BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

20th May 2016

Food retailing

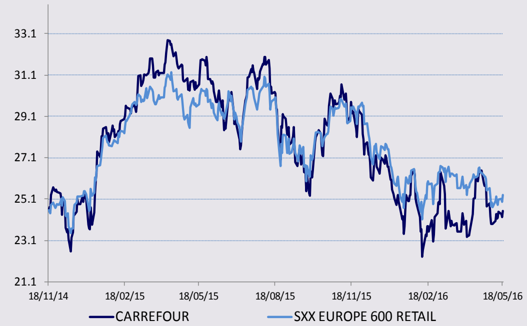
Carrefour

Tending towards premiumisation?

Fair Value EUR30 (price EUR24.22) **BUY**

Bloomberg	CA FP
Reuters	CARR.PA
12-month High / Low (EUR)	32.0 / 22.3
Market capitalisation (EURm)	17,886
Enterprise Value (BG estimates EURm)	24,005
Avg. 6m daily volume ('000 shares)	3 296
Free Float	83.4%
3y EPS CAGR	10.9%
Gearing (12/15)	43%
Dividend yields (12/16e)	4.34%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	76,945	76,738	80,371	83,606
Curr Op Inc. EURm)	2,444	2,473	2,768	3,018
Basic EPS (EUR)	1.35	1.60	1.87	2.10
Diluted EPS (EUR)	1.54	1.60	1.87	2.10
EV/Sales	0.30x	0.31x	0.30x	0.29x
EV/EBITDA	6.0x	6.1x	5.6x	5.2x
EV/EBIT	10.7x	9.7x	8.7x	7.9x
P/E	15.7x	15.2x	12.9x	11.5x
ROCE	9.6	9.0	9.7	10.3



The equity story of Carrefour (13x 2017 P/E vs 16x for peers) may appear as an endless prelude and one is running out of patience. The direction of the share is not clear because, at some point, one struggles to understand the post-turnaround commercial strategy. If investors are not supposed to focus on the "short-term market share monitoring", as the saying goes, then let's try to clarify the long-term aim (i.e. omnichannel and premiumisation).

- As a reminder (Anorexic growth... the bigger the better!), we are witnessing a change in paradigm linked to the dilution of natural growth drivers. In this context, size provides a key asset for major players which can dilute fixed costs over a denser than average network and obtain additional ammunition for tackling competitiveness. To start with Carrefour (leader in most of its markets) thus has a comparative edge.

- The retailer has underperformed (-14% YTD vs peers) due to circumstantial factors: **1/** the integration of Dia France, **2/** the decline in market share at French hypers faced with hitherto unseen promotional activity from Leclerc, and **3/** losses in China. These have been logically sanctioned, but they unfairly mask the strategy smartly distilled since 2012.

- The outline of this omni-channel strategy is taking shape in France (46% of EBIT excl. central costs): **1/** logistical overhaul (prerequisite to any retail initiative), **2/** premiumisation (to build up niche growth), **3/** takeover of Dia France (densification of network), **4/** acquisition of malls (design of a future connected ecosystem). Abroad (54%), the country and format mix should help maintain the conditions for growth.

- Several events could also enliven the equity story: **1/** the IPO of Carmila (REIT) in a low rates environment; **2/** more details (investors day?) about Brazil which should be listed someday; **3/** improving inflation environment in Europe (?). And ultimately, the touchy issue of governance, will arise inevitably.

- In the end, the relevance of the group's strategy goes hand-in-hand with a high-quality shareholding base (Moulin, Arnault, Diniz, Colony…). And a shareholder like the Moulin family (15% of voting rights) is simply the essence of what is taking shape at Carrefour today (i.e. the marriage of retail, malls, premiumisation and e-commerce) and which could lead to a merger between Carrefour and Galeries Lafayette (?).

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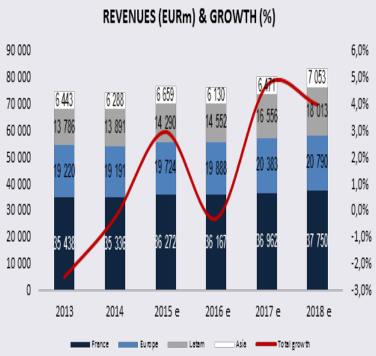
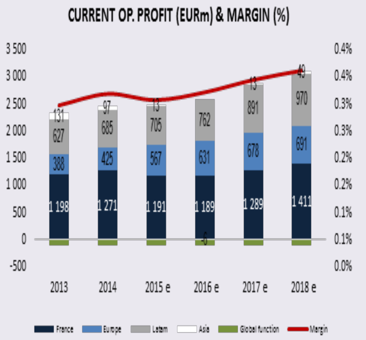




Company description

Carrefour is a multi-local (France, Europe, Latam and Asia) and multi-format (mainly hypermarkets but also supermarkets, C&C and proximity) operator. It was the pioneer in many countries such as Brazil (1975) and China in (1995). It is the leading retailer in Europe , employing nearly 380,000 people. With more than 11,900 stores under banner, it generated net revenues of €77 bn in 2015.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	74,888	74,706	76,945	76,738	80,371	83,606
Change (%)	*-2.5%*	*-0.2%*	*3.0%*	*-0.3%*	*4.7%*	*4.0%*
EBITDA	3,670	3,768	3,914	3,938	4,303	4,615
Current operating income	2,238	2,387	2,444	2,473	2,768	3,018
Exceptionals	144	149	(257)	0.0	0.0	0.0
EBIT	2,382	2,536	2,187	2,473	2,768	3,018
Change (%)	*66.2%*	*6.5%*	*-13.8%*	*13.1%*	*11.9%*	*9.0%*
Financial results	(722)	(563)	(515)	(501)	(469)	(440)
PBT	1,660	1,973	1,672	1,972	2,299	2,578
Tax	(631)	(709)	(597)	(695)	(810)	(909)
Profits from associates	30.0	36.0	44.0	47.5	51.3	51.3
Income from discontinued activities	306	67.0	4.0	0.0	0.0	0.0
Minority interests	(102)	(118)	(143)	(154)	(167)	(180)
Net profit / group share	1,263	1,249	980	1,170	1,373	1,541
Restated net profit	936	1,040	1,113	1,170	1,373	1,541
Change (%)	*18.0%*	*11.1%*	*7.0%*	*5.2%*	*17.3%*	*12.2%*
Cash Flow Statement (EURm)						
Operating cash flows	1,473	2,127	2,181	2,750	3,031	3,274
Capex, net	(2,159)	(2,411)	(2,378)	(2,600)	(2,365)	(2,399)
Change in working capital	(220)	8.0	106	(13.5)	237	211
FCF	(906)	(276)	(91.0)	137	903	1,086
Financial investments	(33.0)	(1,188)	(85.0)	(205)	0.0	0.0
Dividends	(209)	(219)	(488)	(351)	(683)	(785)
Capital increase	0.0	(18.0)	384	0.0	0.0	0.0
Assets disposal	1,121	702	205	0.0	0.0	0.0
Other	231	161	484	0.0	0.0	0.0
Increase in net debt	204	(838)	409	(419)	220	302
Net debt	4,117	4,955	4,546	4,965	4,745	4,444
Balance Sheet (EURm)						
Tangible fixed assets	11,876	13,587	13,085	14,425	15,256	16,058
Intangibles assets	8,277	8,228	8,495	8,495	8,495	8,495
Cash & equivalents	5,058	3,162	2,790	2,371	2,591	2,892
Other assets	18,354	20,812	20,725	20,749	21,208	21,622
Total assets	43,565	45,789	45,095	46,040	47,549	49,068
Shareholders' funds	8,597	10,228	10,672	11,654	12,519	13,463
L & ST Debt	9,233	8,572	7,628	7,628	7,628	7,628
Provisions	3,618	3,581	3,014	3,014	3,014	3,014
Others liabilities	22,117	23,408	23,768	23,744	24,389	24,962
Total Liabilities	43,565	45,789	45,082	46,040	47,549	49,068
WCR	(4,903)	(4,911)	(5,017)	(5,004)	(5,240)	(5,451)
Capital employed	15,250	16,904	16,563	17,916	18,510	19,102
Ratios						
Operating margin	2.99	3.20	3.18	3.22	3.44	3.61
Tax rate	38.01	35.94	35.71	35.24	35.24	35.24
Normative tax rate	35.00	35.00	35.00	35.00	35.00	35.00
Net margin	1.25	1.39	1.45	1.53	1.71	1.84
ROCE (after tax)	9.54	9.18	9.59	8.97	9.72	10.27
WACC	7.80	8.50	8.50	8.50	8.50	8.50
Gearing	47.89	48.45	42.60	42.61	37.91	33.01
Net debt / EBITDA	1.12	1.32	1.16	1.26	1.10	0.96
Pay out ratio	38.51	45.19	69.10	65.84	61.14	59.18
Number of shares, diluted	695	707	723	733	733	733
Data per Share (EUR)						
EPS	1.82	1.77	1.35	1.60	1.87	2.10
Restated EPS	1.35	1.47	1.54	1.60	1.87	2.10
% change	*15.6%*	*9.2%*	*4.7%*	*3.7%*	*17.3%*	*12.2%*
Operating cash flows	2.12	3.01	3.02	3.75	4.13	4.46
FCF	(1.30)	(0.39)	(0.13)	0.19	1.23	1.48
Net dividend	0.70	0.80	0.94	1.05	1.14	1.24

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

Table of contents

1. Investment Case

Why the interest now?

The reason for writing now

The retailer has underperformed (-14% YTD vs peers) due to various circumstantial factors: **1/** the integration of Dia France, **2/** the decline in market share at French hypers faced with hitherto unseen promotional activity from Leclerc, and **3/** losses in China. These have been logically sanctioned, but they unfairly mask the strategy smartly distilled since 2012.

Cheap or Expensive?

Valuation

Carrefour is showing an average discount of 20% to peers (EV/Sales, EV/EBITDA, EV/EBIT, P/E). We do not believe this discount is warranted considering the quality of the commercial momentum and its comparative edge. Bottom line, we are not sure that a P/E 2017e of 13x (vs 16x for peers) truly reflects the earnings growth potential (EPS CAGR of 11%e for 2015/18).

When will I start making money?

Catalysts

Several events could also enliven the equity story: **1/** the IPO of Carmila (REIT) in a low rates environment; **2/** more details (investors day?) about Brazil which should be listed someday; **3/** improving inflation environment in Europe (?). And ultimately, the touchy issue of governance will arise inevitably.

What's the value added?

Difference from consensus

The direction of the share is not clear because, at some point, one struggles to understand the post-turnaround commercial strategy. If one is not supposed to focus on the "short-term market share monitoring", as the saying goes, then let's try to clarify the long-term aim! Indeed, we see a clear move towards premiumisation at Carrefour.

Could I lose money?

Risks to our investment case

1/ Continuation of deflationary trends in Europe; **2/** Carrefour's inability to redress the balance in terms of promotions in France and further market share losses; **3/** Execution risk related to the integration of Dia France; **4/** The persistence of an evasive discourse on e-commerce.

