INDEPENDENT RESEARCH

14th September 2016

Automotive

Valeo

The "French Tech"

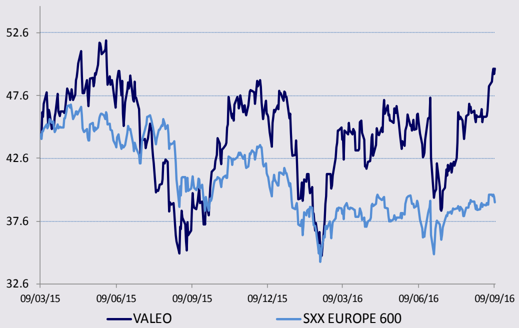
Fair Value EUR49 (price EUR49.74)

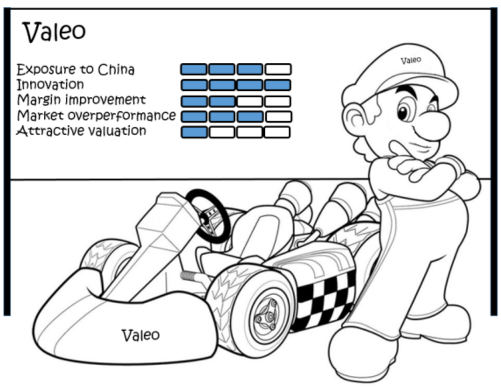
NEUTRAL
Coverage initiated

Bloomberg	FR FP
Reuters	VLOF.PA
12-month High / Low (EUR)	49.7 / 34.9
Market capitalisation (EURm)	11,857
Enterprise Value (BG estimates EURm)	13,962
Avg. 6m daily volume ('000 shares)	844.3
Free Float	2.3%
3y EPS CAGR	14.2%
Gearing (12/15)	1%
Dividend yields (12/16e)	2.18%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	14,544	15,996	17,602	18,716
EBIT(EURm)	1,060	1,225	1,402	1,520
Basic EPS (EUR)	3.11	3.62	4.23	4.64
Diluted EPS (EUR)	3.11	3.62	4.23	4.64
EV/Sales	0.88x	0.87x	0.77x	0.71x
EV/EBITDA	6.9x	6.9x	5.8x	5.3x
EV/EBIT	12.1x	11.4x	9.7x	8.7x
P/E	16.0x	13.7x	11.8x	10.7x
ROCE	23.7	19.6	20.8	21.3

Price and data as at close of 9th September





Since 2007, Valeo has outperformed the SXAP index, the automotive market and its main rivals. Boasting expertise in buoyant markets, autonomous cars and connected vehicles, and with strong presence in the Asian and US markets, Valeo aims to outperform the automotive market again (+5pp) over the next four years, while improving its EBIT margin by 130bp. Although we appreciate the group's positioning and strategy, we are initiating coverage of Valeo with a Neutral recommendation and FV of EUR49, primarily for valuation reasons.

- **Conquering Asia:** With more than **27%** of sales derived from Asia and **14%** from China, Valeo is the French car parts maker the most exposed to the leading global auto market. Although very cyclical and volatile like other markets in emerging countries, we estimate growth at more than **3%/year** in the region, driven by China primarily. Valeo should benefit from the increase in its equipment rate per inhabitant as well as premiumisation in the market.
- **Conquering connected and autonomous vehicles:** The group's recent acquisition of **Peiker** as well its partnerships with **Safran** and **Mobileye** make Valeo a key parts supplier for carmakers in the race for autonomous vehicles. This high-potential market could structurally modify the sector to the benefit of car parts suppliers.
- **Ambitious but realistic 2020 targets**: For **2020**, Valeo is aiming to continue outperforming the global automotive market thanks especially to its very technological and innovative product portfolio. Although **feasible,** we consider these targets **ambitious** since they are based on a doubling in the group's average outperformance relative to the market since 2007 and on a CAGR in auto production of **3%,** thereby implying an acceleration relative to 2015 and 2016, which we see as quite aggressive. Any downgrade to sector forecasts by any player would have a negative impact on the Valeo share price. This risk combined with a fairly unattractive valuation makes us cautious on the share. **We are initiating coverage with a Neutral recommendation and a FV of EUR49.**

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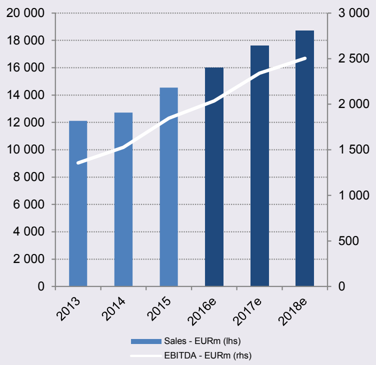
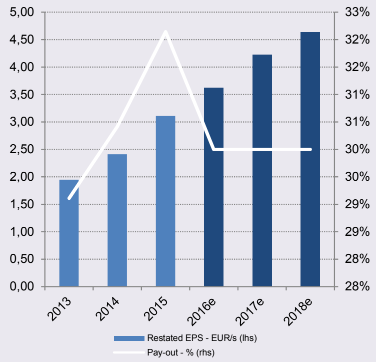




Company description

As an automotive supplier Valeo supplies original equipment spares to automakers and replacement parts to the independent aftermarket. It is engaged in products and systems that contribute to carbon dioxide (CO_2) emissions reduction, as well as to the development of intuitive driving. It develops interior and exterior lighting systems. Its operating segments include Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems and Visibility Systems. The Comfort & Driving Assistance Systems segment includes driving assistance, interior electronics and interior controls. The Powertrain Systems segment includes electrical systems, transmission systems, combustion engine systems and electronics. The Thermal Systems segment develops and manufactures systems, modules and components. The Visibility Systems segment designs and produces systems to support the driver and passengers. The group has a strong presence in Asia (27% of OE sales) and in North America (22% of OE sales).

Simplified Profit & Loss Account (EURm)	2013	2014	2015	2016e	2017e	2018e
Revenues	12,110	12,725	14,544	15,996	17,602	18,716
Change (%)	*3.0%*	*5.1%*	*14.3%*	*10.0%*	*10.0%*	*6.3%*
Adjusted EBITDA	1,356	1,526	1,847	2,036	2,341	2,504
EBIT	795	862	1,060	1,225	1,402	1,520
Change (%)	*9.7%*	*8.4%*	*23.0%*	*15.5%*	*14.5%*	*8.4%*
Financial results	(147)	(137)	(119)	(111)	(106)	(103)
Pre-Tax profits	588	722	880	1,126	1,308	1,431
Exceptional	(67.0)	(54.0)	(117)	(48.0)	(52.8)	(56.1)
Tax	(119)	(129)	(106)	(225)	(262)	(286)
Profits from associates	7.0	51.0	56.0	60.4	65.0	69.9
Minority interests	(30.0)	(31.0)	(45.0)	(47.3)	(49.6)	(52.1)
Net profit	439	562	729	853	997	1,092
Restated net profit	439	562	729	853	997	1,092
Change (%)	*15.5%*	*28.0%*	*29.7%*	*17.0%*	*16.8%*	*9.6%*
Cash Flow Statement (EURm)						
Operating cash flows	1,236	1,242	1,659	1,660	1,845	2,046
Change in working capital	232	40.0	111	71.4	9.6	63.9
Capex, net	(914)	(958)	(1,119)	(1,184)	(1,303)	(1,385)
Financial investments, net	(5.0)	(104)	(8.0)	(1,429)	0.0	0.0
Dividends	(129)	(144)	(201)	(234)	(256)	(299)
Other	(164)	(25.0)	26.0	23.6	24.8	26.0
Net debt	366	342	124	1,288	977	589
Free Cash flow	322	284	540	476	542	661
Balance Sheet (EURm)						
Tangible fixed assets	2,181	2,497	2,744	4,321	4,435	4,583
Intangibles assets	850	1,012	2,141	2,411	2,657	2,901
Cash & equivalents	1,510	1,497	1,725	561	872	1,260
current assets	4,342	4,551	5,324	4,473	5,262	5,925
Other assets	159	462	(494)	658	406	66.8
Total assets	9,042	10,019	11,440	12,424	13,633	14,736
L & ST Debt	1,876	1,839	1,745	1,745	1,745	1,745
Others liabilities	4,633	5,231	6,003	6,405	6,914	7,267
Shareholders' funds	2,380	2,740	3,473	4,031	4,707	5,431
Total Liabilities	9,042	10,019	11,440	12,424	13,633	14,736
Capital employed	3,872	3,872	4,313	4,717	6,549	7,039
Ratios						
Operating margin	6.56	6.77	7.29	7.65	7.96	8.12
Tax rate	20.24	17.87	12.05	20.00	20.00	20.00
Net margin	3.63	4.42	5.01	5.33	5.66	5.84
ROE (after tax)	18.45	20.51	20.99	21.16	21.17	20.12
ROCE (after tax)	20.71	21.17	23.66	19.62	20.84	21.28
Gearing	14.45	11.60	0.54	27.70	17.54	8.47
Pay-out ratio	29.11	30.42	32.14	30.00	30.00	30.00
Number of shares, diluted	75.22	77.75	78.16	239	239	239
Data per Share (EUR)						
EPS	1.95	2.41	3.11	3.62	4.23	4.64
Restated EPS	1.95	2.41	3.11	3.62	4.23	4.64
% change	*15.6%*	*23.8%*	*29.0%*	*16.4%*	*16.8%*	*9.6%*
EPS bef. GDW	1.95	2.41	3.11	3.62	4.23	4.64
BVPS	10.55	11.75	14.81	16.89	19.73	22.76
Operating cash flows	16.43	15.97	21.23	6.96	7.73	8.57
FCF	1.43	1.22	2.30	1.99	2.27	2.77
Net dividend	0.57	0.73	1.00	1.09	1.27	1.39

Source: Valeo; Bryan, Garnier & Co ests.

Table of contents

1. Investment Case

Why the interest now?

The reason for writing now

We are initiating coverage of French car components maker **Valeo** as part of the publication of our automotive sector report. Boasting recognised expertise in the auto industry in the driver visibility and assistance segments, since 2007, the group has **outperformed car production, the SXAP auto index and its main rivals.** Thanks to its very technological products, we estimate that this outperformance could last over coming years.

Cheap or Expensive?

Valuation

As for **Faurecia**, **Plastic Omnium** and **Hella,** we value **Valeo** using two methods: historical **EV/sales, EV/EBIT** and **P/E multiples** and a **DCF valuation**. Sharp growth in the share price since 2008 on the back of the sector recovery since the crisis and **the share's rerating limit further upside potential for the share.** We are initiating coverage of the stock with a **Neutral recommendation** and a **FV of EUR49 per share.**

When will I start making money?

Catalysts

We consider the various announcements by carmakers on the development of **electric and autonomous vehicles** as positive. We see no specific catalysts for Valeo, at least in the short term. **The Paris car show (end of September) could potentially provide positive newsflow in the sector.**

What's the value added?

Difference from consensus

We are currently in line with the consensus in terms of the group's 2016-18 sales, but are respectively **4.1%** and **2.6%** higher for EBITDA expectations. So far, we see little potential for an upgrade to consensus figures given the risks of a slowdown in the global automotive market.

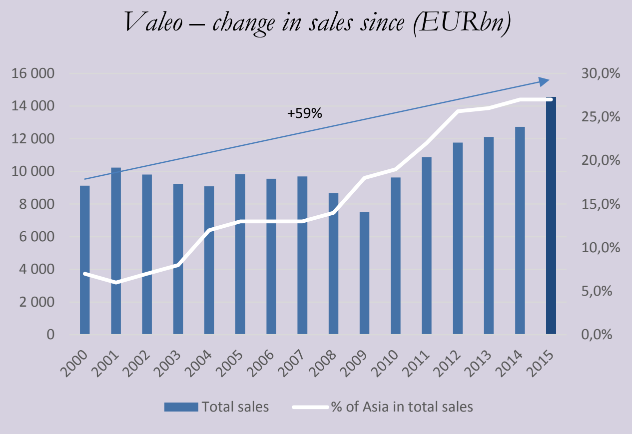
Could I lose money?

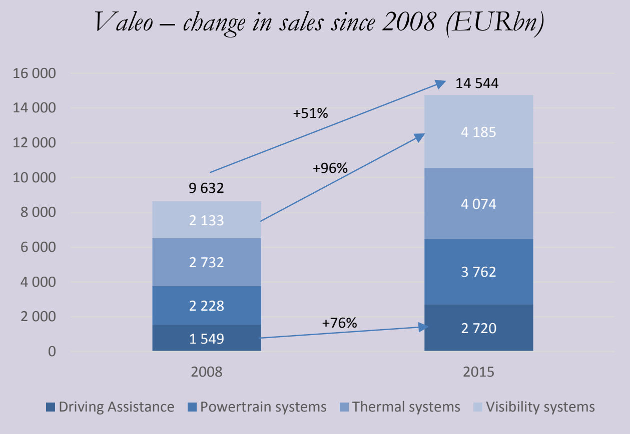
Risks to our investment case

The auto sector cycle is on the verge of a slowdown in both mature markets and emerging markets and this slowdown could be worse than expected, especially due to **Brexit** and **international tension**. Like all car components manufacturers, **Valeo** could suffer from a **rapid slowdown in auto production** and **stock rundown moves**.

2. Valeo in six charts

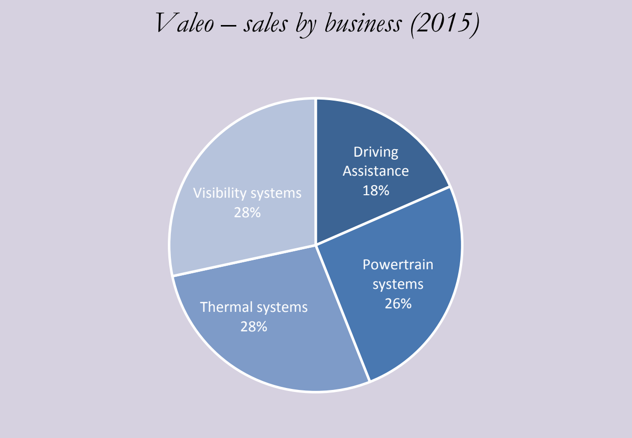
Fig. 1: Growth primarily driven by Asia and the driving assistance and visibility segments

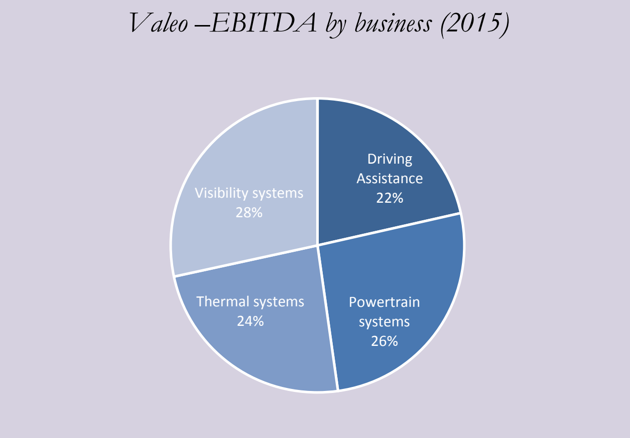




Source: Valeo; Bryan, Garnier & Co ests.

