and in Russia:** we were fearing a significant decline given adverse macro conditions and significant price hikes, but the group has held up well in those two markets: sales in **Brazil** only dropped slightly in organic terms and revenue in **Russia** (-15% lfl) would have risen 8% excluding two major "loyalty programs" in Q1 2015;

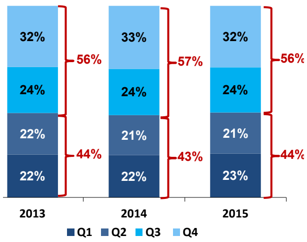
(iv) **Temporary destocking in the US:** the T-fal brand (cookware) went through an "air pocket" in Q1 due to destocking moves by a number of key wholesalers. At the conference call, management confirmed it had implemented some initiatives to mitigate this impact from Q2, and is quite confident on the H2 outlook. Our FY forecast (-1.5%e), which implies a gradual improvement, is aligned with this scenario.

Fig. 1: Revenue development by region

EURm	Q1 15	Q1 16	LFL growth (%)
Western Europe	336	359	4.3
Rest of Europe	147	149	7.4
Total EMEA	**483**	**508**	**5.3**
North America	117	100	-12.4
Latin America	82	65	4.3
Total Americas	**199**	**165**	**-5.5**
China	304	336	12.5
Rest of Asia-Pacific	103	106	3.1
Total Asia-Pacific	**407**	**442**	**10.1**
Total Groupe SEB	**1,089**	**1,115**	**5.1**

Source: Company Data

SHA: a seasonal activity (as a % of FY sales):



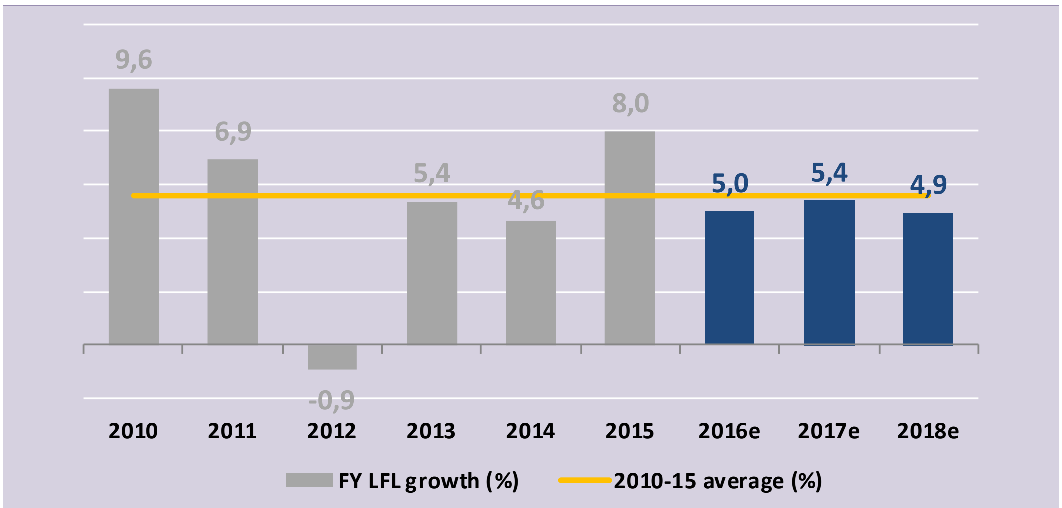
Source: Company Data; Bryan, Garnier & Co ests.

1.1.2. …which is sustainable through the remainder of the year

During the Q1 sales conference call, management insisted on the fact that Q1 organic growth could not be extrapolated to coming quarters since the Small Household Appliances (SHA) business is quite seasonal as H1 only accounts for ~43-44% of FY sales (see chart opposite) and macro conditions remain volatile. Moreover, 2016 should be characterised by a normal activity in terms of LPs (~EUR80m) after an exceptionally strong year in 2015 (~EUR130m, or ~1pp positive impact on FY15 organic growth).

However, **we are convinced that the group can achieve "mid-single-digit" growth this year** (BG: +5%e vs. 2010-15 average of 5.6%), fuelled by China (+12%e after +12.5% in Q1), the EMEA region (except in Russia where we expect a 4% LFL decline) and the group's key pillars: **(i)** innovation and premiumisation, **(ii)** presence in all product lines and **(iii)** a multi-channel approach. Last but not least, it is worth noting that the comparison bases will become less demanding over coming quarters.

Fig. 2: SEB LFL growth (2010-18e, %)



Source: Company Data; Bryan, Garnier & Co ests.

1.1.3. The recipe for success starts with innovation

SEB invests significantly in R&D (EUR93m in 2015) to support innovation that creates three key competitive advantages in our view:

(i) **Driving the SHA market upwards:** against a backdrop of intense pressure from discount players and/or white labels, the launch of more technologically-advanced products offers consumers perceptible added value, such that they agree to pay a premium over entry-level or mid-tier products (= **pricing power**). The Chinese market is a very good example: despite fierce competition, Supor has constantly added new technologies in its offering (helped by SEB), which has also encouraged its competitors to do the same, leading to a regular increase in value.

(ii) **A virtuous circle with retailers:** most retailers are struggling to increase in-store traffic and revitalise inflation. Some retailers are very aware that granting more shelf space to innovative brands can drive in-store traffic and inflation as the new products are generally sold at a higher price. Carrefour, which is pursuing a premiumisation strategy, cultivates a strong and successful partnership with SEB's brands.

Moulinex corner at Carrefour (France):

Source: Company Data

(iii) Fuelling growth in mature countries: although the appliance ownership rate is uneven according to product categories, it is quite high (~12-13 devices per household on average vs. ~3-4 in emerging countries) and therefore limits volume growth potential. Hence new product launches (or new concepts) boost the renewal rate (good for volumes) and drive value and the product-mix, since innovation often goes along with a premiumisation strategy (*see. figure 4*).

