INDEPENDENT RESEARCH

8th June 2016

Imerys

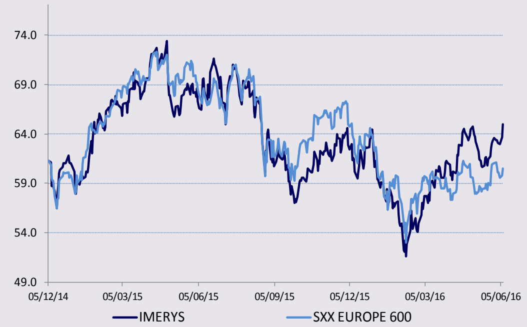
Stronger than Kryptonite

Construction & Building Materials

Fair Value EUR72 (price EUR63.70) **BUY**
Coverage initiated

Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	71.6 / 51.6
Market capitalisation (EURm)	5,069
Enterprise Value (BG estimates EURm)	6,775
Avg. 6m daily volume ('000 shares)	85.30
Free Float	40.6%
3y EPS CAGR	9.6%
Gearing (12/15)	55%
Dividend yields (12/16e)	2.92%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	4,087	4,206	4,225	4,310
EBIT(EURm)	468.20	518.07	544.59	564.31
Basic EPS (EUR)	4.24	4.53	4.84	5.10
Diluted EPS (EUR)	3.56	4.08	4.41	4.70
EV/Sales	1.67x	1.61x	1.58x	1.52x
EV/EBITDA	9.2x	8.6x	7.9x	7.5x
EV/EBIT	14.6x	13.1x	12.2x	11.6x
P/E	17.9x	15.6x	14.4x	13.6x
ROCE	7.9	7.9	8.2	8.4



As the global leader in speciality minerals, Imerys relies on the outstanding quality of its products which are useful if not vital for its customers, fairly cheap in general and offer real value added. The market has implicitly recognised the group's fundamental qualities through the re-rating seen since 2013 (+1 point in EBITDA multiple). The stock should now benefit from the gradual improvement in the construction market (>25% of sales) and the automotive segment (around 10%) and the rising momentum of its new production sites, whereas proppants should no longer take a toll on profitability.

- While Imerys is clearly cyclical, it benefits from undeniable assets for resisting in a difficult environment. Its products are often vital, generally represent a small share of the cost of products for its industrial customers and provide real value-added for their production and investment processes. The wealth of its product portfolio (more than 30 minerals) and a global industrial base (260 sites, 50 countries), enable it to adapt, albeit gradually, to changes in trends.

- Although the group is suffering from a depressed macro-economic environment, resulting in sluggish volume momentum, its capacity to generate a positive price-mix (3% p.a. on average over 10 years), combined with cost control, enabled it to post EBITDA margin of 18.2% in 2015, close to the 2007 level of 19%, whereas materials groups generally noted greater declines in their EBITDA or EBIT margins over the period (-c300bp for HEI and SGO).

- The gradual improvement in construction markets (a quarter of the group's business) and the automotive segment (10% of sales), together with the rising momentum of new production sites, the innovation strategy and easier comparison in proppants should underpin the share price. We are initiating coverage with a Buy recommendation and a Fair Value of EUR72 (DCF and multiples).

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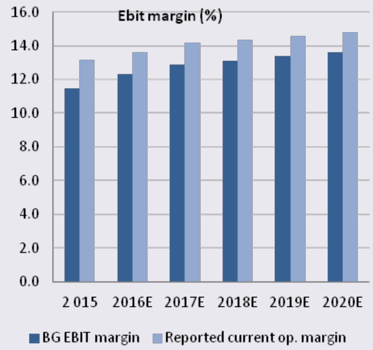

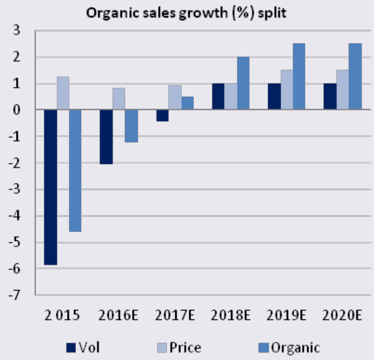

Company description

Imerys is the global leader in speciality minerals for industry, with top-notch positions in the construction, iron & steel and paper industries. The group generates more than EUR4bn in sales and is present in around 50 countries via 260 industrial sites. Its portfolio includes more than 30 minerals, more than two-thirds of which are supplied by its quarries and mines. Imerys has more than 16,000 employees.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	3,698	3,688	4,087	4,206	4,225	4,310
Change (%)	*-4.8%*	*-0.3%*	*10.8%*	*2.9%*	*0.5%*	*2.0%*
Adjusted EBITDA	650	674	745	787	843	870
Adjusted EBIT	425	444	468	518	545	564
Change (%)	*-4.5%*	*4.6%*	*5.4%*	*10.7%*	*5.1%*	*3.6%*
Cost of the net debt	(46.6)	(40.2)	(49.1)	(63.6)	(53.2)	(41.1)
Financial results	(51.5)	(46.6)	(55.5)	(70.0)	(59.6)	(47.5)
Profits from associates	5.3	4.6	8.1	8.1	8.1	8.1
Pre-Tax profits	344	390	125	456	493	525
Tax	(100)	(117)	(56.3)	(130)	(141)	(150)
Minority interests	2.1	1.7	0.70	0.70	0.70	0.70
Net profit	244	273	69.1	326	352	375
Restated net profit	262	276	286	325	351	374
Change (%)	*-1.1%*	*5.5%*	*3.5%*	*13.7%*	*8.0%*	*6.4%*
Cash Flow Statement (EURm)						
Change in working capital	51.8	(44.5)	49.5	(26.2)	(16.3)	(17.8)
Operating cash flows	468	423	554	491	555	582
Capex, net	(253)	(241)	(272)	(300)	(295)	(294)
Free Cash flow	215	182	282	191	261	288
Dividends	(119)	(125)	(133)	(139)	(146)	(157)
Financial investments, net	(109)	25.6	(348)	0.0	0.0	0.0
Other	26.8	(42.0)	(21.6)	(60.0)	(20.0)	(20.0)
Net debt change	14.0	40.0	(220)	(8.0)	94.5	112
Balance Sheet (EURm)						
Tangible fixed assets	1,833	1,975	2,142	2,208	2,239	2,262
Intangibles assets	1,133	1,173	1,736	1,736	1,736	1,736
current assets	1,246	1,389	1,540	1,585	1,592	1,624
Other assets	220	182	296	338	383	428
Cash & equivalents	441	704	455	1,055	455	455
Total assets	4,873	5,422	6,169	6,923	6,405	6,505
Shareholders' funds	2,248	2,444	2,644	2,770	2,955	3,152
Minorities	24.2	26.1	27.8	28.5	29.2	29.9
Provisions	485	589	646	646	646	646
L & ST Debt	1,327	1,585	1,948	2,556	1,862	1,750
Others liabilities	151	54.8	95.2	95.2	95.2	95.2
Total Liabilities	4,873	5,422	6,169	6,923	6,405	6,505
Net debt	885	882	1,494	1,502	1,407	1,296
Capital employed	3,573	3,815	4,611	4,704	4,751	4,792
Ratios						
EBITDA margin	17.58	18.27	18.23	18.71	19.96	20.18
Operating margin	11.48	12.05	11.46	12.32	12.89	13.09
Apparent cost of the avrg gross debt	4.06	3.26	3.36	2.85	2.43	2.30
Tax rate	27.80	29.20	29.10	29.10	29.10	29.10
Net margin	6.60	7.41	1.69	7.75	8.33	8.69
ROE (after tax)	13.54	12.98	12.92	13.20	13.26	13.15
ROCE (after tax)	8.57	8.52	7.88	7.89	8.17	8.39
Gearing	38.98	35.21	55.41	53.66	47.15	40.72
Net debt / EBITDA (x)	1.36	1.31	2.00	191	167	149
Pay out ratio	41.16	41.79	40.66	40.00	40.00	40.00
Number of shares, diluted	76.34	77.11	80.23	79.73	79.57	79.57
Data per Share (EUR)						
EPS	3.98	4.09	4.24	4.53	4.84	5.10
Restated EPS	3.43	3.58	3.56	4.08	4.41	4.70
% change	*-2.0%*	*4.4%*	*-0.5%*	*14.4%*	*8.3%*	*6.4%*
BVPS	29.48	32.21	33.23	34.82	37.14	39.61
Operating cash flows	6.13	5.49	6.90	6.16	6.98	7.32
FCF	2.82	2.36	3.52	2.39	3.28	3.62

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

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1. Investment Case

Why the interest now?

The reason for writing now

Market sentiment towards the stock is set to improve in our view. While certain underlying markets are likely to remain under pressure (especially steel), others should gradually pick up, especially construction, whereas upheaval in proppants should no longer take a toll.

Cheap or Expensive?

Valuation

The share is trading on EBITDA multiples of ~7.9x 2017e and ~7.5x 2018e, very close to historical levels and is therefore not undervalued. However, it should continue to fare well, thanks to positive catalysts (rising momentum of new production units) and to a more defensive profile (solid fundamentals, pricing-power and diversification).

When will I start making money?

Catalysts

Imerys should benefit from **1)** the gradual improvement in the construction markets, especially in western Europe, including France. This market segment accounts for a quarter of the group's sales. **2)** to a lesser extent, the good general shape of the automotive market (10% of sales), which should underpin sales of several minerals, **3)** the ramp-up of new production units, likely to improve the group's market/geographical exposure **4)** the rising momentum of new products and **5)** a less beneficial comparison base in proppants.

What's the value added?

Difference from consensus

We believe that a number of recent changes (comparison basis in oil and gas in the US, portfolio turnover policy to move towards more buoyant markets) should continue to shape the way the group is perceived, moving it from a cyclical stock to a more defensive stock, albeit still dependent on macro-economic conditions.

Could I lose money?