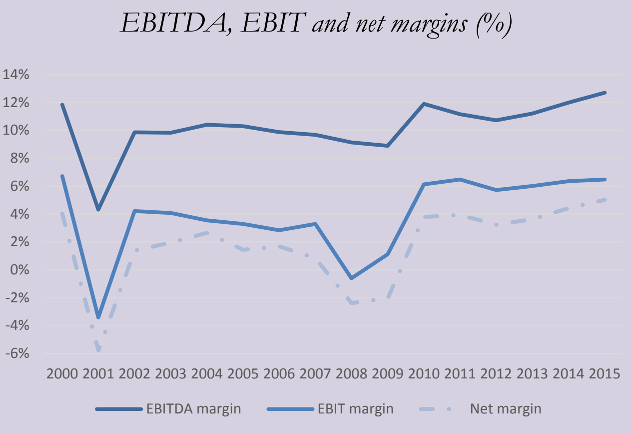
Fig. 2: A fairly well-balanced product portfolio

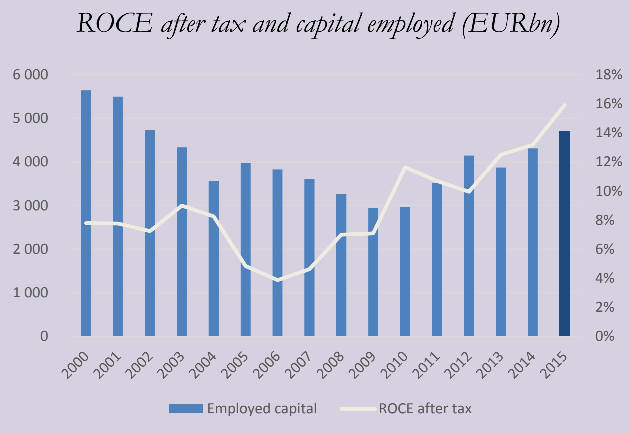




Source: Valeo; Bryan, Garnier & Co ests.

Fig. 3: Ratios at peak levels





Source: Valeo; Bryan, Garnier & Co ests.

3. The French Tech

Boasting expertise in buoyant markets, **autonomous** and **connected vehicles**, and with strong presence in **the Asian** and **US markets,** Valeo has outperformed the SXAP index, the automotive market and its main rivals since 2007.

Whereas automotive production has only risen by **26%** since 2007, Valeo's sales have leapt **50%** *(+43% excluding scope effects*), while **EBIT has multiplied by 2.9x** (*2.75x excluding scope effects*) **and net profit by 8.6x**. The group's strategy to focus on four high value-added businesses (*powertrain systems, thermal systems, driving comfort and assistance systems, visibility systems*), combined with its rising exposure to Asian and German carmakers since 2007, has enabled it to grow far faster than the sector but also to increase its profitability. **In early 2017, the group is likely to report record 2016 earnings in both value and profitability terms.**

Between **2016** and **2020,** the group is set to outperform the global automotive market, thanks primarily to its very technological and innovative product portfolio. The recent acquisition of **Peiker** combined with its partnerships with **Safran** and **Mobileye** make Valeo a key parts supplier for carmakers, in the race towards autonomous vehicles, which is set to become a high potential market in coming years. As such, we estimate that the various partnerships combined with significant R&D investments should be at the root of higher sales growth for Valeo relative to the automotive market.

However, albeit **feasible**, we consider these targets **ambitious** since they are based on a doubling in the group's average outperformance relative to the market since 2007 and on a CAGR in automotive production of **3%,** implying an acceleration relative to 2015 and 2016, which we see as quite aggressive. Any downward adjustment to sector forecasts by any player whatsoever would have a negative impact on the Valeo share price. This risk combined with a not particularly attractive valuation prompts us to remain cautious on the share.

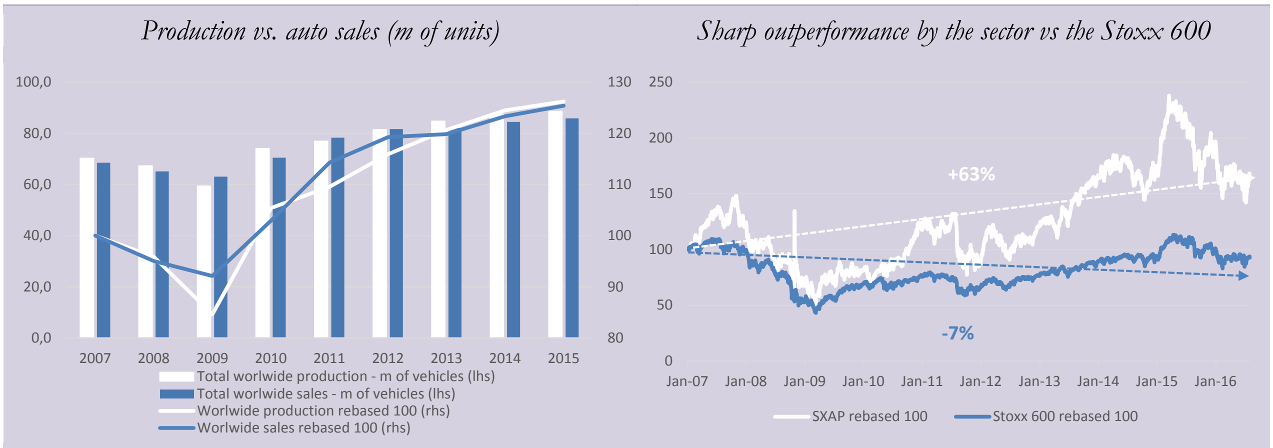
As such, although we welcome the group's strategic positioning, we have a Neutral recommendation on Valeo and a FV of EUR49, primarily for valuation reasons.

4. A solid track-record since 2007

4.1. Sector far stronger than before the crisis

Since 2009, like the majority of auto parts suppliers, Valeo has emerged far stronger from the financial crisis that affected the automotive sector and many other consumer goods sectors considered as discretionary. After plummeting **12%** on average (production and sales) between 2007 and 2009, global sales are now **more than 25% higher** than their low-point of 2009 thanks in particular to a recovery in mature markets, but especially thanks to an acceleration in demand from emerging markets. The **SXAP** index **covering the 16 largest auto stocks in Europe** is currently **over 60% higher** than its level of January 2007 whereas the **Stoxx 600** index is currently still **7%** below, thereby clearly reflecting the healthy state of the sector over the period.

Fig. 4: A stronger sector than in 2007



Source: Datastream; Bryan, Garnier & Co ests.

Car parts suppliers underperform the sector the majority of the time when growth in auto production becomes negative

Primarily driven by robust momentum in emerging markets, which are benefiting in full from the rising middle classes, the auto market and all its players are currently in **better health than they were before 2007**, despite the plunge in the market in 2008 and 2009. As indicated in our sector report, it is important to note that car parts suppliers in general have performed better than carmakers or tyre makers, primarily in view of higher R&D spending on their part as reflected in the value-added of their products and hence in their margins, but also thanks to lower **country** and **product** risk.

Note also the outperformance by car parts suppliers relative to the market when the market is growing, but an underperformance when growth in production becomes negative *(the main reason being stock rundown effects)*.

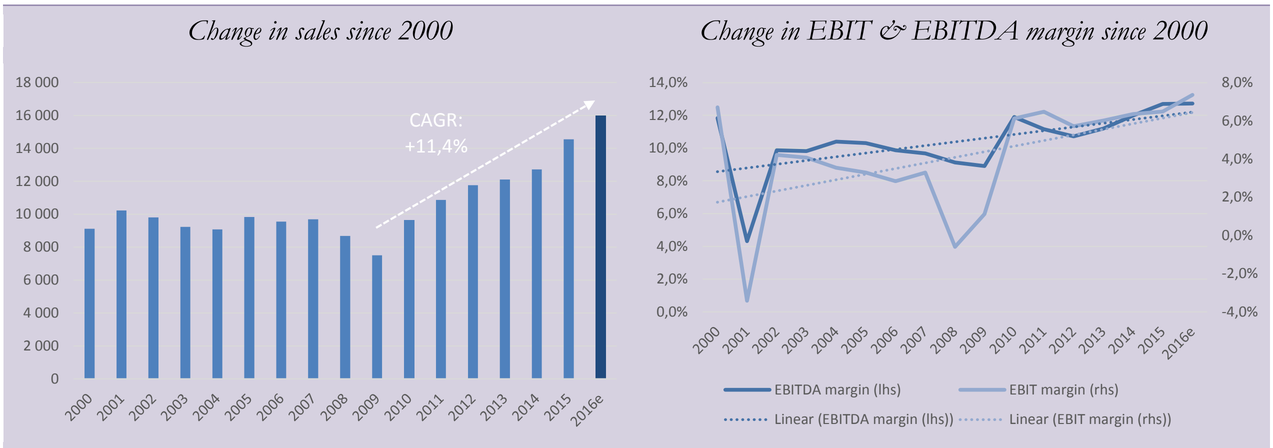
4.2. Valeo, stronger than the sector

Among the panel of outperformers, since 2007 Valeo has stood out from the majority of its rivals by publishing better sales and earnings performances and this has been reflected in its share price. Its presence in niche markets and above all in high value-added markets has enabled Valeo to stand out more easily from the competition while enabling it to outstrip growth in margins.

Since 2007, Valeo's sales have increased 43% whereas automotive production has only risen by 26%

Whereas auto production has only gained **26%** since 2007 (*88.6m vehicles produced in 2015 vs. 65.5m products in 2007*), sales at Valeo have rocketed **50%** *(+43% excluding scope effects)* whereas **EBIT has multiplied by 2.9x** (*2.75x excluding scope effects*) and **net profit by 8.6x**. The group's strategy to focus on four high value-added businesses (*powertrain systems, thermal systems, driving comfort and assistance systems and visibility systems*), combined with its rising exposure to Asian and German carmakers since 2007, has enabled it to grow far faster than the sector but also to increase its profitability. **In early 2017, the group is likely to report record 2016 earnings, in both value and profitability terms.**

Fig. 5: Valeo, close to its record high margin rate



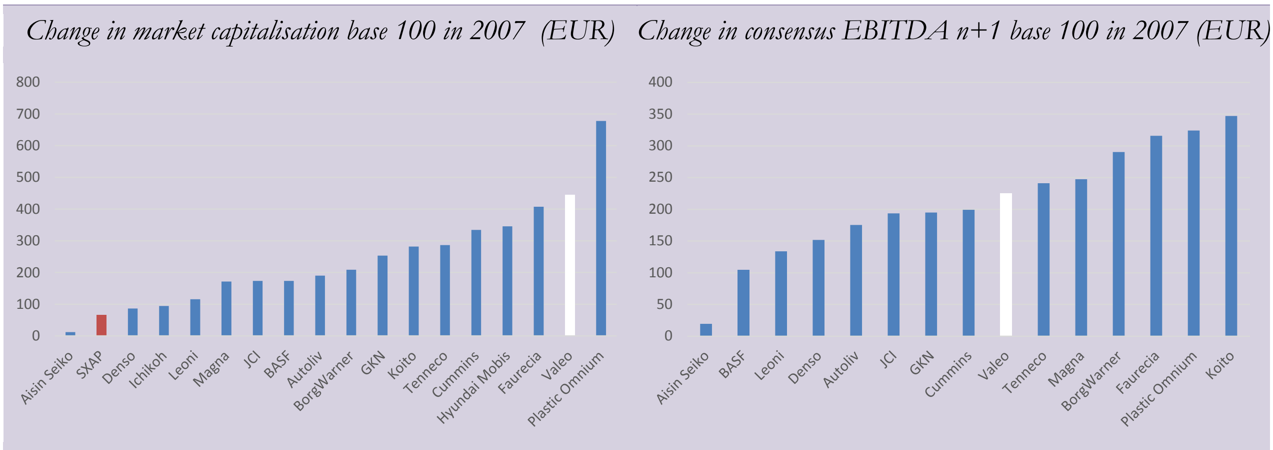
Source: Valeo; Bryan, Garnier & Co ests.

4.3. A performance welcomed by the markets!

Since 1st January 2007, Valeo's market capitalisation has been multiplied by **4.45x** positioning the group in the number two spot behind **Plastic Omnium** in the ranking of the best stockmarket performances of the main global car components makers over 2007-16. It is also interesting to note that the **consensus EBITDA N+1 forecasts for Valeo** over the same period have only multiplied by **2.25x**, positioning the group **not in the no. 2 spot** but in the **no.7 position** in the ranking of the widest EBITDA changes over the period.

The share has therefore benefited more than others from a rerating effect, thereby primarily explaining its excellent stockmarket performance relative to the sector and its main rivals.

Fig. 6: Valeo has benefited from a rerating effect since 2007



Source: Datastream; Bryan, Garnier & Co ests.

At the current share price of **EUR49.7 per share**, the Valeo share is just **4.4%** below its peak level reached at the end of May 2015.

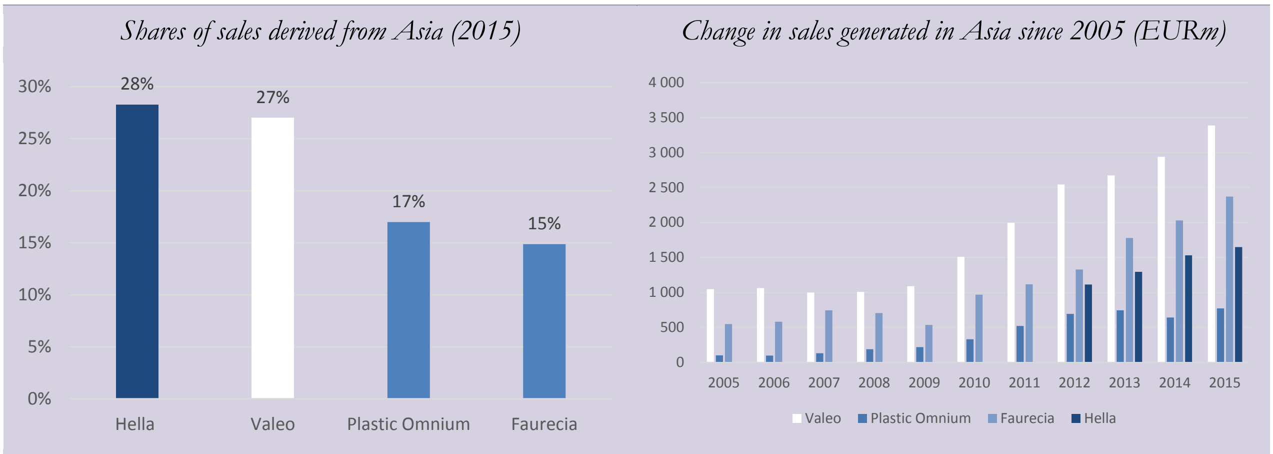
In our view, this impressive stockmarket performance leaves little room for unwelcome surprises, whereas any good news is unlikely to be that well appreciated with the market.