The three products presented in the table below perfectly illustrate this innovation strategy. Despite a relatively high retail price compared to the mid-range segment, they all delivered double-digit growth in 2015, especially in Western Europe. This price premium was accepted by consumers since they recognised the breakthrough technologies integrated in these products (e.g.: Optigrill's sensors adapt the cooking to the thickness of the meat).

Fig. 3: Three examples of successful flagship products

	Cuisine Companion	Optigrill	Induction Steam Rice Cooker
			
Main function	Cooking-capable food processor	Smart Grill	Silent vacuum cleaner
Retail price (EUR)	699	149	275 (CNY2,000)
Volumes sold in 2015 (k)	>100	~270	>2,000

Source: Darty.com, Bryan, Garnier & Co ests.

Launched in 2012, Cookeo was Moulinex's first intelligent multifunction cooker, which cooks everything, provides step-by-step instructions and does not require any supervision. At the launch, Cookeo only included 50 pre-programmed recipes and was sold at a retail price of EUR250.

This "standard model" is now marketed at EUR179 to increase value in the core range, but in the meantime, Moulinex has introduced some new functions (100 pre-programmed recipes = EUR199, 11% more expensive) and launched Cookeo Connect in 2015. The latter connects via Bluetooth to the "MyCookeo" app to access an infinite choice of recipes and control the cooking remotely. This connected appliance is currently sold at EUR329, representing a premium of 84% compared to the "standard model", but it had a strong resonance amid consumers.

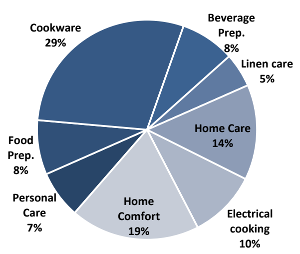
Fig. 4: Incremental value-added supports the premiumisation strategy: the *Cookeo* example

	Cookeo	Cookeo	Cookeo Connect
			
Product description	Software with **50** recipes	Software with **100** recipes	**Infinite choice of recipes**, dedicated app to control the cooker **remotely**
Retail price (EUR)	179	199	329
Premium (%)	**-**	**11**	**84**

Source: Company Data; Bryan, Garnier & Co ests.

1.1.4. The virtues of diversification

Breakdown of the global SHA market by category (%):



Source: Company Data, Bryan, Garnier & Co ests.

SEB is the only player to operate in every category of the global SHA market. Aside from Philips and De Longhi to a minor extent, most of SEB's competitors are regional and local players and/or specialists that concentrate on one or two product lines, such as Dyson in vacuum cleaners (Home Care) for example. SEB does not communicate its sales breakdown by category but reports the split for the global SHA, as shown in the chart opposite. On our estimates, cookware accounts for ~33% of group sales in line with the industry and we believe SEB is overexposed in Linen Care, Electrical Cooking and Beverages Preparation whilst it is relatively under-represented in Home Care and Home Comfort.

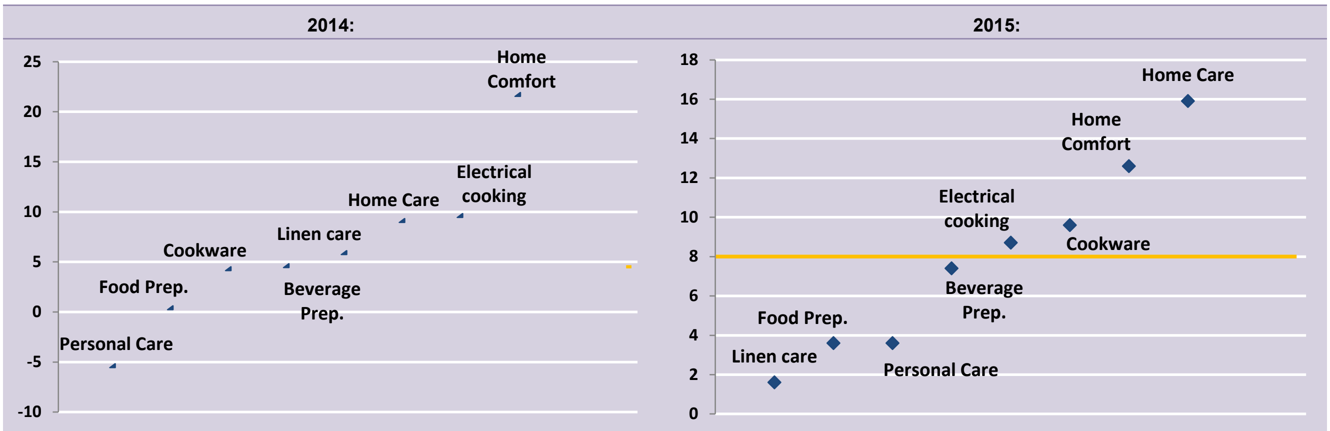
In our view, this diversified profile is clearly a key competitive advantage for three reasons:

(i) **Reaching a critical size to leverage the cost structure** such as sourcing (bargaining power vis-à-vis suppliers), production (economies of scale) or even R&D. Indeed, some technological advances can benefit several categories: successful research into noise reduction for vacuum cleaners enabled Rowenta to launch a quiet hair dryer. The Silence Force vacuum cleaners and Silence hair dryers are among the most silent products in their categories.

(ii) **Becoming a front-line supplier to retailers:** SEB has forged some close relationships with its key accounts (Metro/MediaSaturn, Carrefour, Walmart, etc.) thanks to its portfolio of strong global/local brands and its successful innovative products which are much sought after by retailers. They also favour them thanks to the **group's effective execution in terms of point-of-sale promotions** which drives volumes (higher conversion rate) and value. It is worth noting that this marketing initiative is more and more assigned to suppliers.

(iii) **Diversified portfolio = risk management:** unlike niche players that are heavily reliant on the performance of one or two segments, whose performances can be very mixed as shown in Fig. 5. Hence we consider that SEB has a lower risk profile given its wide coverage of the SHA market, the group is sure to be present in fast-growing segments such as Home Comfort over the last two years.