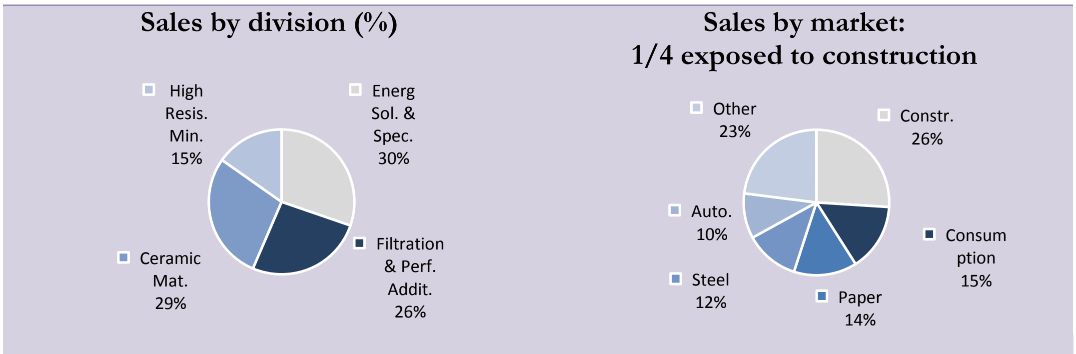
Risks to our investment case

Imerys is primarily exposed to macro risk in the market segments in which it is present: construction, iron & steel, paper etc. The stock would also suffer in the event of a prolonged deterioration in the gas and shale oil sector in the US. A withdrawal by key shareholder GBL (54% of shares, 70% of voting rights) would also take a toll. For emerging markets risk, Imerys generates 4% of sales in China, 3% in India and 3% in Brazil.

2. Imerys overview

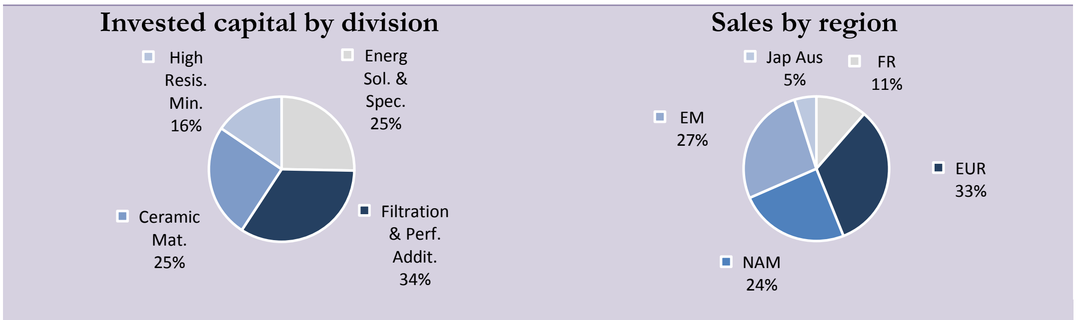
26% of sales exposed to construction, 15% to consumption and 14% to the paper industry

Fig. 1: Breakdown of 2015 sales and weight of major markets



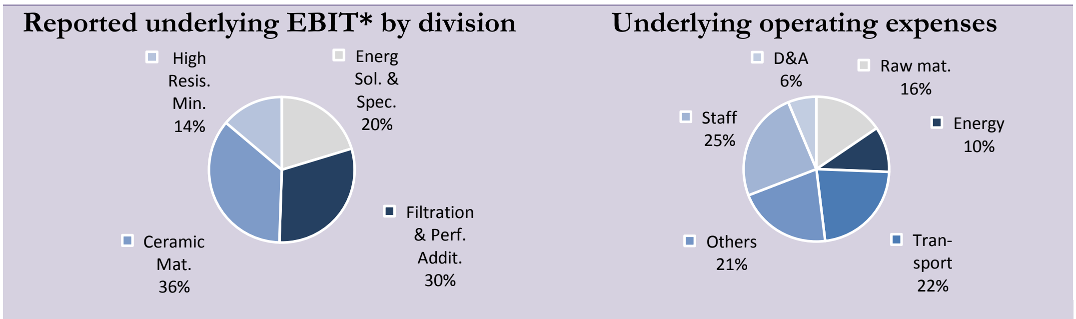
4% of sales generated in China, 3% in India and 3% in Brazil

Fig. 2: Invested capital by division and sales by geographical region



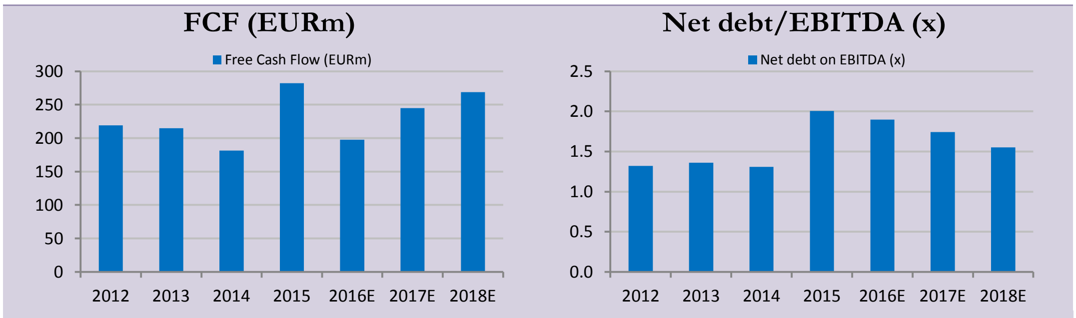
More than a third of reported underlying EBIT generated by the ceramic materials division

Fig. 3: Profitability by division



Net debt/EBITDA of 2x in 2015 falling to 1.5x in 2018e

Fig. 4: Earnings momentum and dividend policy



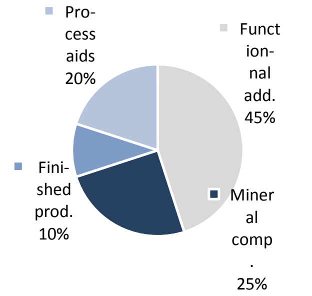
Source: Company Data; Bryan, Garnier & co

** equivalent to the Current Operating Income reported by Imerys*

3. Exceptional fundamentals

3.1. Vital products that are not expensive and offer genuine value-added

Revenues by type of products



Source: Imerys, Bryan, Garnier & co

Imerys is an industrial group, although its industrial process is vertically integrated to include mines or quarries where necessary. It has around 100 quarries in 50 countries, from which it extracts more than 30 different minerals. It aims not just to extract and sell commodities, but to transform the minerals and create value-added products. While certain minerals (primarily alumina, zircon and bauxite) are not extracted from Imerys mines and quarries, but bought from third parties and then transformed in the group's plants, the majority of the its transformed minerals (more than two-thirds), nevertheless stem from the group's own quarries. Imerys therefore controls its supply. This is an essential factor in that the group's minerals are far less common than the limestone needed by a cement group for example. Finally, the group also produces synthetic minerals such as graphite or precipitated calcium carbonate.

The group's reporting is organised into four distinct divisions, although the minerals can also be analysed by sorting them into four main product types, as follows (although this is clearly non-exhaustive):

A portfolio of more than 30 minerals, more than two-thirds of which extracted from the group's quarries

- **Functional additives** which improve the properties of other products when they are added: for example kaolin for paper whitening, opacity and matt effect finishing, resistance in paints or deformation qualities in sealants and adhesives. Around 45% of Imerys' sales are functional additives.

- Minerals representing a large share of finished products, namely **mineral components,** which are found in sanitary products, ceramics or crockery made from kaolin, clay, talc or feldspar for example. This concerns around a quarter of the group's sales.

- **Finished products.** Primarily clay-baked roof tiles. This concerns less than 10% of the group's sales.

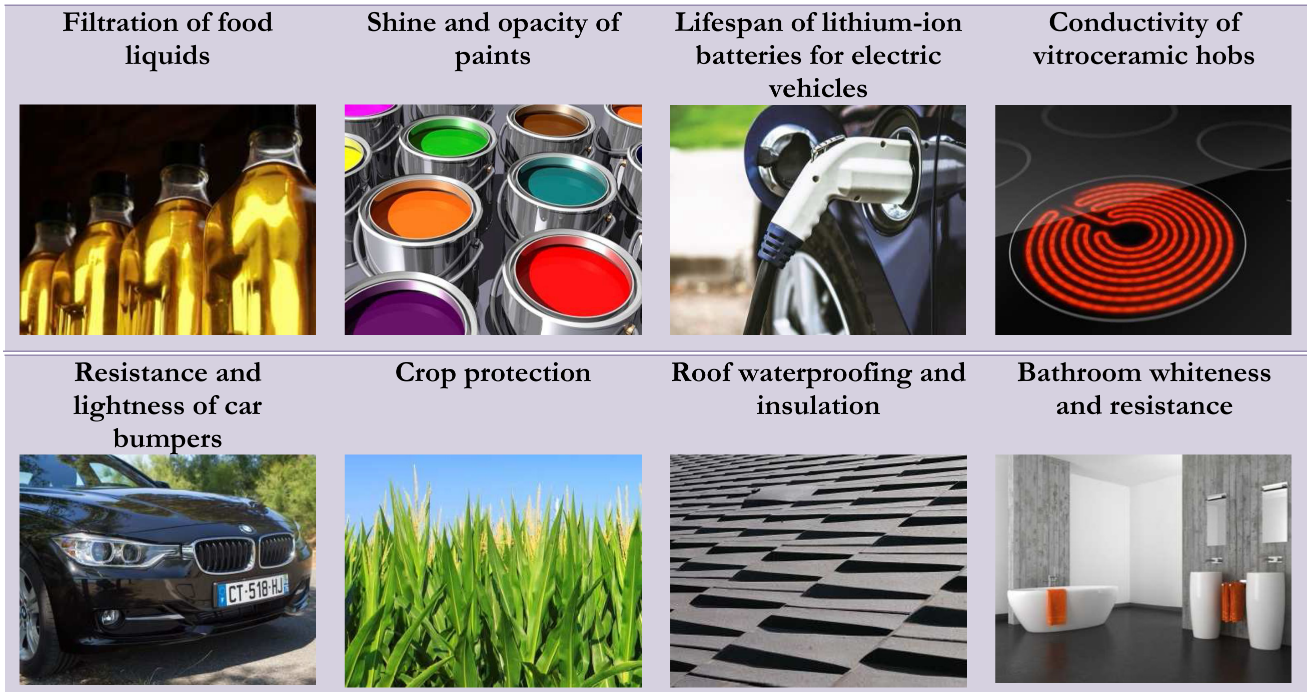
- **Process enabler:** these minerals are used during the manufacturing process for end products, but are not actually part of the end products themselves. This includes diatomite for beer filtration or monolithic refractories for industrial equipment.

