

# GRASS ROOTS RESEARCH\* AND DISTRIBUTION, INC.

#1 Small Cap Research\* Firm, Powerful Distribution

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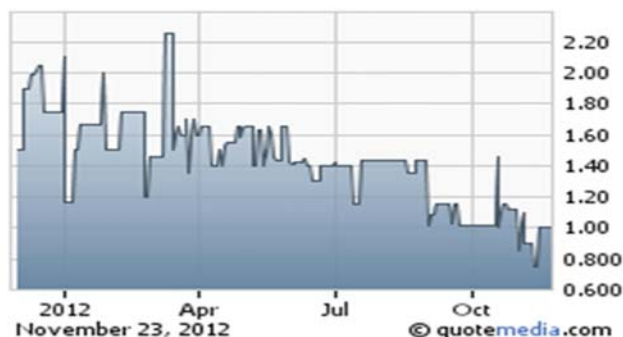
www.grassrootsrd.com

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November 30, 2012



Symbol	DEYU
Exchange	OTC BB
Current Price	\$1.00
52 Week High/ Low	\$3.00/\$0.62
Average Volume (3 mos.)	945
Shares Outstanding (in mn)	10.66
Current Market Cap (in \$ mn)	\$10.66
Float (as a % of shares out.)	41.2%



Cohen Price Index Target

**\$6.32**

Please Read Disclaimer on Page 43

## INVESTMENT THESIS AND RECOMMENDATIONS

Deyu Agriculture Corp. (OTC BB: DEYU) is involved in the production, processing, marketing and distribution of organic and other agricultural products made from corn and grains. The Corn Division, Grain Division and the Bulk Trading Division are run by a number of wholly owned subsidiaries. The Grain Division sells grain products under the brand name “Deyu” and “Shi-Tie”. Fruit Vinegar and juices are sold under the brand name “Longquan Villa.” The Company also produces and markets non-fried instant noodles under the brand name “Huichun”. The Company’s operations are vertically integrated to reduce cost and maintain regularity in supply.

The food grains industry in China has done well despite the global slowdown in grain production. Prices of food grains are expected to remain high until the time demand and supply are commensurate. Deyu’s competitors in China are small scale grain processors and bulk traders. The Company’s diverse offerings ensure the competition cannot gain a competitive advantage over Deyu.

Management is focused in its endeavor to make Deyu Agriculture a world class organization. It has several corporate governance checks in place and ascribes to the ISO 9001-2000 quality management standards. The Company derives its value through its agreements with agriculture and food research institutes, its farm partnerships, proprietary production methods, warehousing capabilities and its established logistics and sales network.

Our conservative estimates forecast revenues to grow from \$261.6 million in FYE December 31, 2011 to approximately \$515.8 million by FYE 2017. We expect the Company to generate significant free cash flows to meet its capital requirements. Based on these projections, the Cohen Target Price is 531.9% higher than the current price.

**SALES AND MARGINS ANALYSIS****all figures in \$ million; unless otherwise mentioned**

	2010	2011	2012E	2013F	2014F	2015F	2016F	2017F
Revenues	85.2	261.6	255.1	312.5	375.0	438.3	482.1	515.8
% growth		207.1%	-2.5%	22.5%	20.0%	16.9%	10.0%	7.0%
EBITDA	12.5	22.6	18.7	22.9	28.8	34.4	37.8	39.0
EBIT Margin	14.7%	8.6%	7.4%	7.3%	7.7%	7.8%	7.8%	7.6%
Net Profit	12.6	20.5	16.0	19.3	24.3	28.9	31.5	32.0
Net Profit Margin	15%	7.8%	6.3%	6.2%	6.5%	6.6%	6.5%	6.2%
Earnings Per Share - Diluted	1.12	1.39	1.25	1.51	1.91	2.27	2.47	2.51
Free Cash Flow to Firm	12.9	0.5	14.9	(9.1)	7.7	12.8	19.1	21.7

**THE COHEN PRICE TARGET™ SUMMARY**

The Cohen Price Target is calculated by 25% equal weighting of four different valuation methodologies. We use an industry average PE, an industry average price/capital employed (P/CE), a Cohen Performance Index, and the fundamentally driven Cohen DCF.

<b>Price-to-Earnings (P/E)</b>		<b>in \$</b>
Earnings Per Share 2012 Forecasts	1.25	
Average Future P/E Ratio	5.69	
<b>Price based on P/E Ratio</b>		<b>7.13</b>
<b>Price-to-Capital Employed (P/CE)</b>		<b>in \$</b>
Capital Employed	3.70	
Average P/CE Ratio	1.75	
<b>Price based on P/CE Ratio</b>		<b>6.48</b>
<b>Cohen Discounted Cash Flow Model</b>		<b>in \$</b>
<b>Cohen DCF Value - Base Case</b>		<b>9.79</b>
<b>Cohen Performance Index</b>		<b>in \$</b>
Cohen Price Performance Index Value	88.2%	
Current Stock Price	1.00	
<b>Price based on Cohen Performance Index</b>		<b>1.88</b>
<b>Cohen Price Index Target</b>		<b>6.32</b>
Current Price		1.00
<b>Upside/ (Downside) Potential</b>		<b>531.9%</b>



## EXECUTIVE SUMMARY

- Deyu Agriculture Corp. (**OTC BB: DEYU**) is a vertically integrated producer, processor, marketer and distributor of corn and organic and non-organic agricultural products made from grains. The Company also produces and markets instant food products made from grains.
- Headquartered in Beijing, Deyu conducts its business through a number of wholly owned subsidiaries. Its three business divisions are: i. The Corn Division, ii. The Grains Division and iii. The Bulk Trading Division. Each division has its own set of consumers ensuring consistent revenue from sales.
- The Company owns 10,400 acres of farmland and has a 20 year exclusive farming access to 90,600 acres of land. It has built partnerships with over 60,000 farmers and deals with over 200 farmer agents to ensure a steady supply of corn and grains.
- The Company owns multiple production bases in Jinzhong and Quwo for corn and grains. The corn production base has 5 drying cylinders, 6 warehouses, and rents the Shanxi 661 for added storage capacity. The Grain production base has a total production capacity of over 101,000 tons and 4,000 tons for fruit juices and vinegar.
- The Company has entered into an exclusive contract with 3 railway lines for freight transportation. The production bases are easily accessible to cut down on excess transportation costs. The Company's wholesale network is spread over 15 provinces and its retail network includes 20,000 supermarkets and convenience stores in 29 provinces in China.
- While the Company has profited from its "Company + Farmers + Cultivation Base" business model, it has put in place a number of growth strategies to expand its market share, stabilize its capital structure and improve its sales network.
- The fragmented nature of the food and beverage industry and the growing demographics in China can give Deyu the opportunity to consolidate its position in the Chinese market. The rise in grain and corn prices due to droughts in America and Russia will provide sustainable revenues in the near term future.
- The Company faces multiple risks which have to be taken into consideration. High inflation can increase raw material costs and can cause the government to intervene, leading to lower margins. Deyu has introduced branded grains and grain based food products which might not be as successful as other foreign brands. Lack of capital can slow the Deyu's capital and working capital expenditure.

### Financial Forecasts and Valuation

- We forecast the Deyu's revenues to decline by 2.5% during fiscal 2012 from \$261.6 million in FY-2011. The decline in revenues was due to the Company's focus on cash-flow management and increasing long-term margins. Post 2012, we expect a steady rise in Deyu's revenues from \$255.1 million in FY-2012 to \$515.8 million in 2017.
- The Cohen Price Index Target is calculated using 2012 Price-to-Earnings ratio (P/E), Cohen Price-to-Capital Employed ratio (P/CE), Cohen Discounted Cash Flow (DCF) method and Cohen Price Performance Index. The P/E and P/CE are based on market multiples and representative of the broader industry in which the Company operates. The Cohen Price Performance Index is a representative of the post coverage performance of all stocks covered by us. The last component in calculating the Cohen Price Index Target is the value derived using the long-term DCF valuation approach.
- Based on an average of these methods, DEYU common stock is valued at \$6.32 per share, 531.9% higher than the current market price of \$1.00 per share. The stock is an interesting short term trade and potentially a long term investment.

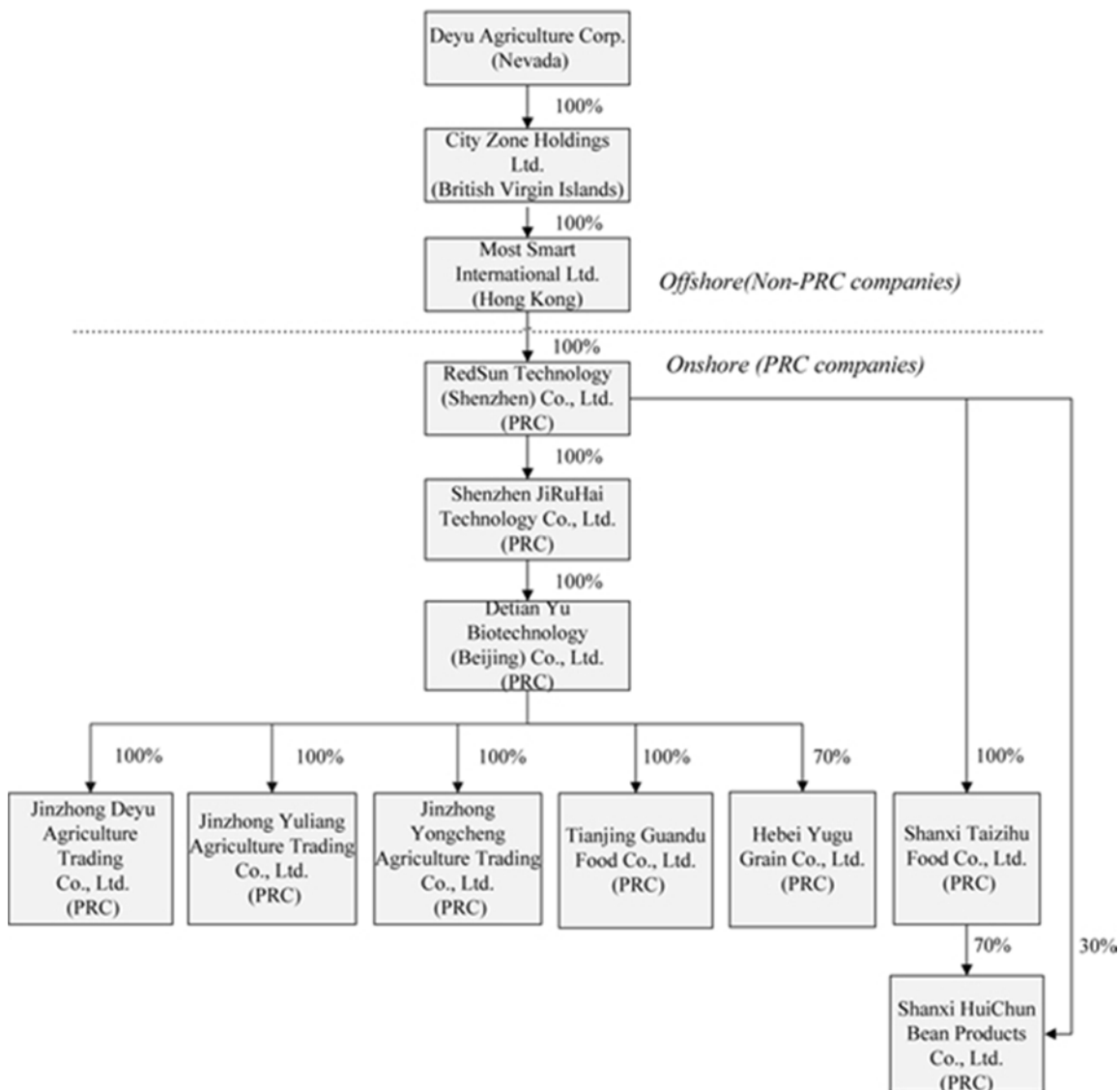


## ABOUT DEYU AGRICULTURE CORP.

Deyu Agriculture Corp. (OTC BB: DEYU) is a producer, processor, marketer and distributor of agricultural products. Headquartered in Beijing, China, the Company conducts its operations in the Jinzhong City of Shanxi Province, Beijing and Sichuan Province. The Company has built its business by being an instant grain food producer. It also markets branded grain products and is a leading corn distributor in the Shanxi Province. The Company's business model is vertically integrated. It conducts its operations through a number of wholly owned subsidiaries.