2. Our estimates in a nutshell

2.1. Commercial (gross sales) trends are key…

	2014	2015	2016e	2017e	2018e
(A)+(B)+(C)+(D) TOTAL GROUP	**83 998**	**86 351**	**86 125**	**90 210**	**93 846**
(1) LFL excl. Fuel	2.6%	2.3%	4.2%	3.2%	2.8%
(2) Fuel effect	-0.8%	-1.6%	-0.9%	0.0%	0.0%
(1)+(2) LFL	1.8%	0.7%	3.4%	3.2%	2.8%
(3) Expansion	0.9%	0.7%	0.1%	1.2%	1.3%
(1)+(2)+(3) Organic growth	2.8%	1.3%	3.5%	4.4%	4.0%
(4) Acquisitions	0.1%	2.4%	-0.1%	0.0%	0.0%
(1)+(2)+(3)+(4) Var. (cc)	2.9%	3.8%	3.4%	4.4%	4.0%
(5) Forex	-3.2%	-1.0%	-3.7%	0.3%	0.0%
(1)+(2)+(3)+(4)+(5) total var.	-0.4%	2.8%	-0.3%	4.7%	4.0%
(A) FRANCE (€ m)	**39 667**	**40 656**	**40 538**	**41 429**	**42 312**
(1) LFL excl. Fuel	1.1%	1.2%	1.8%	1.9%	1.8%
(2) Fuel effect	-1.4%	-3.0%	-1.4%	0.0%	0.0%
(3) Expansion	0.0%	-0.1%	-0.8%	0.3%	0.3%
(1)+(2)+(3) Organic growth	-0.2%	-1.8%	-0.5%	2.2%	2.1%
(4) Acquisitions	0.0%	4.3%	0.2%	0.0%	0.0%
(1)+(2)+(3)+(4) total var.	-0.2%	2.5%	-0.3%	2.2%	2.1%
(B) EUROPE EXCL. FRANCE	**21 727**	**22 130**	**22 314**	**22 869**	**23 326**
(1) LFL excl. Fuel	-0.3%	1.7%	3.6%	2.5%	2.0%
(2) Fuel effect	-0.3%	-0.8%	-0.9%	0.0%	0.0%
(3) Expansion	-0.1%	-0.5%	-0.7%	0.0%	0.0%
(1)+(2)+(3) Organic growth	-0.7%	0.4%	2.0%	2.5%	2.0%
(4) Acquisitions	0.4%	1.4%	-0.7%	0.0%	0.0%
(1)+(2)+(3)+(4) Var. (cc)	-0.3%	1.9%	1.3%	2.5%	2.0%
(5) Forex	0.1%	0.0%	-0.5%	0.0%	0.0%
(1)+(2)+(3)+(4)+(5) total var.	-0.2%	1.8%	0.8%	2.5%	2.0%
(C) LATAM	**15 548**	**16 106**	**16 406**	**18 665**	**20 307**
(1) LFL excl. Fuel	14.3%	11.7%	14.7%	8.0%	5.0%
(2) Fuel effect	-0.6%	-0.2%	0.3%	0.0%	0.0%
(3) Expansion	3.7%	4.1%	3.8%	3.8%	3.8%
(1)+(2)+(3) Organic growth	17.4%	15.5%	18.8%	11.8%	8.8%
(4) Acquisitions	0.1%	0.0%	0.1%	0.0%	0.0%
(1)+(2)+(3)+(4) Var. (cc)	17.5%	15.5%	18.9%	11.8%	8.8%
(5) Forex	-17.4%	-11.9%	-17.0%	2.0%	0.0%
(1)+(2)+(3)+(4)+(5) total var.	0.1%	3.6%	1.9%	13.8%	8.8%
(D) ASIA	**7 056**	**7 459**	**6 866**	**7 247**	**7 900**
(1) LFL excl. Fuel	-5.4%	-9.9%	-3.2%	2.0%	5.0%
(2) Fuel effect	0.0%	0.0%	0.0%	0.0%	0.0%
(3) Expansion	3.6%	0.8%	-0.1%	4.0%	4.0%
(1)+(2)+(3) Organic growth	-1.8%	-9.1%	-3.3%	6.0%	9.0%
(4) Acquisitions	-0.1%	-0.1%	-0.3%	0.0%	0.0%
(1)+(2)+(3)+(4) Var. (cc)	-1.9%	-9.2%	-3.6%	6.0%	9.0%
(5) Forex	-0.5%	14.9%	-4.3%	-0.5%	0.0%
(1)+(2)+(3)+(4)+(5) total var.	-2.4%	5.7%	-7.9%	5.5%	9.0%

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

2.2. … to dilute fixed costs and generate strong FCF

Cash Flow Statement (EURm)	2014	2015	2016e	2017e	2018e
Operating cash flows	2 127	2 181	2,750	3,031	3,274
Capex, net	(2 411)	(2 378)	(2,600)	(2,365)	(2,399)
Change in working capital	8	106	(13.5)	237	211
FCF	**(276)**	**(91)**	**137**	**903**	**1,086**
Financial investments	(1 188)	(85)	(205)	0.0	0.0
Dividends	(219)	(488)	(351)*	(683)	(785)
Capital increase / buyback	(18)	384	0.0	0.0	0.0
Assets disposal	702	205	0.0	0.0	0.0
Other	161	484	0.0	0.0	0.0
Decrease / (Increase) in net debt	(838)	409	(419)	220	302
Net debt	**4 955**	**4 546**	**4,965**	**4,745**	**4,444**

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

** Dividend in cash or shares*

2.3. Our estimates are rather in line with those of the consensus

	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e
	Consensus			Bryan Garnier			Bryan Garnier vs Consensus		
Sales	77 064	79 932	82 423	76 738	80 371	83 606	-0.4%	0.5%	1.4%
EBITDA	3 983	4 281	4 507	3 938	4 303	4 615	-1.1%	0.5%	2.4%
EBIT	2 488	2 731	2 932	2 473	2 768	3 018	-0.6%	1.4%	3.0%
Net result	1 202	1 369	1 492	1 170	1 373	1 541	-2.7%	0.3%	3.3%
EPS	1.64	1.85	1.99	1.60	1.87	2.10	-2.6%	1.1%	5.6%

Source: Datastream; Bryan, Garnier & Co ests.

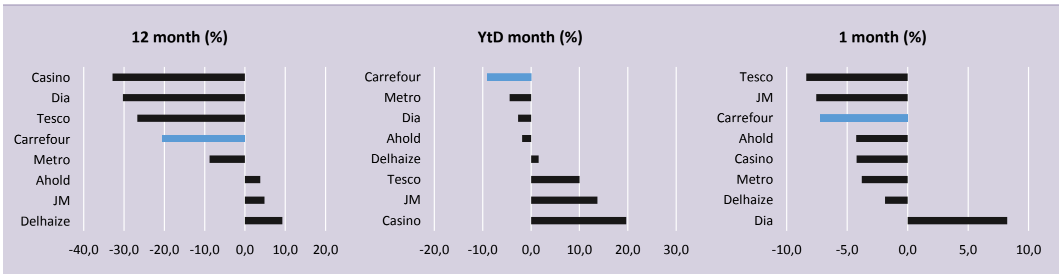
3. Valuation (+25% upside potential) and stock performance (-9% YTD)

3.1. Carrefour has been too strongly punished

-9% YTD performance (i.e. worst performer) vs +20% for Casino

Year-to-date, the Casino share price (in favour of which some investors have switched vs Carrefour) is up +20% (fairly boosted by not only **1/** the deleveraging plan but also by **2/** the stock market relief linked to a potential impeachment of Dilma Rousseff in Brazil). In the meantime, the Carrefour share price has lost 9%.

Fig. 1: Absolute performance (as of 17/05/2016)

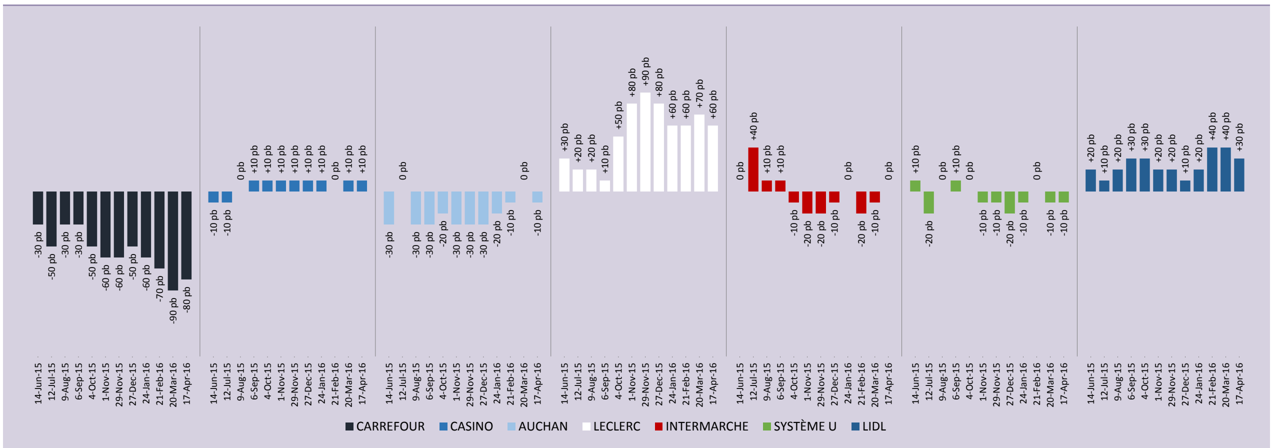


Source: Company Data; Bryan, Garnier & Co ests.

China and market shares in France remain the harsh facts

The following are the harsh facts behind Carrefour's current troubles: **1/** China (loss making but improving sequentially); **2/** the erosion of market shares in France (-50bp in P4 16 vs -100bp in P3) because of hypermarkets (-30bp) and, above all, the ongoing restructuring of Dia (-80bp). These are well integrated by the consensus we believe. On the other hand, **3/** the momentum in Europe (23% of EBIT) and **4/** Brazil (23%e of EBIT excl. central costs) turned out to be stronger than expected in Q1 16, such that that nothing obviously justifies the YTD strong underperformance of the retailer vs its peers (-14%) in our view.

Fig. 2: Market share in France (12 weeks moving average)



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

Fig. 3: LFL (excl. fuel and calendar effect) in Q1 2016

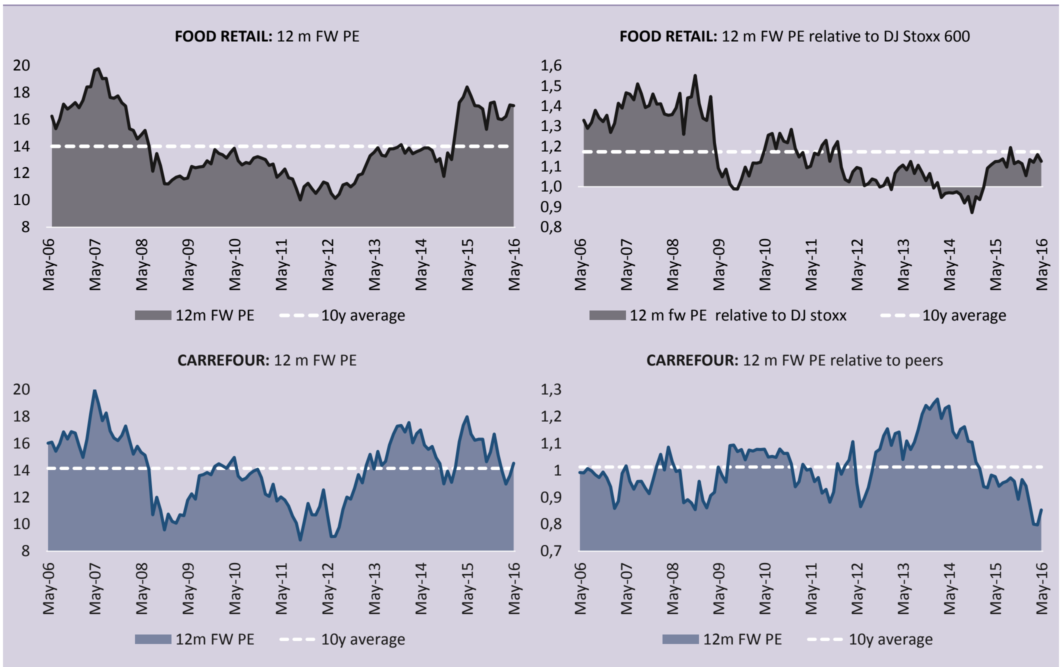
LFL	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16e	Q1 16p
France	1.7%	2.1%	-0.2%	1.1%	2.5%	0.9%	+1.6%	+0.2%	-0.5%	0.0%
Europe	-1.4%	1.5%	-1.3%	0.5%	0.9%	-0.4%	+4.2%	+2.2%	+1.4%	+3.2%
Latam	12.7%	15.2%	13.7%	15.7%	12.5%	10.7%	+11.7%	+11.9%	+14.3%	+13.5%
Asia	-2.5%	-6.1%	-6.6%	-6.5%	-11.3%	-9.2%	-7.5%	-12.9%	-7.6%	-4.9%
Total group	**2.7%**	**3.8%**	**1.6%**	**3.1%**	**2.3%**	**1.7%**	**+3.5%**	**+2.1%**	**+2.7%**	**+3.1%**

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

Carrefour shows rather attractive multiples

In absolute terms, the food retailing sector (panel made up of Carrefour, Casino, Tesco, Sainsbury, Morrison, Metro, Ahold, Delhaize, Colruyt, Dia and Jeronimo Martins) is trading at a 12m forward P/E of 17x vs. an historical average of 14x over the past decade). This absolute valuation is not attractive, bearing in mind that the sector offers only low growth prospects (average LFL growth of +0.3% excl. fuel in 2015). In relative terms, the reality is no more attractive.