Fig. 5: Mineral examples

Mineral	Natural ground calcium carbonate (GCC)	Diatomite	Kaolin	Andalousite
Division	Solutions for energy and specialities	Filtration & performance additives	Ceramic materials	High resistance materials
Properties	Breathable	Absorption	Whitening, opacity, gloss	Volume stability, thermal and chemical shock resistance
Applications	Food plastic films	Filtration of beverages	Paper, paints, plastics	Foundries

Source: Imerys, Bryan, Garnier & Co

Fig. 6: Useful products, everywhere



Source: Imerys

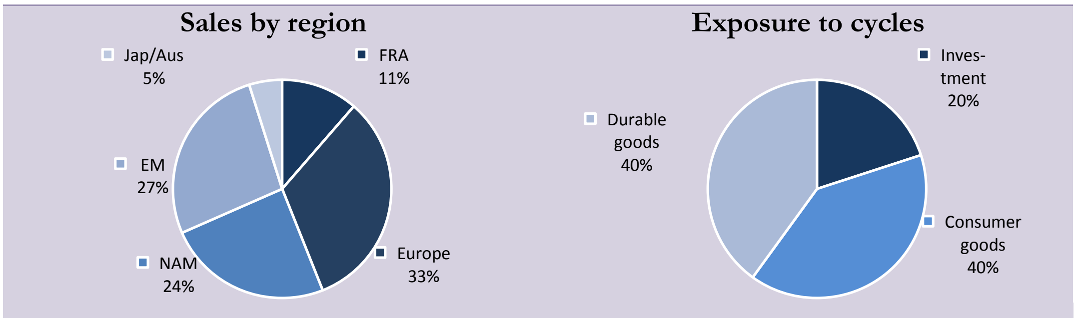
No end-market accounts for more than 15% of sales

In addition to the inherent technical qualities of Imerys' minerals, resulting in an extensive application range, the group's strength also lies in the diverse nature of the end markets it serves. No end-market accounts for more than 15% of the group's sales (with construction subdivided) and around half of sales is exposed to markets representing less than 10% of the group's business. This diversity in the markets the group addresses is also reflected in its geographical exposure and its sensitivity to economic cycles.

Only 20% of sales is exposed to investment processes at Imerys' customers

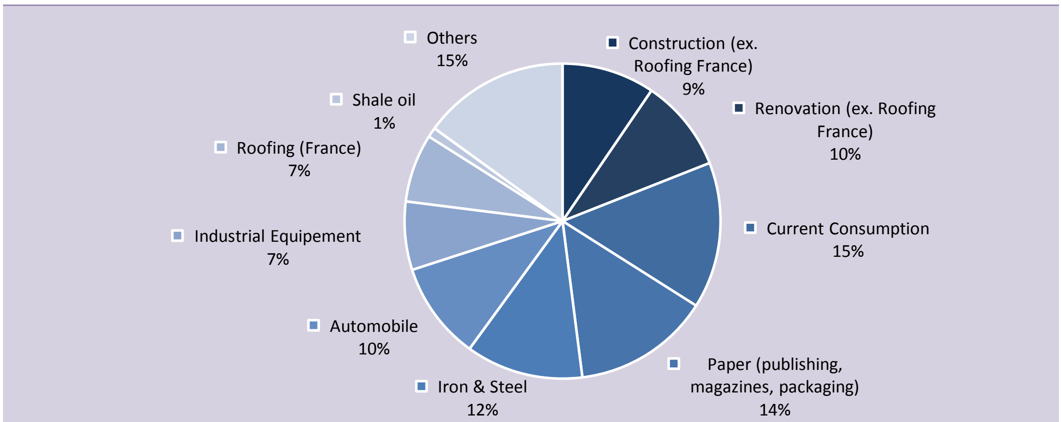
- Imerys is present throughout the world, with an historical presence in Europe for 44% of sales, followed by North America for slightly less than a quarter of sales, Japan and Australia for 5% and the rest in emerging markets.
- Around 80% of the group's sales is exposed to production and/or sales processes, with minerals that can be found in consumer products (around 40%) and durable goods (around 40%). Just 20% of sales is exposed to investment processes at industrial clients, which are by definition more cyclical.

Fig. 7: Country exposure and macro-cycle sensitivity



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

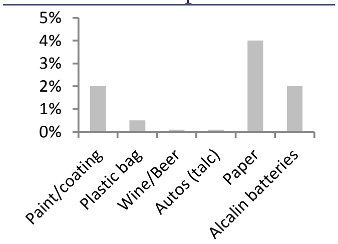
Fig. 8: A very wide range of applications - a quarter in construction



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

Finally, minerals are generally fairly cheap when compared with the value of the end-products they are used in. For example, the share of diatomite costs (used for filtration quality) in beer manufacturing is less than 1%. Since the mineral is vital, this result in a fairly natural pricing power, especially since minerals are not commodities and their prices are negotiated on an over-the-counter basis.

Weight of minerals in end-costs of a product



Source: Imerys, Bryan, Garnier & co

However, low prices are not systematic. For example proppants made from bauxitic kaolin are ideal in the framework of shale oil and gas extraction. They help keep fractures open that allow hydrocarbons to escape and their yield is far higher than sand. In contrast, in a scenario of sharp pressure on costs as is currently the case, especially in North America, producers are set to substitute these for sand, which is four/five times cheaper, even though extraction will not be optimised.

In contrast, kaolin is a mineral of major economic efficacy in the paper industry since it not only improves quality, but can also be partly substituted for paper pulp at a cheaper cost (in 2012, the group communicated kaolin for paper prices of EUR100-250 a tonne compared with EUR500-700 for paper pulp).

Fig. 9: Pricing power: a still widely positive effect

A lower price/mix impact …

…but variable costs under control, or even in sharp decline as in 2015…

EURm	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Price/mix impact on underlying EBIT	64	94	123	61	160	129	27	154	109	37	45	35
Change in variable costs	37	109	84	34	159	15	-22	91	71	1	5	-20
Price/mix vs cost delta	**27**	**-15**	**39**	**27**	**1**	**114**	**49**	**63**	**37**	**36**	**40**	**55**
Price/mix effect on sales (%, RHS)	2.6	3.0	4.0	1.8	4.5	3.9	1.9	4.4	3.3	1.2	1.5	1.3

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

…and eventually a still very positive price/cost delta …

Clearly, the deflationary backdrop does not favour an increase in prices and the price/mix effect on sales was limited to below 1.5% in 2015 and is likely to remain at the same level in 2016, with the Q1 figure at 0.8%.

Nevertheless despite this, the group has succeeded in more than covering changes in its variable costs at the underlying EBIT level, including in 2015, thanks to tight cost management, with costs having remained virtually unchanged since 2012 and even dropping slightly last year. As such, the group's pricing power that can be measured by the difference between the impact of the price mix on EBIT and the impact of variable costs on EBIT (price-cost delta) has been widely positive since 2009 and stood at EUR13.4m in Q1 2016, in line with the EUR55m in 2015.

3.1.1. Entry barriers

260 industrial sites throughout the world and 20 years of production ensured by mineral reserves

Whereas for most mining groups, the majority of assets are quarries and mines, in Imerys' case, the industrial facilities take centre stage. The group has 260 industrial sites throughout the world, with presence in around 50 countries.

The minerals portfolio is also an entry barrier, with quarries ensuring visibility on 20 years of production (measured from mineral reserves) on average. These are genuine entry barriers in that a new entrant would have to invest substantial amounts of both money and time (identifying adequate supply sources) to reach a similar size.

The group also benefits from leadership positions: it is world no. 1 or 2 in a number of markets and in all divisions: no. 1 in monolithic refractories, diatomite and perlite for filtration, kaolin for paper, melted minerals for abrasives etc. These entry barriers are also what justify acquisitions in order to obtain top-notch positions in new minerals (Talc de Luzenac, S&B in bentonite, World Minerals in filtration, etc).

3.1.2. Divisional reporting

Ceramic materials is the group's flagship division, combining high margins (almost 18% operating margin) and ROIC (12.5%)… (

- **Energy Solutions & Specialities** (30% of sales, 20% of reported underlying EBIT, the least profitable division in 2015 with reported underlying EBIT margin of 9.6% and ROIC at 6.7% due to ceramic proppants). This division supplies minerals for the consumer goods and paper sectors (carbonates division), high-temperature industries such as iron & steel and cement (monolithic refractories), mobile energy (graphite & carbon division) and oil exploration (proppants).

- **Filtration & Performance Additivities** (26% of sales, 30% of reported underlying EBIT). This division provides minerals (bentonite, diatomite, mica, perlite, talc…) to numerous industries: agri-food, beverages, steel, construction, horticulture, plastics, paints, rubbers, catalysis, paper, health and beauty.

… with minerals very well placed to benefit from the improvement in the construction markets

- **Ceramic Materials** (28% of sales, 36% of reported underlying EBIT, the division is the most profitable). This segment is made up of kaolin (the paper, cardboard and packaging, paints, plastics, sealants and adhesives and ceramics), roofing (clay roof tiles in France) and ceramic minerals (bathrooms, crockery, tiling).

- **High-resistance minerals** (15% of sales, 14% of reported underlying EBIT). The division is specialised in minerals resistant to high temperatures with a large abrasive capacity etc. These are found in industry, especially in the iron & steel and automotive segments.