Fig. 5: SEB's LFL growth by product line (orange line = group's performance)



Source: Company Data; Bryan, Garnier & Co ests.

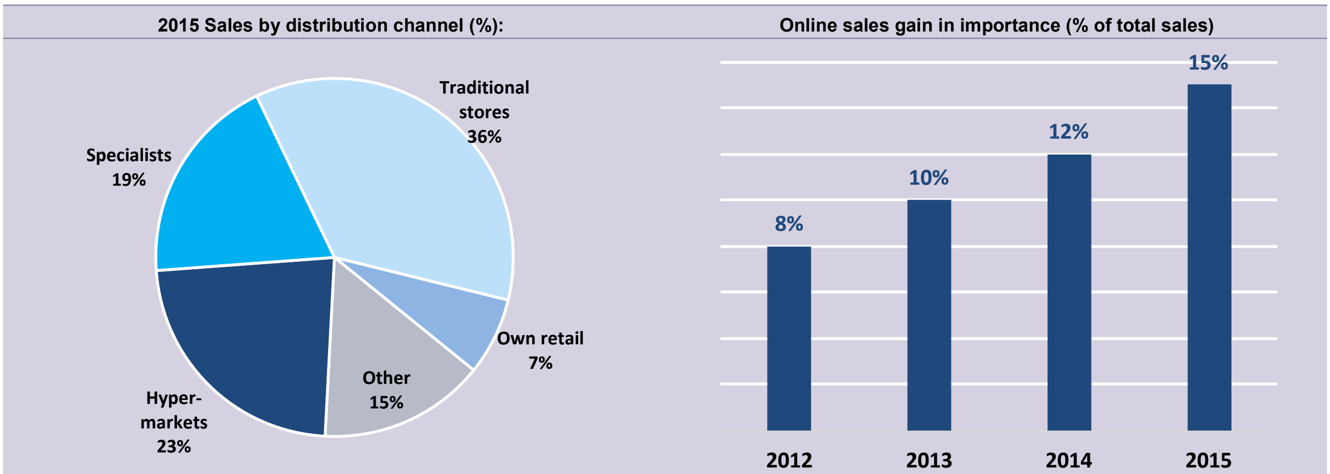
1.1.5. A multichannel strategy

SEB's global reach implies a large and diverse network of distributors (see Fig. 6, left-hand chart), from mass retailers (Metro, Carrefour, Walmart, etc.) to specialists (Darty, Williams-Sonoma, etc.), without forgetting online players (Amazon, etc.) and SEB's own retail (~5-6% of total sales, mainly in China with 650 Supor Lifestores).

Here too the multichannel approach is relevant: **(i)** the distribution structure varies by market (e.g. mom and pop stores in India, online penetration already high in China, own retail in countries where mass retail is marginal, etc.) and **(ii)** the group is not affected by structural changes in paradigm within the distribution landscape, such as market share gains by online players at the expense of physical retailing. With regards to the Chinese SHA market, the online channel is up in double-digits while the offline channel is globally flattish.

As a whole, **e-commerce already accounts for 15% of group sales**, which includes online sales generated by pure players as well as click-and-collect sales generated by brick-and-mortar retailers (e.g.: Darty.com, Fnac.com). In some countries, e-commerce has an even higher share, such as the US (~20-25% of sales) and China (~30%). **We believe that online sales are set to increase in importance in coming years, boosted by the ramp-up of these pure players combined with the omnichannel strategy implemented by "traditional retailers".**

Fig. 6: A large and diverse network of distributors

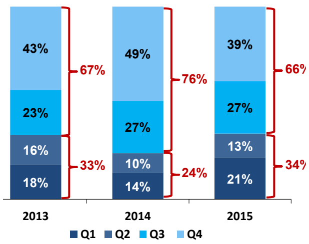


Source: Company Data; Bryan, Garnier & Co ests.

1.2. Is the consensus too cautious on margin improvement potential?

1.2.1. 2016: we now expect a 60bp improvement in adjusted operating margin to 9.6%

Adj. EBIT is seasonally weak in H1 (% of FY adj. Op result):



Source: Company Data; Bryan, Garnier & Co ests.

Q1 adjusted EBIT came in at EUR93m and topped expectations by 16% (CS: EUR83m), confirming the group's ability to more than offset the negative FX impact (EUR45m) mainly through price increases (price mix), also helped by a favourable geographical mix following good performances in Western Europe and in Asia-Pacific. As a consequence, the adj. EBIT margin was almost flat (-10pb to 8.3%), well above consensus expectations (7.4%).

The chart opposite shows that the seasonal impact for adjusted operating result is even more pronounced than for sales, as H2 has represented approx. 70% of FY adj. EBIT over the past three years! Whereas seasonality justifies the traditional cautiousness of SEB at the beginning of the year, **this time management was more upbeat by reiterating the increase in operating result in reported terms for 2016.**

What drives our confidence for 2016 (and beyond)?

(i) **The FX impact is expected to be less harmful:** at the FY15 results presentation in February, SEB was already expecting to offset 100% of the EUR130-140m negative impact. Since then, this impact has been revised down to EUR120m as some currencies have stabilised or even rebounded (e.g.: BRL, RUB). Our assumption with regards to this headwind is fully in line with the group's forecast for 2016.