Figure 1: Deyu Agriculture Corp. Corporate Structure

### CURRENT CORPORATE CHART



Source: Company Material



The Company has divided its activities into three divisions which takes the raw material, performs value adding processes and sells it to its own sets of consumers.

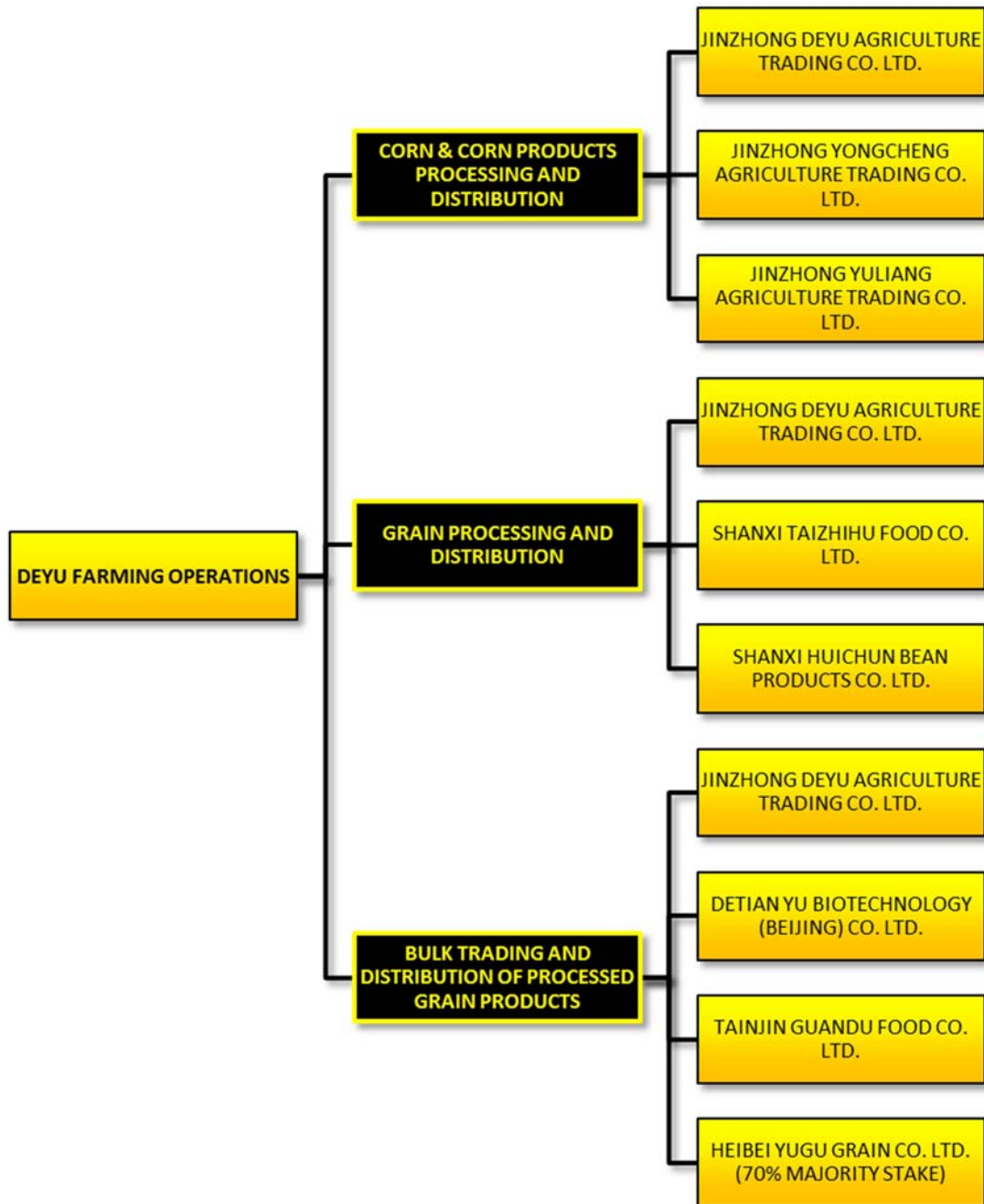
1. The Corn division acquires unprocessed corn, performs processes such as cleaning, drying and packaging. Consumers for corn products include livestock feed companies, corn oil/cornstarch manufacturing companies and the Chinese government procurement agencies.
2. The Grain division acquires grains grown and consumed in China, such as millet, soybean, green bean, black rice and other varieties of grains, and performs processes such as peeling, cleaning, grinding and packaging the grains. The grain division also produces bean based products, juices and fruit vinegars. Processed grain products are sold under the registered trademark of “Deyu” and “Shi-Tie”. Fruit vinegars and juices are sold under the brand name “Longquan Villa”. Instant noodles made from soybeans, green beans and black beans and other bean based products are sold under the brand name “Huichun”. The final product is sold directly to convenience stores and supermarkets across China or exported overseas. Unpackaged grain products are also sold at supermarkets where customers can buy the food grains as per their requirements.
3. The Bulk Trading division procures and distributes through its wholesaling network varieties flour, kidney beans, wheat, green beans and other agricultural products. Customers for these products include food manufacturers, government procurement agencies in China, grain trading companies and wholesalers.

The Company claims access to 109,000 acres of farmland Shanxi Province for the purpose of breeding, cultivating, processing, warehousing corn and grain products. The Company has a corn production annual turnover of 700,000 tons. Its advanced production lines ensure a grain production capacity of over 105,000 tons. Modern warehouses enable Deyu to store over 100,000 tons. Building a successful vertically integrated agricultural company not only requires access to land, modern processing facilities and warehousing abilities, but also a strong distribution network. Deyu Agriculture has understood these requirements. Distribution occurs through its wholesale network which covers 15 Chinese provinces and an extensive retail network consisting of 20,000 supermarkets and convenience stores across 29 provinces in China.

The Company uses advanced processing techniques in combination with modern equipment to maintain high standards of grain quality. With a certain segment of its grains being categorized as organic as defined by the Beijing Zhonglu Huaxia Organic Food Certification Centre, the Company intends to expand into this growing market.



Figure 2: Deyu Agriculture Corp. Business Divisions and Subsidiaries



Source: Cohen Research

Deyu Agriculture Corp. employs strict quality control codes for purchases, storage, processing, packaging and distribution processes. All quality control inspection items are maintained for a year in accordance with the National Technology Quality Supervision Bureau requirements. The Company has complied fully with the Bureau for random testing and examination of products to ensure its quality is of the highest standards. The Company adheres to the ISO 9001 - 2000 standard which specifies requirements for a quality management system. The Company has won various awards such as the *The First Class Leading Agriculture Company* in

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Shanxi Province, *The Gold Medal Award* at the Special Local Product Fair of the 6<sup>th</sup> China Folk Festival and *The Best Selling Award* at the 2<sup>nd</sup> China International Agro-Product Trade Fair for its superior quality.

### **Corporate Governance**

It is in the investors' interest that companies have an inbuilt system of checks and regulations to balance the risks a company can take versus the investor's welfare. Corporate Governance helps balance the risks and rewards via a number of internal controls. Deyu Agriculture Corp. has installed a number of committees that will fulfill the role of governing the company and steering it in the appropriate direction. The Board of Directors has established a nomination process for selection of Directors where only the independent directors will identify and nominate individuals to become a Board member. The Board of Directors have also installed an Executive Compensation procedure wherein the compensation offered to the Company's executive officers can only be decided by a majority of Independent Directors.

The Board of Directors has constituted an Audit Committee having a written charter, which overlooks the accounting and financial reporting process of the Company. This Committee will also check whether the audit of the Company's financial statements are in compliance. Deyu Agriculture Corp. also practices a Code of Ethics, applicable to every employee, director and officer of the Company. The Code of Ethics discourages any wrongdoing and expects its employees to perform their duties with the highest level of integrity. Detailed documents stipulating the Company's Corporate Governance policies are available on the Company website.

**COHEN GROWTH DRIVERS AND FINANCIAL FORECASTS**

Figure 3: Cohen Growth Driver Analysis – Base Case

<b>Annual Revenues, Margins, Assets, Turns</b>								
<b>all figures in \$ million; unless otherwise mentioned</b>								
	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Net Revenue	85.2	261.6	255.1	312.5	375.0	438.3	482.1	515.8
Operating Margin	14.7%	8.6%	7.4%	7.3%	7.7%	7.8%	7.8%	7.6%
Net Margin	15%	7.8%	6.3%	6.2%	6.5%	6.6%	6.5%	6.2%
EPS - Diluted	1.12	1.39	1.25	1.51	1.91	2.27	2.47	2.51
EBITDA	12.5	22.6	18.7	22.9	28.8	34.4	37.8	39.0
Free Cash Flow	12.9	0.5	14.9	(9.1)	7.7	12.8	19.1	21.7
Cash and Equivalents	5.8	10.6	25.5	16.4	24.1	36.9	55.9	77.6
Working Capital	14.2	34.8	21.9	41.2	49.3	57.6	63.3	67.9
Total Debt	2.6	14.4	-	-	-	-	-	-
Total Assets	65.9	102.9	148.2	167.1	203.5	244.8	285.1	324.3
DSO	47.8	51.3	51.3	51.3	51.3	51.3	51.3	51.3

<b>Percentage Change in Annual Revenues, Margins, Assets, Turns</b>								
	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenues		207.1%	-2.5%	22.5%	20.0%	16.9%	10.0%	7.0%
Operating Margin		-41.1%	-15.0%	-0.3%	4.8%	2.0%	0.0%	-3.4%
Net Margin		-46.9%	-20.0%	-1.5%	5.1%	1.7%	-0.9%	-5.1%
EPS - Diluted		23.6%	-10%	20.6%	26.2%	18.9%	9.0%	1.6%
EBITDA		80.9%	-17%	22.2%	25.8%	19.2%	10.0%	3.3%
Free Cash Flow		-96.2%	2976%	-161.3%	-184.4%	66.2%	48.8%	13.7%
Cash		83%	141%	-35.8%	47.1%	53.2%	51.7%	38.7%
Working Capital		145.2%	-37%	88.2%	19.6%	16.7%	10.0%	7.2%
Total Debt		447.8%	-100.0%	NM	NM	NM	NM	NM
Total Assets		56%	44%	13%	22%	20%	16%	14%
DSO		7.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Cohen Research

The Cohen Growth Drivers Model is an intelligent road map used by many securities analysts to analyze the forecasted growth of a given company.

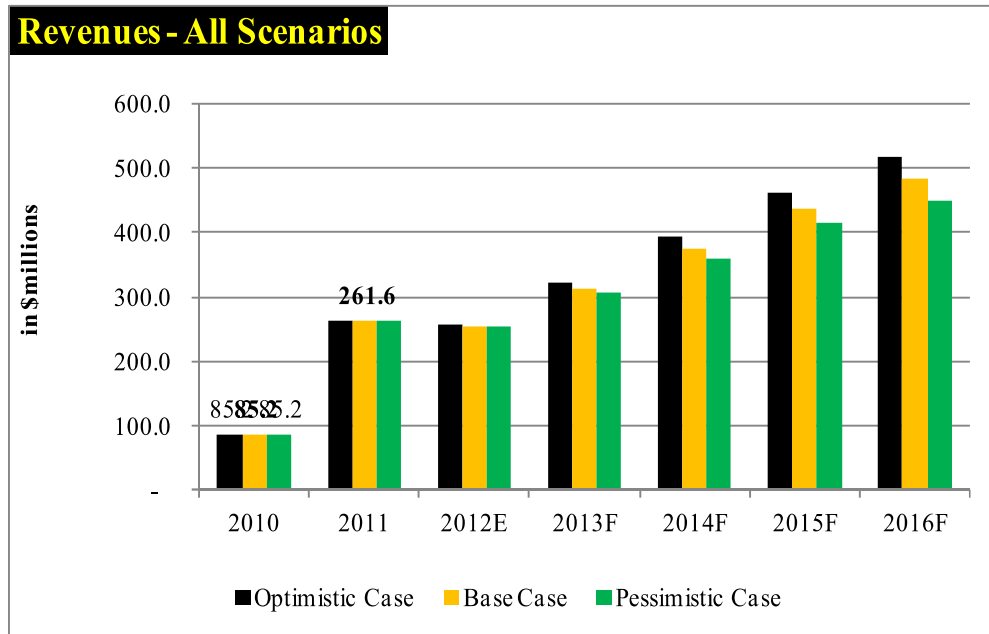
In 2011, backed by development of Deyu's new logistics center and six warehouses, the Company was able to increase its revenues by 207.1%. Further, the additional bank loans allowed the Company to support its business development activities, thus resulting in significant revenue growth. However, in 2012, Deyu revised its strategy and focused its efforts on cash flow management and high margin business segments, thus resulting in higher free cash flow generation. As a result of this, management estimates a decrease of 2.5% in the revenues but an increase of gross margin from 16.5% to 17.8%. However, going forward, revenues are expected to increase from \$255.1 million in FY-2012 to \$515.8 million in 2017 at an sustainable gross margin level of 17-18% and net margin of 6-7%. In terms of capex requirements, Deyu has so far invested about \$117 million to develop its three business units. Bulk of the investment is already made and, hence, going forward the capital requirements are likely to be minimal. We expect the business to meet these requirements from its internal accruals.