Fig. 10: Key figures by division

EURm	Energy Sol. & Sp.	Filtr. & Perf. Add.	Ceramic Mat.	High Resist. Min.	Total Imerys
2015 REV	1253	1081	1172	629	4087
y/y l-f-l %	-6.6	2.2	-4.2	-8.0	-4.6
2015 EBIT	120	178	210	82	538
EBIT Margin %	***9.6***	***16.5***	***17.9***	***13.0***	***13.2***
Capex	86	65	78	43	274
in % of sales	6.8	6.0	6.7	6.8	6.7
Industrial sites (units)	74	76	82	28	260
Invested capital reported	1266	1109	1192	731	4728
Capital intensity (x)	1.0	1.0	1.0	1.2	1.2
ROIC % post-tax*	**6.7**	**11.4**	**12.5**	**7.8**	**8.8**
% of total revenues	30	26	28	15	100
% of total EBIT	20	30	36	14	100

** 2015 ROCE reported by Imerys is 11.2% before tax. Our ROIC is here calculated after tax (29% rate) and average invested capital 2014 and 2015.*

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

Fig. 11: Geographical exposure by division

%	Energy Solutions & Specialties	Filtration & Performance Additives	Ceramic Materials	High Resistance Minerals	Total Imerys
France	not disclosed	not disclosed	not disclosed	not disclosed	11
Western Europe	35	37	62	40	33
US / Canada	21	34	18	28	24
EM	36	26	18	27	27
Japan / Australia	8	3	2	5	5

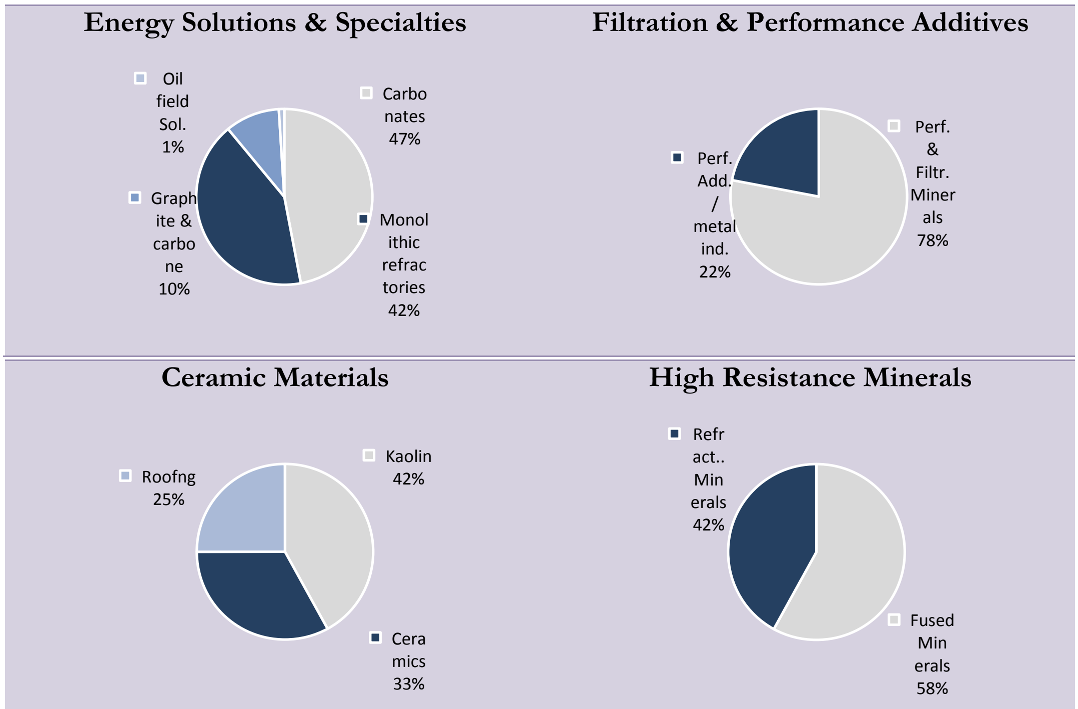
Source: Company Data; Bryan, Garnier & Co ests.

Fig. 12: Sector exposure by division

Energy Solutions & Specialties		Filtration & Performance Additives		Ceramic Materials		High Resistance Minerals	
End Market	**%sales**	**End Market**	**%sales**	**End Market**	**%sales**	**End Market**	**%sales**
Paper	18	Consumer goods	24	Construction & renovation	53	Iron & Steel	26
Iron & Steel	17	Automotive	21	Paper	29	Industrial Equipment	18
Energy	17	Construction & renovation	17	Current consumption	7	Automotive	16
Construction & renovation	13	Iron & steel	12	Automotive	3	Construction & renovation	14
Current consumption	12	Industrial equipment	9	Other	8	Energy	10
Automobile	5	Paper	4			Current consumption	8
Industrial equipment	3	Other	13			Others	6
Other	15						

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

Fig. 13: Segments by division



Source: Company Data; Bryan, Garnier

4. Catalysts

4.1. The situation in proppants

The market for ceramic proppants used as supporting agents (beads injected into rock that keep fractures open to allow shale oil and gas to pass) is currently at a stand-still, with producers preferring sand, which is less efficient but four or five times cheaper.

Note the key points in Imerys' development in this market segment:

- On 20th September 2011, Imerys opened a ceramic proppant production plant in the US for an investment of around USD60m.

- In April 2013, Imerys rounded out this first investment with the acquisition of PyraMax Ceramics, primarily made up of two production lines, that were being completed at the time. The price-tag of USD335m, including a USD100m supplementary payment, was finally not paid in full and the overall price was just below USD310m (or EUR237m).

- The proppants business gradually gained momentum, in particular with the building up of stocks during 2014.

- In late 2014/early 2015, the market collapsed due to the sudden plunge in oil prices, which resulted in a preference for sand in the non-conventional extraction of oil and gas. Proppant volumes apparently plummeted by 80% y/y in Q1 2015. Management estimated the negative impact on underlying earnings at EUR5m for Q1 alone, with the level rising to EUR27m over the full year. The group sold virtually no proppants in 2015, but managed to maintain industrial facilities in operation. The volumes sold are set to stem from stocks.

- A EUR274m (EUR209m after tax) impairment charge was booked to 2015 accounts (goodwill was fully depreciated). The capital invested in proppants now only stands at EUR158m (less than 5% of capital invested) compared with around EUR430m previously.

- In 2016, Imerys is still generating some sales in this business at around EUR20m (vs. EUR22m in 2015 and EUR98m in 2014), from the sale of residual stocks.

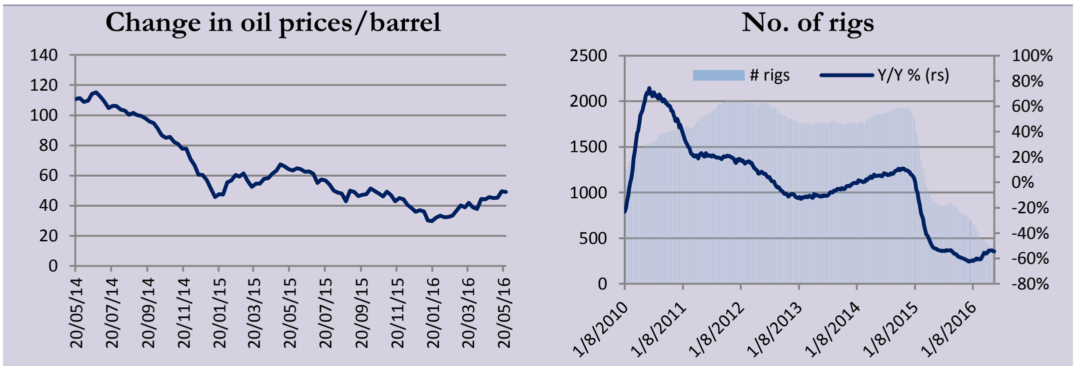
The situation is therefore at a stand-still. The industrial facilities are nevertheless capable of resuming quickly and the cost of maintaining production assets in working order, as well as sales and logistics teams, should not exceed EUR27m in 2016 (in terms of underlying EBIT).

For business to pick up, oil prices need to rise. We estimate that oil prices need to exceed USD50/b on a lasting basis (close to the current level) for producers to start re-using ceramic beads instead of sand. If oil prices continue to rise and remain sustainably above the USD50/b mark, we cannot rule out the prospect of welcome news for Imerys' proppants business.

Note that the return to ceramic proppant usage would not prompt additional operating costs.

While visibility is naturally poor, we consider that the proppants business should no longer weigh on the share price in that losses have stabilised and investors are well aware of this subject that has been fully factored in.

Fig. 14: No. of rigs in the US and oil prices



Sources: Datastream for oil prices, Baker Hughes for rigs; Bryan, Garnier & co

Finally, we would point out the rig count published by Baker Hughes, which counts the number of open oil wells in North America. Since some of these are not operated, the figure does not reflect the actual rigs active and under-estimates the decline in underlying markets for proppants. In contrast, this signifies that the Baker Hughes rig count also under-estimates a prospective rebound since it does not take account of open wells that were not operated initially but which have started up.

4.2. Rising momentum of new plants

4.2.1. Innovate or decline

Numerous new product examples:

- ✓ Graphite for Lithium-Ion batteries for electric cars
- ✓ Perlite for exfoliating cosmetic products
- ✓ Pesticides/fertilisers based on mineral solutions
- ✓ Fiberlean

Beyond the new production units that we present further on lies the group's innovation. This is no myth since 400 researchers work at Imerys and the group has just nominated a Chief Innovation Officer, Thierry Materne, PhD, formerly from Goodyear, Dow Corning and Sabic Innovative Plastics (ex-GE Plastics). With around 1,300 patents at end-2015, innovation generated sales of EUR200m in 2011 and EUR490m in 2015 (12% of consolidated sales). While the target to generate 2016 sales of EUR700m from innovation has been hampered by the underperformance in proppants (initially expected to generate EUR150m of sales), it remains a priority. In this respect, Fiberlean is a good example. This is a new composite mineral destined to improve both **1)** papers in which it is used (improving smoothness, opacity and porosity), **2)** the productivity of paper manufacturers thanks to faster drying, while reducing overall costs (the composite mineral means the paper requires less pressure efforts in the manufacturing process). The development of this technology for other applications will now be carried out through a technological JV between Imerys and Omya.