5. Conquering Asia

Valeo's presence in Asia was built up more rapidly than that of the two other French car parts suppliers **Faurecia** and **Plastic Omnium,** and also **Hella**, thanks in particular to the roll-out of an efficient sales strategy as of the 1990s *(deployment in China in 1994, India in 1997 and Japan in 2000*), and also thanks to strategic acquisitions in order to access new clients in the region (*acquisition of* ***Niles*** *in 2011, a Japanese company present in the interior controls sector, enabling Valeo to become the global leader in this market*). As such, **Valeo is now ahead of rivals in this high-potential market.**

Whereas the region only accounted for **7%** of the group's sales in 2000, it currently represents **more than 27%**, with the increase having been achieved to the detriment of mature countries and more precisely Europe and the US, which in 2015 only accounted for **49%** and **22%** of the group's sales vs. **61%** and **29%** in 2000. Thanks to this new strategy implemented as of 2009 with the nomination of **Pascal Colombani** and **Jacques Aschenbroich** respectively as Chairman and CEO, and a strategic plan to reorganise the group into four businesses (*see section 11 page 35*), Valeo has outperformed the majority of its rivals in the region and has a fairly wide range of clients enabling it to smooth out **client risk**, and also **product risk** more easily.

Fig. 7: Valeo is the most exposed French actor to the Asian market vs. Plastic Omnium and Faurecia



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

The group currently has **51 production sites** in Asia (*38% in all*), **15 R&D centres** (*29% in all*) and headcount present in the region representing **31%** of the group's headcount with **25,574 employees**. The region is therefore clearly a priority focus for the group and should continue to generate a significant portion of its future growth, in view of the order book at end-2015.

With Asia currently accounting for around **40%** of new sales and more than **50%** of global auto production, it is indeed vital for all players in the sector to be present locally in the region, and more specifically in China, which alone accounts for **28%** of sales and **26%** of production.

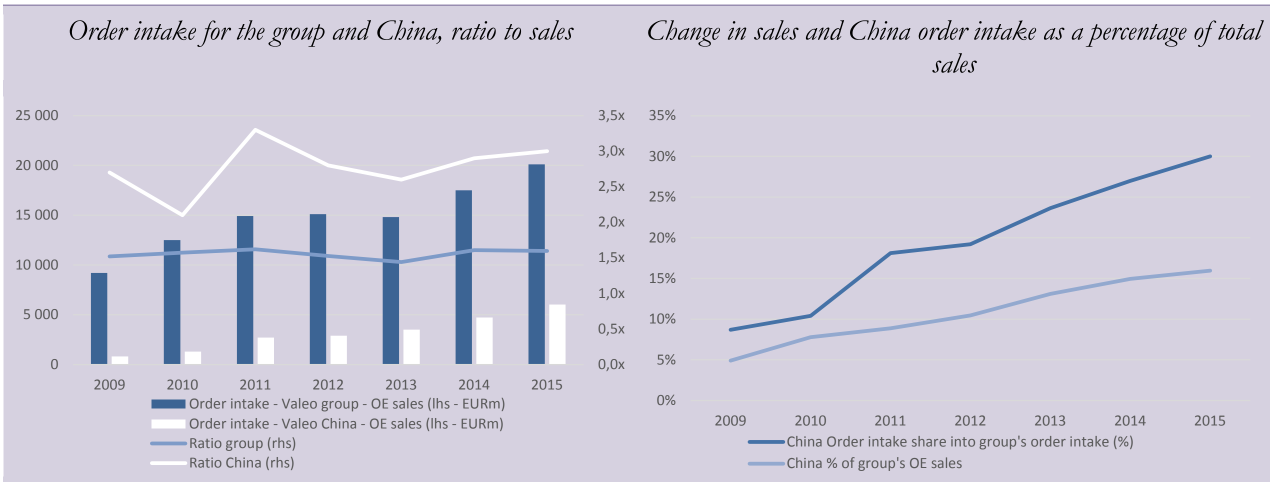
5.1. Tomorrow's growth to stem from China

As indicated previously, China is the largest market in the auto sector **in terms of both vehicle sales and production**. Although very different from mature markets (*lower average age of buyers, lower share of financing in purchases, weak market share of local carmakers*), the market remains very buoyant and should continue to expand massively in coming years, with the main catalyst set to stem from the equipment rate, which should approach levels in Europe, Japan and the US, driven by the increase in size and wealth of the middle classes.

At 14% of Valeo's sales today, China is now the group's largest country

Currently accounting for **14%** of Valeo's sales, China is now the group's largest country, ahead of the US, and by 2020 should represent more than **20%** of the group's sales. With more than **15,000 employees** present in the country, spread over **26 production sites**, **10 development centres and three R&D centres,** the group is preparing tomorrow's growth and the country accounts for **27%** of its order intake. The **order book/sales** ratio for China stood at more than **3x** at end-2015, higher than in 2013 and 2014 with a **27%** increase in 2015 relative to 2014. Note interestingly that this ratio is almost twice as high as the group's ratio on a global level (*1.6x*), thereby strengthening the idea that this market is extremely important for Valeo's future growth.

Fig. 8: China, the driver behind Valeo's future growth



Source: Valeo; Bryan, Garnier & Co ests.

Primarily exposed to foreign carmakers in China and less to local carmakers, (*local brands represent less than 20% of Valeo's sales in China whereas they account for 40% of the Chinese market*), Valeo should continue to extend its exposure with these groups in coming years. Concentration moves likely in coming years in the market, combined with the rising momentum of local carmakers in the **SUV** (*Sport Utility Vehicle)* and **MPV** (*Multi-Purpose Vehicle*) segments that are set to expand rapidly in coming years, should be beneficial to them.

Thanks to its strong presence with Asian carmakers (*26% of sales, with Nissan*), but also via its presence with US and European carmakers in the region, we estimate that the group should continue to outperform its rivals and the market in coming years.

6. Conquering autonomous and connected vehicles

6.1. The race for the driverless car

The automotive industry is in the throes of change, like many other sectors, following the widespread roll-out of connected devices and embedded communication technologies (*In Vehicle Infotainment or IVI*). Carmakers work directly with traditional parts makers but also with new entrants in the technology sector on the development of the connected vehicle (*navigation, multimedia, telephony, service...*) and the autonomous car. Players foreign to the auto sector such as **Google** and **Apple**, are also developing automatic pilot systems internally, using their technological expertise to get ahead of historical carmakers.

This transformation is increasing the amount of equipment necessary in a vehicle and is likely to have a **positive impact on car parts makers such as Valeo** without necessarily having such a positive impact for carmakers.

For several years, the main car and car components manufacturers have been in a race for connectivity by developing systems that enable a vehicle to connect to other connected objects and/or the cloud either internally or via partnerships with technological groups specialised in connectivity. Once these systems are connected to another system managing cameras, sensors and other lasers a vehicle can become entirely autonomous.

Very present in this high-potential segment notably via its partnership with **Safran**, **Valeo** belongs to a closed circle of very large technological components makers that develop expertise in connectivity or driving assistance systems, either internally or externally via very targeted acquisitions.

Fig. 9: Main players in the autonomous vehicles market

	Name of prototype/system
Apple	Projet Titan
Delphi	Audi SQ5
Google	Google Car
Mercedes	F015
PSA	Citroën C4 Picasso
Renault	Next Two (Visteon)
Tesla	Model S
Valeo/Safran	**Drive4U**

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

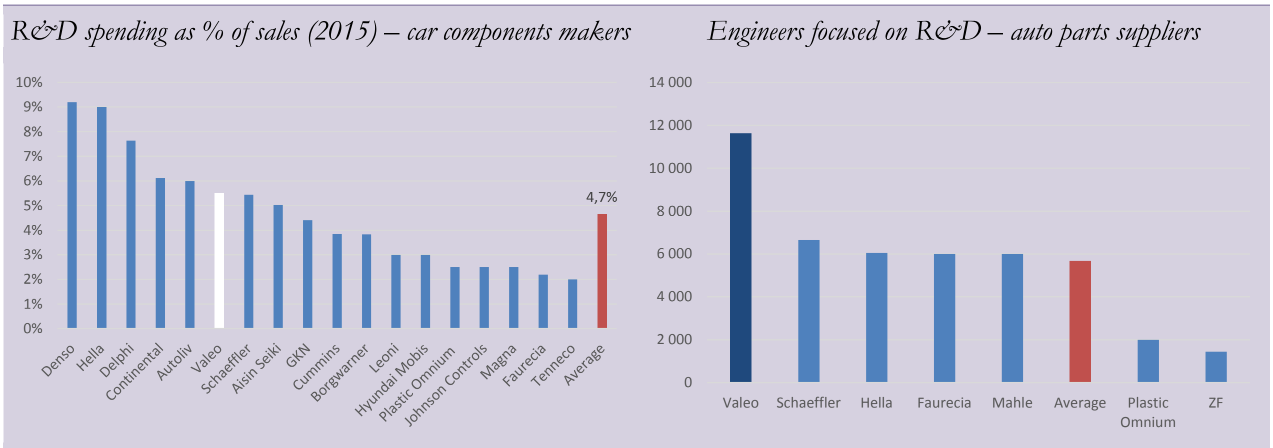
6.2. Valeo, deep into innovation

6.2.1. Resembling a start-up

Behind Valeo's **EUR14.5bn** in sales reflecting its status as a major group and generated by almost **83,000** employees, lies the resemblance of a start-up company notably via a **culture of innovation** and a degree of **proximity with start-ups**. Although the auto sector remains focused on innovation with hefty R&D spending, especially for car parts suppliers who spend an average of **4.7%** of sales (*vs. 5.5% for Valeo*), Valeo stands out for the number of patents its files each year.

With more than **11,600** engineers dedicated to R&D (*more than double the European average for similar-sized players*) and **1,400** patents filed in 2015, the group clearly stands out as one of the **most dynamic car parts makers in terms of innovation**, bettered only by European giants such as **Continental, Bosch** and Japanese group **Denso** whose activities are also far wider. This dynamic presence in research led Valeo to rank among the Top 100 Global Innovators listing undertaken by Thomson Reuters in 2012, 2013 and 2015. Note that the group was **the only European parts maker to rank in this Top 100.**

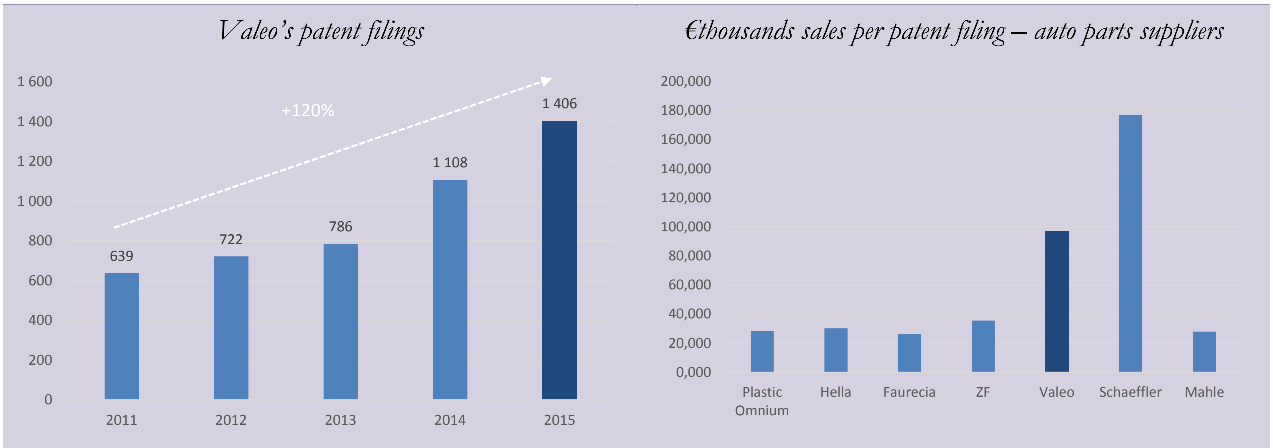
Fig. 10: Valeo, one of the European parts suppliers the most focused on innovation



Source: Datastream; Bryan, Garnier & Co ests.

With a number of **patent filings that has more than doubled** within the space of just four years (*1,406 in 2015 vs 639 in 2011*), Valeo tends to protect its innovations more strictly. This approach makes sense in an industry in which **innovation enables car component makers to protect themselves against price pressure** from carmakers but ensuring that carmakers remain captive in an environment where only innovation can help meet regulatory targets. As such, Valeo ranks among the car parts suppliers (*according to a panel of players communicating sufficient information to be able to list them*) with more than **1,400** patents filed in 2015 and a portfolio of more than **37,000** patents. In 2015, Valeo filed almost **100 brevets per EUR1bn in sales,** a threshold well above the majority of other components makers in the panel which generally do not exceed more than **40 patents per EUR1bn** in sales.

Fig. 11: Valeo or protection of IP at all costs

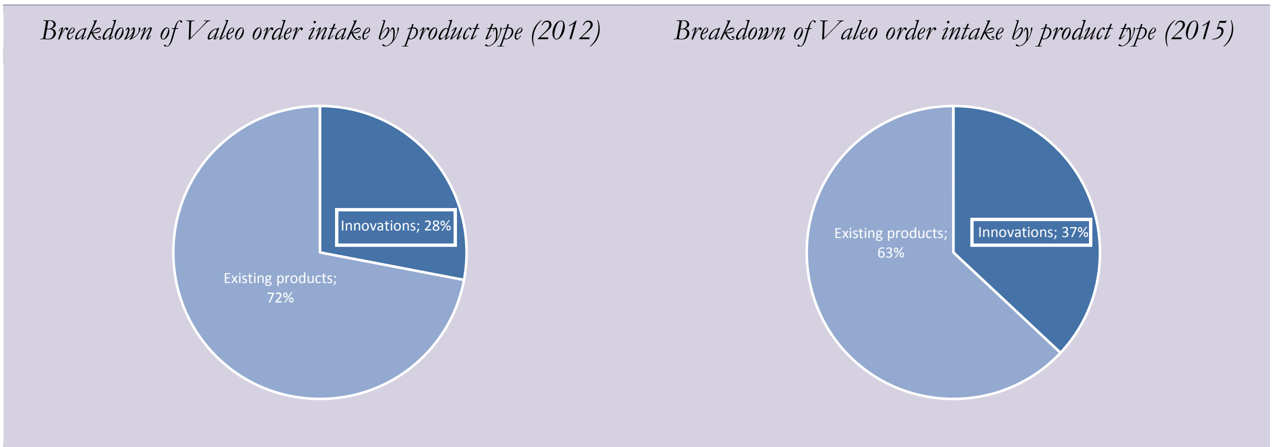


Source: Valeo; Bryan, Garnier & Co ests.