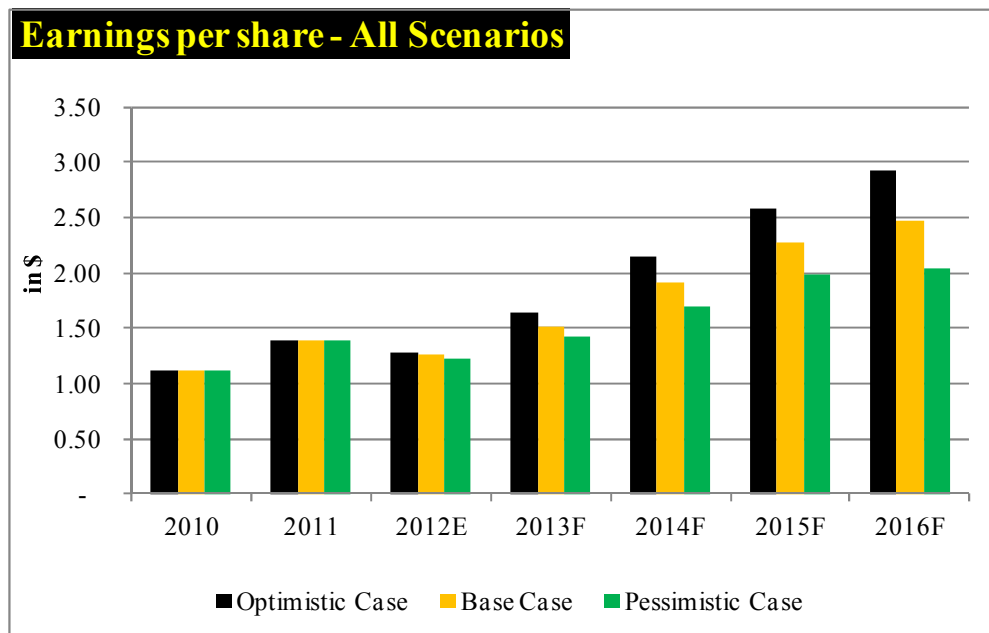
We believe management’s revenue and cost estimates are achievable. In addition to our Base Case forecasts, we have prepared financial forecasts under two additional scenarios, the optimistic (aggressive top-line growth) and pessimistic case. The exhibit below shows our revenues and earnings assumptions under all three forecasted scenarios:

Figure 4: Revenue Forecasts – All Scenarios



Source: Cohen Research

Figure 5: Earnings Forecasts – All Scenarios



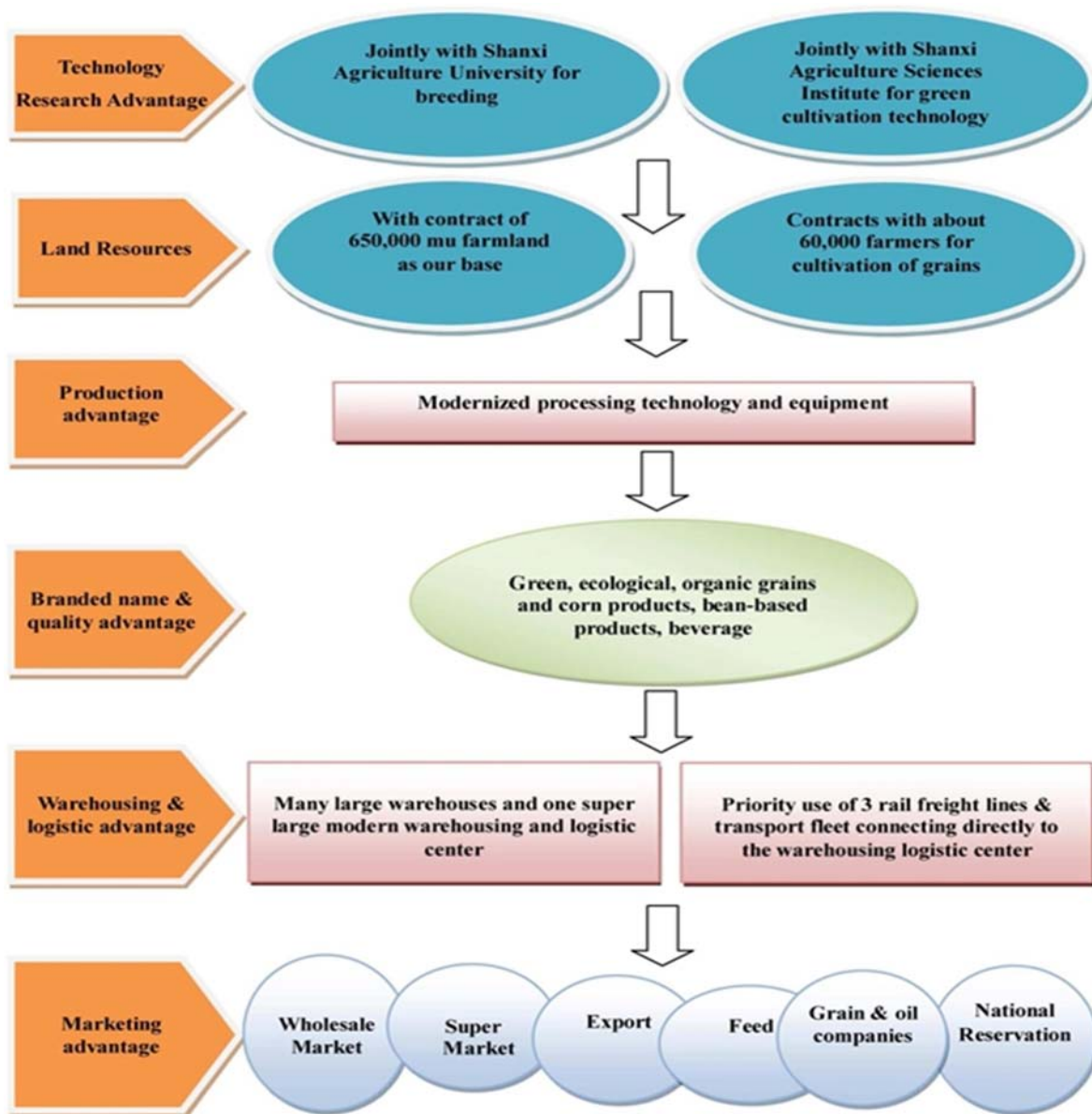
Source: Cohen Research



## COMPANY BUSINESS MODEL

Deyu's business model has three mainstays viz "Company + Farmers + Cultivation Base" and is ably supported by the Company's advanced production techniques, strong warehousing capacity and a well-developed logistics base.

Figure 6: Deyu Agriculture Corp. Business Model



Source: Company Material



## **Land Resources**

The Company owns 10,400 acres of farmland and through its partnership with over the 60,000 farmers has a 20 year exclusive farming access to approximately 98,600 acres of land. The Company works with over 200 farmer agents to ensure availability of sufficient produce for processing. Such an arrangement benefits not only Deyu but also provides the farmers with a stable source of income. Wide variations in temperature and long daily exposure to sunlight at a height of between 5000 to 8000 feet above sea level has ensured that the Company's farmland is rich in various nutrients.

## **Production Advantage**

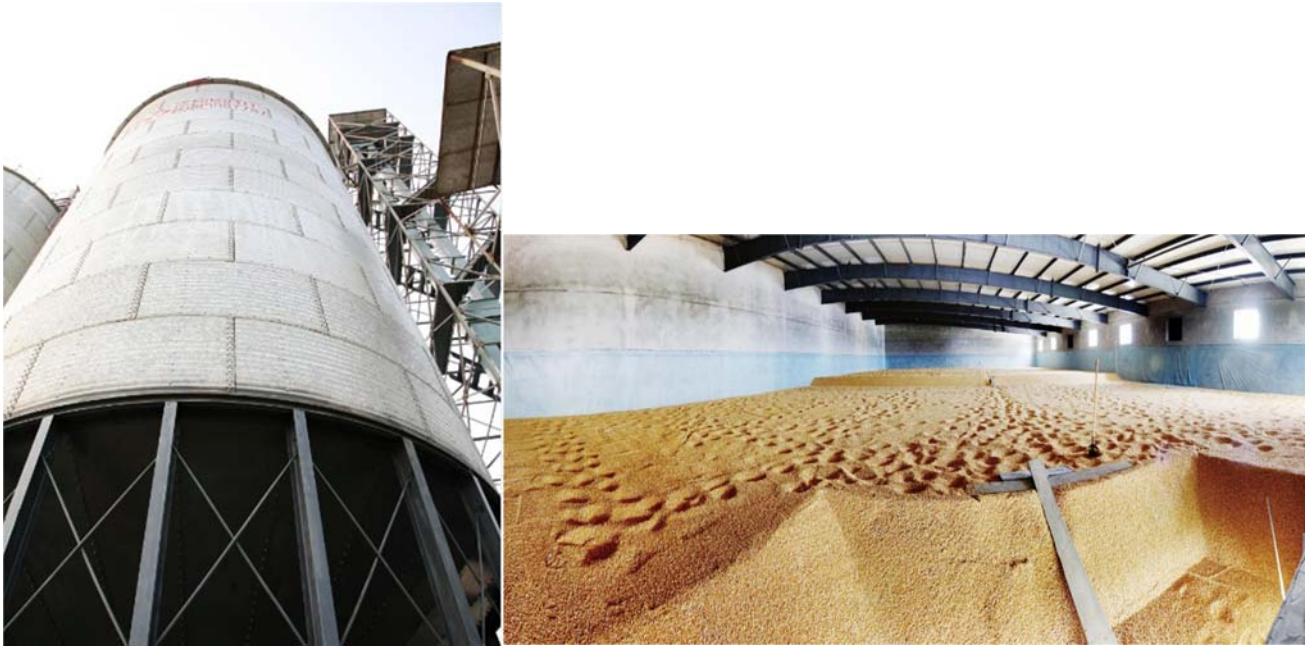
The Company facilities are located in central and southern Shanxi province and cover an approximate area of 1,780,000 square feet with a constructed area of 482,000 square feet. The Company's facilities include an advanced crop production line and modern equipment-based processing and packaging lines.

## ***Corn Production Lines***

The Company has advanced technology equipped with five drying cylinders that perform drying and water removal treatments on the corn which then undergo insecticide and antibacterial treatments. The Company's corn processing center is located in Jinzhong, and covers an area of 504,000 square feet and a constructed area of 129,000 square feet. It was completed in June 2011. The center also has six warehouses which have infrared temperature sensors and 360° high resolution cameras for 24 hour monitoring. The warehouses can store 70,000 tons. The Company also rents a large cave type warehouse, the Shanxi 661, which has a capacity of 30,000 tons. The Shanxi 661 warehouse maintains a constant temperature of 10°C without any external air conditioning and thereby keeping operating costs low. If need arises, the Company has contracts for temporary warehouses near the railway stations to supplement its storage capacity.



Figure 7: Deyu Agriculture Corp. Corn Warehouse



Source: Company Material

### ***Grain Production Lines***

The Company has three fully automatic production lines for grain, flour and millet with a production capacity of over 60,000 tons at its Jinzhong production base. The base covers approximately 199,000 square feet and has a constructed area of 118,000 square feet. The production lines have rice milling machines, filtering machines, automatic packing machines and other advanced equipment.