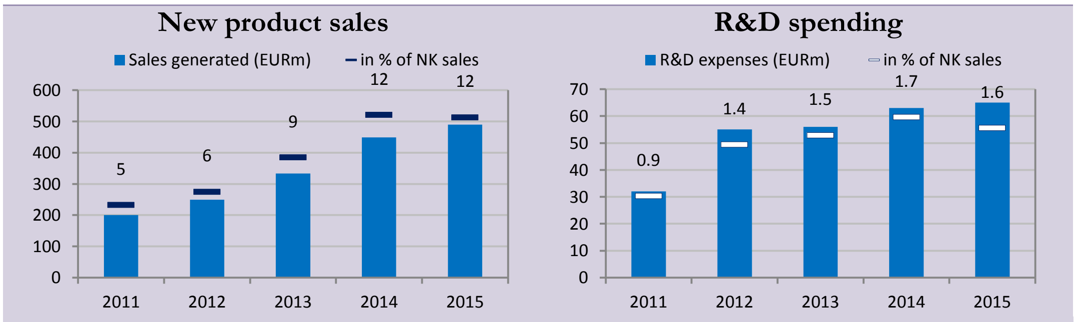
That said, we wonder to what extent efforts and results in innovation will be reflected in the stockmarket performance.

- Although this innovation should provide additional revenues (growth of 29% excluding proppants in 2015), nevertheless accounting for 12% of sales, momentum is hampered by modest growth in the rest of the portfolio. With an organic decline of 4.6% in 2015 sales (but only -1.8% in Q1 2016, also primarily due to the decline in the steel market and in proppants), we can only note that in the short-term, the contribution from new products is more than wiped out by other factors. Nevertheless, it should be noted that new products generate operating margins above the group average. They therefore contribute to the resilience of the consolidated margin.

- Almost without exception, players in the market are not geologists or chemists. Learning that Imerys has developed a new-generation abrasive or new talcs for the cosmetic industry might at best attract curiosity, at worst cause indifference, or unfortunately even doubt (are these really new products?). Issues are different from those in the health sector for example, where future drugs have to pass through various authorisation phases before being launched and where analysts can therefore estimate future sales. Admittedly, Imerys could make efforts in its teaching, but questions concerning the stockmarket impact of such an approach are legitimate. Indeed, the number of patents filed by the group do not seem to mean much for the markets.

To act more as a catalyst on the stockmarket, growth in new products needs to add to already existing organic growth and not just make up for its decline.

Fig. 15: Innovation: impact and cost



Sources: Imerys, Bryan, Garnier & co

4.2.2. New production capacity

Imerys invested EUR78m in new production capacity in 2015, a similar level to that in 2014 (EUR82m). Based on capital intensity of close to 1x, additional sales likely to be generated by new production units should stand at close to EUR80m at cruising speed.

The main idea is to strengthen capacity located in mature countries but exposed to growing market segments either in emerging markets and hence, naturally benefiting (hopefully) from growth in underlying markets. We could notably point out for 2015 alone:

- The increase in production capacity for talc used in plastics in the automotive segment in France and the US.
- Extension in diatomite capacity for the health sector in the US. Here, the mineral is used for fractioning blood plasma.
- In emerging markets, a new monolithic refractory plant in India and extension of kaolin production capacity for the ceramics industry in Thailand.

Fig. 16: New plants – new production lines

Source: Imerys, Bryan, Garnier & co

4.3. Business portfolio turnover

Since 2011 and the acquisition of Talc de Luzenac, Imerys has not stopped optimising its business portfolio in order to strengthen its exposure to the most dynamic market segments and reduce exposure to the more mature markets. We believe the group should continue to switch in and out of segments in order to optimise its asset portfolio to the maximum:

- 2011: Imerys completed the acquisition of 100% of the Talc de Luzenac group for EUR232m in enterprise value from Rio Tinto. Luzenac is the global leader in the transformation of talc, used especially for the automotive industry to reduce and strengthen certain plastics parts, but also in a number of applications, from health to hygiene. Sales totalled EUR270m in 2010.

- 2011: launch in the US state of Georgia of a ceramic proppants business for a EUR60m investment. This first acquisition was completed in 2013 by the acquisition of Pyramax for USD310m (EUR237m). As already noted, the timing of this commitment to the oil industry businesses finally proved to be unfortunate.

- 2013: the group decided to withdraw from the clay bricks business, with the disposal of Imerys Structure, also present in the chimney shaft segment. This was a good choice since Imerys Structure is exposed to a mature market, namely new residential in France, for sales of around EUR75m. In contrast, Imerys Roofing is exposed to the renovation market, which is less cyclical than the new housing market, and was not sold off (it now accounts for around EUR300m). The disposal of Imerys Structure was completed at end-2013.

- In 2014, Imerys decided to sell off four calcium carbonate industrial sites generating sales of EUR75m (closed end January 2014). The operation was attractive in that the plants concerned were all located in mature countries (France, Sweden, Italy and the US) and that they also addressed mature market segments (namely the paper industry).

- In early 2014, Imerys launched a USD1.6bn offer (enterprise value) for US group Amcol, the global leader in bentonite, a mineral used in the foundry sector for the automotive and machinery-tool sectors, in construction for sealants, drilling or general consumption products. The group sweetened its bid twice but finally Mineral Technologies won the contest for EV of USD1.7bn. Amcol had sales of USD1bn in 2013.

- At end-2014, the group finally got its hands on Greek group S&B for EUR525m excluding debt and enterprise value of EUR760m. S&B generates around EUR400m in sales with a healthy adjusted EBITDA margin of 20%. This acquisition strengthened Imerys' minerals portfolio since S&B is the European leader in bentonite and is also present in wollastonite (additives for polymers and paints), perlite (construction, agriculture) and fluxes for continuous casting (iron and steel). S&B was consolidated as of 1st March 2015.

- In early November 2015, three additional acquisitions were made:

  - Imerys signed an agreement to acquire Solvay's precipitated calcium carbonate division (PCC) including four production sites in Europe for sales of EUR60m in the automotive, construction and health/beauty markets.

- Imerys also acquired BASF's hydrated kaolin business for paper in the US, at the same time as the customer portfolio, for sales of EUR60m.

- Finally, Imerys acquired Mastico, specialised in metallic roofing accessories in France. Although this was a small acquisition for Imerys (sales of EUR23m in 2014), it showed a degree of confidence in the gradual return to a better residential construction market in France.

4.4. Improvement in certain underlying markets

Although a number of indicators do not point to a rebound, such as industrial output, especially in steel, early indicators in construction seem to bode well (more buoyant new housing starts), as well as car registrations. In contrast, the paper markets remain very calm, in emerging markets as well.

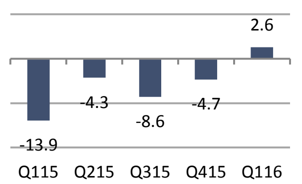
4.4.1. Gradual rebound in construction markets

26% of 2015 sales exposed to the construction markets, especially via the ceramic materials division, which has the highest margins and returns

New housing starts are in an improvement phase in several key markets, especially in France and the US, whereas 19% of sales is exposed to construction (excluding roofing), especially residential in the US and Europe. Added to this is 7% of sales exposed to roofing in France, for which we will monitor individual home starts in particular, as well as clay roof tile sales.

- The ceramic materials division is the most exposed to construction with slightly more than EUR620m in sales generated in 2015, or 15% of consolidated sales. This is the division that generates the best underlying EBIT margin (17.9% vs. 13.2% in consolidated terms) and by far the highest returns (double-digit ROIC at 12.5% vs. 8.8% for the group, based on data published by the group). If the construction markets continue to pick up as we expect, the impact on Imerys should be amplified by a beneficial mix effect.

French clay roof tile market (y/y %)

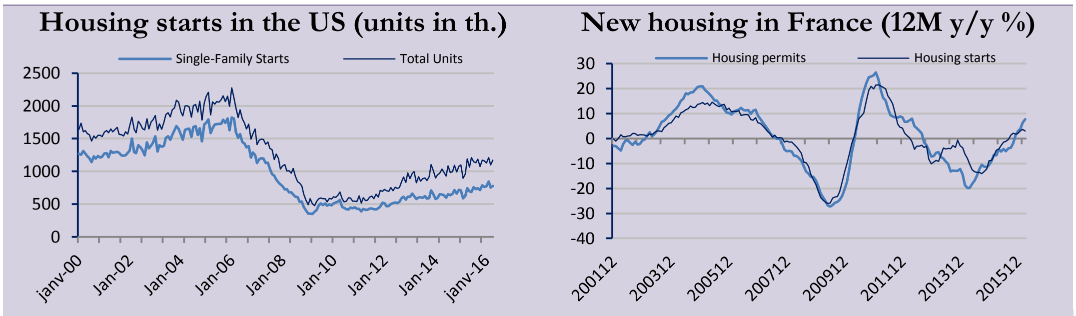


Source: Unicem, Bryan, Garnier & c

- Housing starts are generally robust in the US (+6.6% sequential growth, albeit with a 1.7% yoy decline at end-April, while annualised and seasonally-adjusted residential construction spending rose 7.7% y/y in April 2016, but was down by - 1.5% vs. the previous month) as in France (+3.8% y/y over 12 months to end-April). However, we cannot ignore the French individual home market, which remains under pressure according to ministerial figures, with a 0.4% decline in housing starts over 12m y/y at end-April. That said, the trend has improved considerably since the decline was in double-digits a year ago. In addition, building permits for individual homes have returned to positive territory in terms of y/y growth since end-2015.

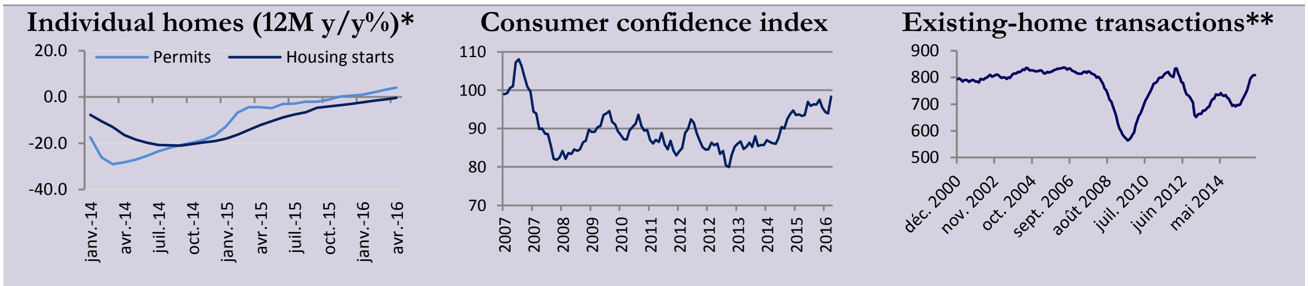
- Finally, the clay roof tile market dropped 8% in 2015 and rose 2.6% at end-March 2016 according to Unicem.