Fig. 4: Absolute and relative 12 m FW P/E



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

Within this panel of companies, Carrefour is showing an average discount of 20% to peers (EV/Sales, EV/EBITDA, EV/EBIT, P/E). We do not believe this discount is warranted considering the quality of the momentum and its comparative edge (see section 3.3). Bottom line, we are not sure that a 2017 P/E of 13x truly reflects the earnings growth potential (EPS CAGR of 11%e for 2015/18).

Fig. 5: Valuation multiples (as of 17/05/2016)

		Local currency			EV/Sales		EV/EBITDA		EV/EBIT		P/E	
	Reco.	MV	Price	Fair Value	16e	17e	16e	17e	16e	17e	16e	17e
Ahold	Buy	15 949	19.1	22	ee	0.44 x	7.5 x	7.0 x	13.0 x	12.1 x	16.9 x	16.3 x
Carrefour	Buy	17 886	24.2	30	0.31 x	0.30 x	6.1 x	5.6 x	9.7 x	8.7 x	15.2 x	13.0 x
Casino	Buy	5 746	50.8	57	0.25 x	0.25 x	5.0 x	4.8 x	8.2 x	8.0 x	21.9 x	18.1 x
Colruyt*	-	7 694	51.4	-	0.72 x	0.69 x	9.5 x	8.9 x	13.4 x	12.7 x	20.2 x	19.7 x
Delhaize	Buy	9 535	91.2	104.5	0.40 x	0.38 x	6.2 x	5.8 x	10.9 x	10.2 x	16.5 x	15.3 x
Dia	Buy	3 297	5.3	6.5	0.49 x	0.45 x	7.0 x	6.3 x	11.0 x	9.4 x	12.8 x	10.8 x
Jeronimo Martins	Neutral	8 584	13.6	13.5	0.61 x	0.56 x	9.9 x	8.8 x	16.3 x	14.4 x	22.3 x	20.0 x
Metro AG	Sell	9 156	28.3	26	0.21 x	0.21 x	4.9 x	4.8 x	8.0 x	7.9 x	15.5 x	14.1 x
Morrisons*	-	4 421	189 p	-	0.37 x	0.36 x	8.2 x	7.1 x	15.1 x	13.1 x	18.5 x	16.7 x
Sainsbury*	-	4 881	254 p	-	0.30 x	0.28 x	5.6 x	5.5 x	10.4 x	10.3 x	12.1 x	11.8 x
Tesco	Sell	13 392	165 p	166 p	0.38 x	0.36 x	9.6 x	8.5 x	19.9 x	16.5 x	28.2 x	22.0 x
Avg. Sector					**0.41 x**	**0.39 x**	**7.2 x**	**6.6 x**	**12.4 x**	**11.2 x**	**18.2 x**	**16.2 x**
Avg. Sector (excl.					**0.41 x**	**0.39 x**	**7.0 x**	**6.5 x**	**11.6 x**	**10.7 x**	**17.2 x**	**15.6 x**

Source: Datastream; Bryan. Garnier & Co ests.

** Consensus estimates (IBES)*

3.2. Our FV (EUR30): average between a DCF (EUR29) and a SOTP (EUR32)

DCF valuation: EUR29 per share

Our Fair Value is the average between a DCF (EUR29) and a SOTP (EUR32). This offer a +25% upside potential. Considering the strength of the commercial growth at Carrefour (+2.5% LFL excl. fuel in 2015 vs +0.3% for the panel), along with the wise strategy the group is implementing (multi-format and premiumisation), we believe that the French retailer remains a Buy opportunity within an industry which is suffering from a lack of commercial perspective.

We have applied the following main assumptions in our DCF model:

- a WACC of 7.9% (risk-free rate of 1.6%. a 7.0% risk premium and a beta of 1.2x);
- growth to infinity of 1.5% and normative operating margin of 3.5%;
- on a normative basis, capex and depreciation/amortisation charges are equal (2.0% of sales).

Our DCF valuation is sensitive to currency trends:

- depreciation of 10% in the BRL would slice EUR2 off our DCF valuation;
- depreciation of 10% in the Argentinian peso would lower our valuation by EUR0.4.

Fig. 6: DCF (EUR29 per share)

€ m	2016	2017	2018	2019	2020	2021	2022	2023	Normative
Sales	**76 738**	**80 371**	**83 606**	**87 020**	**90 392**	**93 700**	**96 892**	**100 255**	**101 759**
Variation (%)	-0.3%	4.7%	4.0%	4.1%	3.9%	3.7%	3.4%	3.5%	1.5%
Current EBIT	2 473	2 768	3 018	3 209	3 410	3 617	3 829	4 058	3 562
Margin	3.2%	3.4%	3.6%	3.7%	3.8%	3.9%	4.0%	4.0%	3.5%
Tax	(866)	(969)	(1 056)	(1 123)	(1 193)	(1 266)	(1 340)	(1 420)	(1 247)
EBIT after tax	**1 608**	**1 799**	**1 962**	**2 086**	**2 216**	**2 351**	**2 489**	**2 638**	**2 315**
D&A	1 465	1 534	1 596	1 661	1 726	1 789	1 850	1 914	2 035
As a % of sales	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%
WCR variation	(13)	237	211	223	220	216	208	219	0
Capex	(2 600)	(2 365)	(2 399)	(2 432)	(2 460)	(2 481)	(2 494)	(2 506)	(2 035)
As a % of sales	3.4%	2.9%	2.9%	2.8%	2.7%	2.6%	2.6%	2.5%	2.0%
Operational cash-flow	**459**	**1 205**	**1 370**	**1 538**	**1 702**	**1 875**	**2 053**	**2 265**	**2 315**
Discounted Cash-flow	**438**	**1 066**	**1 123**	**1 168**	**1 199**	**1 224**	**1 242**	**1 271**	**1 299**
Sum of discounted cash flows	**8 732**								
Terminal value	20 672								
Total	**29 403**								
2015 net debt	(4 546)								
Provisions & Minorities & Associates	(3 696)								
Value of equity	21 162								
Equity per share	**EUR29**								

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

SOTP valuation: EUR32 per share

Given the sheer diversity of the formats that Carrefour operates with (hypermarkets, supermarkets, convenience stores), as well as its wide range of countries, it is certainly worthwhile considering the SOTP. We are doing just that, albeit with some ground rules:

- Using EV/Sales multiples: we are in a fixed-cost industry and the commercial challenge is to dilute invariable costs. Valuation is therefore based on the sales potential, which primarily increases depending on the quality of the stores' locations. If this were not the case, again, Carrefour would never have paid 0.32x sales for a loss-making Dia banner in France!

- We make no distinction between the real estate activity (propco) and core operations (opco). We estimate that Carrefour's real estate assets are worth approximately EUR15bn (we arrived at this figure notably based on the figure of EUR17bn that the group communicated in 2007, not taking into account the assets housed within Carmila nor the Colombian assets sold to Cencosud), i.e. 85% of its current market capitalisation and 45% of its enterprise value.

Fig. 7: SOTP (EUR32 per share)

2016	Sales	EBITDA	Margin e	EBIT*	Margin e	EV/SALES	EV/EBITDA	EV/EBIT	EV
TOTAL GROUP	**76 738**	**3 938**	**5.1%**	**2 576**	**3.4%**	**44%**	**8.6X**	**13.1X**	**33 740**
FRANCE	**36 167**	**1 849**	**5.1%**	**1 189**	**3.3%**	**36%**	**7.0X**	**10.8X**	**12 880**
Hypers	19 010	806	4.2%	500	2.6%	31%	7.3X	11.7X	5 845
Supers	11 623	756	6.5%	523	4.5%	41%	6.3X	9.1X	4 766
Others	5 534	288	5.2%	166	3.0%	41%	7.9X	13.7X	2 269
OTHER EUROPE	**19 888**	**1 012**	**5.1%**	**631**	**3.2%**	**41%**	**8.1X**	**13.0X**	**8 237**
Spain	7 975	586	7.4%	427	5.4%	49%	6.7X	9.2X	3 924
Italy	4 932	99	2.0%	0	0.0%	31%	15.4X	nm	1 517
Belgium	4 037	202	5.0%	121	3.0%	41%	8.2X	13.7X	1 655
European growth markets	2 784	125	4.5%	84	3.0%	41%	9.1X	13.7X	1 142
LATAM	**14 552**	**991**	**6.8%**	**762**	**5.2%**	**66%**	**9.6X**	**12.6X**	**9 557**
Brazil	10 914	779	7.1%	604	5.5%	71%	9.9X	12.8X	7 738
ow Atacadao	*6 330*	*538*	*8.5%*	*443*	*7.0%*	*80%*	*9.4X*	*11.4X*	*5 064*
ow Hypers	*5 348*	*241*	*4.5%*	*160*	*3.0%*	*50%*	*11.1X*	*16.7X*	*2 674*
Argentina	3 638	213	5.8%	158	4.3%	50%	8.6X	11.5X	1 819
ASIA	**6 130**	**86**	**1.4%**	**-6**	**-0.1%**	**50%**	**35.8X**	**nm**	**3 065**
China	4 598	23	0.5%	-46	-1.0%	50%	nm	nm	2 299
Others	1 533	63	4.1%	40	2.6%	50%	12.2X	19.3X	766
RESTATEMENT TO EV									**(10 533)**
Associates									1 481
Central Costs									(1 082)
Average net Debt									(5 756)
Minorities									(2 162)
Provisions									(3 014)
EQUITY VALUE PER SHARE									**EUR32**

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

** Excluding central costs*

3.3. Fundamentals (1) and comparative edges (2) do not justify the discount

Fundamentals: 1/ France and China remain unsurprisingly pressured, 2/ Europe is taking-off, 3/ and LatAm remains impressive

There is no denying to say that the commercial momentum has been strong over the last two years as evidenced in the table below. Over the period, the LFL sales growth (excl. fuel) was +2.7% on average vs zero for the panel of companies. By itself, this LFL growth performance could be a good reason to favour Carrefour vs its peers within a fixed-cost industry.