Innovation has a positive price impact on the group's sales and on its pricing power

Allocating resources to research and industrialising innovation is one thing, but **monetising** it with clients in another, especially since this is vital for Valeo and its aim to outstrip market growth. In reality, history has shown that more than a quarter of new orders at Valeo concern innovations i.e. recently developed products. This share has even tended to strengthen, rising from **28%** in 2012 to **37%** in 2015, following the uptrend in the number of patents filed by the group, in a sign that **spending on research is capable of triggering a renewal in the product portfolio and meets genuine customer needs**. Note importantly that these innovations also have a positive price impact on the group's sales and hence on its pricing power.

Fig. 12: Breakdown of Valeo order intake by product category



Source: Valeo; Bryan, Garnier & Co ests.

In addition to direct R&D spending, Valeo has also multiplied its **actions in the start-up universe** (*private equity, innovation promotion, incubation programmes, and search for partnerships*). In August 2015 for example, the group invested **EUR22m** in **Cathay Capital** (*a Sino-French innovation fund*) in the form of a partnership attributing it a more pre-eminent role than simple investor in an investment fund, and therefore providing access to the companies targeted by the fund. With an investment spectrum ranging from the **US to Europe and China**, Valeo has therefore acquired targeted access to the most innovative companies and those requiring the most funds, the implied aim being to forge partnerships over the medium and long terms.

Similarly, the group has opened an office in **Palo Alto** in **California**, located in the famous technological hotspot **Sillicon Valley** in order to remain as close as possible to other more technological players such as internet giants and other expanding start-ups. In reality, this office supervises the innovations that companies in the consumer electronics sector can provide to the auto sector.

In Europe, Valeo recently invited no less than **40 start-ups** to its stand at the Viva Technology exhibition in order to promote their latest innovations in terms of autonomous driving and reducing polluting emissions with visitors at the famous international technological exhibition. This action also follows the launch of a virtual **incubation programme** launched by Valeo earlier this year, dedicated to the search for technological start-ups with which the group could eventually collaborate in its connected and autonomous vehicle projects.

This less capital intensive way of gaining faster access to technology is clearly beneficial for Valeo as well as for the start-up companies, which benefit from the group's infrastructure and network to industrialise ultra-specific know-how on a wide scale. **This should help Valeo outperform global auto production more easily.**

6.2.2. Highly technological partnerships

In addition to internal R&D efforts, Valeo intends to remain focused on **developing connected and autonomous vehicles via a partnership and participation approach to R&D.** In this respect, the group has multiplied the number of strategic ties with technological players but also public and collaborative agreements, in particular through **institutional collaborative organisation partnerships** (*with the European Road Transport Research Advisory Council responsible for creating the roadmap for the development of autonomous vehicles in Europe*), **competitions departments** (*SystemX institute for technological research, Institute for energy transition*) or via **academic partnerships** (*thesis framework and financing, multi-partite collaborative projects etc.).*

Nevertheless, **private agreements remain the most value creative and one of the pillars of the group's technological innovation strategy since 2001,** with the first partnerships developed in driving assistance. The driving assistance theme and more widely, autonomous vehicles, has since remained the focus of the group's investments.

With a view to strengthening its expertise in driving assistance, Valeo has created two partnerships, one with **Fujitsu Ten** (*a Japanese parts supplied*) and one with **LeddarTech** *(detection and telemetrics solutions*) in embedded active safety systems and more specifically, **obstacle detection** via millimetric wave radars and infrared sensors. These procedures help the vehicle rapidly detect the presence of obstacles on the road as well as other vehicles irrespective of weather conditions. The technology also includes an automatic braking system in the event of an imminent collision.

Since active safety is only an intermediary tool to making a vehicle autonomous, Valeo has also entered partnerships that concern **autonomous vehicles** directly. This is notably the case of **Safran** (*development of applications specific to aerospace, defence and safety*) and **Mobileye** (*Israeli car components maker*) in order to develop products concerning driving vigilance monitoring, 360° vision, vision in extreme weather conditions and vehicle robotisation. In early 2015, the partnership with Safran enabled Valeo to present a functional **prototype of a highly automated vehicle named** "Drive4U", equipped with sensors such as cameras, radars, ultra-sounds and a laser scanner. These sensors generate real-time data that detect and characterise the driving environment. At the same time, the combination of Valeo's skills (*embedded cameras*) and those of Mobileye (*microchips, digital visions algorithms and laser scanner*) has led to the creation of an **autonomous vehicle prototype** presented at the end of 2015: **Cruise4U** (*standard VW Golf SW equipped with a Scala laser scanner from Valeo*).

In extension of this partnership, Valeo recently undertook a **21,000km** trip through the US with its Cruise4U prototype, representing the longest distance travelled by a partially automated vehicle ever seen in North America, in order to prove the feasibility of its innovation.

To a lesser extent, the **connected vehicle** theme was also the object of a partnership between Valeo and **Cap Gemini** with the creation of an access and start-up system enabling the driver to use a smartphone to lock, unlock and start their car. The InBlue **virtual key** is currently only in an experiment phase for company car fleets and short-term car rentals since early 2016.

Valeo nevertheless seems to have extended the range of skills targeted by its partnership strategy by announcing the creation of a **joint venture with Siemens** in April 2016 in the **electric vehicle components segment.** The creation of a new jointly-owned company should be **operational by the end of 2016**, and made up of **700** staff (*200 Valeo staff set to join the 500 Siemens engineers already working on the subject).* The aim is to offer a comprehensive range of components and systems of 60 volts and over to equip **hybrid, hybrid rechargeable and 100% electric vehicles**: electric engines, embedded chargers, inverters and DC/DC convertors. Valeo is to provide its expertise in high-voltage power electronic activities whereas Siemens is to contribute to the partnership via its powertrain systems division for electric vehicles. The joint-venture, for which management expects sales to reach **"several millions of euros by 2020"** is therefore set to face competition from **Denso, Continental** and **Bosch** in a market that should grow by around **20% a year** out to 2020. This partnership is an opportunity for Valeo to develop its expertise in electric engines, which have been the missing element in order to offer a comprehensive range in electric traction.

Today, joining forces with technological experts helps **share R&D investments,** was well as create **synergy effects associated with the flagship skills of each party.** These advantages cannot be rejected in the **race for the self-driving car** in which the lion's share of car and car components players are running.

Fig. 13: Examples of technological partnerships

Date	Partner	Autonomous car	Connected car	Electric car	Related project/product
Mar-13	**Safran**	**x**			**Drive4U**
Nov-13	Fujitsu Ten	x			
Feb-14	LeddarTech	x			
Mar-15	**Mobileye**	**x**			**Cruise4U**
Nov-15	Cap Gemini		x		InBlue
End 2016	Siemens			x	

Source: Valeo; Bryan, Garnier & Co ests.

6.3. Highly strategic recent acquisitions

Following the last acquisition in 2011 of Japanese group **Niles** (switching systems), recent announcements in December 2015 and early 2016 confirmed a **genuine turnaround in the pace of acquisitions** made by Valeo. As announced by management, the group now wants to take part in the consolidation underway in the car components sector, by focusing primarily on **leading players positioned in niche, buoyant and very technological markets**. The aim is to extend the group's range of skills in future segments, and not limit itself to the connected and autonomous vehicle, by integrating companies that are enjoying higher growth rates than those of Valeo.

Since end-2015, Valeo has invested EUR1.4bn in M&A to acquired three German specialists

At the end of 2015, Valeo announced the acquisition of **Peiker**, a German supplier of **embedded telematics and mobile connectivity solutions**, for an estimated amount of **EUR300m** (*5.1x EBITDA and 7.7x EBIT*), as well as the acquisition of **Spheros**, a global leader in **air conditioning systems for buses** for an estimated amount of **EUR314m** (*8.4x EBITDA and 12.6x EBIT*). Then in June 2016, Valeo announced it was taking control of **FTE**, a German company specialised in car clutch and transmission systems for an amount of **EUR819m** (*10.8x EBITDA and 21.6x EBIT*).

Note that the acquisitions of **Peiker** and **Spheros** have already been approved by the competitions authorities and only **FTE** is still waiting for a green light from the European and Brazilian competitions watchdog.

Fig. 14: Earnings-enhancing acquisitions as of 2016

Integration	Target	Activities	Employees	2015 sales (EURm)	EV	EBITDA margin	2015 EV/EBITDA	2015 EV/EBIT
Q2 2016	Peiker	Connectivity (telematics)	1 000	325	296	15.0%	10.8x	21.6x
Q2 2016	Spheros	Thermal systems (buses)	1 100	250	314	15.0%	8.4x	12.6x
Q1 2017	FTE Automotive	Clutch and transmission systems (cars)	3 700	505	819	20.0%	8.2x	11.7x
Average						**16.0%**	**8.1x**	**14.0x**
Valeo - 2015						12.7%	6.5x	11.2x

Source: Valeo; Bryan, Garnier & Co ests.

6.3.1. Peiker

After signing a technological partnership agreement in February 2015 with German parts maker **Peiker** *(embedded telematics and connectivity)*, in December 2015 Valeo announced it was acquiring the company in order to extend its range of products in **geolocalisation and connectivity of vehicles to mobile networks and cyber security.** Valeo's know-how in terms of embedded electronics, combined with Peiker's technological expertise should help the group offer carmakers new telematic systems equipped with high-speed connectivity functions. This potential range includes products enabling **vehicle to vehicle** (*V2V*) and **vehicle to infrastructure** (*V2I*) communication, compatible with future LTE Advanced mobile internet services (*4G+*).

Via this operation, Valeo is set to **rank world no. 2 in the segment** behind Korean components supplier LG, while inheriting Peiker's customer portfolio primarily focused on **upscale German carmakers.** The integration of Peiker's teams also includes a team of more than **150** engineers based in Germany, rounding out Valeo's R&D clout. As a reminder, the generalisation of in-car connectivity should underpin the telematics market by around **30% a year** (*BergInsight, Mordor Intelligence*).

Fig. 15: Peiker, active in automotive connectivity

Cell system - Peiker | *Connection module - Peiker*

Source: Motorlegend; Bryan, Garnier & Co ests.

6.3.2. Spheros

In December 2015, two days after the announcement of the Peiker acquisition, Valeo also unveiled the takeover of parts supplier **Spheros** (*leader in bus air-conditioning systems*) from private equity fund Deutsche Beteiligungs. Valeo intends to extend its skills in **thermal systems for buses** (*the market for which is expected to grow by at least 5% a year over coming years*), driven by the development of public transport systems and an accelerated urbanisation process, while **transposing its skills to other lighter vehicle types** such as individual cars and light utility vehicles.

Synergies prompted by the operation concern both industrial processes and geographical location. Spheros buys a large number of components for its thermal systems, while Valeo itself produces a large amount for its own systems destined for cars. Moreover, Spheros has developed solid strategic positions in all the major global regions, apart from China, where Valeo has a strong presence and can value Spheros' skills.

Fig. 16: Spheros, active in thermal systems for buses

Spheros Thermo S thermal system

Air conditioning model - Spheros

Source: Spheros; Bryan, Garnier & Co ests.

6.3.3. FTE

German car parts maker **FTE** (*specialised in production of actuators for clutch and transmission systems)* is owned by private equity fund **Bain Capital** and is Valeo's latest target. Its takeover was officialised when an agreement was signed with Bain Capital in June 2016 and the company is set to round out Valeo's offer in **actuators**, and especially active hydraulic actuator systems. This segment is proving to be increasingly strategic, driven by momentum in **double-clutch transmission** and **hybrid vehicles** in response to current trends aiming to reduce CO_2 emissions.

Beyond the complementary nature of FTE's client base relative to Valeo's, the German company should help **strengthen Valeo's aftermarket business**, which is generally far more profitable (*10% EBIT margin on average*) than the OE market.

FTE derives around **one third** of its sales from the replacement market and more than **30%** outside Europe, fully in line with the robust international expansion undertaken by Valeo for some years now. The operation remains subject to approval by the competitions authorities but should be **finalised during Q4 2016 or Q1 2017.** Given that FTE has higher margins than Valeo, its integration should have an immediate accretive impact. **In our model, we have consolidated FTE as of 1st January 2017.**

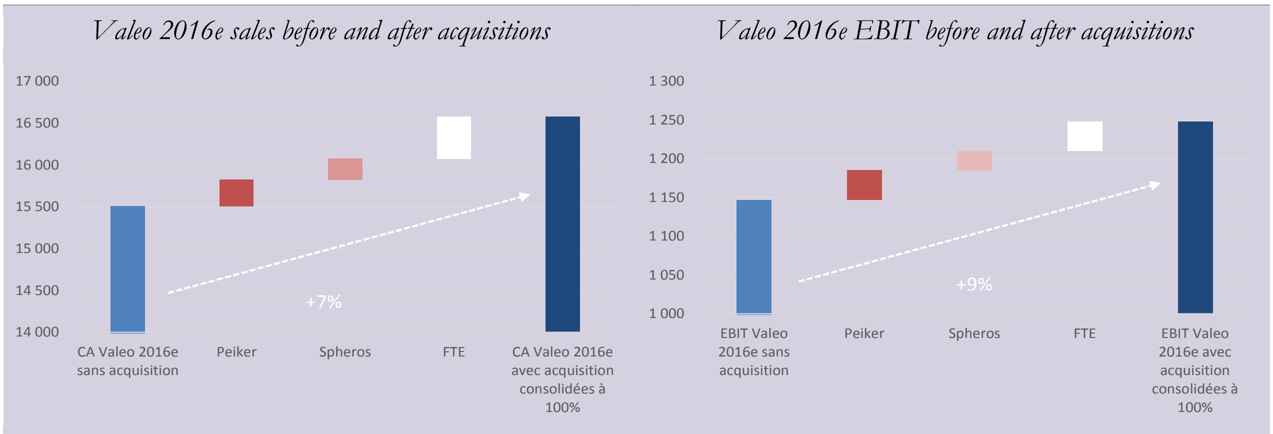
6.3.4. Earnings-enhancing acquisitions as of the first year

Concerning the three acquisitions, it is important to note that:

- All three **boost the group's EPS** as of the first year of consolidation.
- They also enhance the **group's EBITDA and EBIT margins** *(+15bp for the group's operating margin, post-consolidation, without taking into account potential synergies/cost gains).*
- They all help access either a new market or a new client base (*bus market for Spheros, transmission in hybrid vehicles with FTE and finally the connectivity market with German carmakers for Peiker*).
- The consolidations enhance the group's growth and profitability profile, but are not factored into the group's 2020 targets, which were unveiled in 2015 (*see section 7 on page 23*). In our view the group should fine-tune its targets during 2017 in order to take account of the acquisitions and provide better guidance for the market, given that the three acquisitions are set to increase the group's 2016e sales by **7%** (*100% consolidated in 2016*) and the group's operating profit by **virtually 9%.**

The group should fine-tune its targets during 2017 in order to integrate its acquisitions and provide investors better guidance

Fig. 17: Structuring acquisitions for the group

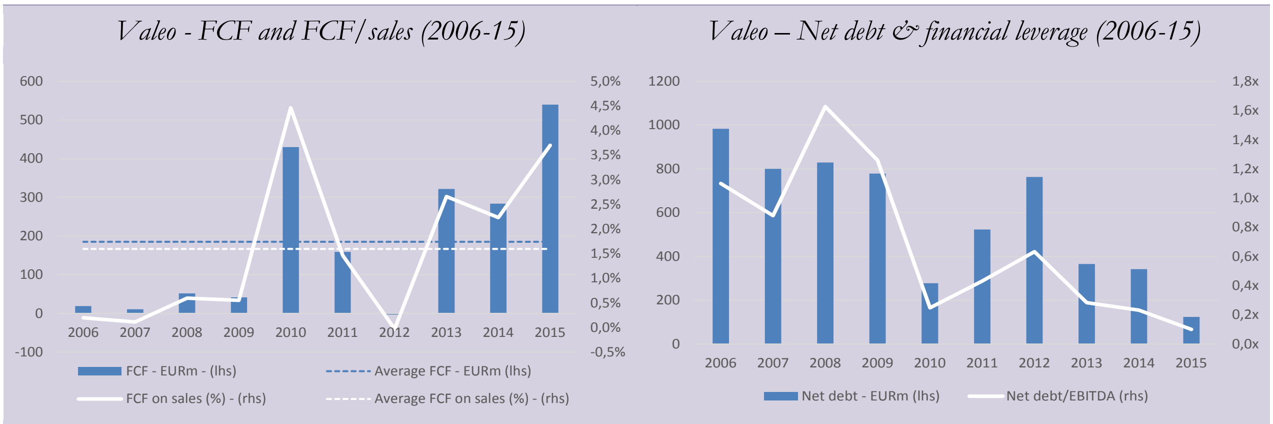


Source: Bryan, Garnier & Co ests.