Fig. 17: Construction: a quarter of sales



Source : US Census Bureau, Ministère de l'Environnement, Bryan, Garnier & co

Fig. 18: Promising lead indicators in France



** pure individual homes and grouped individual homes; ** thousand*
Source: Ministère de l'Environnement., Insee, Bryan, Garnier & co

- Finally, we remain fairly optimistic concerning the residential renovation market in France. The CAPEB expects an increase (albeit small) in the market in 2016 of between 0.5% and 1.5%, after a measured decline in 2015 (-0.5% according to CAPEB). Still in France, we could point out the rebound in consumer confidence in May, with an Insee index at 98, similar to that in October 2007, but still lower than the long term average of 100. The renovation market is generally correlated with the consumer confidence index. Finally, existing-home transactions have been well oriented since last summer (+17% over 12 months to end-February).

4.4.2. Mixed performances in industrial markets

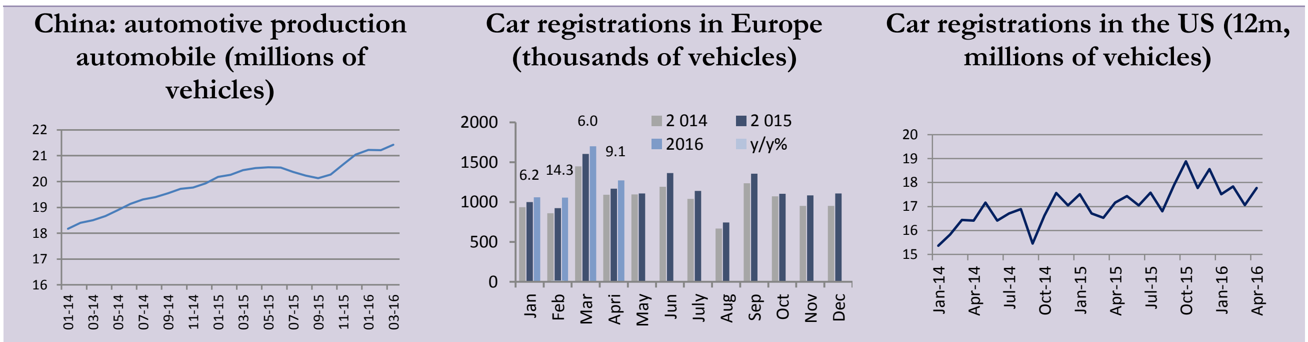
EUR400m in sales generated with the automotive market, or 10% of consolidated sales, primarily via the filtration & performance additives division, the group's second-most profitable

For the industrial segment, new car registrations (10% of sales exposed to automotive), steel production (12% of sales) and industrial output (7% of sales exposed to industrial equipment) are not following the same trends.

- The automotive markets look fairly buoyant in 2016: sales rose 3.6% in April on an annualised basis in the US according to the latest Autodata Corp statistics, whereas car registrations rose 8.5% over four months at end-April in Europe, according to the ACEA. Finally, in China, growth in automotive production stood at virtually 5% y/y over 12m at end-March.

- Imerys generates around EUR400m with the automotive industry with its filtration & performance additives segment the best placed to benefit (sales of around EUR230m for the automotive sector). Note that this is the group's second most profitable division with underlying EBIT margin of 16.5% reported in 2015 (vs. 13.2% for the group in consolidated terms). This division includes talc as a performance additive in polymers used to design automotive plastics.

Fig. 19: Robust automotive markets (new individual vehicles)



Source: datastream, ACEA, Good Car Bad Car data, Bryan, Garnier & co

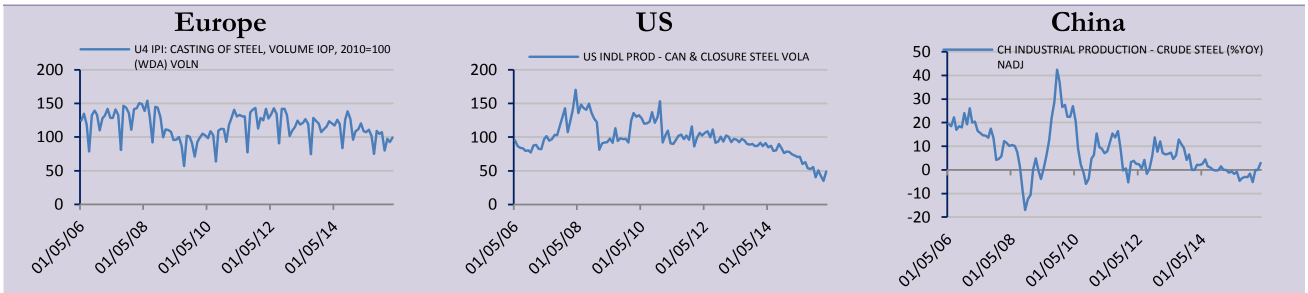
- In contrast, steel, which accounts for 12% of Imerys' business is under pressure in the US and to a lesser extent in Europe. Global production dropped 2.9% y/y in 2015 according to Worldsteel. The division the most affected is energy solutions & specialties (~EUR215m of sales compared with EUR490m for steel overall), with monolithic refractories especially, followed by high resistance minerals (around EUR165m of sales in steel) with refractory minerals.

- Note nevertheless that the global utilisation rate communicated by Worldsteel returned to over 70% this year (71.5% in April 2016, 0.8 percentage points higher than in March 2016), after falling below this level in H2 2016.

Global steel production down 2.5% YTD at end-April 2016

- Statistics in April reflected growth in steel production in the US (+25% y/y but stable in North America as a whole) and in Asia (+0.6%), but a decline in Europe (5.2%). Trends to the end of April remained sluggish with -2.5% in the world, -1.7% in Asia, -1.3% in North America (-0.3% in the US) and -6.5% in Europe.

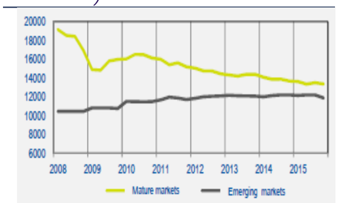
Fig. 20: Steel production



** EU-28, Casting of Steel, Vol. Index of Production, Calendar Adjusted, Index, 2010 = 100; ** United States, Production, Manufacturing, Primary Metal, Iron and Steel, Can and Closure Steel, Vol., SA, Index, 2012 = 100; *** China, Production, by Commodity, Crude Steel, Change y/y (%) Source: datastream, Bryan, Garnier & co*

- 7% of Imery's sales is exposed to the industrial equipment markets, or around EUR285m. Like steel, trends remain difficult and are unlikely to provide top-line growth. Industrial production was under pressure in the majority of regions in Q1, falling 1.1% y/y (to end-April) in the US, up 0.5% y/y (-0.6% vs. Q4 2015) in France and up 5.8% y/y in China.

Printing and writing paper market (millions of tonnes)



Source: RISI, Bryan,Garnier&co

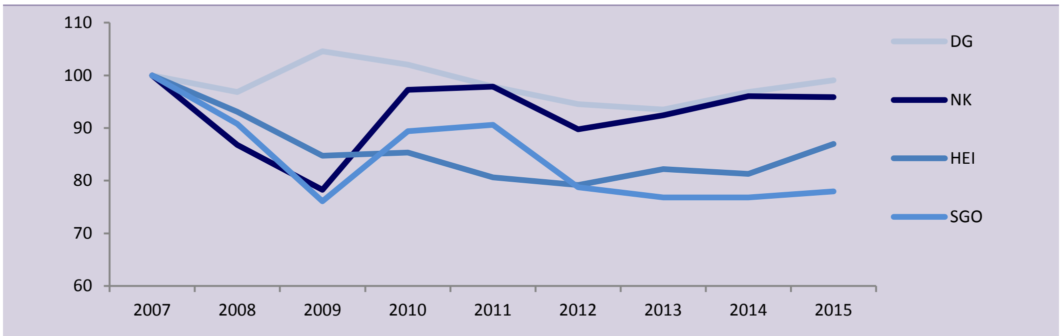
4.4.3. Sluggish performance in paper markets

Paper accounts for 14% of Imerys' sales, or more than EUR570m, primarily in the ceramic materials division (EUR340m) and energy solutions & specialities (EUR225m). The printing and writing paper market is in a stabilisation phase in mature countries, with emerging markets not really taking over. Overall, the market was down 2.4% y/y in 2015.

5. Estimates and valuation

We avoid valuing cyclical stocks by DCF, primarily due to their nature, which makes long-term estimates particularly difficult and uncertain in our view. However, over long periods Imerys has shown its ability to manage cycles, more so than a cement-making group for example. Admittedly, the Great Recession of 2008/2009 was painful, but Imerys turned around its profitability rapidly and substantially. A look at change in EBIT margin since 2007 shows that the group has outperformed building materials stocks and performed quite similarly to Vinci.

Fig. 21: EBIT margin base 100 2007



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

This clearly changes the backdrop. Although Imerys is not immune to macro-economic cycles, it does seem to be quite resilient. In this respect, we consider that we can apply a DCF valuation to a fairly unaggressive central scenario for sales growth, but solid in terms of margins.

The market has not been mistaken either, since the share is now trading on an average 2013-2015 EBITDA multiple of 8.6x compared with c7.5x on average since 2000.

We could also note that Imerys succeeded in refinancing its debt at an attractive interest rate of 1.4% in March 2016, compared with 2.4% over eight years for HeidelbergCement recently.