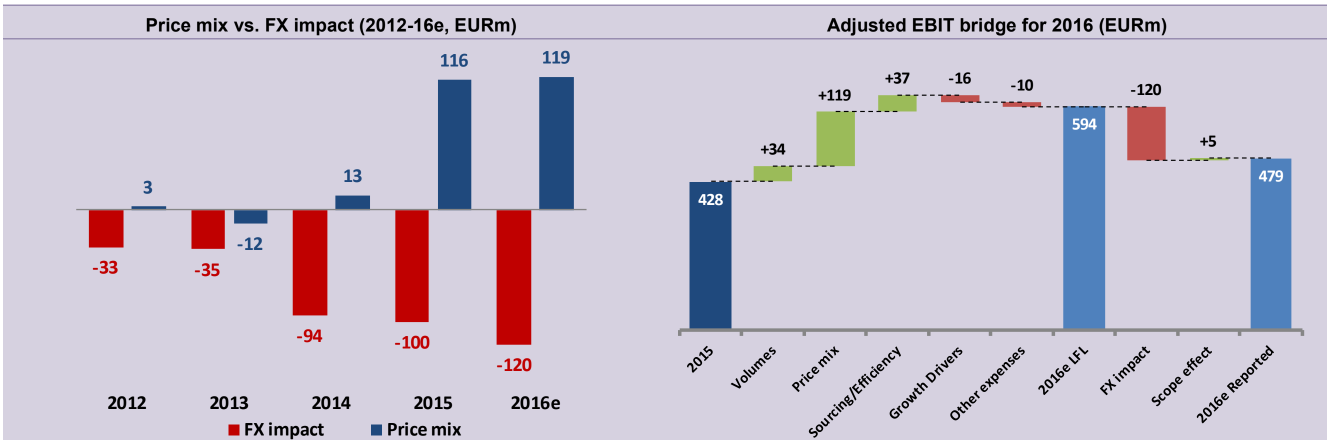
(ii) **The environment is favourable for price hikes:** the entire SHA industry is affected by the increase in the USD and the CNY and SEB's competitors are even more affected by this currency risk, as they produce up to 100% in Asia (vs. 61% for SEB). Hence competition will certainly increase prices, all the more so since many low-cost players are not profitable enough to absorb this FX impact without these price adjustments.

(iii) **SEB maintains its pricing power:** as mentioned previously, most of its brands are experiencing strong momentum and innovative products increase their attractiveness on retailers' shelves, making it easier for SEB to negotiate price increases. The two charts in Fig. 7 on the next page show that we expect the favourable price-mix (BG ests: EUR129m) to more than offset the negative impact.

(iv) **Tight control of the cost structure: manufacturing costs** continue to benefit from favourable prices for raw materials used by SEB such as plastics, aluminium or nickel, and the ongoing optimisation of industrial productivity via the OPS (Operation Performance SEB) global programme. As for **A&P expenses**, the group expects them to increase at the same speed as top-line growth after a significant step-up last year (+16% LFL to EUR390m).

SEB's powerful brand portfolio implies a strong pricing power, as highlighted in the left-hand chart below. Similar to last year, the group's positive price-mix (BG ests: EUR119m) should offset the negative FX impact (BG ests: EUR120m).

Fig. 7: Construction of our adjusted operating result assumption for 2016 (before EMSA and WMF



Source: Company Data; Bryan, Garnier & Co ests.

1.3. 2017 should be a "natural evolution" from 2016

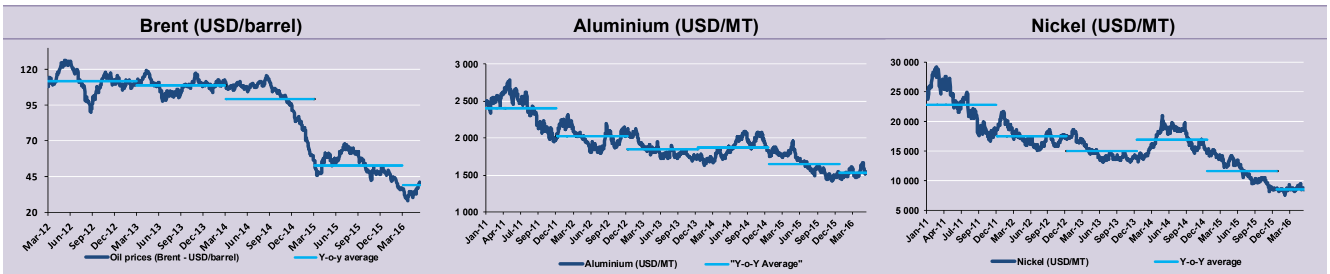
At this stage, it is naturally hard to have a clear view on the margin drivers for next year although we can split the margin drivers into two: **(i)** self-help measures (volume, efficiency gains, etc.) and **(ii)** external factors such as FX and raw material prices on which SEB has little control:

(i) **Endogenous initiatives:** we expect a higher **volume** impact in 2017 given a LFL growth acceleration (5.4% vs. 5% in 2016) and possible price decreases in some countries whose currencies have stabilised (Brazil, Russia, etc.). Consequently, we maintain a slightly negative **price-mix** impact for 2017 (~EUR13m) to reflect these price adjustments as SEB follows a reactive and flexible pricing strategy. Last but not least, we continue to expect a positive effect from **efficiency and productivity gains**.

(ii) **Exogenous factors:** given the group's careful hedging policy (raw materials and FX), the first half of 2016 might give a first indication of the possible impacts for 2017:

- **Raw materials:** SEB anticipates its raw material requirements for operations (i.e. aluminium, nickel, copper and plastic) one year in advance and hedges around 70% of its estimated purchases for the next six months. SEB expects a positive commodity price impact for 2016 and we expect this to remain neutral/slightly positive for 2017.

Fig. 8: Raw material prices continue to bring a favourable impact



Source: Datastream

- **FX:** the group structurally hedges approx. 80% of its short position on the **USD** (+/- 1% change => +EUR5-6m impact on the adj. EBIT margin) and on the **CNY** (+/- 1% change => +/- EUR3-4m). We have retained a neutral impact for 2017 but based on current average exchange rates ytd (also valid for the BRL and RUB), the group might benefit from a far less negative FX impact than over 2015 and 2016.