6.3.5. Others to come?

Thanks to its high cash generation and low level of debt even after the acquisitions of **Peiker**, **Spheros** and **FTE**, Valeo boasts considerable financial leeway, enabling it to continue its opportunist acquisitions strategy. Since the arrival of Mr Aschenbroich as head of the group in 2009, Valeo has always aimed to acquire **one or two companies a year** in order to enhance its skills in an existing market or on the contrary, in order to enter a new market. Since 2009, in addition to its three recent acquisitions, Valeo has bought equipment maker **Niles** for **EUR313m**, enabling it to become the global leader in the market of interior controls. **With just four operations signed in six/seven years, the group is therefore lagging behind its acquisitions target.** After taking into account our 2017 estimates and an average **net debt/EBITDA ratio** of **0.7x** (*2008-16*), we estimate the group is still capable of spending at least **EUR660m**. This budget could nevertheless easily increase to **EUR2.5bn** if we assume financial leverage of **1.6x**, the maximum level the group reached during the 2008-09 crisis that affected the sector. Note that out of a gross amount of long and short-term financial debt of **EUR2.4bn**, just **EUR123m** (*syndicated loans and European Investment Bank loans*) is subject to Valeo's pledge to maintain the net debt/EBITDA multiple at below **3.25x**, far from the **0.1x** shown by the group at end-2015 and **0.7x** estimated following the acquisition in 2016 (*negative impact on cash of purchase of FTE at end-2016*), with a full consolidation planned for 2017.

Fig. 18: Valeo, a good example of a cash cow in the sector



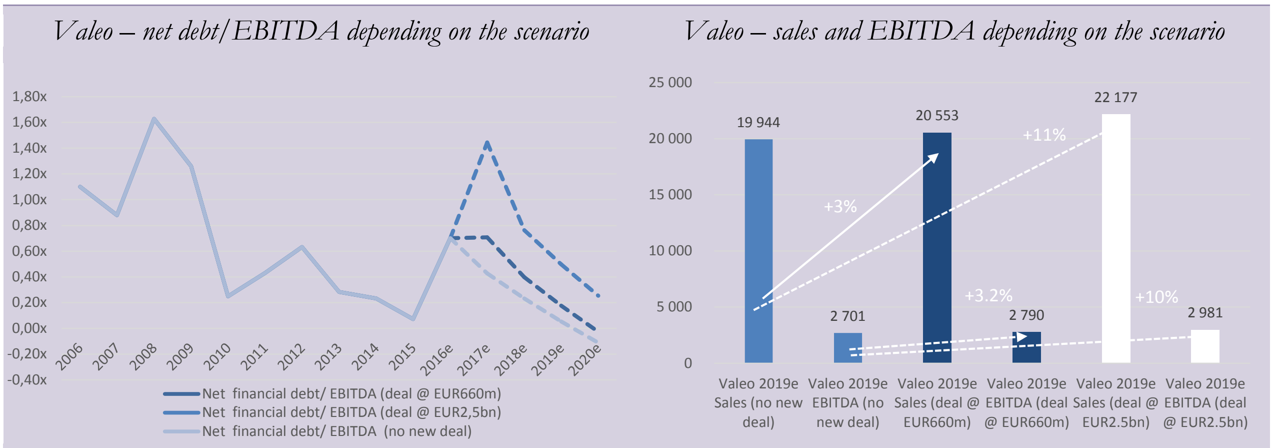
Source: Valeo; Bryan, Garnier & Co ests.

We estimated a positive impact of respectively EUR1/share and EUR4/share on our FV assuming Valeo further expand its footprint with either a EUR660m or a EUR2.5bn acquisition.

The group's high cash generation, prompted by an improvement in EBIT margin and strict control of investments, should enable Valeo to finance its acquisitions without resorting to the equities market. By investing **EUR660m** in 2017 in addition to the **EUR1.4bn** spent to acquire **Peiker, Spheros and FTE**, we estimate that Valeo's financial leverage could return to its average 2013-15 level of **0.25x** in 2019 (*two years after the consolidation of the new target*), whereas it would return to this level in 2020 (*three years afterwards*) if the group invested **EUR2.5bn.** While the first acquisition would enable it to strengthen its positions in a niche market (*acquisition such as Peiker or Spheros*), and would help the group clearly exceed its 2020 target by **EUR20bn** in sales as of 2019, the second would help it take control of a smaller rival or to enter the capital of a highly technological player (*not particularly very exposed to the automotive sector*) as well as generate more than **EUR22bn** in sales in 2019. **We estimated a positive impact of respectively EUR1/share and EUR4/share on our FV assuming Valeo further expand its footprint with either a EUR660m or a EUR2.5bn acquisition.**

The latest bond issue by Value in March 2016 under the framework of the **Euro Medium Term Note** medium and long-term financing programme (*EUR600m maturing in 2026, with a fixed coupon of 1.625%*), suggests that the group will have no particular difficulty in obtaining financing for fresh acquisitions.

Fig. 19: Flexible financial leverage for significantly increasing the size of the group



Source: Valeo; Bryan, Garnier & Co ests.

7. Ambitious financial targets, already factored in by the consensus

At the Investor Day organised on **16th March 2015** in London, **Valeo's management team** unveiled its medium and long-term financial and sales targets, which we consider **potentially ambitious,** especially in view of the current backdrop in the automotive sector.

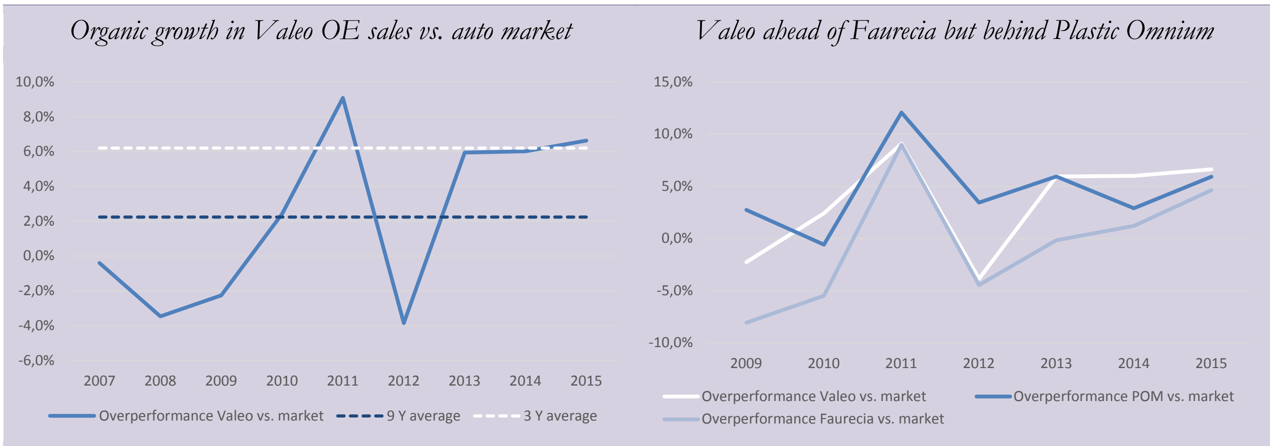
Boasting a very positive track-record in the past, the degree of success for the group looks high. However, given that a significant share of growth in the group's sales over the next four years is set to be driven by **global automotive production,** we estimate that the risk of a downward revision is likely. Note nevertheless that the 2020 targets announced by the group in 2015 **do not take account of acquisitions,** thereby making the comparative analysis between market expectations for this plan and what the group will report following the consolidations of **Peiker, Spheros and FTE** more complex.

7.1. Ambitious financial targets?

7.1.1. Overly-optimistic market assumptions?

Based on assumptions made at the time by automotive consultant LMC for a CAGR in global automotive production of **3%** between 2014 and 2020, notably on the back of annual growth of **5%** in production in China, and of **4.5%** in South America, Valeo aims to generate OE sales of **EUR17.4bn** vs. **EUR10.4bn** reflecting a CAGR of **8%** in sales, and therefore implying an annual outperformance by Valeo relative to the automotive market of **five percentage points.** Note that since 2009, the group's annual outperformance relative to the market has run at **more than 2% on average** (*organic growth in OE sales compared with change in volumes in global automotive production*). Over the past three years, this outperformance was notably close to **6%**, thereby explaining the guidance for **five points indicated by the group.**

Fig. 20: The group has historically outperformed the market, but not by 5pp



Source: Valeo; Bryan, Garnier & Co ests.

Thanks to its technological and innovative products but also its significant order intake stemming from China (*27% of the group's orderbook vs. just 14% of sales*), Valeo is aiming to grow by more than **16%** a year in Asia, or more than **9.5pp** higher than the market over the same period. The group is also aiming to outperform US market growth by **9pp**, although we consider the US is at risk like China over the medium term (*peak in the US in 2015 and downturn in the Chinese auto market during 2015).*

Note importantly that over the past three years, Valeo's outperformance has primarily been driven by **Europe** and **Asia** whereas the group's outperformance forecasts focus primarily on the US and Asian markets.

Fig. 21: Valeo aims to outperform the market by 5pp a year between now and 2020

	2014	2015	2020	2015-20	TCAM 2015-20	2014-20	TCAM 2014-20	LCM 2014-20	Valeo vs. market
Europe & Africa	5 445	6 125	6 887	12,4%	2,4%	26,5%	4,0%	3,10%	0,89%
North America	2 178	2 826	3 951	39,8%	6,9%	81,4%	10,4%	0,90%	9,53%
Asia-Oceania	2 940	3 385	6 175	82,4%	12,8%	110,0%	13,2%	3,50%	9,67%
South America	327	264	386	46,3%	7,9%	18,2%	2,8%	4,50%	-1,67%
Total	**10 890**	**12 600**	**17 400**	**38,1%**	**6,7%**	**59,8%**	**8,1%**	**3,00%**	**5,12%**

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

Although the group confirmed its medium-term growth estimates during its Q1 and H2 2016 publications, **our Faurecia, Hella, Plastic Omnium, and Valeo** models include growth of **2.4%** in global automotive production for 2016 (*in line with Valeo's market forecasts*) and an average increase of **1.7%** a year by 2020, below the group's estimates (*estimate based on LMC's figures*).

This **1.3pp** annual difference over the next four years implies lower growth in our Valeo estimates over 2015-20 compared with the group's targets. Excluding the three acquisitions announced by the group at the start of the year (*Peiker, Spheros et FTE*), and hence, not integrated into the sales target of **EUR20bn,** our model for Valeo points to sales of just **EUR20.04bn**, primarily on the back of the lead gained by the market and by Valeo in 2015 and 2016 relative to the 2014-20 plan. Note that production increased by **2%** in 2015, and Valeo outperformed this production by **six points**, while current forecasts for 2016 stand at **2.4%** for the market and an **eight-point outperformance** for Valeo.

We estimate that the group's guidance for 2020 sales could be at risk if: **1/** automotive production over the 2017-20 period grows by **0.7%,** compared with **3%** expected by Valeo and **1.7%** in our model at present, or **2/** if the group's outperformance relative to the market over 2017-20 only stands at **3.7%** compared with the **5%** expected by the group. Given the group's outstanding performance over the past three years, we believe that the second scenario for underperformance is less credible, however in view of the group's forecasts relative to change in global automotive production, we continue to believe that a risk of downward revisions to market estimates is possible.

As such, in view of our various calculations, we consider that the group should deliver its 2020 sales guidance, especially thanks to the lead gained in 2015 and 2016, but only just so. **This guidance therefore looks ambitious, but feasible.**

7.1.2. Margin targets never reached before

Valeo is also aiming to deliver EBIT margin of **8%** by 2017 (*including contributions from joint ventures and associates*) and **8-9%** by 2020 compared with **7.2%** in 2014 and **7.7%** in 2015, implying a gain of **4.3pp** relative to the group's average EBIT margin over 2007-15. Delivering **9%** would therefore be a record and a challenge for the group, requiring the internal roll-out of new working methods in order to optimise the fixed cost base for industrial assets, but also to reduce administrative spending. **Note that this target announced in 2015 is a same-structure target and therefore automatically excludes any impact on margins stemming from earnings-enhancing acquisitions.** The group also indicated 2020 EBITDA margin targets by business and is aiming to generate its highest improvement in margins in the driving assistance segment *(+3bp*).

In order to reach this target, the group has a number of sources of leverage **in addition to improving operating leverage,** which consists of absorbing the group's fixed costs as well as possible:

- **Improvement in the product mix:** with **growth 10-12 times higher** in innovative products than in the group's traditional products, generating higher gross margins, to the benefit of operating leverage.