5.1. Estimates

5.1.1. Macro environment – early indicators

Estimating top-line growth at Imerys is a difficult task given the extent to which the group is diversified in terms of both businesses and regions. We have tried to match our organic growth forecasts with changes in macro-economic conditions. Our organic growth estimate stands at 2.5% at cruising speed as of 2019 (2% in 2018), relatively close to growth in global GDP as estimated by the IMF: 3.2% for 2016 and 3.5% for 2017, including 1.9% and 2.0% for developed countries, respectively. We nevertheless remain lower than global economic growth given that just slightly more than a quarter of Imerys' business is generated in emerging markets and GDP is clearly not just made up of the same markets in which Imerys is active (namely construction, industry and consumer spending), but also concerns services for example. GDP is therefore not the ideal proxy. However, modelling volumes based on various early indicators (that we present further on) seems extremely complicated and random.

5.1.2. Central scenario

Visibility on Imerys' underlying markets is modest and our medium/long-term growth and volume growth estimates are therefore cautious. We gradually reduce investment spending as a percentage of sales and have assumed that the group's priority is to control its investment and operating expenses as long as top-line growth remains depressed. We have not included acquisitions either, due to the difficulty in drawing up estimates, although the group would probably react if opportunities arise. Our key assumptions are the following:

- Organic growth of -1.2% in 2016, +0.5% in 2017, +2.0% in 2018, and then +2.5% at cruising speed thereafter with a price-mix effect higher than the volume effect. 2017 is seen as a simple year of transition, with volume and price growth levels equal to the 2016 and 2018 average. Our estimates are built by division and not by region. Imerys does not provide all details by region, such as organic growth.

- A negative currency impact of EUR29m on sales in 2016. Estimating the impact on underlying EBIT is difficult since Imerys exports kaolin from Brazil paid for primarily in USD and has therefore benefited from the decline in the Real. In this respect, the currency impact was very slightly negative for Q1 2016 sales (EUR4m) but extremely positive for underlying EBIT (+EUR7m) primarily thanks to the BRL. Our forecast for a negative impact of EUR4m on 2015 underlying EBIT is therefore probably too negative, but without guidance the estimate is haphazard.

- Barring a fresh announcement, changes in the scope of consolidation should be low this year. S&B was consolidated as of Q1 2015 and should no longer contribute to the scope by the end of 2016. This leaves the three acquisitions made in early November 2015 (Solvay's PCC division for around EUR60m, BASF hydrated kaolin for around EUR55m and Matisco for roofing in France for around EUR25m).

- Change in cash operating expenses, namely before depreciation and amortisation, of 1.0%/1.5% a year as of 2018 for the fixed-costs part, which accounts for around 55% of all costs (including depreciation and amortisation for 5% of the overall amount in our model). We have assumed changes in the variable amount depending on organic growth. Operating costs before depreciation and amortisation generally rise by around 2.0%/2.5% as of 2018. For information, the nature of industrial processes is reflected in the cost structure, with an energy bill representing 10% of operating costs and commodities 20%, the main item remaining staff costs (25%) followed by transport (22%).

- Our investments remain generally stable at around EUR300m or 7% of sales.

- We have factored in the lower cost of debt, by taking account of the issue in March of EUR600m in bonds (EUR300m over six years with a 0.875% coupon and EUR300m with a 1.875% coupon), the impact of which should mostly be felt next year when the EUR500m bond serving a 5% coupon is redeemed in April. In the meantime, surplus cash has little chance of creating value. In all, the average cost of gross debt (n/n-1) that we have noted in the balance sheet, totals 3.4% in 2015, 2.9% in 2016 and 2.4% in 2017.

- We are maintaining restructuring costs of around EUR45m pre-tax per year.

5.2. Detailed forecasts

Fig. 22: Sales

Revenues - EURm	2013	2014	2015	2016E	2017E	2018E
Energy Solutions & Specialties	1248	1279	1253	1240	1218	1242
Filtration & Performance Additives	635	658	1082	1155	1180	1203
Ceramic Materials	1204	1156	1172	1284	1315	1342
High Resistance Minerals	654	642	629	577	563	575
Holding & elim.	-44	-46	-50	-50	-51	-52
Total	**3698**	**3688**	**4087**	**4206**	**4225**	**4310**
Apparent growth y/y %						
Energy Solutions & Specialties	-3.1	2.4	-2.0	-1.1	-1.8	2.0
Filtration & Performance Additives	-44.6	3.7	64.4	6.8	2.1	2.0
Ceramic Materials	58.1	-4.0	1.4	9.6	2.4	2.0
High Resistance Minerals	-12.1	-1.9	-1.9	-8.4	-2.3	2.0
Holding & elim.	-19.7	5.7	7.8	1.0	1.5	2.0
Total	**-4.8**	**-0.3**	**10.8**	**2.9**	**0.5**	**2.0**
Growth split %						
Volumes	*-2.5*	*1.7*	*-5.9*	*-2.0*	*-0.4*	*1.0*
Price	*1.2*	*1.5*	*1.2*	*0.8*	*0.9*	*1.0*
Organic	***-1.3***	***3.2***	***-4.6***	***-1.2***	***0.5***	***2.0***
Forex	*-3.0*	*-1.0*	*5.9*	*-0.7*	*-0.1*	*0.0*
Scope	*-0.6*	*-2.5*	*9.5*	*4.8*	*0.0*	*0.0*

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

Fig. 23: Current EBIT

EBIT breakdown - EURm	2013	2014	2015	2016E	2017E	2018E
Revenues	3698	3688	4087	4206	4225	4310
Cash costs incl associates (organic)	-3013	-2984	-3329	-3433	-3373	-3424
Depreciation	-208	-210	-226	-234	-264	-271
Synergies	-	-	6	6	10	3
Forex	-	-	-	-4	0	0
Scope	-	-	-	30	0	0
Current EBIT, as reported	**477**	**495**	**538**	**571**	**598**	**618**
Current EBIT Margin, as reported %	12.9	13.4	13.2	13.6	14.2	14.3
Restructuring expenses paid add-back	-47	-46	-62	-45	-45	-45
Associates deducted	5	5	8	8	8	8
Clean EBIT	**425**	**444**	**468**	**518**	**545**	**564**
Clean current EBIT margin %	11.5	12.0	11.5	12.3	12.9	13.1

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

Fig. 24: Current EBIT by division

EBIT - EURm	2013	2014	2015	2016E	2017E	2018E
Energy Solutions & Specialties	128	150	120	121	123	132
Filtration & Performance Additives	101	113	178	193	210	210
Ceramic Materials	220	211	210	233	240	247
High Resistance Minerals	70	73	82	76	75	80
Holding & elim.	-42	-52	-51	-52	-51	-52
Total	**477**	**495**	**538**	**571**	**598**	**618**
EBIT margin %						
Energy Solutions & Specialties	10.3	11.7	9.6	9.8	10.1	10.7
Filtration & Performance Additives	15.9	17.2	16.5	16.7	17.8	17.5
Ceramic Materials	18.2	18.3	17.9	18.2	18.3	18.4
High Resistance Minerals	10.7	11.3	13.0	13.2	13.4	13.9
Total	**12.9**	**13.4**	**13.2**	**13.6**	**14.2**	**14.3**

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

Fig. 25: Income statement

EURm	2013	2014	2015	2016E	2017E	2018E
Revenues clean	**3698**	**3688**	**4087**	**4206**	**4225**	**4310**
y/y change (%)	-4.8	-0.3	10.8	2.9	0.5	2.0
Operating costs	-3018	-2989	-3331	-3409	-3372	-3430
Operating costs change (%)	-5	-1	11	2	-1	2
D&A	-208	-210	-226	-234	-264	-271
Restructuring expenses paid add-back	-47	-46	-62	-45	-45	-45
EBIT clean	**425**	**444**	**468**	**518**	**545**	**564**
EBIT clean chg (%)	*-4.5*	*4.6*	*5.4*	*10.7*	*5.1*	*3.6*
EBIT margin clean	*11.5*	*12.0*	*11.5*	*12.3*	*12.9*	*13.1*
Others	-33.0	-14.1	-295.4	0.0	0.0	0.0
EBIT	**392**	**430**	**173**	**518**	**545**	**564**
Interest charges	-51.1	-47.0	-58.6	-63.6	-53.2	-41.1
Cost of the avg gross debt %	4.1	3.3	3.4	2.9	2.4	2.3
Interest income	**4.5**	**6.8**	**9.5**	**0.0**	**0.0**	**0.0**
Placement rate (avg) %	1.2	1.2	1.7	0.0	0.0	0.0
Cost of net debt	-47	-40	-49	-64	-53	-41
Cost of net debt - (avg) %	5.3	4.5	4.1	4.2	3.7	3.0
Others financials	-6.1	-4.9	-6.4	-6.4	-6.4	-6.4
Associates	5.3	4.6	8.1	8.1	8.1	8.1
PBT	**344**	**390**	**125**	**456**	**493**	**525**
Tax	-100	-117	-56	-130	-141	-150
Tax rate current reported %	28	29	29	29	29	29
Net profit	244	273	69	326	352	375
Net margin %	*6.6*	*7.4*	*1.7*	*7.7*	*8.3*	*8.7*
Minorities	2	2	1	1	1	1
Group share net profit	**242**	**272**	**68**	**325**	**351**	**374**
y/y change (%)	*-16.9*	*12.2*	*-74.8*	*n/s*	*8.0*	*6.4*
Non- recurring	-62	-46	-273	-41	-41	-41
Net profit clean, as reported	**304**	**317**	**342**	**366**	**392**	**415**
y/y change (%)	*1.2*	*4.3*	*7.6*	*7.1*	*7.1*	*5.8*
Non- recurring, restructuring add-back	-20	-5	-217	0	0	0
Net profit clean	**262**	**276**	**286**	**325**	**351**	**374**
y/y change (%)	*-1.1*	*5.5*	*3.5*	*13.7*	*8.0*	*6.4*

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

Fig. 26: Per share data

Per share	2013	2014	2015	2016E	2017E	2018E
Number of shares year end (m)	76	76	80	80	80	80
Number of shares for EPS (m)	76	77	80	80	80	80
EPS as reported (EUR)	3.98	4.09	4.24	4.53	4.84	5.10
EPS clean (EUR)	3.43	3.58	3.56	4.08	4.41	4.70
EPS growth (%)	*-2.0*	*4.4*	*-0.5*	*14.4*	*8.3*	*6.4*
Payout on reported current net profit (%)	*41*	*42*	*41*	*40*	*40*	*40*
DPS (to be paid in year +1) (EUR)	1.60	1.65	1.75	1.86	2.00	2.13
DPS growth (%)	*3.2*	*3.1*	*6.1*	*6.4*	*7.6*	*6.2*