For SEB stand-alone, we anticipate a 40bp increase in the adjusted EBIT margin to 10% for 2017, which is based on conservative assumptions. Good news, looking at the consensus expectations just after the Q1 2016 results but prior to the EMSA and WMF deals (see Fig. 16 below), the Street was also quite cautious with regards to its forecasts for 2017.

As a reminder, during the FY 2015 results presentation on 25th February, CEO Thierry de la Tour d'Artaise declared that SEB would restore the record margin level of 12% (achieved in 2010) *"quickly enough"*, which is a good indication of management's confidence in its outlook!

Fig. 9: Our expectations for SEB stand-alone vs. CS median as of 4th May 2016

EURm	2016e BG *	2016e CS *	*% change*	2017e BG *	2017e CS *	*% change*
Sales	**4,949**	**4,948**	**=**	**5,212**	**5,221**	**=**
Adjusted EBIT	**475**	**468**	***1.5***	**519**	**524**	***-1.0***
% margin	9.6	9.5	*+10bp*	10.0	10.0	=
Net income	**243**	**240**	***1.2***	**278**	**280**	***-0.7***

* *excl. EMSA and WMF* *Source: Bryan, Garnier & Co ests.*

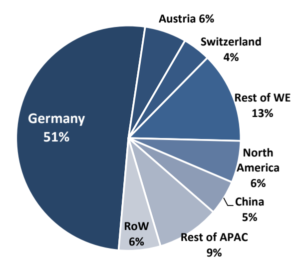
1.4. WMF: when *"French Touch"* and *"Deutsche Qualität"* meet each other

On 23rd May, SEB made the biggest acquisition in its history announcing an all-cash offer to buy German group WMF for a total consideration of EUR1.71bn (including EUR125m for retirement and pension liabilities).

In our view, SEB had a decisive advantage over the other bidders (e.g.: Haier, KingClean, De Longhi, etc.) for two main reasons: **(i)** its fairly attractive offer from KKR's view-point (2016e EV/EBITDA of 12.2x), and **(ii)** its interest in acquiring the entire group (unlike De Longhi for instance), making WMF easier to sell from KKR's perspective. KKR bought WMF in 2012 for EUR600m.

WMF posted sales of EUR1.060bn in 2015 (+4%) and has a strong footprint in German-speaking countries (~61% of sales). As shown in Fig. 1 below, the Consumer division accounts for 56% of sales while the Professional Coffee Machines business represents 37% of sales. However, we believe the PCM division generated the vast majority of the group's 2015 EBITDA (EUR118m).

WMF 2015 sales by geography:



Source: Company Data

Fig. 10: WMF Group is organised into three divisions:

	Consumer (56% of sales)	Professional coffee machines (37% of sales)	Hotel equipment (7% of sales)
Brand portfolio	WMF Silit ORIGINAL KAISER	WMF schaerer	WMF HEPP
2015 sales (EURm)	590	395	75
FY growth vs. 2014	+1%	+13%	-16%
Leadership position in…	German-speaking cookware market	Global PCM market	German-speaking cookware market
Distribution channels	**"BtoC":** Wholesale and own stores	**"BtoB":** own- and distributors' network, as well as service networks	**"BtoB":** own- and distributors' network

Source: Company Data

1.4.1. The PCM division is WMF's cash cow

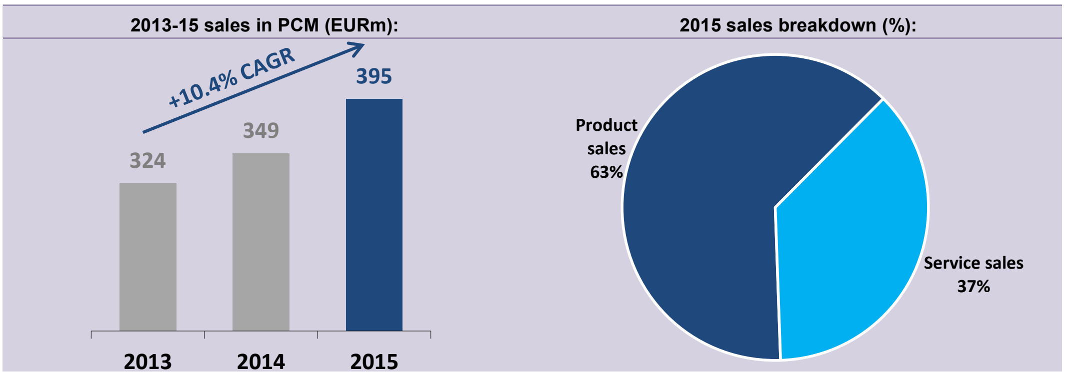
Indeed, during the conference call, SEB's management confirmed that the PCM business is "*very profitable*" (BG ests: ~20%) for two main reasons in our view:

(i) **Dynamic and consistent market growth:** the global PCM market is estimated at EUR1.5bn and records a healthy growth rate of 8% p.a., driven by innovation, growing coffee consumption in emerging markets (China, etc.) and the shift in consumer tastes to higher-quality coffee drinks, with a particularly significant change in the US. **Over the 2013-15 period, WMF outperformed the industry with a sales CAGR of 10.4%.**

(ii) **Leadership positions in a market with high barriers to entry:** although the PCM market is fairly concentrated (Top 4 players = 65% market share), **it is dominated by WMF brands which boast a 28% market share and a relative market share of 1.9x vs. the No. 2 player.** New entrants can hardly enter this market since it requires strong R&D, powerful brands and a large distribution network (also for maintenance). As such, the WMF and Schaerer brands have strong pricing power.

Top-line growth is fuelled by the launch of new contracts (= installation of new machines), but also by recurring revenues (37% of PCM sales) which encompass service sales and spare parts billed to existing customers, as shown in the right-hand chart below.