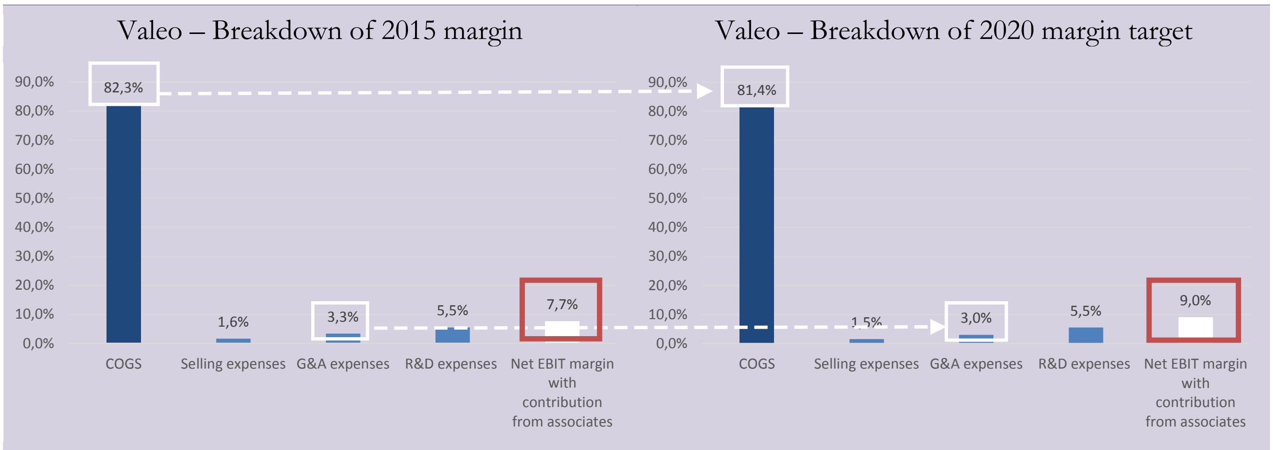
- **A decline in administrative spending** to below **3%** of sales compared with **3.3%** in 2015 and **3.5%** in 2014 helped especially by stepping up the internal digitalisation strategy and aligning working methods according to an internal benchmark.

- **Control of R&D spending:** Valeo aims to dedicate a significant share of R&D spending to innovative products to the detriment of more traditional products with lower value-added, while optimising the share of non-capitalised spending as a percentage in the P&L account. The group aims to maintain a ratio of net R&D spending to sales of **5.5%** by 2020 in line with 2015 and 2014.

- **Optimising capex** by implementing more standardisation processes in terms of industrial tools and more synergies between the existing production sites, especially in high-growth regions. The group is aiming to maintain the ratio of investments to sales at between **4.5%** and **5%** compared with **4.9%** in 2015 and 2014.

- **Improving the net profitability of joint ventures and equity associates:** Since the group's operating profitability calculation includes net profit from joint ventures and other associates (*without including their sales in the group's sales*), any considerable improvement in net profits or net margin at **Ichikoh**, **Detroit Thermal Systems** or the **Chinese joint ventures** would have a direct impact on Valeo's profitability. At end-2015, out of the **7.7%** margin announced by the group, these companies represented **40bp** alone.

Fig. 22: Higher margins thanks to better control of G&A and fixed costs



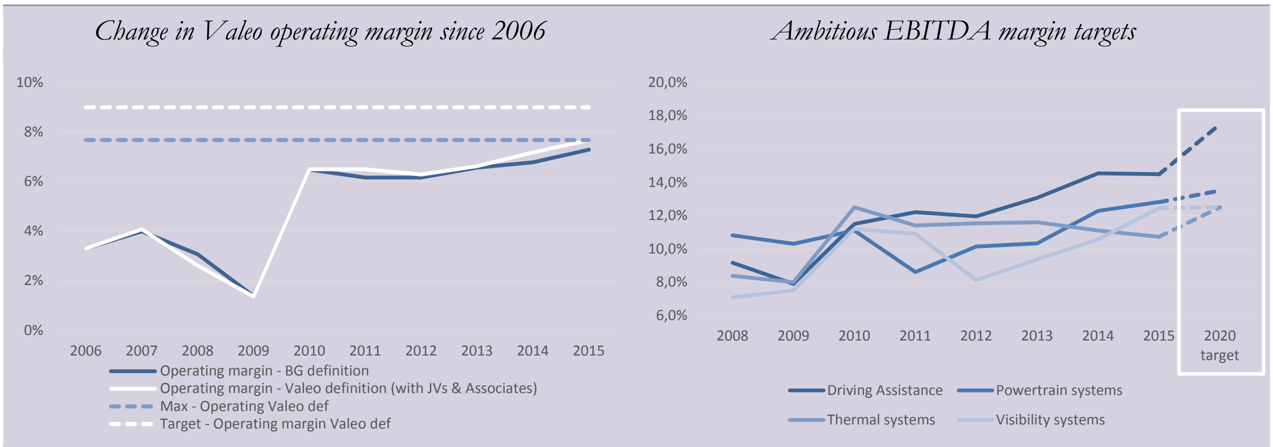
Source: Valeo; Bryan, Garnier & Co ests.

In a sector where car components makers now generate higher margins than carmakers (*8.6% EBIT margin on average for car components makers compared with 6.6% for carmakers*) and where the best parts suppliers generate margins of **11-13%**, we estimate that Valeo's aim to raise its margin from **7-7.5% to 8-9% is feasible**. However, we believe that optimising the various cost bases and absorbing a higher amount of fixed costs remains partly dependent on good conditions in the sector. However, our current vision on the sector is pretty cautious given that we are factoring in a slowdown in global automotive production in 2017 and the following years.

As such, for 2020, we are factoring in EBIT margin of just **8.6%** (*Valeo's definition without integrating the recent acquisitions of Peiker, Spheros and FTE which should boost the group's profitability*) below the top-end of the group's range and **in line with market forecasts.**

This target therefore looks feasible, but not entirely so, and already seems to be priced in by the market.

Fig. 23: Heading for operating margin of 9% and EBITDA margin of 14% on a group scale



Source: Valeo; Bryan, Garnier & Co ests.

8. Our estimates

As for **Faurecia, Hella** and **Plastic Omnium**, our model for **Valeo** includes auto production estimates of +**2.4%** for 2016, **+1.7%** for 2017 and **+1.7%** for 2018. We therefore expect market growth of around **1.5%** over 2019-2025.

Our estimates also factor in an average outperformance of **5pp** a year by Valeo relative to the market and include the consolidation of **FTE** as of **1st January 2017**.

Fig. 24: Valeo P&L account (EURm)

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Revenues	**9 632**	**10 868**	**11 759**	**12 110**	**12 725**	**14 544**	**15 996**	**17 602**	**18 716**
Change (%)		12,8%	8,2%	3,0%	5,1%	14,3%	10,0%	10,0%	6,3%
Adjusted EBITDA	1 146	1 212	1 260	1 356	1 526	1 847	2 036	2 341	2 504
EBIT	**617**	**704**	**725**	**795**	**862**	**1 060**	**1 225**	**1 402**	**1 520**
Change (%)		14,1%	3,0%	9,7%	8,4%	23,0%	15,5%	14,5%	8,4%
Financial results	(99)	(106)	(133)	(147)	(137)	(119)	(111)	(106)	(103)
Pre-Tax profits	490	600	553	588	722	880	1 126	1 308	1 431
Exceptional	(27)	0	(53)	(67)	(54)	(117)	(48)	(53)	(56)
Tax	(104)	(148)	(146)	(119)	(129)	(106)	(225)	(262)	(286)
Profits from associates	(1)	2	14	7	51	56	60	65	70
Minority interests	(19)	(24)	(25)	(30)	(31)	(45)	(47)	(50)	(52)
Net profit	365	427	380	439	562	729	853	997	1 092
Restated net profit	**365**	**427**	**380**	**439**	**562**	**729**	**853**	**997**	**1 092**
Change (%)		17,0%	-11,0%	15,5%	28,0%	29,7%	17,0%	16,8%	9,6%

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 25: Valeo Cash flow statement (EURm)

Cash flow statement (EURm)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Operating cash flows	**906**	**842**	**869**	**1 236**	**1 242**	**1 659**	**1 660**	**1 845**	**2 046**
Change in working capital	31	(29)	(49)	232	40	111	71	10	64
Capex, net	**(476)**	**(683)**	**(872)**	**(914)**	**(958)**	**(1 119)**	**(1 184)**	**(1 303)**	**(1 385)**
Financial investments, net	0	(269)	(19)	(5)	(104)	(8)	0	0	0
Dividends	0	(110)	(124)	(129)	(144)	(201)	(1 429)	(256)	(299)
Other	22	201	162	(164)	(25)	26	24	25	26
Net debt	**278**	**523**	**763**	**366**	**342**	**124**	**1 288**	**977**	**589**
Free Cash flow	**430**	**159**	**(3)**	**322**	**284**	**540**	**476**	**542**	**661**

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 26: Valeo balance sheet (EURm)

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Tangible fixed assets	1 655	1 956	2 075	2 181	2 497	2 744	4 321	4 435	4 583
Intangibles assets	544	641	736	850	1 012	2 141	2 411	2 657	2 901
Cash & equivalents	1 316	1 295	1 334	1 510	1 497	1 725	561	872	1 260
current assets	3 622	4 110	4 428	4 342	4 551	5 324	4 473	5 262	5 925
Other assets	303	560	347	159	462	(494)	658	406	67
Total assets	**7 440**	**8 562**	**8 920**	**9 042**	**10 019**	**11 440**	**12 424**	**13 633**	**14 736**
L & ST Debt	1 679	1 876	2 077	1 876	1 839	1 745	1 745	1 745	1 745
Others liabilities	3 991	4 606	4 648	4 633	5 231	6 003	6 405	6 914	7 267
Shareholders' funds	1 708	1 936	2 052	2 380	2 740	3 473	4 031	4 707	5 431
Total Liabilities	**7 440**	**8 562**	**8 920**	**9 042**	**10 019**	**11 440**	**12 424**	**13 633**	**14 736**
Capital employed	**2 968**	**3 522**	**4 146**	**3 872**	**3 872**	**4 313**	**4 717**	**6 549**	**7 039**

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 27: Valeo ratios (%)

Ratios	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Operating margin	**6,4%**	**6,5%**	**6,2%**	**6,6%**	**6,8%**	**7,3%**	**7,7%**	**8,0%**	**8,1%**
Tax rate	21,2%	24,7%	26,4%	20,2%	17,9%	12,0%	20,0%	20,0%	20,0%
Net margin	3,8%	3,9%	3,2%	3,6%	4,4%	5,0%	5,3%	5,7%	5,8%
ROE (after tax)	105,2%	76,9%	40,7%	102,5%	131,3%	161,3%	183,2%	174,5%	163,3%
ROCE (after tax)	**23,4%**	**22,9%**	**17,8%**	**20,7%**	**21,2%**	**23,7%**	**19,6%**	**20,8%**	**21,3%**
Gearing	16%	25%	34%	14%	12%	1%	28%	18%	8%
Pay-out ratio	24,7%	24,6%	29,7%	29,1%	30,4%	32,1%	30,0%	30,0%	30,0%
Number of shares, diluted	75	75	75	75	78	78	239	239	239

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 28: Valeo - Per share data - EUR

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
EPS	**4,86**	**5,68**	**5,05**	**5,84**	**7,23**	**9,33**	**3,62**	**4,23**	**4,64**
Restated EPS	4,86	5,68	5,05	5,84	7,23	9,33	3,62	4,23	4,64
% change		17,0%	-11,1%	15,6%	23,8%	29,0%	-61,2%	16,8%	9,6%
EPS bef. GDW	4,86	5,68	5,05	5,84	7,23	9,33	3,62	4,23	4,64
BVPS	22,71	25,76	27,26	31,64	35,24	44,44	16,89	19,73	22,76
Operating cash flows	12,0	11,2	11,5	16,4	16,0	21,2	7,0	7,7	8,6
FCF	5,7	2,1	0,0	4,3	3,7	6,9	2,0	2,3	2,8
Net dividend	**1,20**	**1,40**	**1,50**	**1,70**	**2,20**	**3,00**	**1,09**	**1,27**	**1,39**

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 29: Valeo valuation (EURm)

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
Market capitalization	**2 180**	**2 927**	**2 728**	**4 138**	**7 293**	**10 373**	**11 716**	**11 716**	**11 716**
Net debt	278	523	763	366	342	124	1 288	977	589
Pensions	651	776	916	791	1 059	1 001	1 001	1 001	1 001
Minorities	266	336	350	420	434	630	662	695	729
Financial assets	(14)	28	196	98	714	784	846	910	979
EV	**3 389**	**4 534**	**4 561**	**5 617**	**8 414**	**11 344**	**13 821**	**13 479**	**13 057**
EV/Sales	35%	42%	39%	46%	66%	78%	86%	77%	70%
EV/EBITDA	2,96x	3,74x	3,62x	4,14x	5,51x	6,14x	6,79x	5,76x	5,22x
EV/EBIT	**5,7x**	**6,4x**	**6,8x**	**7,7x**	**10,4x**	**12,0x**	**11,7x**	**10,0x**	**8,9x**
P/E	6,0x	6,9x	7,2x	9,4x	13,0x	14,2x	13,7x	11,8x	10,7x
Dividend Yield (%)	**4,1%**	**3,6%**	**4,1%**	**3,1%**	**2,3%**	**2,3%**	**2,2%**	**2,6%**	**2,8%**

Source: Valeo; Bryan, Garnier & Co ests.

9. Valuation

As for **Faurecia**, **Hella** and **Plastic Omnium**, we value **Valeo** using two types of method: **1/**comparison of **historical multiples**, and **2/DCF**. In all, the combination of these methods (*three fair values stemming from peer comparison and one from DCF, with a 25% weighting for each valuation*), points to a **FV of EUR49** per share for Valeo, implying 1.5% downside relative to the recent share price (*EUR49.7*).

Like for the other automotive suppliers stock we are initiating in our sector report, we decided to **overweight the method by multiple** (*three times 25% each*) to **the detriment of DCF** (*25%*) to reflect properly the high volatility of the sector.

We are therefore initiating coverage of Valeo with a Neutral recommendation despite the fact that we appreciate the group's strategy, its product positioning and efforts to increase its skills in the connected and autonomous vehicles market.

The share's excellent ride since January 2007 (p*rice multiplied by four whereas the SXAP index has only been multiplied by 1.6*) also recently helped Valeo **enter the CAC 40 on 23rd June 2014**. Since then, the share has also outperformed the French index by more than **50pp** *(+52% for Valeo compared with +1.5% for the CAC 40*).

Fig. 30: Valeo – FV @ EUR49

	Multiples	FV
EV/Sales (*2016-25*) – 25%	***85%***	**€45,6**
EV/EBIT (*2016-25*) – 25%	***10,0x***	**€45,2**
P/E (*2016-25*) – 25%	***14,0x***	**€50,7**
DCF model (*2016-25*) – 25%		**€53,1**
o/w WACC	*8,8%*	
o/w LTG	*2,8%*	
o/w Average EBIT margin	*7,8%*	
o/w LT EBIT margin	*8,0%*	
Implied FV		**€49,0**
Current price		€49,7
Upside		-1,5%

Source: Bryan, Garnier & Co ests.