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

Fig. 27: Cash flow statement

CF statement (EURm)	2013	2014	2015	2016E	2017E	2018E
EBITDA clean	650	674	745	787	843	870
EBITDA yoy growth (%)	-2	4	11	6	7	3
EBITDA margin (%)	18	18	18	19	20	20
Interest paid (+ received)	-49	-47	-53	-68	-57	-44
Tax paid	-132	-151	-106	-157	-170	-181
Dividends from associates	0	0	0	0	0	0
Others	-54	-8	-83	-45	-45	-45
WCR change, incl. non-current	52	-45	50	-26	-16	-18
WCR change in % of revenues growth	*-28*	*n/s*	*12*	*-22*	*-85*	*-21*
Cash Flow	468	423	554	491	555	582
Capex	-253	-241	-272	-300	-295	-294
Free Cash Flow	215	182	282	191	261	288
Operational Free Cash Flow as reported	306	244	343	297	361	381
Dividends paid	-119	-125	-133	-139	-146	-157
Acquisitions	-179	-53	-362	0	0	0
Disposals	71	79	14	0	0	0
Sharehold' equity, incl. buy-back	36	-43	-22	-60	-20	-20
Others	-9	1	0	0	0	0
= Net debt change impact	**14**	**40**	**-220**	**-8**	**95**	**112**

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

Fig. 28: Balance sheet

Balance sheet (EURm)	2013	2014	2015	2016E	2017E	2018E
Intangible assets	1133	1173	1736	1736	1736	1736
Tangible assets, including Mines	1833	1975	2142	2208	2239	2262
Current operating assets	1246	1389	1540	1585	1592	1624
Current operating liabilities	639	723	807	826	817	831
WCR	607	667	733	759	775	793
Capital invested	**3573**	**3815**	**4611**	**4704**	**4751**	**4792**
Cash	427	686	435	1035	435	435
Gross debt	1320	1563	1927	2535	1841	1729
Net debt*	**885**	**870**	**1480**	**1502**	**1407**	**1296**
Equity - group share	2248	2444	2644	2770	2955	3152
Minorities	24	26	28	29	29	30
Provisions	485	589	646	646	646	646
Others liabilities	151	55	95	95	95	95
Total liabilities	**4873**	**5422**	**6169**	**6923**	**6405**	**6505**
Financial assets	28	26	32	32	32	32
Associates	83	83	126	134	142	150
Others assets	109	73	138	173	209	246
Total assets	**4873**	**5422**	**6169**	**6923**	**6405**	**6505**

** includes derivatives*

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

Fig. 29: Credit risk profile

Credit risk profile (EURm)	2013	2014	2015	2016E	2017E	2018E
Gearing (%)	39.0	35.2	55.4	53.7	47.2	40.7
Net debt on EBITDA (x)	**1.4**	**1.3**	**2.0**	**1.9**	**1.7**	**1.5**
EBITDA / Cost of the net debt (x)	14.0	16.8	15.2	12.4	15.8	21.2
Calculated cost of the gross debt %	4.1	3.3	3.4	2.9	2.4	2.3
Calculated cost of the net debt %	5.3	4.5	4.1	4.2	3.7	3.0
FFO (CF bef WCR) /Debt (%)	**47.0**	**53.0**	**33.8**	**34.4**	**40.6**	**46.3**
FCF post dividends	96	56	150	52	115	132

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

5.3. Valuation (FV of EUR72)

Our Fair Value works out to EUR72 and is the combination of a multiples approach (EUR68) and a DCF valuation (EUR76).

5.3.1. Application of multiples to our 2018 estimates (EUR68)

We cannot state that the stock is trading on a significant discount today. Indeed, the share has enjoyed a rerating since 2013 and is now trading on an EBITDA multiple close to 8.6x on average over 2013-15 compared with around 7.5x on average since 2000. These are multiples based on the average prices seen relative to reported earnings. 2016 and 2017 EBITDA multiples stand at 8.6x and 7.9x, respectively. As such, a smallish discount exists when we apply three-year multiples to our 2018 estimates.

However, it is not irrelevant to point out that Fair Values are not target prices. Indeed, we discount back the results obtained and a simple projection would provide a (slightly) higher figure.

Fig. 30: Multiples-derived valuation

EUR	2017E	2018E	2019E	2020E
EBITDA multiple valuation				
Targeted multiple - 3-year avg (x)	*8.6*	*8.6*	*8.6*	*8.6*
EBITDA (EURm)	843	870	906	947
Equivalent EV value (EURm)	7223	7451	7764	8109
Less net debt (EURm)	1407	1296	1169	1018
Others adjustments (EURm)	-200	-190	-180	-170
Equivalent Equity value (EURm)	5617	5966	6415	6921
# shares (m)	79.6	79.6	79.6	79.6
Equivalent Equity value per share	70.6	75.0	80.6	87.0
Value discounted	**68.4**	**68.1**	**68.5**	**67.0**
EBIT multiple valuation				
Targeted multiple - 3-year avg (x)	*13.3*	*13.3*	*13.3*	*13.3*
EBIT (EURm)	545	564	590	617
Equivalent Equity value per share	70.6	75.4	81.4	87.9
Value discounted	**68.4**	**68.5**	**69.2**	**69.8**

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

5.3.2. DCF (EUR76)

Whereas we tend not to use discounted cash flows for cyclical stocks, we have applied this method in this case. Indeed, within our universe of cyclical stocks, Imerys' earnings look fairly stable. This relative resilience, reflected in our central scenario (low sales growth combined with a very gradual improvement in margin), is quite well suited to a DCF valuation.

Our main assumptions are as follows:

- We have established three periods: a first one based on our estimates, a second intermediary one based on an increase in cash flows of 2.5% a year (similar to our top-line growth estimate as of 2018) and the residual part, with growth to infinity of 1%.

- Our discount rate stands at just 6.6% based on a risk-free rate of 1.6%, a risk premium of 7%, a cost of debt of 2.4% (higher than the 1.4% rate at which the group has just refinanced itself), a tax rate of 29% and a reference price (for the equity share of WACC) of EUR70 (equivalent to our Fair Value but choosing the current price would have been less penalising. Our beta is 0.9, i.e. the level noted over three years against the Euro Stoxx 50.

- Note that under the framework of value loss tests, Imerys is also obliged to make assumptions for a discount rate and growth to infinity. In 2015, the discount rate communicated stood at 6.96% (8.04% in 2014) combined with a growth rate to infinity of 1.81% (1.80% in 2014).

- Finally, we have rounded out our approach by applying an exit multiple (EV/EBITDA of 7.5x, or the historical multiple prior to the recent re-rating) in addition to the end value based on a growth rate to infinity of 1%.

Fig. 31: DCF

DCF - EURm	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Clean Ebit	468	518	545	564	590	617					
Ebitda	745	787	843	870	906	947	970	995	1019	1045	1071
Tax rate	29	29	29	29	29	29					
Tax on Ebit level	-136	-151	-158	-164	-172	-180					
WCR var.	50	-26	-16	-18	-23	-25					
Capex	-272	-300	-295	-294	-295	-295					
OpFCF (2.5% mid-term growth)	387	310	374	394	417	447	458	470	482	494	506
Incrementation		0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Discounted @6.59%		310	351	347	344	346	333	320	308	296	285
Sum of discounted opFCF		3241				3241					
Exit EV/EBITDA (x) / perp. growth (%)	6.5	7.5	8.5		0.0	1.0	2.0				
PV of Exit value	3678	4244	4810		4057	4783	5825				
Total Sum of PV	6919	7485	8051		7298	8023	9066				
Less net debt (EURm)		1494				1494					
Others adjustements		-220				-220					
Net Value	5206	5771	6337		5584	6310	7352				
# shares	79.7	79.7	79.7		79.7	79.7	79.7				
Net Value / share	**65**	**72**	**79**		**70**	**79**	**92**				

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

5.3.3. Sector multiples

This is a difficult exercise since Imerys is not directly comparable to any listed group. However, we have identified the following stocks:

- Mineral Technologies, which pipped Imerys to the post and bought Amcol in 2014, present in minerals such as PCC, GCC, talc and bentonite (via Amcol).

- Wienerberger and Braas Monier, for their exposure to the clay roof tile market.

- Saint-Gobain, present via its HPM division in refractories and proppants.

- In contrast, Carbo Ceramic's multiples cannot be directly compared to Imerys' given that the group is primarily exposed to proppants, which admittedly weigh on EBIT levels in the French group's accounts but only affect 1% of sales.

Fig. 32: Sector multiples

X	Price 06/06/16	Mk. cap. M.	PE 2016E	PE 2017E	EV/Sales 2016E	EV/Sales 2017E	EV/EBITDA 2016E	EV/EBITDA 2017E	EV/EBIT 2016E	EV/EBIT 2017E	Div. Yield 2015E
Imerys (BG)	63.70	5069	15.6	14.4	1.6	1.6	8.6	7.9	13.1	12.2	2.7%
Imerys (CS)	63.70	5069	14.1	13.0	1.5	1.4	8.0	7.2	11.4	10.2	2.7%
Wienerberger	16.15	1898	19.3	14.4	1.0	0.9	7.2	6.4	14.2	11.7	1.2%
Vicat	56.03	2516	17.1	13.7	1.5	1.3	7.9	6.6	13.4	10.5	3.1%
Saint-Gobain	39.11	21698	16.3	13.9	0.8	0.7	7.6	7.0	11.0	9.8	3.2%
Braas Monier	24.99	979	16.5	13.2	1.3	1.2	7.7	6.8	13.2	-	1.6%
Mineral Technologies	59.16	1813	13.5	12.3	1.6	1.4	8.6	7.7	11.9	-	0.3%
Moyenne CS			**16.1**	**13.4**	**1.3**	**1.2**	**7.8**	**7.0**	**12.5**	**7.1**	**-**

Source: IBES; Bryan, Garnier & Co ests.

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