Figure 8: Deyu Agriculture Corp. Grain Processing Plant



Source: Company Material

The Quwo production base in the south of Shanxi Province has three advanced production lines. The production line for bean-based products has a capacity of 15,000 tons. The production line for fruit vinegar and fruit juices has an annual production capacity of 4,000 tons, and the production line grain for other grain products has a capacity of over 26,000 tons. This production base covers an area of over 1,076,000 square feet, and has a constructed area of 234,000 square feet. The Company has developed less than one third of the Quwo production base. It has plans in anticipation of the growth in future demand.

The Company places utmost importance on quality. Consequently, its processing equipment is completely automated to protect against pollution or contamination. Advanced color selection technology for millet ensures automatic removal of dust and impurities, and maintains light and temperature. The cooling system provides selective application of policy and helps maintain the nutritional content of the grain. The use of dry heat extrusion equipment in soybean processing helps maintain the nutrients of the grain. The Company uses RO water treatment equipment, remote infrared automatic filling equipment and sterilization technology to maintain quality of its fruit vinegar and juices production line.

### **Warehousing and Logistics**

Logistics is as important a part as processing and warehousing, ensuring the rapid delivery of the Company's products. The Company has ensured that its production bases in Jinzhong and Quwo are easily accessible. The Jinzhong facility is close to Shitai Railway and Provincial Road 317. The Quwo facility is only a few kilometers away from Houma, a transportation hub. In order to facilitate easy freight transportation, the Company has exclusive lease agreements with three railway lines - (i) Shanxi Cereal & Oil Group, Mingli Reservation Depot; (ii) Shanxi Yuci Cereal Reservation Depot; and (iii) Yuci Dongzhao Railway Freight Station.



For any distributor, it is essential to build an extensive sales network to move its goods. Under an experienced management team, the Company has recognized the importance of building a strong wholesale and retail network. The Company has a wholesale network for corn and bulk trading for various livestock feed companies, corn oil/corn starch manufacturing companies, government procurement agencies, food manufacturers and grain trading companies that spans 15 provinces in China including Shanxi, Hebei, Henan, Shandong, Anhui, Shaanxi, Sichuan, Hunan, Hubei, Guangdong, Jiangsu, Liaoning, Beijing, Tianjin and Chongqing. The Company's largest corn product customer is the Shanghai Yihai Group, a major food processor in China. To sell its processed grain products, the Company has a retail sales network that distributes packaged products to over 29 provinces and includes around 20,000 supermarkets and convenience stores. The Company's distribution channel also includes over 200 supermarkets where various kinds of unpackaged grains under the brand name "Deyu" are sold to customers as per their requirements. The Company has also entered into the overseas market and is exporting bean-based products to Germany, Japan and other countries through its acquisition of the Taizihu Group in February 2012.

**Figure 9: Special Counter Selling Unpacked Grains in Supermarket**



*Source: Company Material*

The Company's marketing center is located in Beijing. The Company markets its packaged products using the Shop in Shop Model. The model involves buying spaces in supermarkets for product display. This ensures that there is no direct competition in that particular shop area to distract the customer into buying a competitor's product. The Company has benefited from such a branding advantage and intends to build on it by launching more shop in shops in supermarkets.

The exhibit below highlights the branded products processed and sold by Deyu. Simple processed grain products are sold under the registered trademark "Deyu" and "Shitie". Fruit Vinegars and juices are sold under the brand name "Longquan Villa" and bean-based products which include vegetarian products and instant noodles made from soybean, green beans and black beans are sold under the brand name "Huichun".



Figure 10: Deyu Agriculture Corp. Branded Products



Packaged Grains of “Deyu”



Grain Gift Boxes of “Deyu”



Bean-based Products of “Huichun”



Fruit Vinegars & juices of “Longquan Villa”

Source: Company Material



Figure 11: Deyu Agriculture Corp. Tie up with supermarkets



Source: Company Material

### Growth Strategies

The Company has benefited significantly by using its tried and tested “Company + Farmers + Cultivation Base” operating model. The model has been supported by the Company’s extensive sales network and logistics base. The Company has positioned itself as a strong player in one of the biggest consumer markets in the world in China. However, it needs grow sustainably to take complete advantage of its business model. The Company has already shifted its business strategy from using bank loans as working capital towards improving cash flow from operations, building a stable capital structure and maintaining and improving its sales network. The Company intends to use the following key strategies to expand its market share:





Figure 12: Deyu Agriculture Corp.'s Growth Strategies

Expand the scale of business by applying the current operating model to corn and grain production in Hebei and North East China.

Introduce new products to capture competitors' market share and launch new product lines in oil and staple foods segments.

Build on leadership position in the livestock feed market by increasing association with a number of branded and well established livestock feed manufacturers

Improve gross profit margins by pruning businesses segments that implement low price strategies.

Gain a strong foothold in refined packaged grain products market via commercial sales to institutional clients along with sales to retail consumers.

Develop visibility of the brand by means of promotion instead of increasing number of sales outlets.

Expand the potential for export business through export agents or by building strategic partnerships with foreign food companies.

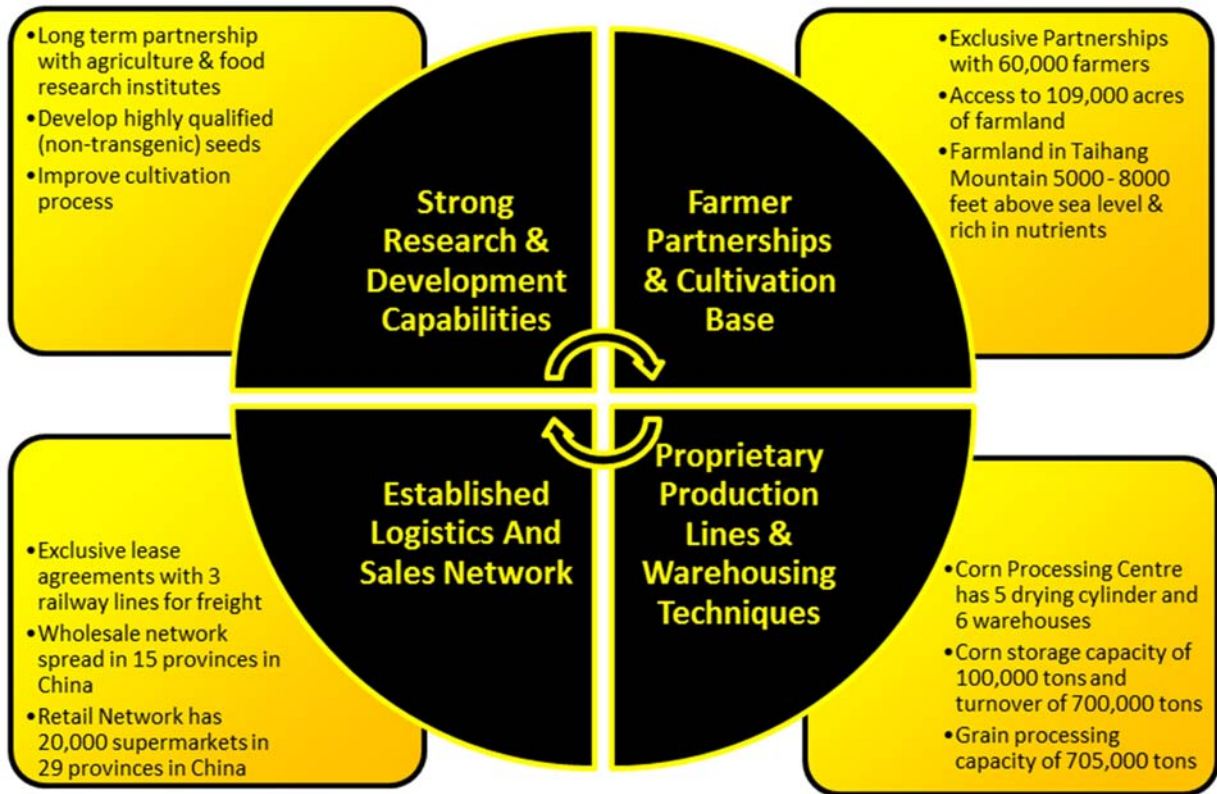
Ensure swifter business growth using vertical or horizontal acquisitions but only after careful consideration by the board and management.

Source: Cohen Research



## VALUE PROPOSITION

Figure 13: Deyu Agriculture Corp. Value Proposition



Source: Cohen Research



## INDUSTRY OVERVIEW

As with any developing economy, the market for food and beverages in China is highly fragmented. There is a marked difference in the level of development in the eastern and the western provinces of China. Companies have found it beneficial to consider China as a multitude of regional markets rather than a large single market. International retailers in the country which until now focussed on the Tier I and Tier II cities are finding a new segment of customers in the lower tier cities. After an improvement in the warehousing and distribution infrastructure in the country, Wal-Mart and Carrefour have started operations in Tier IV cities. Quick to adopt new retailing techniques, the domestic retailers have competed admirably with international retailers.

While the level of consumption of processed food products might not be on par with developed economies, consumer demand for such products has been on the rise owing to the following factors:

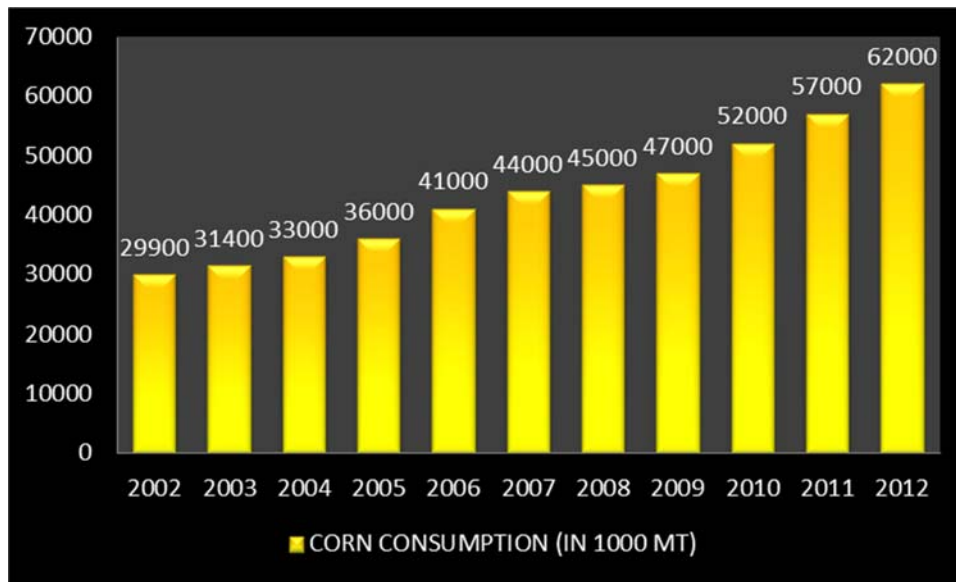
Figure 14: Factors affecting consumer demand in China



Source: Cohen Research



Figure 15: Corn Consumption in the last decade



Source: [www.usda.gov](http://www.usda.gov)

In the last decade consumption of corn has averaged a growth of 7.17%. The current drought in the United States has sent corn prices soaring by almost 50%. The current spike aside, corn prices have seen a steady rise during the past few years. This rise benefited corn producers. With varied applications, the demand for corn is expected to sustain current levels. Corn producers now have a market that is willing to pay market prices for their product. The government of China has stopped providing licenses to new corn producers in an effort to consolidate the corn market. This development has favored existing corn producers who can now strengthen their position. There will also be opportunities for acquisitions of smaller corn producers that currently cannot generate the required economies of scale.

Drought conditions in America and Russia have resulted in a drop in the global yield of grains. However, China has escaped such fluctuations largely because of a self-sufficient strategy adopted by the government. China's National Bureau of Statistics has pegged the total grain output for first half of 2012 at 129.95 million tons, a 2.8% growth year-on-year. Grain prices in July 2012 were up by 3% year-on-year. Expectations are that the prices will remain at current levels. With its population of about 1.38 billion, the domestic grains market itself is huge.