Fig. 8: LFL (excl. fuel and calendar effect) in Q1 2016

LFL	Q1 14	Q2 14	Q3 14	Q4 14	2014	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16
Total group	2.7%	3.8%	1.6%	3.1%	2.8%	2.3%	1.7%	+3.5%	+2.1%	2.4%	+3.1%
France (47% of sales)	+1.7%	+2.1%	-0.2%	+1.1%	+1.2%	+2.5%	+0.9%	+1.6%	+0.2%	+1.3%	+0.0%
- ow Hypers	+0.7%	+0.4%	-0.7%	-0.6%	-0.1%	+2.1%	+0.5%	+0.7%	-0.7%	+0.6%	-0.6%
- ow Supers	+1.8%	+3.3%	-1.2%	+2.6%	+1.6%	+2.5%	+1.2%	+2.5%	+1.5%	+1.9%	+0.7%
Europe (26% of sales)	-1.4%	+1.5%	-1.3%	+0.5%	-0.2%	+0.9%	-0.4%	+4.2%	+2.2%	+1.8%	+3.2%
- ow Spain	+0.6%	+0.1%	-1.2%	+0.9%	+0.1%	+0.3%	+2.8%	+4.6%	+2.5%	+2.6%	+3.4%
- ow Italy	-5.9%	+2.9%	-4.8%	-1.7%	-2.3%	-1.0%	-5.0%	+5.9%	+3.5%	+0.8%	+4.5%
- ow Belgium	+1.5%	+3.8%	+1.3%	+0.4%	+1.7%	+2.1%	+0.0%	+2.7%	-0.4%	+1.0%	+1.0%
LatAm (19% of sales)	+12.7%	+15.2%	+13.7%	+15.7%	+14.3%	+12.5%	+10.7%	+11.7%	+11.9%	+11.7%	+13.5%
- ow Brazil	+6.4%	+7.2%	+7.7%	+10.4%	+8.0%	+8.4%	+7.1%	+7.4%	+8.5%	+7.9%	+9.9%
Asia (8% of sales)	-2.5%	-6.1%	-6.6%	-6.5%	-5.3%	-11.3%	-9.2%	-7.5%	-12.9%	-10.3%	-4.9%
- ow China	-3.1%	-7.3%	-8.2%	-7.8%	-6.4%	-14.0%	-12.3%	-11.2%	-16.7%	-13.5%	-8.4%

Source: Company Data; Bryan Garnier & Co ests.

What's happening in France (47% of sales / 46% of EBIT excl. central costs): Leclerc, which has been rather EDLP in 2013/14 in order to counter Géant, turned out to be more promotional in 2015 in a bid to catch up to Carrefour and get back to a more normative level of promotions. Hence, positive signs as to a potential comeback of inflation are mitigated by increasing promotional pressures. Bottom line, an update on the ongoing Caravel project (logistics) would be very much appreciated!

What's taking shape in Europe excluding France (26% of sales / 25% of EBIT excl. central costs): 1/ in Spain, the non-food component of hypermarkets is a major advantage given the recovery in consumers' discretionary spending. **2/** In Italy, Nielsen's indicators are pointing to a recovery in consumption. Hence, Carrefour could break even in 2016. **3/** Not that much to comment on Belgium which is showing improving commercial trends vs Q4 15. Bottom line, Carrefour has managed to trim its fixed-cost base and is now able to tap into a strong operating leverage (especially in Spain).

Fig. 9: FMCG commercial trend in the Spanish market

Spain	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
Price effect	-1.10%	0.7%	0.9%	1.2%	1.4%
Volume effect	1%	0.2%	1.1%	1.9%	1.3%
Growth in value	**-0.1%**	**0.9%**	**2.0%**	**3.0%**	**2.7%**

Source: Nielsen growth report; Bryan. Garnier & Co ests.

Fig. 10: FMCG commercial trend in the Italian market

Italy	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
Price effect	-0.2%	0.0%	0.6%	1.1%	0.3%
Volume effect	-0.9%	1.9%	-0.2%	0.9%	1.1%
Growth in value	**-1.2%**	**1.9%**	**0.4%**	**2.0%**	**1.4%**

Source: Nielsen growth report; Bryan. Garnier & Co ests.

Why Latin America (19% of sales / 30% of EBIT excl. central costs) is so strong: 1/ Brazil (75% of LatAm sales) is doing very well thanks to its mix in favour of Cash & Carry. As a reminder, thanks to Atacadao (double digit LFL), Carrefour achieves ~70% of its EBIT in wholesale, while Casino derives ~70% of its EBIT from hypers and supers (which are showing growth rates of around 3%). And, for as long as the crisis lasts in Brazil, we see Cash & Carry as the winning format. **2/** Argentina grew by around 20%, but this is not meaningful given the galloping inflation there.

What is at stake in Asia (9% of Sales / 0% of EBIT excl. central costs): we have been saying for a while that, as long as China (~75% of sales in Asia) makes money, it remains a "secondary issue" (~3-5% of earnings usually); but the day it starts losing money, it could become a question mark (the operating deleverage can be very painful / re. Géant Casino in another register). Here we are… But the good news is that Carrefour shows a sequential improvement which reinforces management's view that the country may bottom out in 2016. There is no point in worrying about Taiwan, which is definitely recovering.

Fig. 11: Activity Contribution

	2012	2013	2014	2015	2016 e	2017 e	2018 e
GROUP Sales excl. VAT	**76 788**	**74 887**	**74 706**	**76 945**	**76 738**	**80 371**	**83 606**
Global function	-74	-106	-92	-103	-103	-103	-103
Activity contribution (AC)	2 140	2 238	2 386	2 445	2 473	2 768	3 018
Margin	2.8%	3.0%	3.2%	3.2%	3.2%	3.4%	3.6%
Var. (bps)	10 bp	20 bp	21 bp	-2 bp	5 bp	22 bp	17 bp
FRANCE Sales excl. VAT	**35 341**	**35 438**	**35 336**	**36 272**	**36 167**	**36 962**	**37 750**
Activity contribution (AC)	929	1 198	1 271	1 191	1 189	1 289	1 411
Margin	2.6%	3.4%	3.6%	3.3%	3.3%	3.5%	3.7%
Var. (bps)	18 bp	75 bp	22 bp	-31 bp	1 bp	20 bp	25 bp
OTHER EUROPE Sales excl. VAT	**20 873**	**19 220**	**19 191**	**19 724**	**19 888**	**20 383**	**20 790**
Activity contribution (AC)	509	388	425	567	631	678	691
Margin	2.4%	2.0%	2.2%	2.9%	3.2%	3.3%	3.3%
Var. (bps)	30 bp	-42 bp	20 bp	66 bp	30 bp	15 bp	0 bp
LATAM Sales excl. VAT	**14 174**	**13 786**	**13 891**	**14 290**	**14 552**	**16 556**	**18 013**
Activity contribution (AC)	608	627	685	705	762	891	970
Margin	4.3%	4.5%	4.9%	4.9%	5.2%	5.4%	5.4%
Var. (bps)	62 bp	26 bp	38 bp	18 bp	30 bp	15 bp	0 bp
ASIA Sales excl. VAT	**6 400**	**6 443**	**6 288**	**6 659**	**6 130**	**6 471**	**7 053**
Activity contribution (AC)	168	131	97	13	-6	13	49
Margin	2.6%	2.0%	1.5%	0.2%	-0.1%	0.2%	0.7%
Var. (bps)	-90 bp	-59 bp	-49 bp	-135 bp	-30 bp	30 bp	50 bp

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

Comparative edge: the bigger (i.e. Carrefour) the better!

As a reminder (Anorexic growth... the bigger the better!), size remains a common denominator on the strategic front, especially given the backdrop of sluggish growth. As such, since retailers diligently reinvest productivity gains in their sales offerings, the heavyweights enjoy a natural competitive advantage by diluting fixed costs across a more dense store network (hence the acquisition of Dia France…). The marginal cost, inversely proportional to size, therefore continues to decrease.

Fig. 12: Market share of major retailers in France in P04 2016

Groupe	Market share (%)	Chg. (%)
Groupe Carrefour	21.3	-0.5
Groupe E.Leclerc	20.6	+0.3
Groupe Intermarché	14.3	+0.2
Groupe Casino	11.5	+0.2
Groupe Auchan	10.9	-0.1
Groupe Système U	10.5	-0.2
Lidl	5.3	+0.3
Groupe Louis Delhaize	3.1	-0.1
Aldi	2.2	=

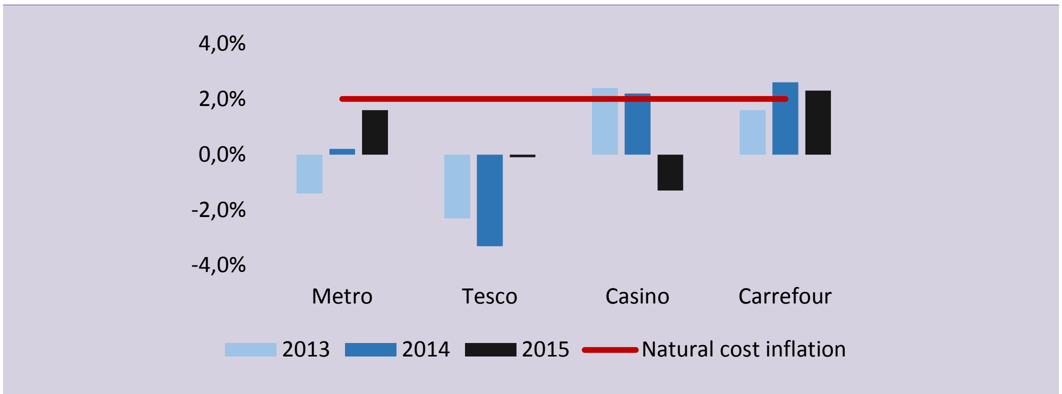
Source: Company Data; Bryan. Garnier & Co ests.

In the end, diluting costs is ingrained in retailers' DNA, and the most competitive player is the one with the lowest fixed cost ratio (NB: it is important to make the distinction between cost dilution, via growth, and cost reduction which, if excessive - i.e. Tesco - ends up hurting the business base). But this strategy is only beneficial if operating gains are shared with consumers by systematically reinvesting them in the offer and prices, so as to attract more traffic. Over the months, we have become convinced that this is the philosophy of Carrefour's management.

The right strategy: cash margin approach to the business

The domination strategy through costs must enable retailers to: **1/** increase cash earnings (i.e. it is better to have small unit margins on a large number of products than big margins on low volumes). and **2/** create a virtuous circle whereby business growth enables fixed costs to be diluted across larger quantities (thus reducing marginal unit costs before returning to the original margin rate). This is why food retail analysts attach so much importance to sales growth on a same-store basis.

Fig. 13: LFL (excl. fuel) momentum of major players over the last three years



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

Again. the equation:

ROCE **(1)** = margin rate **(2)** x asset turnover **(3)**

illustrates this commercial balance. In order to fulfil its value creation potential **(1)**, a retailer can roll out a policy based on the margin rate **(2)** by retaining productivity gains (to benefit shareholders?). This policy penalises both its positioning and customers' perception of its pricing and is therefore inappropriate. Conversely, a sound business strategy involves handing productivity gains back to customers. This fuels traffic and volumes, increases asset turnover **(3)** and further dilutes the fixed cost base.

Fig. 14: ROCE, margin rate and asset turnover

	2011	2012	2013	2014	2015	2011/15 chg.
ROCE before tax = (1) x (2)						
Ahold	26.6%	25.2%	23.6%	21.3%	22.4%	**-420**
Delhaize	10.6%	10.0%	10.5%	10.7%	11.3%	**66**
Carrefour	**11.3%**	**12.8%**	**14.4%**	**14.8%**	**14.6%**	**334**
Casino	11.3%	9.8%	11.3%	10.6%	7.7%	**-354**
Dia	27.8%	32.3%	35.7%	41.3%	37.7%	**990**
JM	31.5%	28.8%	27.6%	24.8%	29.9%	**-164**
Tesco	14.5%	12.8%	13.3%	6.5%	5.3%	**-920**
MARGIN RATE (1)						
Ahold	4.5%	4.3%	4.2%	3.9%	3.8%	**-72**
Delhaize	4.4%	3.6%	3.6%	3.6%	3.6%	**-86**
Carrefour	**2.7%**	**2.8%**	**3.0%**	**3.2%**	**3.2%**	**49**
Casino	4.5%	4.8%	4.9%	4.6%	3.1%	**-137**
Dia	2.9%	3.3%	3.8%	5.0%	4.4%	**150**
JM	5.2%	5.0%	4.5%	3.6%	3.7%	**-154**
Tesco	5.8%	5.3%	5.2%	2.2%	1.7%	**-407**
ASSET TURNOVER (2)						
Ahold	5.9x	5.9x	5.6x	5.5x	5.9x	**0.0x**
Delhaize	2.4x	2.8x	3.0x	3.0x	3.2x	**0.8x**
Carrefour	**4.2x**	**4.6x**	**4.8x**	**4.6x**	**4.6x**	**0.4x**
Casino	2.5x	2.1x	2.3x	2.3x	2.5x	**0.0x**
Dia	9.5x	9.9x	9.4x	8.3x	8.5x	**-1.0x**
JM	6.0x	5.8x	6.2x	6.9x	8.1x	**2.1x**
Tesco	2.5x	2.4x	2.5x	2.9x	3.1x	**0.6x**

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

NB: *At first glance, Dia looks badly placed, as opposed to Carrefour. In simple terms, the franchise business, which has very low capital intensity (since in most cases, the initial investment in the business base is shouldered by the franchisee) and excellent profitability, is developing fast at Dia. Naturally, this helps to boost ROCE.*

But the development of the format mix in favour of franchises blurs the picture, so we cannot conclude with any authority that Dia is effectively adopting an approach based on the margin rate. In fact, assuming constant profitability by store type (i.e. franchised or integrated), the shift in the mix towards franchises guarantees a 15bp or maybe 20bp annual increase in the ratio! As such, before nurturing its rate, Dia seems to be taking care of its mix.