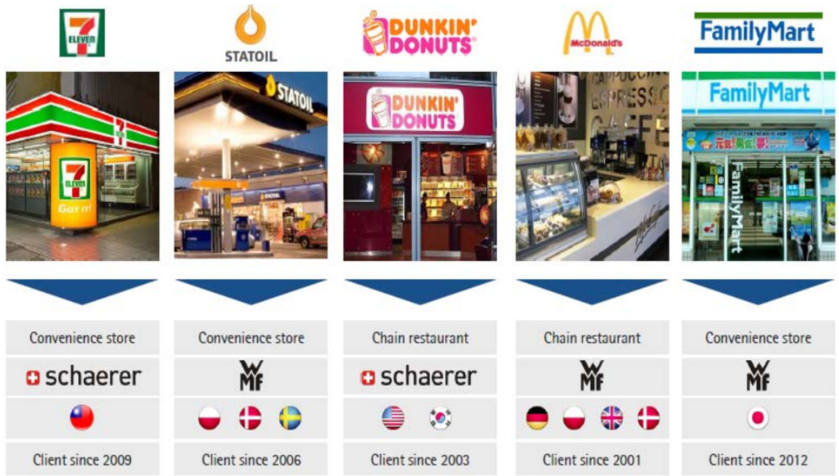
Fig. 11: PCM: robust double-digit growth and recurring revenues:



Source: Company Data

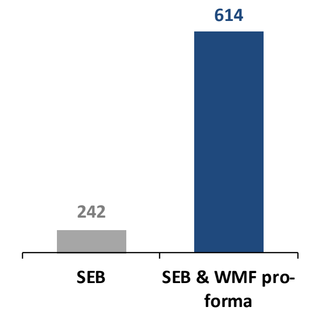
Unlike De Longhi which only addresses the "BtoC" channel, WMF and Schaerer operate in the professional segment ("BtoB"), where prices range from EUR3k to EUR10k. As shown in Fig. 3, the group's key accounts are essentially convenience stores and restaurant chains.

Fig. 12: Customer base of the PCM division



Source: Company Data; Bryan, Garnier & Co ests.

Germany to become SEB's No. 2 market in SDE by 2017:



Source: Company Data

1.4.2. Consumer: complimentary product offering and key reinforcement of the group's positions in Germany

The chart opposite highlights this significant reinforcement in Germany: after the integration of WMF's Small Domestic Equipment (SDE) business, sales generated in Germany last year are set to multiply by 2.5x to EUR614m. This country will therefore become the group's No. 2 market in SDE after China but ahead of France, even prior to the integration of the other German EMSA groups acquired just a few days before WMF!

In the SHA market, brand awareness and customer loyalty are tightly correlated and the German market is no exception to this close relationship: since WMF is the favourite kitchenware, home appliance and furnishing brand for German consumers, its acquisition was SEB's fastest way to strengthen its positions in four main product categories described in Fig. 13 below.

Fig. 13: Notable presence in four main segments

Segment	*2015 MS in DACH*	*Ranking*	*Main products*
Cookware	21%	#1	Pans, Pots, Pressure cookers
Kitchenware	10%	#3	Kitchen knives, Kitchen gadgets
Bakeware	28%	#2	Baking pans, Accessories
Dining & Drinking	38%	#1	Cutlery, Dinnerware, Beverageware

Source: Company Data

There are three other main benefits of this integration:

(i) **Increasing the group's presence in the upscale segment:** in Germany, SEB was almost exclusively present in the mid-tier segment whilst WMF operates in the premium segment, in both SDE and cookware activities.

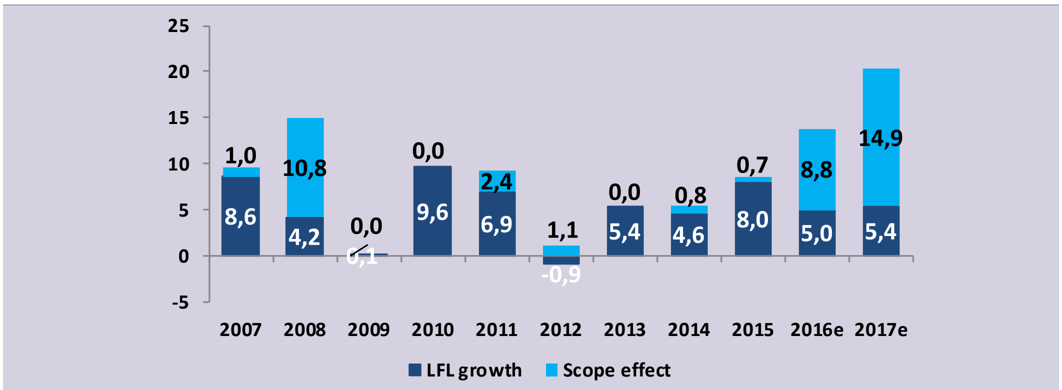
(ii) **Controlling distribution:** this premium positioning goes hand-in-hand with an own retail network (~200 stores) that represents 25% of sales in the three German-speaking countries (DACH = Germany, Austria and Switzerland) and in which SEB intends to favour cross-selling by pushing its own brands and enlarging the product offering. Interestingly, the online channel accounts for 12% of DACH sales.

(iii) **Significant synergy potential:** CFO Vincent Leonard reckoned that WMF's Consumer division was less profitable than SEB's but he was expecting a catch-up effect thanks to some initiatives to release synergies (SEB will bring its favourable sourcing conditions and manufacturing excellence). Last but not least, some scale effects might also be positive for the NewCo (SEB+WMF+EMSA).

1.5. A significant scope effect expected in 2017

Indeed, this "transforming" acquisition (as well as EMSA) should bring a scope effect of nearly 15pp in 2017, representing the highest contribution from M&A since the integration of Supor in 2008!

Fig. 14: LFL growth and scope effect since 2007 (%)



Source: Company Data, Bryan, Garnier & Co ests.