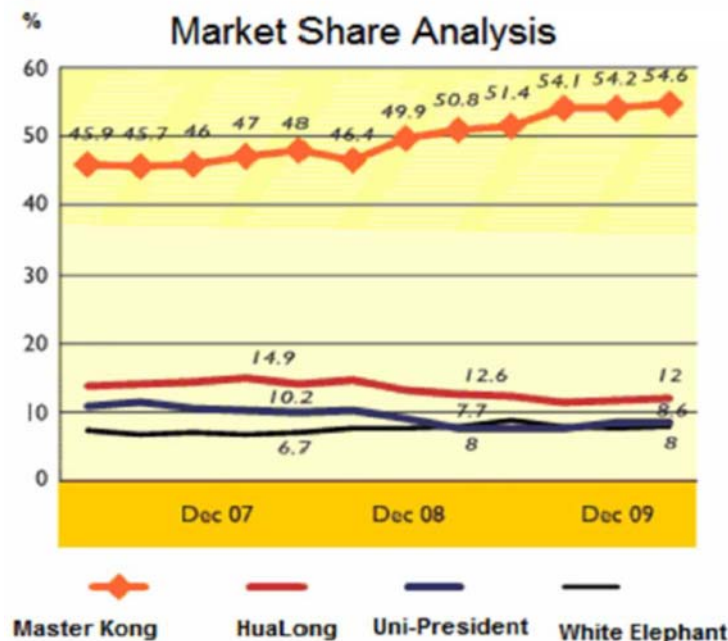


## COMPARATIVE ANALYSIS

China's food and beverage industry is highly fragmented. The huge size of the market, different local preferences and the growth of the industry has led to intense fragmentation and competition in the grains segment. China currently does not have a nationwide recognized processed grains brand. In the Shanxi Province, Deyu has been able to accumulate a large part of the high quality grain supply.

The Corn and Bulk trading segments do not face competition from a single large organization. Current competitors are smaller in size, focusing on a local area. Major competitors among these traders are Jinzhong Dexinchang Trading Co. Ltd., Jinjian Rice Industry Co. Ltd., and Beijing Guchuang Food Co. Ltd. These traders are trying to gain a foothold in the corn and grain bulk procurement and wholesaling businesses.

Figure 16: Instant Noodle 2007 – 09 Market Share Analysis



Source: Company Material

The instant noodle market has four large competitors that collectively address over 80% of the market. Master Kong is the market leader in the instant noodles segment. Its main product is fried instant noodles. HuaLong Group, based in the Hebei province, sells its products using price oriented strategies. Its main products are rice vermicelli. Uni-President is a Taiwan based company with fried instant noodles targeting at the high end of the market. The White Elephant Group is a Henan based company that sells "White Elephant" branded noodles. Deyu has found a niche in the instant noodle market. It produces and sells Non Fried Instant Grain Food. With its proprietary technology and no direct competition in the non-fried instant grain food products segment, Deyu will be able to build a sustainable advantage over its competitors.



**Risks Factors**

**Raw Material Costs:** While Deyu does not have a single supplier selling more than 10% of the total supply to the company, a sudden increase in the price of raw materials can affect corporate operating margins.

**High Inflation and Government Interference:** A state of high inflation will bring government interference which might force Deyu to reduce prices hurting operation margins.

**Lack of Capital:** The Company seeks to reduce its dependence on bank loans used as working capital. However, inadequate investment in capital and working capital expenditures can stunt the Company's growth.

**Brand Awareness:** The Company is competing against grain and instant food producers in supermarkets and convenience stores across the breadth and width of China. Lack of brand awareness compared to other known brands might hurt the Company's sales.

**VALUATION****THE COHEN PRICE TARGET™ - \$6.32**

The Cohen Price Target™ is a dynamic and logical valuation approach that combines market-based approaches and intrinsic value methodologies. Capital raising and cash are the life blood of any micro-cap/small cap Company. Hence, the Cohen Price Target™ includes four components, 25% equal weighted, that together reflect and are based on the Company's ability to raise capital for growth. The four components used in our price index are: Price-to-Earnings ratio (P/E), Cohen Price-to-Capital Employed ratio (P/CE) (Both Market based valuation approaches), Cohen Discounted Cash Flow (DCF) method (Theoretically an Intrinsic Value based approach), and Cohen Price Performance Index.

Our formula for The Cohen Price Target™ is shown below.

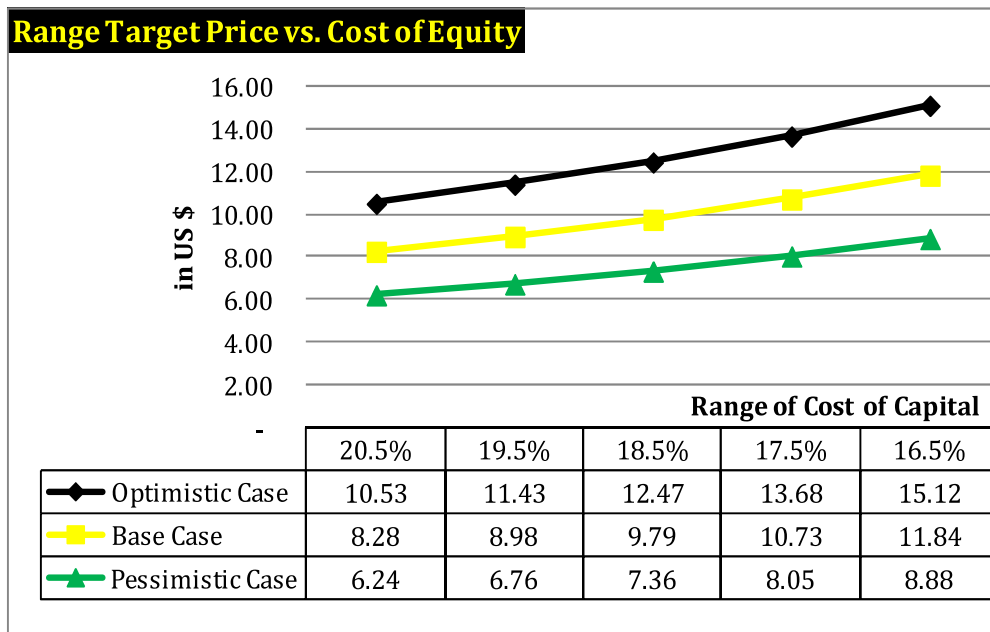
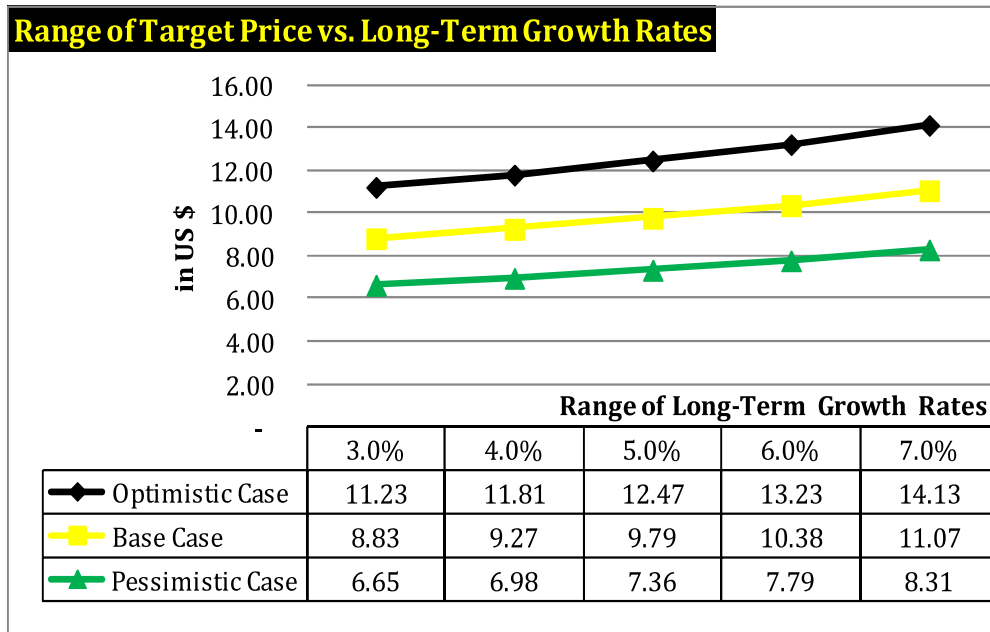
Figure 17: The Cohen Price Target™ Formula

<b>Price-to-Earnings (P/E)</b>		<b>in \$</b>
Earnings Per Share 2012 Forecasts	1.25	
Average Future P/E Ratio	5.69	
<b>Price based on P/E Ratio</b>		<b>7.13</b>
<b>Price-to-Capital Employed (P/CE)</b>		<b>in \$</b>
Capital Employed	3.70	
Average P/CE Ratio	1.75	
<b>Price based on P/CE Ratio</b>		<b>6.48</b>
<b>Cohen Discounted Cash Flow Model</b>		<b>in \$</b>
<b>Cohen DCF Value - Base Case</b>		<b>9.79</b>
<b>Cohen Performance Index</b>		<b>in \$</b>
Cohen Price Performance Index Value	88.2%	
Current Stock Price	1.00	
<b>Price based on Cohen Performance Index</b>		<b>1.88</b>
<b>Cohen Price Index Target</b>		<b>6.32</b>
Current Price		1.00
<b>Upside/ (Downside) Potential</b>		<b>531.9%</b>

Source: Cohen Research



Figure 18: Cohen Discounted Cash Flow™



Source: Cohen Research





## CONCLUSION

Deyu Agriculture Corp. has penetrated the extremely fragmented food and beverages industry in an intelligent and aggressive manner. The Company has made investments in advanced equipment as well as production and processing methodologies, and set up an extensive logistics and sales distribution network. It is reaping the benefits of branding and promoting its products in a market that does not have a large sized competitor in the food industry across China. The Company is well positioned to take advantage of its diversified product line and generate long term sustainable returns.

Deyu's future growth strategies are extensive. The Company has analyzed the areas for improvement and built its strategy to improve on its current market penetration. The Company is open to seek new business acquisitions while continuing to grow organically. Its decision to enter the export business is based on the slowdown in grain production due to drought conditions in the United States and Russia, both of which are major grain producers. This will give the Company a strong foothold while international competitors recover from difficult market conditions.

Due to its various uses and the falling supply of corn and grains, we believe grain prices will rise in the near future before stabilizing in a sustainable price range. The Company's entry into the corn production and bulk trading business will provide it with a substantial source of income. The Company has diversified into grain food products and built a new source of revenue. Its vertically integrated structure helps maintain costs at a low level while earning better margins than its competitors.

We believe the Company's strong and experienced management team, financial capabilities, robust projected revenue streams and growth potential in its marketplace makes the stock a valuable investment proposition. Deyu Agriculture Corp. provides an exciting potential short term trade and long term investment opportunity for long term risk-averse investors.

RS/Grass Roots Distribution Research



## MANAGEMENT BIOS

The expertise of the management has ensured that Deyu Agriculture Corp. has built diversified revenue streams. Their vision has ensured the company is vertically integrated and is an end to end food grains and food products producer. Their outlook and strategy is crucial to the continued profitability of the company.

### **Mr. Jianming Hao**

#### **Chief Executive Officer and Chairman of the Board of Directors**

Mr. Hao is the CEO and Chairman. Between December 2001 and May 2004, Mr. Hao served as the Finance Manager of China Merchants Dichain (Asia) Ltd., a Hong Kong listed company. Between May 2004 and November 2007, Mr. Hao served as a director and Vice President of Shenzhen Litong Investments Ltd. Since November 2007, he has been a director of Jinzhong Deyu Agriculture Trading Co. Limited, which is now a subsidiary of Deyu Agriculture Corp. Mr. Hao received a Master's degree in Finance from Nankai University. He is also a certified public accountant in China.

### **Mr. Greg Chen**

#### **Director and President**

Effective October 11, 2012, the Company appointed Mr. Greg Chen to serve as the Company's Director and President. Mr. Chen has over 15 years of international business strategy, development and management experience in the investment, fine arts, media, technology and manufacturing sectors. Prior to joining the Company, Mr. Chen has served as Chief Executive Officer of the P-Media Group, a company providing commercial promotion and marketing strategies and related services in China, since August 2009. From May 2007 to July 2009, Mr. Chen served as Director of China Operations for Capital Market Services Inc., a New York based financial firm, to oversee its China strategy development and operations. Prior to May 2007, Mr. Chen served as Managing Director of Titian International Inc., an international business development services firm. Mr. Chen was instrumental in the first major global Chinese contemporary art exhibition by Sotheby's in 2006, a ground-breaking event in the international contemporary art landscape. Educated in the US and China, Mr. Chen is fluent in Mandarin and has a Master of Science degree in EE/Control-Theory.