Although a number of factors (scope, business model, format mix, etc.) distort the exercise, we nevertheless find it useful to look at the data.

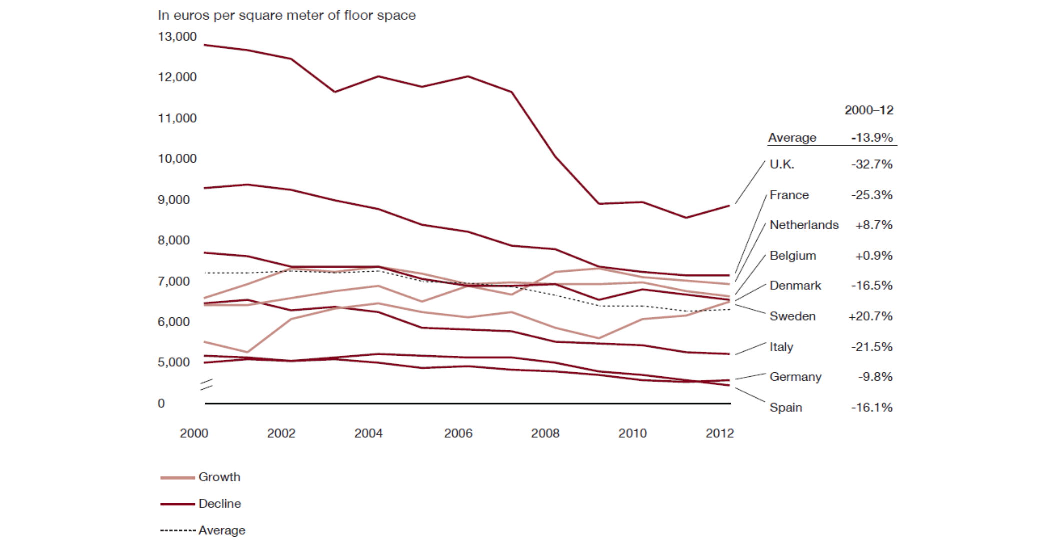
4. If investors are not supposed to focus on the short-term monitoring of market share…

4.1. What is the crux of the problem?

The lack of commercial growth at the industry level…

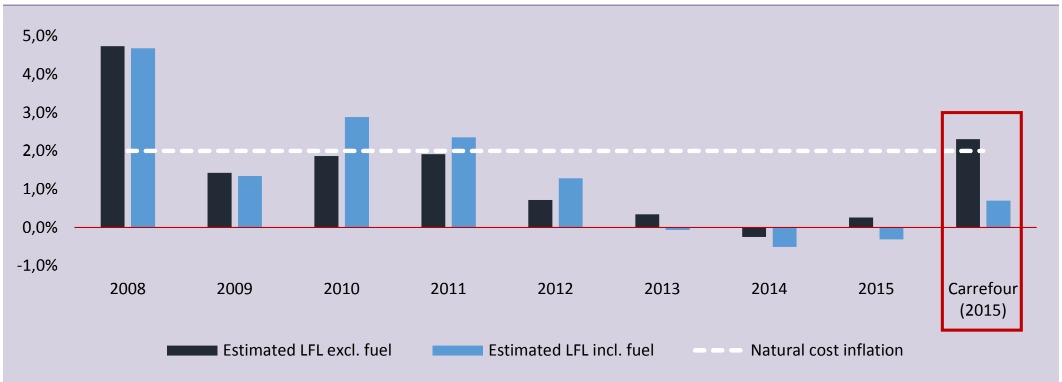
We are witnessing a change in paradigm characterised by the dilution of natural growth drivers, a disruptive factor in a fixed-cost industry. As a reminder, growth in the industry naturally relies on demographics, inflation and market share gains from traditional players. Today, we are seeing: **1/** sluggish population growth; **2/** a disinflationary/deflationary trend; and **3/** saturation of the competitive space, coupled with an increase in capital intensity.

Fig. 15: Grocery productivity has declined steadily



Source: PWC; Bryan. Garnier & Co ests.

Fig. 16: 2015 LFL sales growth (excl. fuel) of major retailers* 2015



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

** Panel composed of Carrefour, Casino, Ahold, Delhaize, Dia, JM, Tesco, Morrisons, Sainsbury, Tesco and Metro*

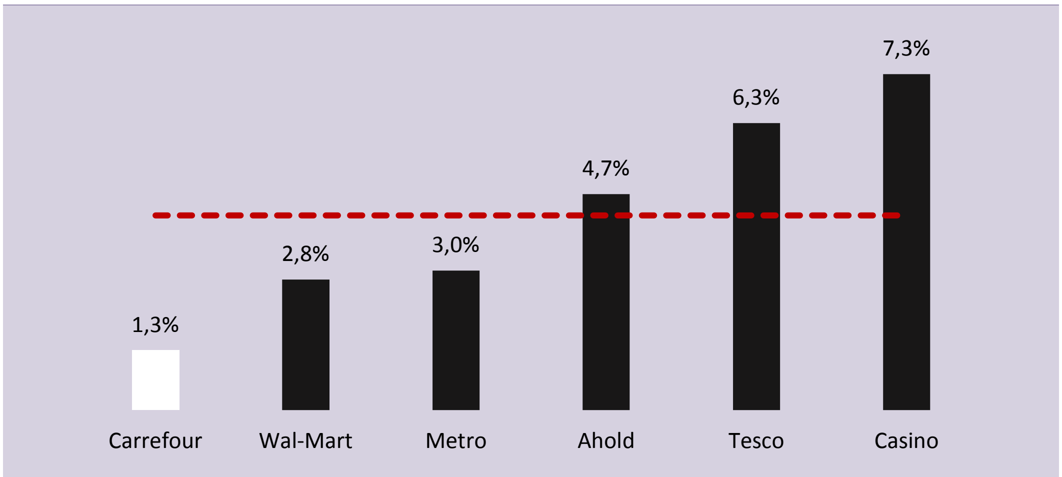
With population growth remaining slow, players have little hope of increasing their volumes unless they win business from rivals. If a player's price positioning is inappropriate, there is a clear tendency for dissatisfied customers to desert the banner. The likelihood of them flocking back as soon as adjustments have been made is not so clear. We can therefore conclude that industry players are interchangeable and must diligently defend their piece of the pie, which in itself isn't getting any bigger. Here, we are talking about price competitiveness.

… brings the "e-commerce malaise" to light at Carrefour

But what is the point of having the best price if there is a poor shopping experience? In order to grow, retailers therefore need to strike the right balance between price, quality and service. This being said, turning to "the" current debate, the very question is perhaps not so much about whether e-commerce **(estimated EUR1bn sales in 2015 at Carrefour and EUR300m in Q1 2016)** can be profitable, but rather about whether it is a "necessary evil". The online shopping experience is definitely one of convenience which could encourage a customer to switch from one retailer to another (i.e. e-commerce would thus be a cost of acquiring new customers). As such, shouldn't an e-commerce platform instead be considered as an element of non-price competitiveness?

Carrefour's CEO believes that the development of the e-commerce business only makes sense if it is profitable and that it is going to be a big disillusionment in this respect… We believe that the point is entirely legitimate. But the fact remains that Casino derives 7% of its sales from e-commerce. Ahold 5% and Wal-Mart 3%. Carrefour with its mere 1.3% may appear to be going against "the" current trend. Ultimately, at the FY, the market punished the retailer for not being specific enough about its e-commerce strategy whilst loudly stigmatising the strategy of some of its prestigious competitors. It is all the more regrettable that Carrefour, we believe, has ambitions in the click and mortar business. Hence, as a matter of illustration, rather than insisting on losses at Dia France (EUR55m expected in 2016), let's try to clarify the retailer's omnichannel approach and the role of the ex-hard discounter in this strategy.

Fig. 17: Estimated 2015 e-commerce sales for major retailers (% of total sales)



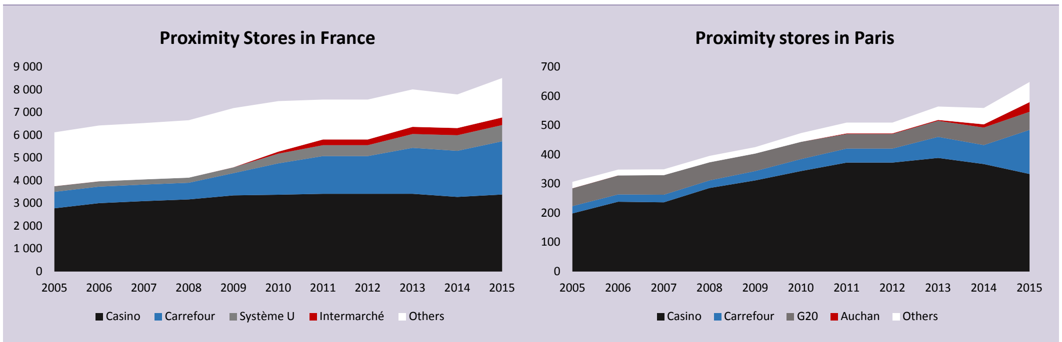
Source: Company Data; Bryan. Garnier & Co ests.

4.2. … then, let's try to clarify the long-term strategic intention!

The densification and enrichment of the network…

Carrefour agreed to pay EUR300m and take on EUR300m in debt (i.e. an EV/Sales of 0.32x) to get its hands back on Dia France which it had originally spun off in 2011. Dia was perhaps too expensive (?), but the fact remains that almost all players were involved in the auction… Because it is worth remembering that Dia was probably the last occasion to get hold of 800 stores (of which 80 in Paris…) in just one shot! Hence, whatever detractors may think, it was a unique opportunity that Carrefour was right to seize.