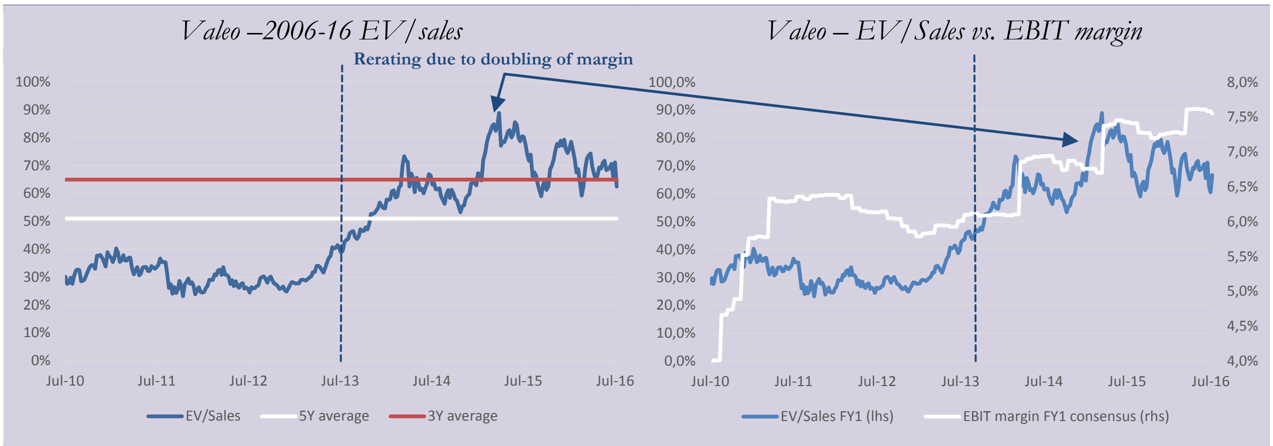
9.1. Valuation by multiples

We have used historical **EV/sales, EV/EBIT and P/E** multiples to value the group. Our three FVs are calculated over the 2016-25 period (*WACC discounted each year*) and imply levels of **EUR45.6, EUR45.2 and EUR50.7** respectively. Our valuations are based on the group's historical multiples over **2013-16** in order to take account of the share's rerating prompted by the improvement in operating margin (*doubling in margin in % over the period*). Furthermore, we have slightly revalued the group's historical EV/sales multiple in order to take account of a fresh improvement in profitability between now and 2020. The only four major automotive parts suppliers that generate operating margin of **close to 9%** are **Plastic Omnium, JCI, Denso and Koito** and these are currently valued by the market on **FY1 EV/sales of 90%-100%** and **FY1 EV/EBIT of 10.3x** on average. We have maintained assumptions of **85%** and **10.5x** respectively for Valeo given that the **9%** margin is unlikely to be reached before 2020.

As such, we have used the following multiples:

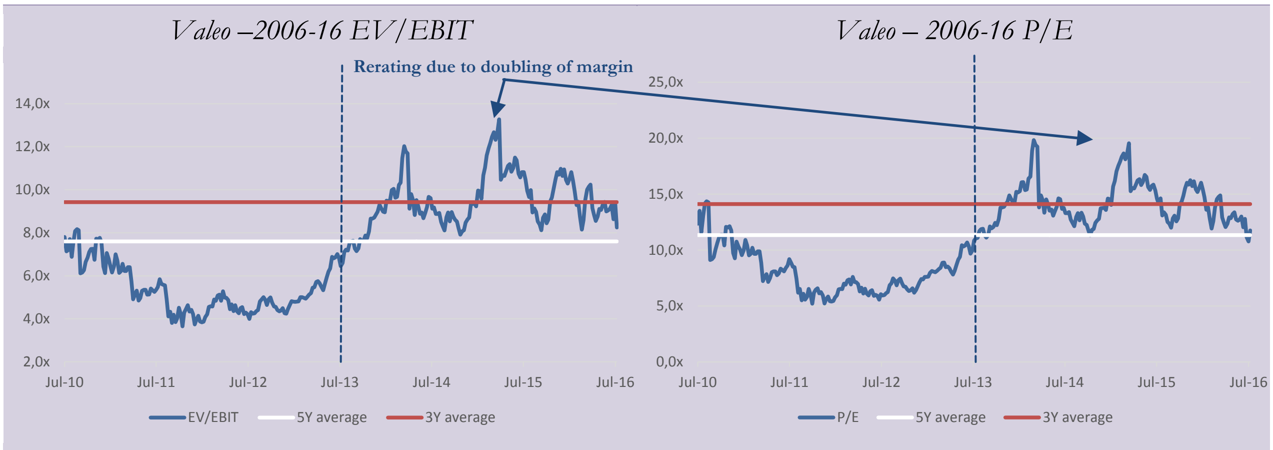
- **EV/sales** of **85%** compared with a historical three-year average of **65%** and a historical two-year average of **75%**.
- **EV/EBIT** of **10.5x** compared with a historical three-year average of **9.4x**.
- **A P/E** multiple of **14x** in line with the historical three-year average and peer comparison.

Fig. 31: The share has enjoyed a rerating since July 2013



Source: Datastream; Bryan, Garnier & Co ests.

Fig. 32: The share has enjoyed a rerating since July 2013



Source: Datastream; Bryan, Garnier & Co ests.

9.2. DCF valuation

We have also valued **Valeo** using a DCF calculation based on the following assumptions:

- **WACC** of **8.8%**
- A **growth rate to infinity** of **2.8%,** implying a slight outperformance by **Valeo** relative to the automotive market *(+1.5%)*
- **EBIT** margin (including restructuring and without the JVs) of **7.8%** on average and a margin to infinity of **8.0%**, corresponding to margins as defined by Valeo of **8.8%** and **9%** respectively.

Fig. 33: Valeo DCF estimates (EURm)

	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	Perpetuity
Revenues - Core business	**15 996**	**17 602**	**18 716**	**19 944**	**21 298**	**21 999**	**22 728**	**23 486**	**24 275**	**25 095**	**25 798**
Revenue Growth Rate	-	10,0%	6,3%	6,6%	6,8%	3,3%	3,3%	3,3%	3,4%	3,4%	2,8%
Operating Margin	7,4%	7,7%	7,8%	8,0%	8,1%	8,2%	8,3%	8,3%	8,4%	8,5%	8,0%
EBIT *(excluding JVs & Associates, with restr. Charges)*	**1 177**	**1 349**	**1 464**	**1 589**	**1 726**	**1 801**	**1 878**	**1 959**	**2 042**	**2 128**	**2 064**
Adjustment for provisions	18	21	14	16	18	9	9	10	10	11	14
(-) Taxes on EBIT	(235)	(270)	(293)	(318)	(345)	(360)	(376)	(392)	(408)	(426)	(413)
(+/-) Movements in working capital	71	10	64	70	77	40	42	44	45	47	51
(+) Depreciation and amortization	812	939	984	1 052	1 111	1 211	1 314	1 429	1 470	1 609	1 909
(-) Capital Expenditures	(752)	(827)	(880)	(937)	(1 001)	(1 034)	(1 068)	(1 104)	(1 141)	(1 179)	(1 212)
(-) Intangibles	(432)	(475)	(505)	(538)	(575)	(594)	(614)	(634)	(655)	(678)	(697)
Free Cash Flow	658	746	848	933	1 011	1 073	1 186	1 311	1 362	1 512	
Present Value of Free Cash Flow	**639**	**664**	**693**	**700**	**695**	**677**	**687**	**696**	**663**	**675**	

Source: Bryan, Garnier & Co ests.

Fig. 34: Valeo DCF @ EUR53

Valuation	
PV of Free Cash Flows	6 865
PV of Terminal Value	8 214
EV implied - EURm	**15 078**
- Net financial debt (N-1) - EURm	124
- Pensions Liabilities (N-1) - EURm	1 001
- Minority Interest value - EURm	630
+ Financial assets - EURm	784
- Cash/debt spent for acquisitions (Spheros, FTE) not included in our 2015 debt	1 429
Value of Equity	**12 678**
Value of Equity per share	**€53,1**
Price	€49,7
Upside/Downside	6,8%

Source: Bryan, Garnier & Co ests.

We are therefore initiating coverage of Valeo with a Neutral recommendation even though we like the group's strategy, its product positioning and efforts to increase its skills in the connected and autonomous vehicles market.

10. Valeo – SWOT

Fig. 35: Valeo – SWOT analysis

Strengths	Weaknesses
• One of the most technological European components suppliers (*ADAS, autonomous car, thermal systems*) • High exposure to the **Asian market** (*27% of sales*) • **Earnings enhancing** and **highly technological** recent acquisitions • A good competitive positioning in transmission and thermal systems (*world no. 2*) and in the **driving assistance systems** market (*no. 1 in the world*) • Multiplication of strategic partnerships in R&D in the connected and autonomous car (*Safran, Mobileye*)	• Cost structure weighed down by the development and virtually systematic protection of innovative products • Margin already at a **historical peak level** limiting potential for improvement • Underexposure to Chinese carmakers (*20% of the group's sales in China*)
Opportunities	**Threats**
• Financial flexibility leaving **room to manoeuvre for future acquisitions** • New partnerships with technological companies present in the autonomous vehicle market	• A slowdown in the global automotive market would directly affect **>85%** of Valeo's sales • Ambitious targets (*8-9% operating margin by 2020 vs. 7.7% in 2020*) depend partly on changes in the automotive market • Confirmation of a slowdown in the Chinese market if government incentives are halted • Extension of regulatory timeframes concerning circulation start for autonomous vehicles.

Source: Bryan, Garnier & Co ests.

11. Valeo in short

11.1. A bit of history

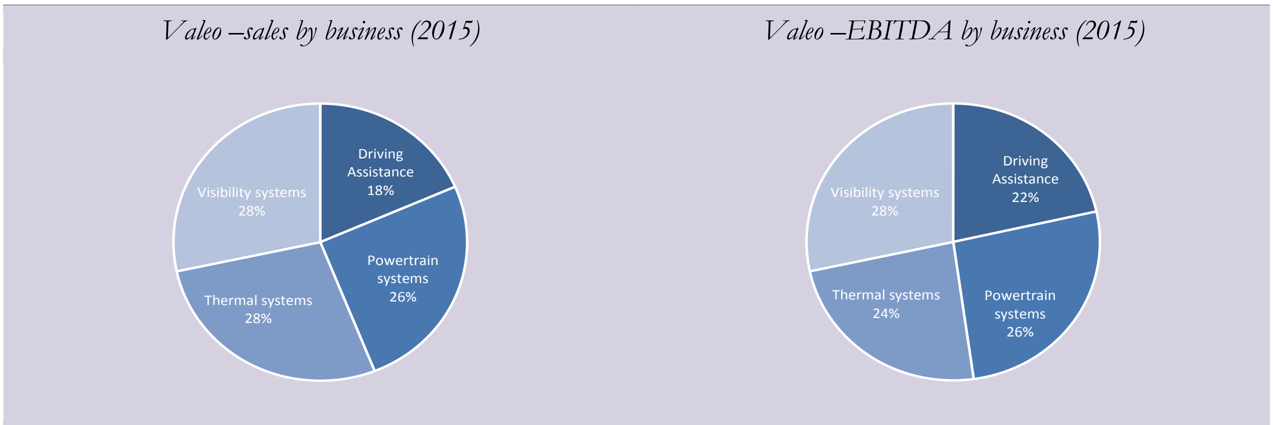
Valeo is the oldest French car components supplier in the small closed circle of companies listed on the stockmarket (*Faurecia, Plastic Omnium, MGI Coutier, Plastivaloire, and Valeo*). Its origins date back to **1923** when Eugène Buisson created **SAFF** (*Société Anonyme française du Ferodo*), a distributor and exclusive agent in France for friction products of UK group **Ferodo**. After a number of acquisitions (*La Plastose, Flertex, patent purchases froms ZF Sachs, BorgWarner and Daimler Motor Company, Hersot*) and a diversification in its product offering, the group was renamed **Valeo** in **1980** *("I am well" in Latin, this being the name of the Ferodo group's Italian subsidiary at the time*). The group and continued to expand taking on the dimension of one of the largest international companies in the car components sector.

With sales of **EUR14.5bn** at end-2015, **87%** of which generated directly in the OE market with carmakers (*the rest stemming from the aftermarket*), Valeo currently boasts the **no. 11 spot** in the global ranking of car components suppliers behind **Faurecia** (*no. 7)* but ahead of **Plastic Omnium** (*no. 40*). After refocusing its activities on innovative products with higher value added, in particular by selling its **cabling business** to German group **Léoni** in **2007** (*sales of **EUR545m** and EBITDA of **EUR36m** sold for **EV** of **EUR255m***), and its **vehicle safety systems** business to Japanese group **U-Shin** in 2013, the group became one of the global leaders in interior controls thanks to the acquisition of Japanese components supplier **Niles**.

11.2. A group present in four businesses

Present in the **original equipment market (***87% of 2015 sales***)** but also the **replacement parts market** (*10% of 2015 sales*), Valeo is specialised in **four flagship businesses** in the automotive market: **1/ driving assistance**, a genuine growth segment notably linked to the development of the autonomous and connected vehicle, **2/ powertrain systems**, which house the development and design of gear boxes and other components necessary for vehicle propulsion, **3/visibility systems**, which develop headlamps and windscreen wipers and finally, **4/thermal systems** (*air conditioning, heating etc.*). The four businesses are well balanced within the group, in terms of both contribution to sales and contribution to operating margin.

Fig. 36: A fairly well balanced product portfolio



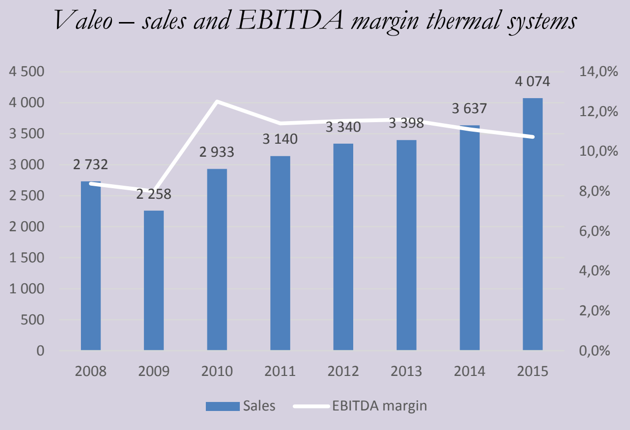
Source: Valeo; Bryan, Garnier & Co ests.