### **Ms. Amy He**

#### **Chief Financial Officer**

Effective May 23, 2012, the Company appointed Ms. Amy He to serve as the Company's Chief Financial Officer. Ms. He has served as the Company's Acting Chief Financial Officer since February 3, 2012, and she served as the Company's Financial Controller from October 2011 to February 2012. Prior to that, Ms. He served as an audit manager for Deloitte Touche Tohmatsu CPA Ltd. in China from July 2005 through September, 2011, where she served multinational corporations and Chinese corporate clients, including private companies and public listed companies in the United States. Ms. He earned a Master's Degree in Management from the Chinese Academy of Sciences and a Bachelor's Degree in Accounting from Tsinghua University in China. Ms. He is qualified as a Certified Public Accountant in China and a Certified General Accountant in Canada.



**Mr. Jianbin Zhou**  
**Chief Operating Officer**

Mr. Zhou is the Chief Operating Officer. Between January 2005 and December 2006, Mr. Zhou served as the General Manager of Beijing Kangqiaoshidai Education Development Co., Ltd. Between January 2007 and October 2008, he was the General Manager of Antai Global (Beijing) Risk Management Co., Ltd. Mr. Zhou also served as the Vice President of Dongsheng International (Beijing) Investment Co., Ltd. between October 2008 and August 2009. Mr. Zhou has been a director of Detian Yu since August 2009. Mr. Zhou is the holder of an undergraduate degree.

**Ms. Emma Wan**  
**Corporate Secretary**

Effective June 30, 2011, the Company appointed Ms. Emma Wan to serve as the Company's Corporate Secretary. Since July 2011, Ms. Wan has served as Corporate Controller for the Company. From July 2009 through December 2010, Ms. Wan served as Associate Director of KTO Corporate Finance Co. Ltd., a Hong Kong company. From August 2004 through June 2009, Ms. Wan served as M&A Transaction Service Manager of Deloitte & Touche Financial Advisory Services Limited, Guangzhou Branch in China. From August 2003 through September 2004 Ms. Wan served as audit senior associate of Deloitte Touche Tohmatsu CPA Ltd., Shenzhen Branch in China. Ms. Wan is a fellow of the Association of Chartered Certified Accountants and a member of The Chinese Institution of Certified Public Accountants.

**Mr. Al Carmona**  
**Independent Director and Member of Audit Committee**

Mr. Carmona is an independent director of the Company. During the last 25 years, Mr. Carmona has been with Mars & Co., a high end international strategy consulting firm, during which he served as Executive Vice President and Senior Advisor, and has coordinated their Global Business Development Council. With the assistance of Mr. Carmona, Mars & Co. grew to over 250 professionals worldwide. Mr. Carmona has deep experience in a wide variety of areas including cost and supply chain optimization, brand strategy, pricing and demand building optimization, competitive analysis, portfolio optimization, business unit turnarounds, as well as acquisition and divestiture analysis. Mr. Carmona has a Bachelor of Science degree in Chemical Engineering from Princeton University and a MBA degree from the Wharton Business School, University of Pennsylvania.

**Mr. Jan Poulsen**  
**Independent Director and Member of Audit Committee**

Mr. Poulsen is an independent director of the Company. Mr. Poulsen has over 20 years of management experience working for international organizations within the food & beverage industry and from the auditing firm PricewaterhouseCoopers. Mr. Poulsen has extensive experience in a wide variety of areas including financial management, strategy and business development, M&A activities, turnaround expertise as well as technology implementations. Since August 2011, Mr. Poulsen has served as an M&A advisor for H.T. Capital, an investment bank in New York. From 2001 to August 2011, Mr. Poulsen had various management positions at Arla Foods, a global company within the dairy industry. Mr. Poulsen served as the Chief Financial Officer for Arla Foods Inc. in the USA from September 2009 to August 2011, as the Finance Manager and Business Development Manager from 2006 until August 2009, and as Project Manager for Group Finance from 2001 to 2006. Mr. Poulsen has a



Master's of Science in Business Administration and an Auditing degree from Aarhus School of Business in Aarhus, Denmark, extensive leadership education from Columbia University and IMD in Switzerland.

**Mr. Timothy C. Stevens**

**Independent Director and Chairman of Audit Committee**

Mr. Stevens is an independent director of the Company. Mr. Stevens has over 30 years of executive leadership, management, and client service experience with the world's leading law, public accounting, and management consulting firms. Since January 2011, Mr. Stevens has served as Chief Operating Officer of an international law firm in Hong Kong. Prior to that since 2004, Mr. Stevens served as the Executive Director of Saul Ewing LLP, a Philadelphia law firm where he oversaw all aspects of its day to day business operations with a focus on improving the bottom line and supporting the Firm's growth strategy and other key objectives. From 1999 to 2003, he served as the Chief Operating Officer and a member of the Management Committee in the Hong Kong and China offices of the international law firm Baker & McKenzie where he was responsible for all operations (other than client service) for Baker & McKenzie's large Hong Kong and China practice. From 1995 to 1998, Mr. Stevens served in the Chairman's office as the Finance and Administrative Partner of PricewaterhouseCoopers China, the world's largest auditing firm, where he supervised the business plans, office openings and expansions, as well as the financial management of the firm. Mr. Stevens graduated from Clifton College and Bristol University in the United Kingdom. He received the ACA qualification from the UK Chartered Accountants' Qualification Program in 1974. Mr. Stevens is a licensed CPA in Massachusetts as well as being a Hong Kong FCPA.

**Mr. Hong Wang**

**Director**

Effective April 30, 2012, the Company appointed Mr. Hong Wang to serve as the Company's Director. Mr. Wang has served as Vice President of Detian Yu Biotechnology (Beijing) Co., Ltd., a subsidiary of the Company, since October 2009. Prior to that, Mr. Wang served as General Manager of Shanxi Dongsheng Guarantee Company Limited from February 2009 through October 2009. Prior to that, Mr. Wang worked for the Labor Bureau of Jinzhong in Shanxi Province from July 1996 through January 2009. Mr. Wang received his Bachelor's Degree from the Chinese Agriculture University in 1996.

**Mr. Longjiang Yuan**

**Independent Director**

Mr. Yuan is an independent director of the Company. He is an acknowledged expert in agricultural technology and has been serving as the Vice Director of the Science and Technology Bureau of the Chinese Academy of Agricultural Sciences, the largest and highest agriculture institute in China ("CAAS"). Prior to joining the Company, Mr. Yuan spent 17 years in the Institute of Crop Science of the CAAS, where he was also the senior director of the R&D team for paddy rice genetic breeding technologies as well as a scientist in the science commission. He is the director of the Crop Science Society of China and an expert for the National Crop Variety Approval Committee. From 2002 to 2004, Mr. Yuan was an independent director of the board of Shanxi Tunyu Seed Industry Co., Ltd. Over the years, Mr. Yuan has participated in and led 13 national R&D programs and has developed 17 new crop breeds. He has published more than 20 academic thesis and 5 books on agricultural sciences. Mr. Yuan was also granted 2 scientific and technological progress awards by the Ministry of Agriculture of China. Mr. Longjiangg Yuan holds a Master's Degree in Plant Genetic Breeding from the Graduate School of



the Chinese Academy of Agricultural Sciences and a Bachelor's Degree in Agriculture from Wan Nan Agriculture University.

**LATEST PRESS RELEASE****Deyu Agriculture Corp. Announces Third Quarter 2012 Results and Schedules Results Conference Call and Webcast**

BEIJING, Nov. 15, 2012 /PRNewswire-FirstCall

Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a Shanxi Province, China based vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, today announced its financial results for the third quarter ended September 30, 2012.

**Third Quarter (Q3) Highlights:**

For Q3 of Fiscal 2012 as compared to the same period in 2011:

- sales in the Grain Division improved 45.2% to \$17.42 million
- gross margin increased from 15.1% to 18.1%

For Q3 of Fiscal 2012 as compared to Q2 of Fiscal 2012:

- revenue increased 1.1% to \$56.5 million
- net income rose 23.9% to \$3.49 million
- earnings per diluted share increased 21.7% to \$0.28

Summarized Q3 2012 Results as compared to Q3 2011 Results:

	<b>Q3 2012</b>	<b>Q3 2011</b>	<b>CHANGE</b>
Revenue	\$56.5 million	\$84.4 million	(33.1)%
Gross profit	\$10.2 million	\$12.7 million	(19.8)%
Net Income*	\$3.5 million	\$7.6 million	(53.9)%
EPS (Diluted)**	\$0.28	\$0.61	(54.1)%

\* Represents net income available to common stockholders.

\*\*Earnings per diluted share for the quarter of \$0.28 on 12.6 million shares. For Q3 2011, the Company reported fully diluted earnings per share of \$0.61 on 12.52 million shares.



Financial Results for Q3 2012 as compared to Q2 2012:

	Q3 2012	Q2 2012	CHANGE
Revenue	\$56.5 million	\$55.8 million	1.1%
Gross profit	\$10.2 million	\$10.5 million	(2.7)%
Net Income*	\$3.5 million	\$2.8 million	23.9%
EPS (Diluted)**	\$0.28	\$0.23	21.7%
* Represents net income available to common stockholders.			
**Earnings per diluted share for the quarter of \$0.28 on 12.6 million shares. For Q2 2012, the Company reported fully diluted earnings per share of \$0.23 on 12.6 million shares.			

"We are repositioning ourselves to be a more integrated agriculture company in China, not only as one of China's largest wholesalers of corn and grain products, but also as one of the country's leading brands of grain products for the consumer market," said Jianming Hao, Chief Executive Officer of the Company. "In view of this goal, we are glad to see that our recent acquisition, the Taizihu Group, which has a diversified product line of 100 types of grain products, contributed \$5.7 million in revenues this past quarter. To further penetrate the consumer market, we are also currently exploring strategies that tap into China's emerging commercial sales market for health foods."

"In Q3 of last year, we were able to achieve record levels in our revenue and net profit with \$12.1 million of bank loans and \$28.5 million of bank notes," Mr. Hao continued. "However, this year, our management team has taken a more sustainable approach to our operations by decreasing our overall borrowings from banks from an aggregate of \$40.6 million as of Q3 2011 to about \$11.2 million as of Q3 2012. This primarily reflected a reduction in bank notes from \$28.5 million as of Q3 2011 to \$0 as of Q3 2012. We believe such approach significantly reduced our financial risks, especially considering the current global economy downturn. Even though our Q3 2012 results were impacted by a decrease in working capital supported by bank borrowings, we are confident that this strategic move can benefit the Company and our shareholders in the long run. Even with this shift in strategy, we were able to achieve growth in our revenue and net income from Q2 2012 to Q3 2012."

"This has been a transformative couple of months for our Company, as we recently elected a new President, Greg Chen, as well as increased our Board with the additions of Greg and Jan Poulsen," Mr. Hao added. "With Greg's experience in developing brands and companies in China, and Jan's twenty-plus years of experience in both asset management and business development within the food and beverage industries, we are confident that we can continue to build on our recent quarter over quarter progress."

### Third Quarter 2012 Financial Results

Net revenue for Q3 2012 was \$56.5 million compared with \$84.4 million for Q3 2011, a decrease of \$27.9 million, or 33.1%. Net revenue from the Company's Corn Division for Q3 2012 was approximately \$34.9 million, a decrease of \$27.3 million, or approximately 43.9%, as compared to Q3 2011, which was primarily due to the reduction of working capital for inventory procurement supported by bank loans and bank notes, which was reduced from an average balance of \$38.1 million to \$6.0 million for sustaining businesses. Net revenue from the Company's Grain Division for Q3 2012 was \$17.4 million, an increase of \$5.4 million, or 45.2%, as compared to Q3 2011. The increase was attributable to an increase of \$5.7 million of sales revenue added by the Taizihu Group. Net Revenue from the Company's Bulk Trading Division for Q3 2012 was \$4.2 million, a decrease of \$6.0

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million, or 59.1% as compared to Q3 2011. This decrease was mainly attributable to the strategic reduction of certain portions of the Company's bulk trade business by shifting more financial resources to the Company's Corn Division and Grain Division.