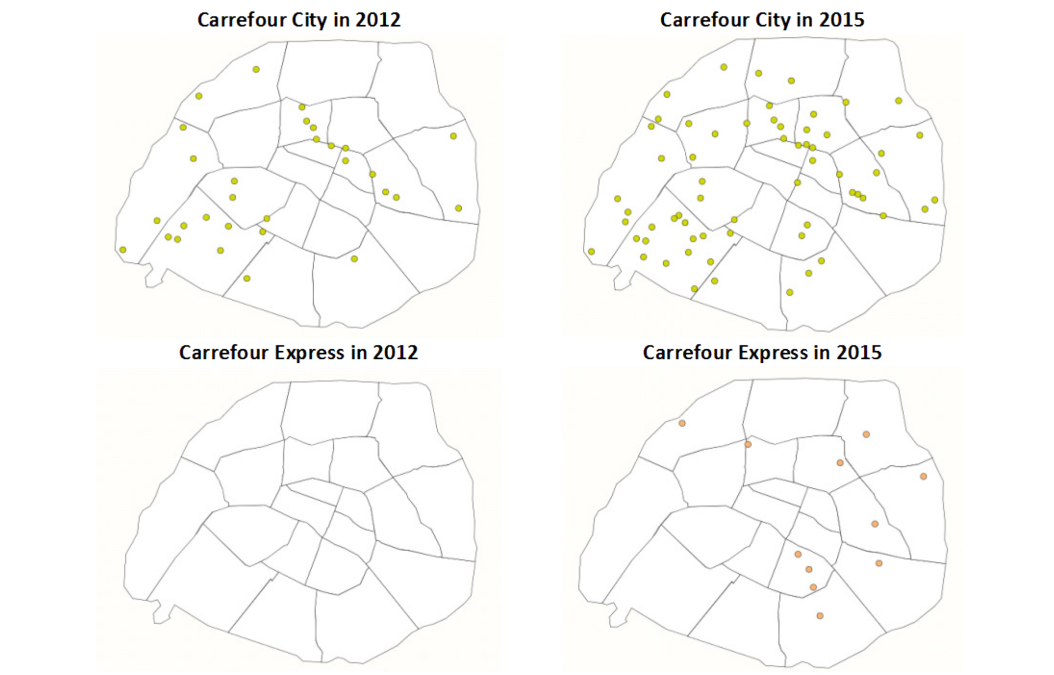
Fig. 18: Evolution of the proximity network (main banners*) in France and in Paris



Source: LSA; Bryan. Garnier & Co ests.

** 8àhuit, cocciMarket, Franprix, G20, Petit Casino, Proxi, Spar, Utile, Vival, Carrefour city, Carrefour contact, Carrefour express, Casino shop, Intermarché contact, Leader Price express, Uexpress*

Fig. 19: Carrefour City and Express in Paris area



Source: LSA; Bryan. Garnier & Co ests.

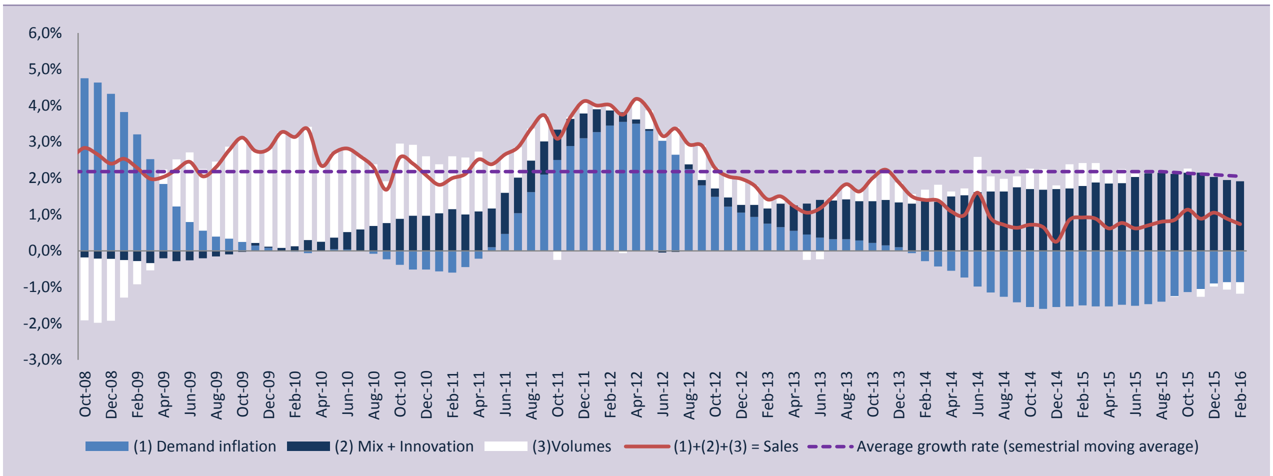
As of Q1 2016, 267 out 648 Dia stores had been converted (i.e. 71 City & Express / 95 Contact / 50 Contact Marché / 47 Market / 4 Bio). Out of the 267 renovations, 115 were done in Q1 2016 (31 in January/ 39 in February / 45 in March; clearly a strong ramp-up). 45% of the renovated stores are located in the Paris area. All of the network should be renovated by the end of the year. So there is clearly a strong ramp-up that should feed the momentum.

The revamping of Dia stores should help to reinforce Carrefour's multi-format strategy with a differentiated offer (organic food notably), more convenience and premium stores (notably in the Paris area) and a densification of the network. And we believe that the premiumisation (to which Carrefour tends towards) and the densification of the network (on which the cost of the "last mile" may notably depend in a Click & Collect perspective) are key assets going forward.

… along with a premiumisation of the offer…

In France, we believe that the Offer Share (OS) of more expensive products is rising within the assortments at Carrefour. The main consequence is a trading-up effect which offsets the impact of deflation on Fast Moving Consumer Goods (FMCG) sales. Admittedly, this upselling has something to do with regulations (see note below): in the wake of the Law to Modernize the Economy (i.e. LME), it illustrates the switch in the balance of power from private labels (HD) in favour of national brands (Hypermarkets). But it also reflects the work done by Carrefour to purposely enrich the assortment and BUILD its growth through its offer in areas where natural growth drivers have disappeared.

Fig. 20: Sales breakdown (HM+SM). 6-month moving average / positive mix & innovation effect (i.e. trading-up)



Source: IRI; Bryan. Garnier & Co ests.

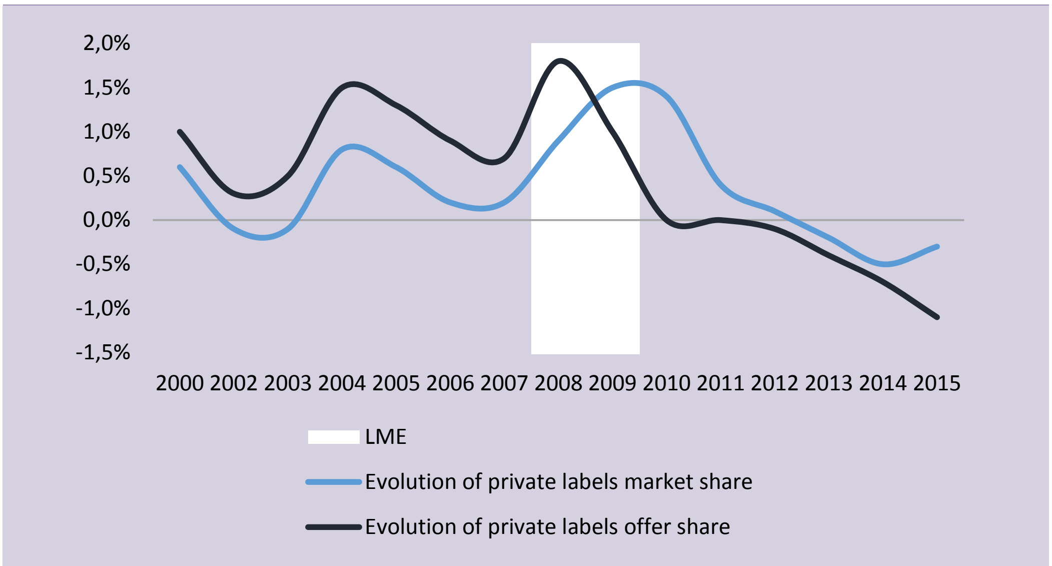
NB: Reminder on the French regulation in favour of national brands (ergo hypermarkets)

According to Nielsen, the price gap between National Brands and private labels is 20% only today vs 38% on average in 2012! Hence, the value-for-money equation is now tilting in favour of National Brands (away from Private Labels) and hence hypermarket retailers (vs. Hard Discounters). We believe that this environment in favour of hypermarkets is a consequence of the so called LME (Law to Modernize the Economy) which was at the heart of our initiation report end of 2014 [(Hypermarkets are dead, long live hypermarkets!)]

*As a reminder, by authorizing retailers to negotiate supplier prices and deduct all back-margins from the BCS (the **B**elow **C**osts **S**elling threshold being the minimum legal price to consumers) using the "triple net" principle (i.e. the price calculated net of **1/** rebates, **2/** discounts and **3/** allowances), the LME (January 2009) made it possible for hypermarket retailers to invest again in National Brand prices. In other words, the LME has restored hypermarkets' pricing edge over hard discounters!*

*As a matter of illustration, between 2005 and 2010, the offer share for private labels rose steadily and firmly. Demand drove performance in product ranges. However, as time went on, performance charts started to point downwards on a "comparable assortment" basis (i.e. from 2008, the offer share was growing faster than market share). Alongside the fact that private label themes had become cluttered and poorly-structured, we believe that it became less interesting for retailers to develop private labels because of **1/** the implementation of the LME and **2/** greater awareness of the impact of promotions (with national brands suppliers partly bearing the cost).*

Fig. 21: Private labels' offer share and market share (HM+SM)



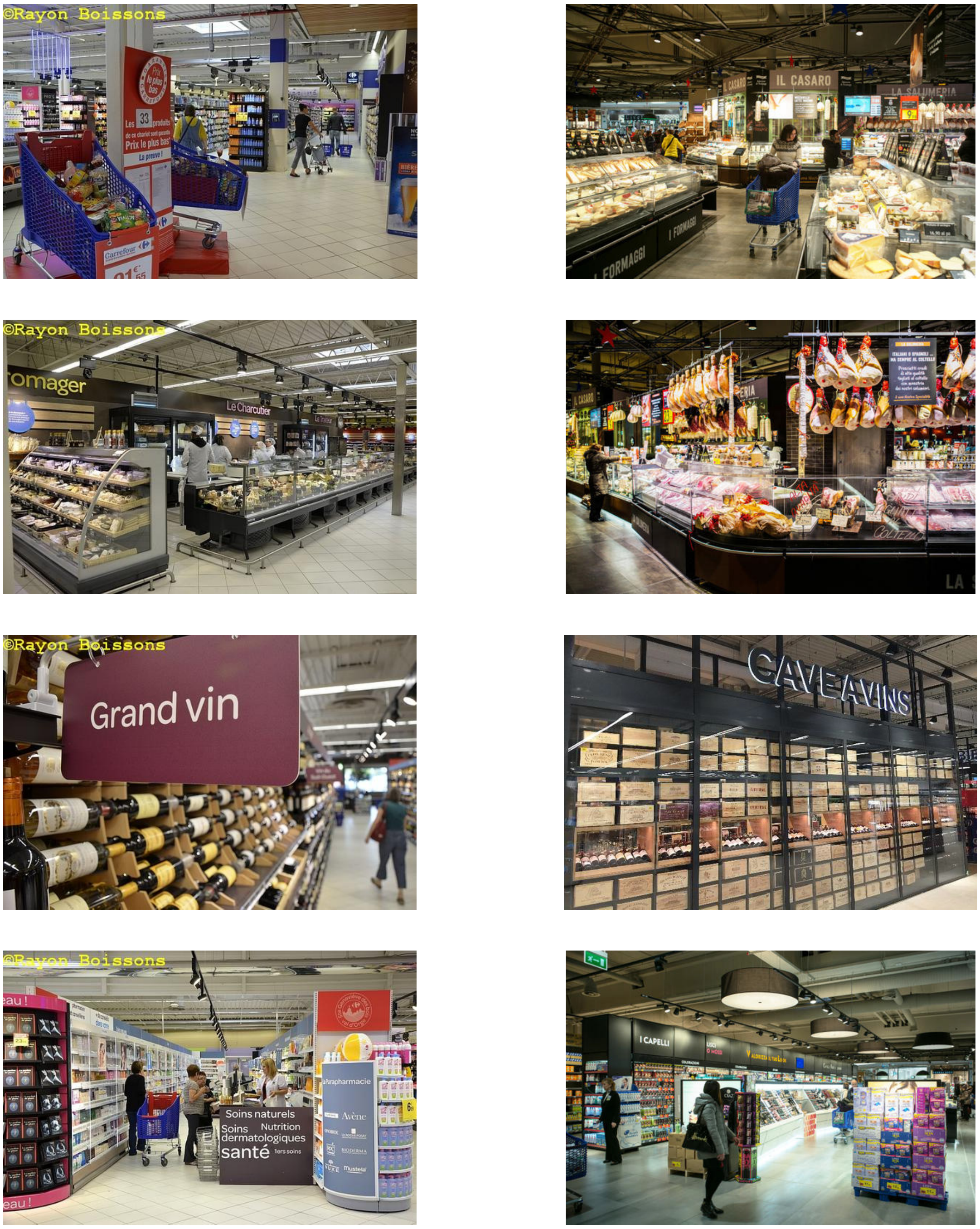
Source: IRI; Bryan. Garnier & Co ests.