To calculate our new assumptions over 2016 and 2017 we have retained the following scenario:

- **Consolidation from Q4 2016:** during the conference call management specified that the acquisition should be completed in the course of H2 2016. Since we do not anticipate any anti-trust issues, we believe SEB would be able to consolidate WMF from Q4 2016.
- **WMF should grow at 4% lfl next year:** our forecast is in line with that of SEB's management who stated that WMF would maintain a similar sales growth trajectory (+3-4%) despite interesting revenue synergies potential.
- **A cautious synergy plan:** we have included costs of ~EUR25m in 2016 (PPA), followed by a cautious synergy plan: EUR10m in 2017, EUR20m in 2018, EUR30m in 2019 and EUR40m in 2020, in line with the group's forecast, although we understand there is some upside potential.

- **Net financing costs of ~2%:** the group has a very effective debt financing strategy with the use of German Schuldschein loans (private debt placements) and thanks to a favourable environment for corporate bonds. As an example, SEB issued a seven-year EUR500m bond with a 2.375% coupon last November (5x over-subscribed).

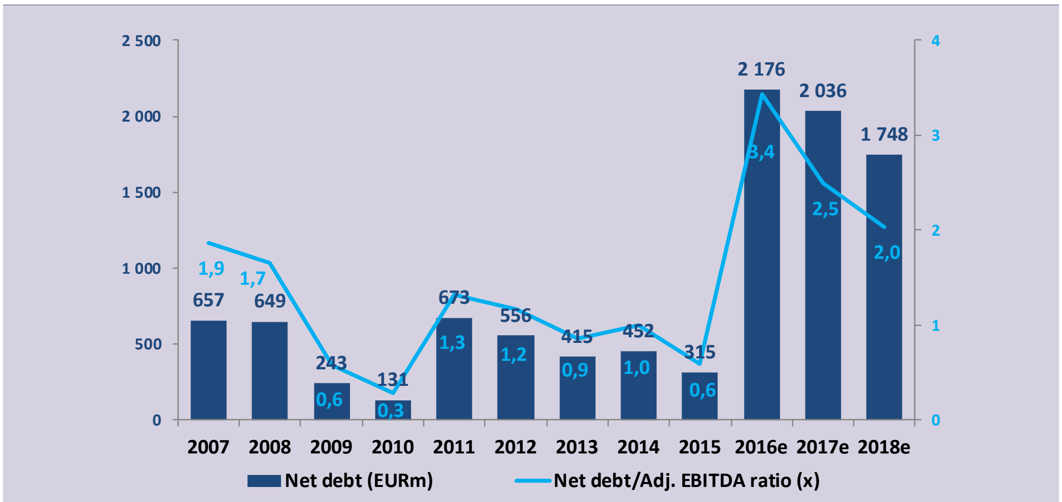
Fig. 15: A significant accretive impact on our 2017 earnings

EURm	2016e NEW	2016e OLD *	2017e NEW	2017e OLD *	*% change*
Sales	**5,333**	**4,994**	**6,414**	**5,308**	***21***
EBITDA	**633**	**596**	**814**	**655**	***24***
% margin	11.9	11.9	12.7	12.3	*+40bp*
Adjusted EBIT	**509**	**479**	**664**	**531**	***25***
% margin	9.6	9.6	10.4	10.0	*+40bp*
Net income	**258**	**248**	**357**	**297**	***20***

** incl. EMSA but excl. WMF* *Source: Bryan, Garnier & Co ests.*

Despite the sharp increase in net debt following the successive acquisitions of EMSA and WMF, the financial leverage ratio should return to 2x by 2018 (management guided on "below 2x"), illustrating the rapid deleveraging shown in the graph below.

Fig. 16: Net debt (EURm) and financial leverage ratio (x) of SEB since 2007



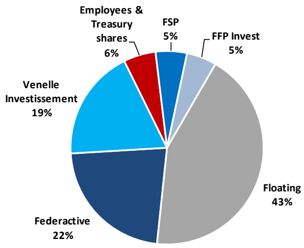
Source: Company Data, Bryan, Garnier & Co ests.

2. Valuation: a new era! FV raised to EUR125 vs. EUR102

2.1. Share price performance

The share price rallied 54% in 2015, boosted by robust top-line growth and improved earnings momentum as the group was able to more than offset the FX impact, which has been hampering its profitability since 2012.

Share capital breakdown (as of 31st December 2015, %):

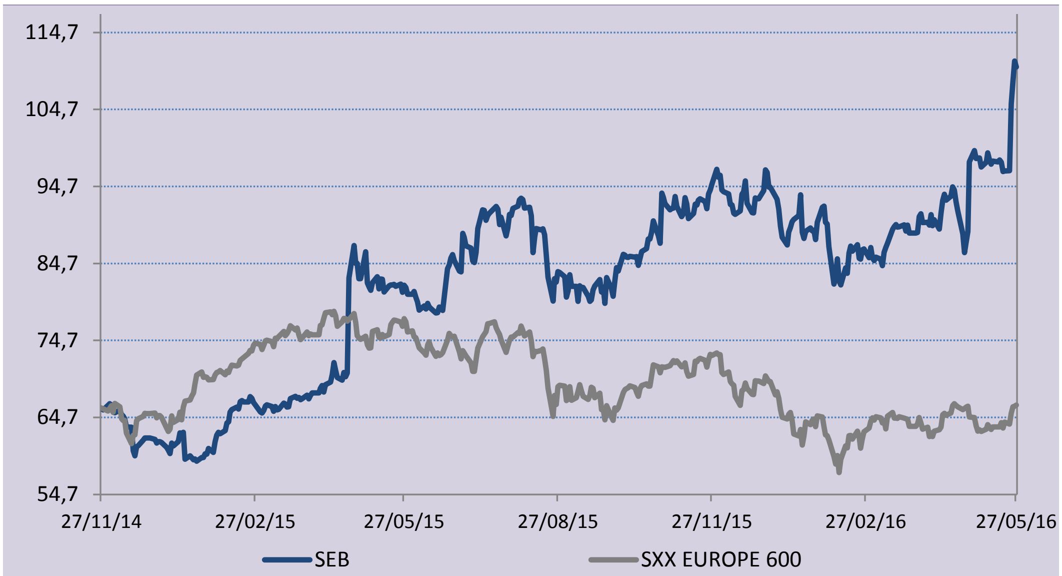


Source: Company Data

Before announcing the acquisition of WMF, the share price had been broadly flat ytd with temporary weakness ahead of SEB's publications (FY 2015 results and Q1 2016), as investors seemed to fear a more harmful FX impact. Following the better-than-expected Q1 2016 publication, the stock rallied by more than 12%.