The Company's gross profit decreased by \$2.5 million, or 19.8%, from \$12.7 million for Q3 2011 to \$10.2 million for Q3 2012. The decrease was a combined result of a decrease of \$3.9 million in the Corn Division, an increase of \$1.6 million in the Grain Division and a decrease of \$0.2 million in the Bulk Trading Division. The Company's gross margin increased from 15.1% in Q3 2011 to 18.1% in Q3 2012. Gross margin for the Corn Division was 15.4% for Q3 2012, up by 54 basis points from 14.8% for Q3 2011, which was mainly attributable to the Company's gross margin management. Gross margin for the Grain Division was 26.4% for Q3 2012, an increase of 100 basis points from 25.4% for Q3 2011, which was mainly attributable to the additions of new product portfolios containing mixed gross margins, which targeted a wider scope of the end consumers.

The Company's operating expenses increased \$1.3 million or 28.5% to \$6.1 million for Q3 2012 as compared to \$4.8 million for Q3 2011. This increase was due to the increase of freight charges for product deliveries and advertisement expenses spent on brand promotion, expenses added by the Taizihu Group, increased depreciation and amortization caused by newly-acquired buildings as well as increased payroll and other expenses caused by inflation.

Net income available to common stockholders of \$3.5 million for Q3 2012 compared to a net income of \$7.6 million for Q3 2011, a decrease of \$4.1 million, or 53.9%.

## Recent Updates

In August 2012, the Company reached an agreement with Beijing Suning Appliance Co., Ltd. ("Suning") to supply Suning with refined packaged grain goods valued at RMB115.9 million (approximately \$18.4 million). Suning is one of the largest electrical and electronic appliance retailers in China, with 1,700 chain stores and annual sales of \$15 billion (RMB 93.9 billion) in 2011. With the demand from the commercial sales market for health foods growing in China, particularly for refined packaged products, the Company plans to continue developing more strategic institutional clients to further enter into the commercial sales segment.

Effective October 11, 2012, the Company's Board expanded the number of members serving on the Board from five to seven in accordance with the Company's Bylaws, and subsequently filled the vacancies created by the expansion by appointing Greg Chen and Jan Poulsen to serve on the Board until the next following annual meeting of the stockholders of the Company, at which such directors shall be eligible for election by the stockholders.

Additionally, Mr. Chen was appointed the President of the Company, where his responsibilities shall include assisting the Company with its international and domestic market development, enhancing the Company's investor relations programs and the execution of those programs and assisting the Company with its corporate and operational strategies and business planning.

Also effective October 11, 2012, Mr. Longjiang Yuan resigned as a member of the Company's Audit Committee, and Mr. Poulsen was appointed to serve on the Audit Committee. Mr. Yuan will still serve as a Board member of the Company.





Also in October 2012, the Company announced that it is launching a series of investor relations programs in the near future geared toward increasing awareness in the investment community of the Company and maximizing shareholder value.

### **Business Outlook**

"We are optimistic about our future and our team is ready to make the most of the opportunities that we see on the horizon," said Mr. Hao. "In recent years, we have accumulated ample resources and advantages through our vertical value chain from farmland to consumer market, reinforced by our advanced production capacities, large warehousing facilities, exclusive logistic infrastructures and extensive sale network. Today, our sales network covers around 20,000 supermarkets and convenience stores across China, with distribution in over 29 provinces in the nation, including key metropolitan areas like Beijing, Tianjin, Jinan, Fuzhou, Chengdu and Shijiazhuang. Importantly, our products are being presented in some supermarket chains under major global brands. Overall, our mission is to grow into a global leader in vertical agricultural value chains, providing diversified product lines delivered to commercial and consumer markets."

"To further grow our business, we plan on extending our operations to other producing areas of corn and grain such as Hebei and Jilin Provinces," Mr. Hao continued. "Moreover, we intend to boost commercial sales to institutional clients, particularly in the grain products for the consumer market. We are also carefully considering vertical or horizontal acquisitions for our business growth, although we do not currently have any agreements in place to do so at this time. While we strive to reach these goals, we will continue to develop a diversified vertical agricultural value chain by adding more food products to our product lines and utilizing available global resources and organic certifications to expand through exporting into the US and other regions. 2012 has been a transformative year for our growing company and I am confident that we now have the right people and strategies in place to drive our growth and in effect, better reward the Company's shareholders."

### **About Deyu Agriculture**

Deyu Agriculture Corp. is a vertically integrated agricultural value chain from farmland to consumer market, which produces, processes, markets and distributes organic and other agricultural products made from corn and grains operating in Shanxi Province in China. The Company has access to over 109,000 acres of farmland in Shanxi Province for breeding, cultivating, processing, warehousing and distributing grain and corn products. Deyu Agriculture Corp. has an extensive wholesale network in over 15 provinces and a retail distribution network of approximately 20,000 supermarkets and convenience stores in 29 provinces across China. Deyu Agriculture Corp.'s facilities include sophisticated production lines and modern warehouses with a total production capacity of over 105,000 tons for grain products, storage capacity of over 100,000 tons and annual turnover of 700,000 tons for corn products. The Company's website is located at [www.deyuagri.com](http://www.deyuagri.com).



## KEY HISTORICAL DEVELOPMENTS

### **Deyu Agriculture Corp. Expands Board of Directors, Appoints New President and Announces Launch of Investor Relations Campaign**

BEIJING, Oct.18, 2012 /PRNewswire-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a Beijing, China, based vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, today announced that effective October 11, 2012, the Board expanded the number of members serving on the Company's Board from five to seven in accordance with the Company's Bylaws, and subsequently filled the vacancies created by the expansion by appointing Mr. Greg Chen and Mr. Jan Poulsen to serve on the Board until the next following annual meeting of the stockholders of the Company, at which such directors shall be eligible for election by the stockholders.

### **Deyu Agriculture Corp. Subsidiary Detian Yu Receives Awards From China National Association of Grain Sector**

BEIJING, Aug. 28, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a Beijing, China based vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, today announced that the China National Association of Grain Sector awarded Deyu's wholly-owned subsidiary, Detian Yu Biotechnology (Beijing) Co., Ltd. ("Detian Yu"), the "AAA Grade Credit Rating" as well as the title of "Integrity Cereals and Oil Enterprise." Detian Yu, which was elected a member of the China Food Industry Association in July 2012, is engaged in the wholesale and retail distribution of simple processed and deep processed packaged and unpackaged food products.

### **Deyu Agriculture Corp. Announces Second Quarter 2012 Results**

BEIJING, Aug. 15, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a Beijing, China based vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, today announced its financial results for the second quarter ended June 30, 2012.

### **Deyu Agriculture Corp. Schedules Second Quarter 2012 Results Conference Call and Webcast**

BEIJING, Aug. 14, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a China based vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, today announced it will host a conference call on August 16, 2012 at 8:30 AM EDT to discuss the Company's results for the second quarter ended June 30, 2012.

### **Deyu Agriculture Corp. Subsidiary Detian Yu Joins China Food Industry Association**

BEIJING, July 23, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a vertically integrated producer, processor, marketer and distributor of organic and other agricultural products made from corn and grains, announced today that its wholly-owned subsidiary, Detian Yu Biotechnology Co. (Beijing), Ltd. ("Detian Yu"), was elected a member of the China Food Industry Association.



**Deyu Agriculture Establishes Key Supplier Relationship with Guangdong Wen's Food Group Co., Ltd. with Shipment of 7,600 Tons of Raw Corn**

BEIJING, June 12, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCQB: DEYU - News) ("the Company" or "Deyu"), announced today that it has formed a supply relationship with Guangdong Wen's Food Group Co., Ltd. ("WFG"), in which Deyu shall provide raw corn to four of WFG's feed mills in Southwestern China on a non-exclusive basis.

**Deyu Agriculture Corp. Acquires Deep Processed Food Manufacturer, Taizihu Group**

BEIJING, Feb. 9, 2012 /PRNewswire-Asia-FirstCall/ -- Deyu Agriculture Corp. (OTCBB: DEYU) (the "Company"), a Beijing, China-based vertically integrated producer and distributor of organic and non-organic corn and grain products, announced today that it has acquired 100% of the issued and outstanding share capital of Shanxi Taizihu Food Co., Ltd. and its subsidiary, Shanxi Huichun Bean Products Co., Ltd. (together, the "Taizihu Group") for approximately \$5,500,000 in cash. The Taizihu Group, which is located in Shanxi Province in China, is in the business of producing and selling fruit beverages under the brand name "LongQuan Villa" and soybean products under the brand name "Huichun" throughout China.



## THE COHEN PRICE TARGET™

The Cohen Price Target™ is derived using a combination of academic and market-based valuation approaches. The following four equal weighted (25%) components used in calculating our target price, include the assumption of capital raised:

1. The first 25% equal weighted component: is the market multiple-based valuation methodology. This method uses the industry average 2011E Price-to-Earnings ratio to calculate the potential stock price (and/or price to Book if an asset based company). We take the average Price-to-Earnings multiple of a given industry. This means that, on an average, stocks in this industry should currently trade at a multiple times their 2011 expected earnings. These earnings are usually only generated by a small company raising cash to meet its master budget. The index, therefore, reflects capital invested in any micro/small cap company.
2. The second 25% equal weighted component: Cohen Capital Employed based valuation. Most start-up and micro/small cap companies require significant capital to meet our projections. Our Cohen Price Target™ reflects the Company's ability to raise additional capital. Based on our capital projection and long-term price target from our Cohen DCF™ valuation model, we derive a Price-to-Capital Employed ratio. We then multiply this ratio with our capital employed per share assumption to derive this target price.
3. Our third 25% equal weighted component is our use of the Cohen Price Performance Index™, which calculates the average price increase of all the stocks covered by Grass Roots Research and Distribution Inc. and Cohen Research after their release. Currently, for the period ending July 16, 2012, the Cohen Price Performance Index™ is up by 88.2%, meaning that we expect the stock to follow the same trend and rise by 88.2%. To date, since May 2009, 95.8% of all of our stocks post report release have traded above the price of our initiate coverage report within 21 days. The Index assumes that all of its companies had capital employed in each company.
4. Our fourth 25% equal weighted component is our Cohen Discounted Cash Flow (DCF) method of valuation. Our Cohen DCF™ valuation includes a complex trademarked formula proprietary to our firm, which includes an assumed long-term sustainable growth rate, cost of capital and assumed capital invested in a given company. Our DCF price target values a company today, based on projections of how much future cash will be generated from a given company. We assume that a company is worth all of the cash it can make available to investors in the future. It is called 'discounted' cash flow because cash in the future is worth less than cash today, and therefore must be discounted to today. We forecast various line items including assuming a given amount of capital is raised, to calculate the free cash flow we project a company to generate during our 5 year forecasted time period. If a company does not raise our estimated cash requirements, it is highly unlikely to reach our forecasts and can go out of business. After using a formula to discount free cash flow, we divide the total forecasted equity of the company by the shares of stock outstanding to calculate our Cohen DCF™ valuation, or theoretical price per share target. We believe the Cohen DCF™ formula is a more accurate measurement of operating cash than the traditional DCF used by most Wall Street research analysts. A DCF, or 5 year forecasted free cash flow projection, cannot be calculated without forecasting the three statements (IS,BS,CF) for 5 years. We are the only firm in the investor awareness industry that forecasts all of our companies for 5 years in three assumed



cases. We believe this in depth level of securities analysis is a must for all of our companies, and is a foundation of the Cohen Research Method™.

Capital raising and cash are the life blood of any micro-cap/small Company. Our Cohen Price Target™ includes 4 components, 25% equal weighted, that together reflect the capital raised in our client companies. Our components are trademarked and proprietary to our firm, as is the Cohen Performance Index™.

Most micro/small cap companies have difficulty raising sufficient funds to reach our theoretical forecasts; hence there is considerable risk for any investor. While we do not give investment advice, any company that cannot raise adequate capital to finance its business model is a highly risky investment, short term or long term. Investment awareness campaigns also affect our price targets. Do not rely on our price targets because they are based on academic theory. Do your own research or consult with your investment professional.