Firmly, we believe that the growth deficit stirs the polarisation of the market with, on the one hand, premium retailers and, on the other hand, discounters (because today growth lies in the niche segments). This is obvious in the UK (Waitrose and to a lesser extent Sainsbury vs Lidl and Aldi) and the US (Whole Foods Market vs Dollar Stores for example). In France, the discount is now very competitive between Leclerc, Géant and Lidl and, to a lesser extent, Auchan and Intermarché which are somewhat struggling to follow. Conversely, except for Monoprix, nobody really takes a more premium character.

Hence, we believe that Carrefour soundly tends to position itself on a more premium segment through the fine-tuning of its offer (it is worth remembering that Carrefour is the main provider of organic food in France, a segment showing high double-digit growth) and the development of more premium proximity stores especially in Paris (hence the conversion of Dia stores…). Thenceforward, the circumstantial concerns regarding market share (i.e. the strong negative impact of Dia notably) should not wipe-out what, so far, has seemed to be rather a wise long-term strategy.

Fig. 22: Carrefour is testing hypermarkets in Italy (Carugate) and Belgium (Mons) conspicuously premium vs traditional French stores

YESTERDAY: Sainte-Geneviève-des-Bois	TOMORROW (?): Carugate and Mons
A “consumerist” approach to hypermarkets?	An “epicurean” approach to hypermarkets?



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… may be comparative edges in a Click & Collect perspective

Because, in a scenario in which the internet reaches let's say a 20% market share in the medium term (it may be just an anecdote but at the height of the internet bubble, there was even talk that the web could account for 20% of FMCG sales in 2020; it currently makes up perhaps 1% e of the market and around 6% e if we factor in drive-through sales), then a very significant portion of the store portfolio would certainly be closed!

Ultimately, in the same catchment area, store closures by one retailer would massively benefit its direct competitors. Intuitively, we believe the "last standing" competitor is the one which has currently the most profitable niche concept. Because the higher one's current profitability, the stronger one's ability to cope with strong volume declines while keeping creating value.

On the whole, to deal with the e-commerce disruption: **1/** we believe there is a comparative edge linked to premium and more profitable niche concepts. **2/** In that respect, we believe that opening stores remains key to densify and enrich the network, lower the break-even and increase the profitability vs competitors. As a consequence, we are convinced that Dia was an opportunity that should help Carrefour to cope with the e-commerce. In the end, rather than insisting on short-term losses at Dia France, it is worth remembering this rationale behind the deal!

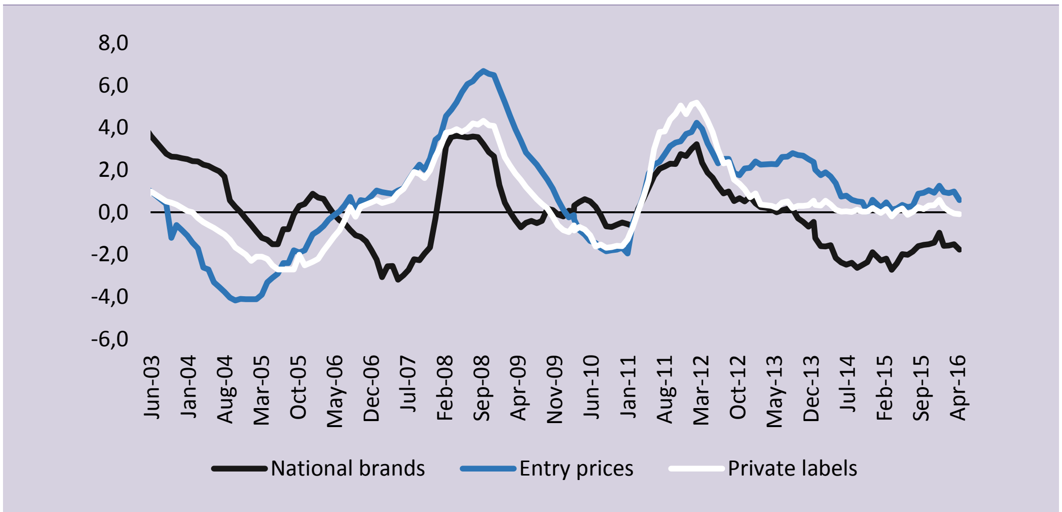
5. A few pending thoughts

5.1. Promotions vs deflation in France?

It is possible to look at a glass as either half full (increase in base prices)…

According to the management of Casino, France seems to be emerging from a long period of deflation which could trigger a margin relief. As a reminder, if inflation deigns to come back, according to management and *ceteris paribus,* a price increase of +0.4% would add a ~EUR70m EBIT bonus and allow Casino to beat its guidance (which is for EUR500m in 2015).

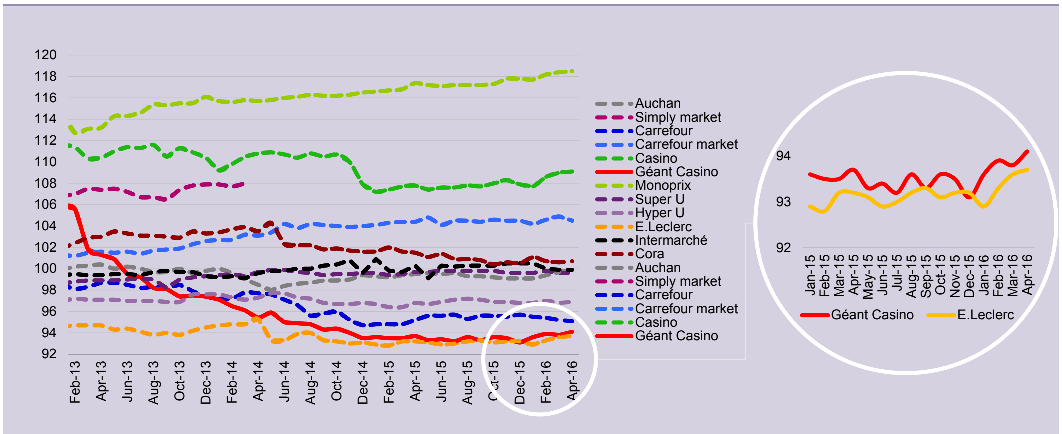
Fig. 23: Demand inflation on (Food and "petit bazar")



Source: IRI; Bryan. Garnier & Co ests.

Actually, according to the latest data provided by Olivier Dauvers, it appears that Casino, followed by Leclerc (the natural price maker), has increased its prices, pointing to an easing of the competitive environment. No doubt that the comeback of inflation would be very much welcomed by Casino if only to deliver on its cash margin and relieve stress following detractors' attacks.

Fig. 24: Price index in France (Olivier Dauvers)



Source: Olivier Dauvers; Bryan. Garnier & Co ests.

…or half empty (promotional pressure is increasing)

However, so far, we remain conservative in our estimates because: **1/** we have no idea about how the new management of Auchan might react to trigger a new commercial momentum in hypermarkets; **2/** some price investments are being made at Carrefour Market; and **3/** month on month, prices keep declining according to IRI.

Fig. 25: Month on month price changes (demand inflation according to IRI)

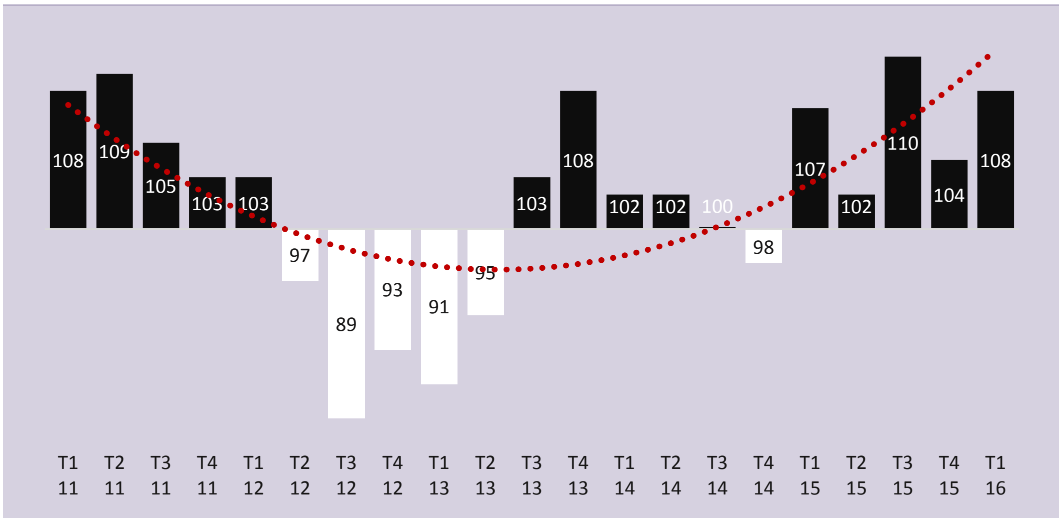
	HM+SM	HM	SM
15P09	-0.16%	-0.20%	-0.14%
15P10	-0.09%	-0.20%	-0.01%
15P11	-0.11%	-0.16%	-0.09%
15P12 *(Traditional strong deflation linked to year-end festivities)*	-0.32%	-0.37%	-0.27%
16P01	-0.40%	-0.46%	-0.37%
16P02	-0.13%	-0.16%	-0.13%
16P03	-0.24%	-0.26%	-0.23%
16P04	-0.12%	-0.14%	-0.11%

Source: IRI; Bryan. Garnier & Co ests.

Moreover, in 2015, the price war has moved towards a promotion war. And so far in 2016, the promotional pressure is being maintained and has even increased in Q1 (up +7.6% according to Olivier Dauvers). In this context, the two price leaders (i.e. Leclerc and Géant), which have increased their base prices, accentuate their promotional efforts (promotional pressure up +19% and +22% respectively according to Dauvers). Nevertheless, it is worth remembering that, contrary to price cuts, promotions are partly funded by suppliers.

Our belief is that Leclerc, which has been rather EDLP in 2013/14 in order to counter Géant, turned out to be more promotional in 2015 in a bid to catch up with Carrefour (historically one of the most promotional players) and get back to a more normative level of promotions. So rather than a disruptive change, we see a painful rebalancing of the promotional environment. We do hope that the overhaul of promotion tools at Carrefour will allow it to correct the situation in 2016.

Fig. 26: Promotional pressure index



Source: a3distrib; Olivier Dauvers; Garnier & Co ests.

5.2. What of the IPO of Carmila and Brazil?

It is certainly a bit early for an IPO of Brazil…

In terms of catalysts, the IPO of Carmila and Brazil should be on the agenda someday. Concerning Brazil, the only drawback is a question mark - is it possible to undertake an IPO for part of the Brazilian business on a 0.8x EV/Sales multiple whereas Diniz previously benefited from a 0.55x EV/Sales multiple to get a 10% equity stake (even if the transaction multiple of a private placement cannot be compared to that of a potential IPO)? Hence, beyond the circumstantial macro-economic difficulties in Brazil, we struggle to see an IPO in the short/medium term. However, within sight of this IPO, an investor day over there would be very much appreciated. Concerning Carmila, we see an IPO sooner rather than later.