And then the WMF deal was announced (23rd May)! Since the deal was made public, the share price has climbed approx. 16% to new record levels, in light of the significant accretive impact on earnings, a proven-track record in terms of integration and a financial leverage ratio which remains under control. Hence risks surrounding this acquisition appear to be limited in our view and the share price is on track for a significant rerating!

Fig. 17: SEB share price vs. DJ Stoxx Europe 600



Source: Company Data; Bryan, Garnier & Co ests.

2.2. DCF: our new FV stands at EUR125

As mentioned in the section discussing our 2016-17 estimates, after the integration of EMSA and more importantly, WMF, 2016 and 2017 will be marked by a significant scope effect in addition to mid-single-digit organic sales growth. We leave this growth trajectory unchanged even if we understand that an acceleration in momentum is possible thanks to revenue synergies and the integration of a fast-growing category (professional coffee machines, ~8% of total sales). We then gradually reduce this growth to move towards our growth rate to infinity of 2.5%.

The improvement in the group's profitability is fuelled by "self-help" drivers at SEB stand-alone (e.g.: organic growth, pricing power, tight opex control, etc.) as well as the accretive impact from the integration of WMF. **It is worth noting that our recurring EBIT margin forecast reaches its normative level of 10% from 2019 onwards, which is clearly below the record level achieved in 2010 (10.6%).**

Our new FV of EUR125 vs. EUR102 previously is based on WACC of 7.3% that factors in a cost of equity of 8.7% (risk-free rate of 1.6%, risk premium of 7% and beta of 1x).

Fig. 18: DCF valuation:

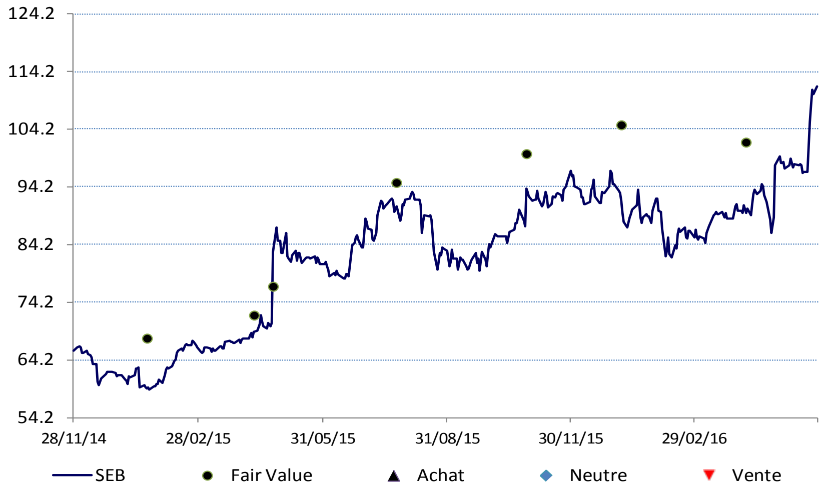
EURm	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Net sales	**5 333**	**6 414**	**6 729**	**7 066**	**7 384**	**7 679**	**7 910**	**8 107**	**8 310**	**8 518**
% change	*11.8%*	*20.3%*	*4.9%*	*5.0%*	*4.5%*	*4.0%*	*3.0%*	*2.5%*	*2.5%*	*2.5%*
Recurring EBIT	474	622	669	707	738	768	791	811	831	852
EBIT margin (%)	8.9%	9.7%	9.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Income taxes	-102	-145	-163	-191	-199	-207	-214	-219	-224	-230
Tax rate (%)	26.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Operating profit after taxes	**372**	**477**	**506**	**516**	**539**	**561**	**577**	**592**	**607**	**622**
+Depreciations	160	192	202	212	222	230	237	243	249	256
-Change in WCR	72	138	40	49	52	54	55	57	58	60
-Investments in fixed assets	160	192	202	212	222	230	237	243	249	256
Operating cash flow	**300**	**338**	**465**	**466**	**487**	**507**	**522**	**535**	**548**	**562**

PV of terminal value	5,957
+PV of future cash flows (2016-25)	3,163
= Enterprise Value	**9,120**
Net debt (2016e)	-2,176
Other liabilities	258
Minority interest	457
Financial assets	27
Theoretical value of equity	**6,256**
Number of shares (m)	50
Theoretical FV per share (EUR)	**125**

Source: Bryan, Garnier & Co ests

Price Chart and Rating History

Groupe SEB



Ratings		
Date	Ratings	Price
15/01/13	BUY	EUR60.07
24/10/12	NEUTRAL	EUR53.88
28/11/11	BUY	EUR54.19

Target Price	
Date	Target price
24/05/16	Under review
07/04/16	EUR102
06/01/16	EUR105
28/10/15	EUR100
24/07/15	EUR95
24/04/15	EUR77
10/04/15	EUR72
21/01/15	EUR68
25/04/14	EUR71
22/01/14	EUR73
10/01/14	EUR76
23/10/13	EUR73
15/01/13	EUR70
24/10/12	EUR57
27/07/12	EUR61
26/07/12	Under review
28/11/11	EUR65

Bryan Garnier stock rating system

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Stock rating

BUY
Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL
Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL
Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.9%   NEUTRAL ratings 34.3%   SELL ratings 9.8%

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