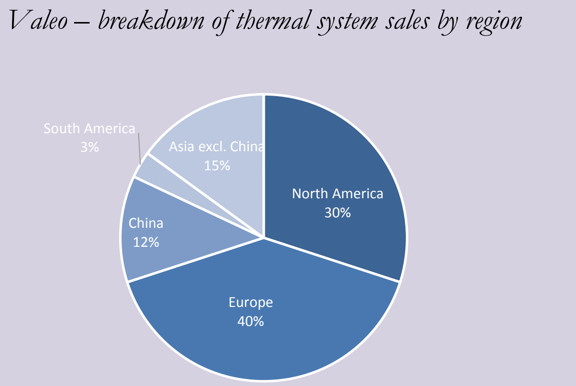
11.2.1. Thermal systems – 28% of sales – 24% of EBITDA

Valeo's **thermal systems** division develops and manufactures systems, models and components ensuring management of thermal energy in the powertrain system and in-car comfort, during all phases of use of the vehicle and for all types of engine. **Valeo is the number two** in this market behind **Denso** but ahead of **Malhle** and **Hanon System** with sales of more than **EUR4bn**.

Sub-divided into **four product groups** (*interior thermal systems, powertrain thermal systems, compressor thermal systems and front-end thermal systems*), the division develops heating and cooling systems which are necessary for optimal management of engine thermal energy (*engine-ventilation group placed in the front-end of the vehicle, distribution and pump valves, thermal regulators*), compressors and front-end modules. In this market, innovation primarily concerns technologies aimed at reducing pollution and $C0_2$ emissions, electrification of powertrain groups (*electric and hybrid cards*) and targeting an improvement in the on-board trio of comfort, health and well-being.

Fig. 37: Sales and EBITDA margin – Valeo thermal systems (EURm)





Source: Valeo; Bryan, Garnier & Co ests.

Development of this division is primarily set to take place in **Asia**, and more precisely in the segments of **reducing $C0_2$ emissions** and **electrification of power**. The group aims to increase its base of industrial sites in the world *(+6% in 2016-17*) and is targeting sales of more than **EUR5bn** in 2020 with **EBITDA margin of 12.5%** vs. respectively **EUR4bn** and **10.7%** in 2015, thereby implying a CAGR of **4.6%** in sales and an annual gain of **36bp** in its EBITDA margin.

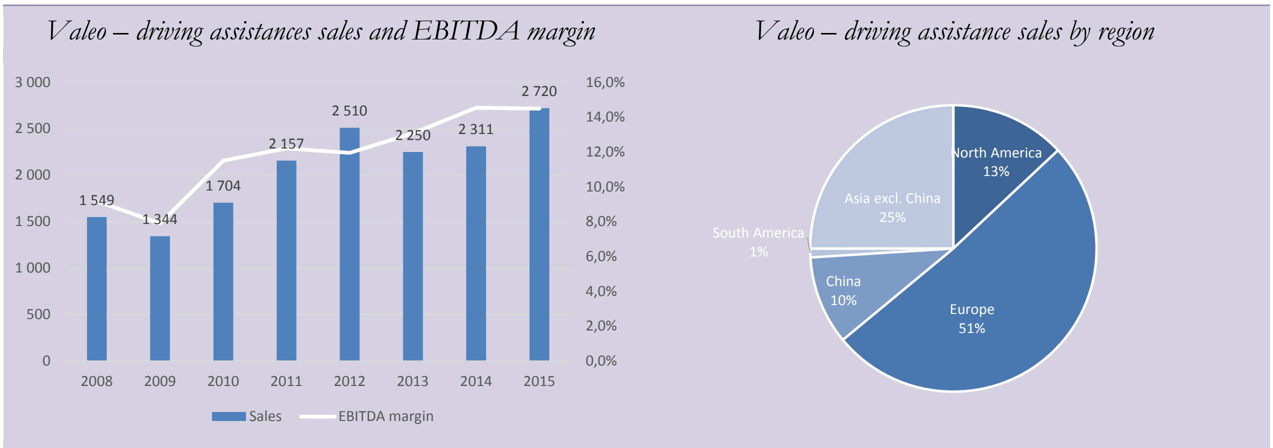
In a market set to grow by around **3-4% a year** driven in particular by **1/** tougher regulations concerning emissions (*$C0_2$ and No_x*), **2/** electrification of engines and **3/** an improvement in comfort, we estimate that Valeo should continue to win market share as in 2014 and in 2015, on the back of new contract signings with Asian carmakers in particular. **Note importantly that this division is the one in which the group has invested the least amount as a percentage of group sales and a percentage of sales in the division, thereby explaining why EBITDA margin and ROCE is lower than the group average.**

11.2.1.1. Driving assistance – 18% of sales – 22% of EBITDA

This segment is currently the one that contributes the least in terms of sales for the group (18%) but which generates the highest margins (EBITDA margin of 14.5% vs. 12.7% for the group), thanks in particular to a strong utilisation of production capacity in order to face robust demand in this market, and thanks to the group's **pricing power** in innovative products. **Valeo is the number one player** in the sub-segment of **driving assistance systems** ahead of **Bosch** and **Continental** and is the **number two** in the sub-segment of **interior control systems**. In 2015, the group extended its range of solutions in geolocalisation and connectivity of vehicles to mobile networks thanks to the acquisition of German group **Peiker** (*sales of EUR350m*) and signed three partnerships, one with **Capgemini** in the field of smart mobility, one with **Safran** (*facial recognition, navigation camera etc.*) and one with **Mobileye**, the global leader in driving assistance systems using frontal cameras.

The group's expertise in this market is considerable and explains the high level of profitability relative to other segments. The division is organised into three sub-segments, **driving assistance** (*ultrasounds, radars, cameras, parking assistance, lane departure warning systems…*), **on-board electronics** (*access systems and hand-free start-up, remote controls, sensors*) and **interior controls** (*man-machine interface, tactile screens, smart driving controls, head-up displays, top column modules…)*

Fig. 38: Sales and EBITDA margin - Valeo driving assistance (EURm)



Source: Valeo; Bryan, Garnier & Co ests.

In this segment, Valeo is targeting 2020 sales of more than **EUR4.1bn** and **EBITDA margin** of **17.5%** compared with **EUR2.7bn** and **14.5%** in 2015, thereby implying a CAGR of **8.5%** in its sales and an annual gain of **60bp** in EBITDA margin. This segment is the one in which the group has invested the most (*32% of net spending whereas the segment represents 18% of sales and 22% of EBITDA*) since needs for development and innovation are the highest. The creation of partnerships with technological companies underpin this stance and clearly show that the automotive market is set to become increasingly connected.

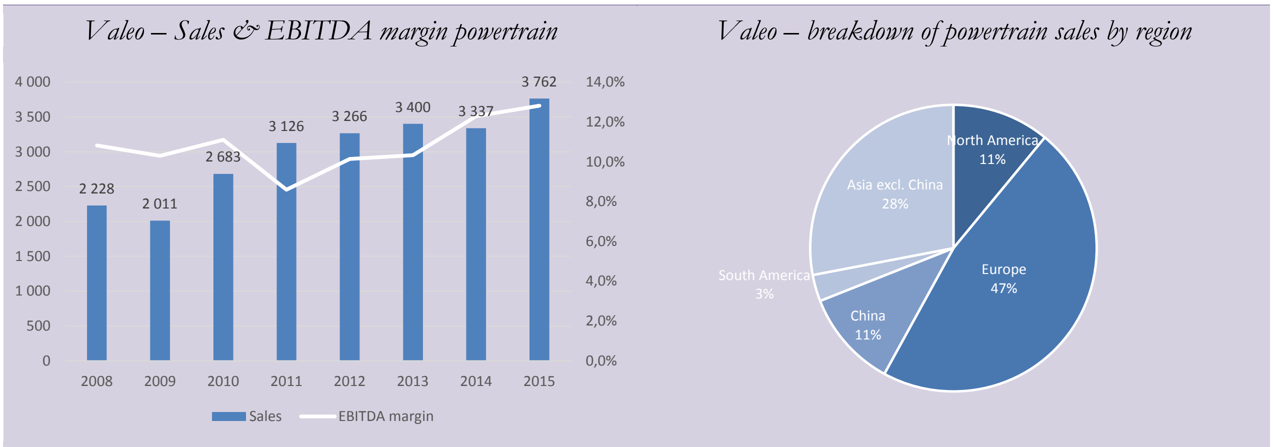
As such, we estimate that the group's future growth in mature countries is set to stem primarily from this segment, in particular in view of the gradual shift in the current market (non-automated car, automated car) towards the autonomous vehicle market.

11.2.1.2. Powertrain systems – 26% of sales – 26% of EBITDA

Valeo's **powertrain systems division** develops powertrain solutions aimed at reducing fuel consumption and emissions of $C0_2$ and pollutive substances notably by optimising combustion engines. With sales of **EUR3.8bn, Valeo is the no. 2 player** in the sub-segment of transmission systems behind **Luk,** and is the leader in the electric systems market ahead of **Denso** and **Bosch**.

Also sub-divided into **four product groups** (*electrical systems, transmission systems, combustion and electronic engine systems*), this division offers electrical systems that manage key vehicle functions (*switches, starters, braking energy recovery systems, hybrid transmission modules*), transmission systems (*clutch, double clutch systems*), combustion engine systems (*mechanical actuators, electric supercharger and sensors for management of the air loop in thermal engines*) and also designs power electronics (*inverters, voltage converters, control electronics, stop-start systems*).

Fig. 39: Sales and EBITDA margin – Valeo powertrain (EURm)



Source: Valeo; Bryan, Garnier & Co ests.

In this segment, the group has high growth ambitions in view of its positioning in markets with high requirements for energy efficacy in engines and transmission. Reduction in engine cylinders and the development of small direct-injection turbo-compressed engines in order to respect increasingly restrictive standards on emissions of polluting substances, combined with increased automation of gear boxes, should help Valeo continue to expand strongly in this segment.

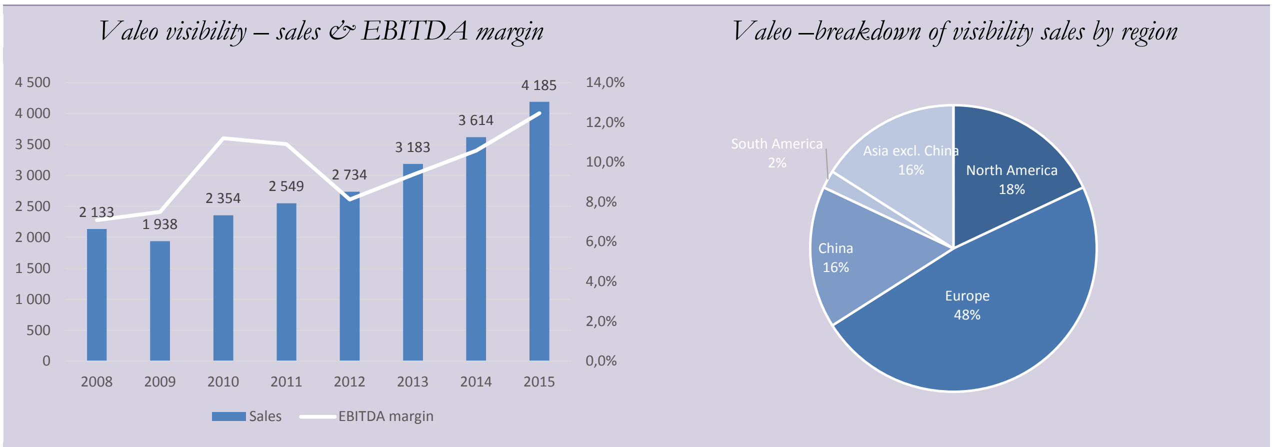
The group is targeting 2020 sales of more than **EUR6bn** and **EBITDA margin of 13.5%** in this segment, compared with respectively **EUR3.7bn** and **12.8%** in 2015, implying a CAGR of **10.5%** in sales and an annual gain of **14bp** in EBITDA margin. The group estimates that the market should only grow by **6-7%** a year over the same period.

11.2.1.3. Visibility systems – 28% of sales – 28% of EBITDA

Via this business, Valeo designs and produces systems for lighting and vehicle visibility both day and night, and in the various on-board activities. With sales of **EUR4.2bn, Valeo is the number one player** in the sub-segment of **wiper systems** ahead of Bosch and Denso and is **the no. 2** with its Japanese partner **Ichikoh** in the **lighting systems market** after **Koito** and ahead of **Magneti Marelli**.

In the lighting systems market, Valeo is present in the budget and premium segments and designs lighting for safety (*LED projectors, signalling systems*), but also for the design and in-car atmosphere (*side lighting that can be directed and adjusted by a simple hand gesture*). In this field, the group is also present in the wipers market (*optical sensors washing systems, electrified wiping systems, arms and brushes and wiper modules*), a low value-added market but which should benefit from the development of autonomous/automated vehicles (*need for greater visibility than a traditional vehicle*).

Fig. 40: Sales and EBITDA margin – Valeo visibility (EURm)



Source: Valeo; Bryan, Garnier & Co ests.

In this segment, which has been the largest contributor in terms of growth since 2008 *(+96% vs an average of 51% for the group*), but which has long suffered from lower profitability given the lower value-added of products, Valeo should benefit from an increasing appetite in all market segments (*mid and upscale)* for LED technology (*premiumisation of the market*), as well as the increase in the fleet of cars in emerging markets, which will require more lighting and wiper systems, and the development of autonomous and automated vehicles. The market's expansion should therefore stem from **higher global demand in volume terms** (*primarily in China*), **a premiumisation of demand** and an **increase in the number of products per vehicle**.

The group is targeting 2020 sales of more than **EUR5.7bn** and **EBITDA margin of 12.5%** in this division, compared with **EUR4.2bn** and **12.4%** respectively in 2015, thereby implying a CAGR of **6.4%** in sales and virtually no EBITDA margin gains. Market maturity in Europe is likely to limit the group's growth in this segment.

11.2.1.4. Examples of Valeo products

Fig. 41: Examples of Valeo products – driver assistance

Smart control panel

Telematic module

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 42: Examples of Valeo products – visibility

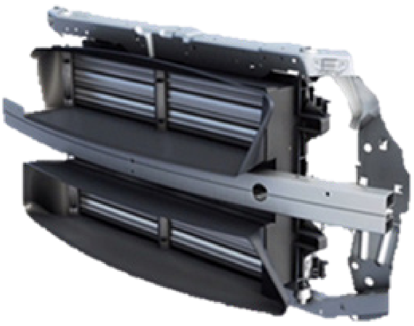
Aquablade

LED rear lights

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 43: Examples of Valeo products – thermal systems

Active grilled shutter



Air admission module

Source: Valeo; Bryan, Garnier & Co ests.

Fig. 44: Examples of Valeo products – powertrain systems

Electric supercharger

Inverter/ charger

Source: Valeo; Bryan, Garnier & Co ests.

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For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.3% NEUTRAL ratings 33.3% SELL ratings 11.3%

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