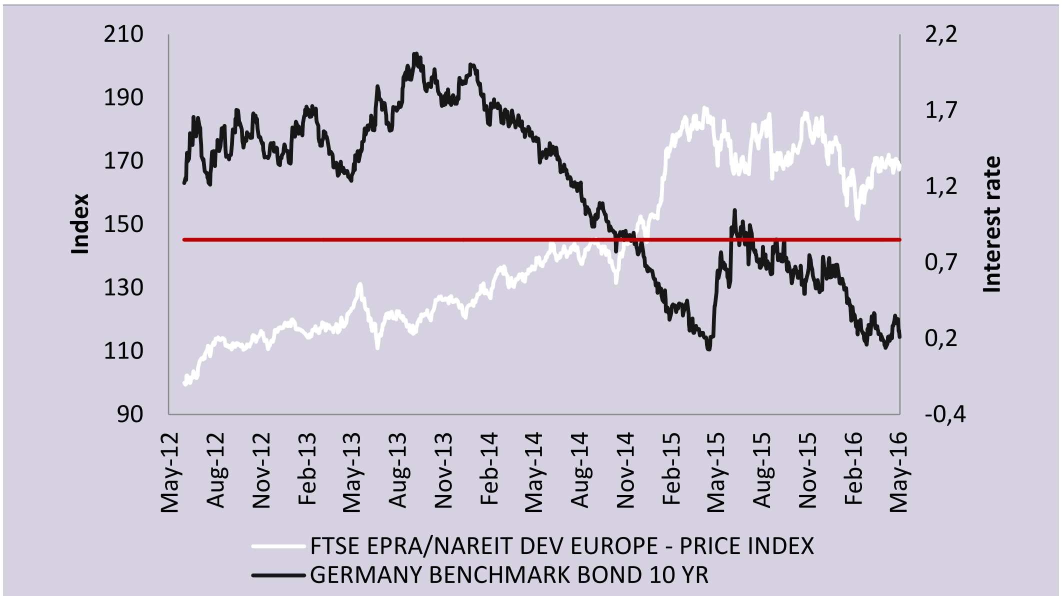
… but it is high time for an IPO of Carmila…

The old opco/propco debate (or how to enhance the value of the whole by separating the parts) has always been a regular feature in the financial community although no sure conclusion has ever been drawn. Citing Albert Einstein. Georges Plassat said: "Not everything that counts can be counted, and not everything that can be counted counts". In other words, a retailer is at its strongest when it controls its real estate/shopping malls and the impact is often unquantifiable.

With this in mind, in late 2013, Carrefour purchased back its shopping malls from Klépierre. This undid what had long been perceived as a fundamental mistake on Carrefour's part. Now that it controls again the shopping centres in which it operates **1/** Carrefour has a full say in the extension of its stores. **2/** Carmila can tap into the group's vast real estate reserves to expand trading space. These reserves include car parks which Carmila is keen to extend vertically. What's more **3/** Carrefour now has control over the renovation of its shopping centres. Ultimately, the group is in a position to create a connected commercial ecosystem.

Today, in a historically low interest rate environment, there is an obvious opportunity for an IPO of Carmila especially as investors are currently chasing high secured dividend yields, something REITs can offer. The idea is all the more attractive in that performances by REITs are almost perfectly inversely correlated with the yield curve for long-term rates; i.e. when interest rates decline. REITs' share prices rise! Hence the valuations of commercial REITs are high (i.e. ~25% weighted average premium to NAV (~15% excl. Unibail). More than ever, we see a window of opportunity. Stay tuned.

Fig. 27: REITs and rates

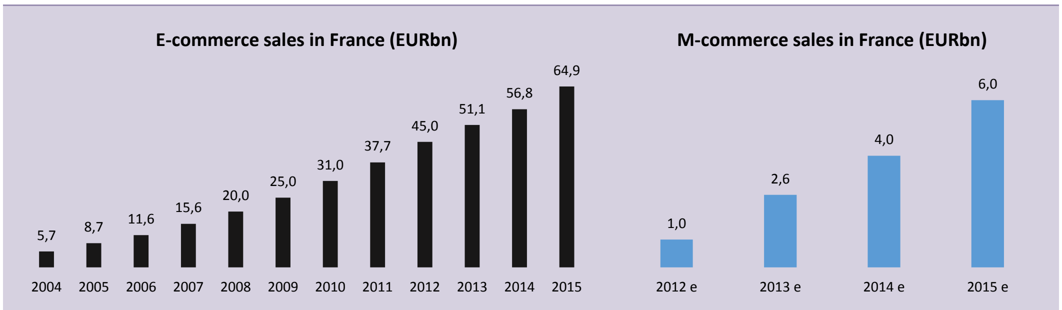


Source: Datastream; Bryan. Garnier & Co ests.

… to boost the connected ecosystem

More than the immediate sacrosanct impact on a SOTP which is very modest (up to EUR0.6 per Carrefour share in a base case), we would again lay the emphasis on what is taking shape at Carrefour. In our case, we would stress that this IPO could notably provide Carmila with further ammunition to design the future connected ecosystem of Carrefour in a m-commerce perspective, a channel on which management has been straightforwardly insisting for a while!

Fig. 28: E-commerce and m-commerce sales in France



Source: Fevad ICE; Bryan. Garnier & Co ests.

Our base case scenario is inspired by what was done at Mercialys at the time of its IPO in 2005 (it is no coincidence that Carrefour has chosen Jacques Ehrmann, former CEO of Casino's REIT, to head up Carmila). As a reminder, Mercialys wanted to raise EUR214m (with a potential greenshoe of 7.5%), based on a valuation implying an up to 15% premium on the NAV including transfer taxes. The EUR214 capital increase represented 22% of this NAV.

When it comes to Carmila (first take), the NAV currently stands at EUR2.3bn e excluding transfer taxes and EUR2.6bn e including them. We estimate that Carmila could raise 25% of the current capital (i.e. EUR570m) with no premium on the NAV excluding transfer taxes (bottom of the range) and up to 15% premium on the NAV including transfer taxes (high end of the range).

Afterwards, Carrefour would hold between 33.8% (bottom) of the capital and 35.5% (high end), while the free float would be at least 16% and up to 20% of the capital (in line with what is required to obtain the SIIC status and the fiscal advantages attached to it).

On top of this, based on a target LTV of 44% ex-post, we estimate that Carmila could add around EUR800m to its pipeline of projects. Developed at 8% and with a 6.2% market rental yield, the value creation on these projects could be worth EUR230m. On the whole, in terms of the valuation, we estimate that the impact on Carrefour's SOTP could range between EUR0.11 and EUR0.64 per share.

5.3. What of the governance?

Let us not deceive ourselves… From the beginning (mid 2012), there has been a kind of taboo regarding the estate of Georges Plassat. The financial community has never raised the issue objectively, or only in a rather ephemeral way at the time of his forced absence (February 2015). In the end, when it comes to sorting out obstinate, old-fashioned organisations set in their ways and turning around a business. Georges Plassat is perhaps second to none (his track-record in this regard is outstanding at Carrefour).

Ultimately, on the occasion of the 2015 interim results, Georges Plassat looked back commenting on the strategic choices made by Carrefour more than a decade ago, especially the merger with Promodes, which he said was a good option. With hindsight, this work of introspection over the last decade was perhaps prescient. Also, we believe that things are being prepared and the successor will be carefully chosen according to the endemic challenge of growth.

Because today, retailers have to find new way of growth in an industry that is obviously suffering from a lack in that respect. This challenge for Carrefour has already come up tangentially, especially when the current CEO spoke of an engine that had to be repaired so that it can accelerate in terms of growth going forward. Although the financial community may have refused to debate on this issue of succession, internally, there is little doubt that this challenge has been addressed by the board.

The question has no reason to be taboo especially since the organization tends to evolve within the group. For example, we have seen the separation of the functions of Chairman and Executive Officer at Carrefour Property Development. Meanwhile, some managers have recently evolved within the group (Jérôme Hamrit has notably been appointed Commercial and Marketing Director for French Hypermarkets. while Patrice Zygband - ex Director for Merchandise and Supply Chain of Carrefour France - has become advisor to Georges Plassat). Anyway, the strength of the current shareholding (notably composed of experienced retailers) should ensure a smooth transition. Stay tuned.

5.4. What of the Moulin family as the main shareholders of Carrefour?

After acquiring its first stake (i.e. 6.1%) in the share capital of Carrefour in April 2014 and increasing this participation (i.e. 10.1%) in July 2015, the Moulin family, owner of Galeries Lafayette, has crossed the threshold of 15% of Carrefour's voting rights with the allocation of double voting rights within the framework of the implementation of the Florange law.

According to the AMF (Autorité des Marchés Financiers), Galfa (controlled by the holding company of the Motier Family - Galeries Lafayette - which itself is controlled by the Moulin family), now owns 11.51% of the share capital and 15.33% of the voting rights respectively. In all evidence, the Moulin family's assiduousness in acquiring Carrefour shares, its long-term vision along with its very long experience in retail make it an ideal shareholder for Carrefour. This flattering shareholding is only a reflection of the strength and serenity that Carrefour is today able to inspire.

Fig. 29: Shareholding of Carrefour

	Share of capital	Voting rights
Famille Moulin (1)	11.51 %	15.33 %
Groupe Arnault (2)	8.95 %	11.92 %
Abilio Diniz (3)	8.05 %	NA
Colony Capital (2)	5.23 %	7.70 %

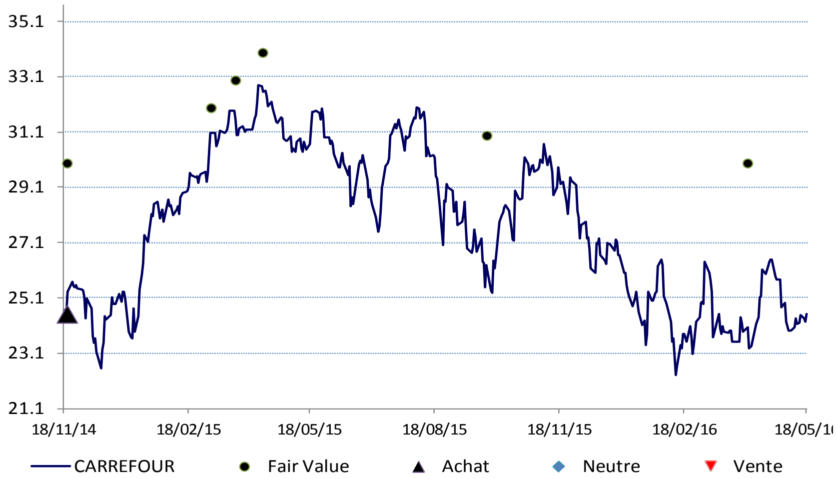
Source: Company Data; Bryan. Garnier & Co ests.

(1) as of 24/04/16
(2) as of 31/12/15
(3) as of 23/03/16
(4) as of 15/04/16

If we try to project a little more while setting the link with what we have written above (i.e. omni channel. proximity. premiumisation and e-commerce), we can definitely imagine the scenario by which Carrefour (EUR36bn sales in France) and Galleries Lafayette (EUR3.8bn of sales) would merge going forward. Because Galeries Lafayette has certainly had something to do with the store from the 19st century, while Carrefour Hypermarkets certainly belong to the 20st. Going forward, let's try to design the 21st century store! It is worth remembering that Philippe Houzé (Chairman of the board of Galeries Lafayette) was formerly CEO of Monoprix (the ultimate food retail premium concept in France).

Price Chart and Rating History

Carrefour



Ratings		
Date	**Ratings**	**Price**
20/11/14	BUY	EUR24.55

Target Price	
Date	**Target price**
04/04/16	EUR30
25/09/15	EUR31
13/04/15	EUR34
24/03/15	EUR33
06/03/15	EUR32
20/11/14	EUR30

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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.

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Distribution of stock ratings

BUY ratings 57.4% NEUTRAL ratings 33.3% SELL ratings 9.2%

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