### **Price Targets**

Price targets can be heavily influenced by investor awareness campaigns. In general, we observe the more money spent on such campaigns, the greater the probability for short term price increases post report release. Our price targets assume capital rising and forecast 5 year Income Statement, Balance Sheet and Cash Flow statements. In a perfect world, these assumptions may be realized. We do not give investment advice. However, in the practical/real world, it is very difficult for a small company to reach our theoretical 5 year projections. We are not aware of any research firm that forecasts the three statements (IS, BS, CF) in 3 cases for 5 years. We believe our price targets are unique to the body of knowledge in the field of securities analysis.

### **Note: How we calculate our Price Targets**

We further explain our Cohen DCF, which is an important 25% component of The Cohen Price Target. The Cohen Discounted Cash Flow Analysis (DCF) creates a price target and values a company today, based on projections of how much future cash will be generated from a company. Our DCF analysis assumes that a company is worth all of the cash that it can make available to investors in the future. It is called "discounted" cash flow because cash in the future is worth less than cash today, and therefore must be discounted to today. We forecast various line items including assuming capital is raised, to calculate the free cash flow we expect a company to generate during our 5 year forecasted time period. After using a formula to discount free cash flow, we divide the total forecasted equity of the company by the shares of stock outstanding to calculate our Cohen DCF (Discounted Cash Flow) valuation, or theoretical price per share target. We believe our Cohen DCF is a more accurate method of calculating operating cash. We forecast three assumed price targets because companies change during 5 years, Base Case, Optimistic Case, and Pessimistic Case.

### **Note: What is our formula used to calculate our DCF, the Cohen Price Target?**

Some line items include free cash flow to the firm, the weighted average cost of capital, assumption of capital raised and capital spent, and the total enterprise value of the business less its debt, total equity value, total shares outstanding, and our projected price per share. A DCF cannot be academically calculated without projecting the 5 year cash flow statement.

### **Risks of the Cohen Price Target**

Our Price Targets assume capital will be raised in our four components, or 100% of the Cohen Price Target. The majority of micro-cap/small cap companies need capital to reach our 5 year sales and cash flow projections. In the academic world, The Gordon Growth Model justifies an analyst's decision to forecast for 5 years. We



forecast the three statements for 5 years in 3 cases. However, in the practical/real world, buying a micro-cap stock based on 5 year forecasting is highly risky.

If smaller companies are able to raise capital, our theoretical price targets in a perfect world might be justified, providing the company executes on its business model. If an investor believes that a given company cannot raise the necessary capital to reach our projections, then any investment becomes highly risky.

The investor should consider all of the possibilities of any given company being able to raise capital and execute over 5 years. Few micro to small cap companies are able to raise enough capital and execute over an extended period of time, primarily due to competition, management competence, access to capital and continued execution of their master plan, agenda and budget. Our price targets are academic theory and should not be relied upon. Investors should do their own research and consult with their financial consultants.

**FINANCIAL EXHIBITS****Income Statement – Base Case**

<b>all figures in \$ million</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
<b>Revenues</b>	<b>85.17</b>	<b>261.58</b>	<b>255.05</b>	<b>312.46</b>	<b>375.01</b>	<b>438.26</b>	<b>482.08</b>	<b>515.83</b>
Total Cost of Goods Sold	63.25	218.48	209.69	257.62	309.47	361.66	397.83	425.68
<b>Gross Profit</b>	<b>21.92</b>	<b>43.10</b>	<b>45.36</b>	<b>54.84</b>	<b>65.54</b>	<b>76.59</b>	<b>84.25</b>	<b>90.15</b>
<b>Expenses</b>								
Selling, General and Admin Expenses	9.42	20.47	26.62	31.94	36.73	42.24	46.46	51.11
<b>Total Expenses</b>	<b>9.42</b>	<b>20.47</b>	<b>26.62</b>	<b>31.94</b>	<b>36.73</b>	<b>42.24</b>	<b>46.46</b>	<b>51.11</b>
<b>Operating Profit/ EBITDA</b>	<b>12.50</b>	<b>22.62</b>	<b>18.75</b>	<b>22.90</b>	<b>28.81</b>	<b>34.35</b>	<b>37.79</b>	<b>39.04</b>
Depreciation and Amortization	0.49	0.98	1.66	2.33	3.01	3.69	4.36	5.04
<b>Earnings Before Interest and Tax</b>	<b>12.02</b>	<b>21.64</b>	<b>17.09</b>	<b>20.57</b>	<b>25.80</b>	<b>30.67</b>	<b>33.42</b>	<b>34.00</b>
Interest Expense, Net	0.32	0.76	-	-	-	-	-	-
Other Income (Exp)	(0.02)	(0.18)	(0.35)	(0.43)	(0.51)	(0.60)	(0.66)	(0.72)
<b>Profit Before Tax</b>	<b>11.67</b>	<b>20.70</b>	<b>16.74</b>	<b>20.14</b>	<b>25.29</b>	<b>30.07</b>	<b>32.77</b>	<b>33.28</b>
Taxation Expenses (Recovery)	(0.91)	0.18	0.74	0.85	0.94	1.12	1.22	1.24
<b>Net Profit/Loss from Operations</b>	<b>12.59</b>	<b>20.51</b>	<b>15.99</b>	<b>19.30</b>	<b>24.35</b>	<b>28.95</b>	<b>31.54</b>	<b>32.03</b>
Loss from Discontinued Operations	0.76	3.89	-	-	-	-	-	-
Preferred stock dividends	0.33	0.43	0.33	0.40	0.51	0.60	0.66	0.67
Other Adjustments	0.00	(1.14)	-	-	-	-	-	-
<b>Net income - Common Shareholde</b>	<b>11.50</b>	<b>17.34</b>	<b>15.66</b>	<b>18.89</b>	<b>23.84</b>	<b>28.34</b>	<b>30.89</b>	<b>31.37</b>
Shares Outstanding - Basic	8.4	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Shares Outstanding - Diluted	10.2	12.5	12.5	12.5	12.5	12.5	12.5	12.5
EPS - Basic	1.362	1.648	1.488	1.796	2.266	2.694	2.935	2.981
EPS - Diluted	1.122	1.387	1.253	1.512	1.908	2.268	2.472	2.510

**Balance Sheet – Base Case**

<b>all figures in \$ million</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
<b>ASSETS</b>								
Cash and Cash Equivalents	5.79	10.59	25.49	16.36	24.07	36.87	55.93	77.59
Accounts Receivable	11.16	36.75	35.84	43.90	52.69	61.58	67.74	72.48
Deposits and other prepaid expenses	8.98	11.47	11.98	14.37	16.53	19.01	20.91	23.00
Inventory	16.54	20.31	37.17	45.66	54.85	64.10	70.51	75.45
<b>Total Current Assets</b>	<b>42.47</b>	<b>79.13</b>	<b>110.47</b>	<b>120.30</b>	<b>148.14</b>	<b>181.56</b>	<b>215.09</b>	<b>248.52</b>
Property, Plant and Equipment, Gross:	5.51	14.46	24.46	34.46	44.46	54.46	64.46	74.46
Accumulated Depreciation	1.23	2.10	3.76	6.09	9.10	12.79	17.15	22.20
Property, Plant and Equipment, Net	4.29	12.36	20.70	28.37	35.36	41.67	47.30	52.26
Intangible Assets	-	10.65	10.65	10.65	10.65	10.65	10.65	10.65
Other Assets	19.17	0.73	6.38	7.81	9.38	10.96	12.05	12.90
<b>Total Assets</b>	<b>65.93</b>	<b>102.86</b>	<b>148.20</b>	<b>167.13</b>	<b>203.53</b>	<b>244.84</b>	<b>285.10</b>	<b>324.33</b>
<b>LIABILITIES</b>								
Accounts Payable & Liabilities	6.45	8.49	59.08	57.91	69.24	80.78	88.86	95.36
Other Short term Liabilities	13.41	10.82	3.99	4.79	5.51	6.34	6.97	7.67
Current Portion of Debt Instruments	2.63	14.41	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>22.49</b>	<b>33.72</b>	<b>63.07</b>	<b>62.70</b>	<b>74.75</b>	<b>87.12</b>	<b>95.83</b>	<b>103.02</b>
Notes Payable	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>22.49</b>	<b>33.72</b>	<b>63.07</b>	<b>62.70</b>	<b>74.75</b>	<b>87.12</b>	<b>95.83</b>	<b>103.02</b>
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Additional Capital	21.04	25.20	25.20	25.20	25.20	25.20	25.20	25.20
Retained Earnings	22.39	43.93	59.92	79.22	103.57	132.51	164.06	196.09
<b>Total Shareholders Equity</b>	<b>43.44</b>	<b>69.14</b>	<b>85.13</b>	<b>104.43</b>	<b>128.78</b>	<b>157.72</b>	<b>189.27</b>	<b>221.30</b>
<b>Total Liabilities and Equity</b>	<b>65.93</b>	<b>102.86</b>	<b>148.20</b>	<b>167.13</b>	<b>203.53</b>	<b>244.84</b>	<b>285.10</b>	<b>324.33</b>

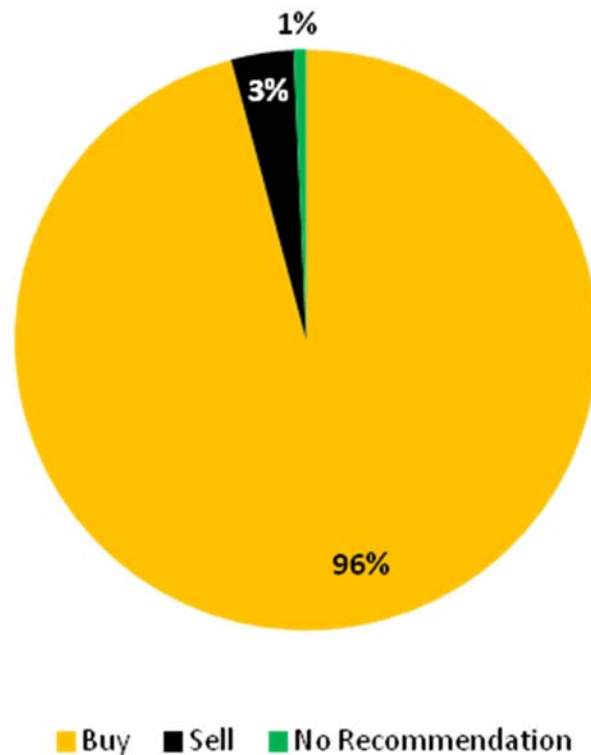


**Cash Flow Statement – Base Case**

<b>all figures in \$ million</b>	<b>2011</b>	<b>2012E</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
<b>Operating Activity</b>							
Net Income	20.51	15.99	19.30	24.35	28.95	31.54	32.03
<b>Adjustments to Reconcile Cash Flows</b>							
Depreciation and Amortization	0.98	1.66	2.33	3.01	3.69	4.36	5.04
Other Adjustments	-	-	-	-	-	-	-
<b>Changes in operating assets and liabilities:</b>							
Accounts receivable	(25.59)	0.92	(8.07)	(8.79)	(8.89)	(6.16)	(4.74)
Deposits and Other assets	(2.48)	(0.51)	(2.40)	(2.16)	(2.48)	(1.90)	(2.09)
Inventories	(3.77)	(16.85)	(8.49)	(9.19)	(9.25)	(6.41)	(4.94)
Accounts payable	2.04	50.59	(1.17)	11.33	11.54	8.08	6.50
Accrued liabilities	(2.59)	(6.83)	0.80	0.72	0.83	0.63	0.70
Other liabilities	11.78	(14.41)	-	-	-	-	-
Change in Working Capital	(20.62)	12.90	(19.32)	(8.09)	(8.25)	(5.76)	(4.57)
<b>Cash Flow from Operating Activities</b>	<b>0.88</b>	<b>30.55</b>	<b>2.31</b>	<b>19.27</b>	<b>24.38</b>	<b>30.15</b>	<b>32.50</b>
<b>Investing Activity</b>							
Expenditures for property, plant and equipment	(8.94)	(10.00)	(10.00)	(10.00)	(10.00)	(10.00)	(10.00)
Other Long-term assets	7.79	(5.65)	(1.44)	(1.56)	(1.58)	(1.10)	(0.84)
<b>Cash Flow from Investing Activities</b>	<b>(1.15)</b>	<b>(15.65)</b>	<b>(11.44)</b>	<b>(11.56)</b>	<b>(11.58)</b>	<b>(11.10)</b>	<b>(10.84)</b>
<b>Financing Activity</b>							
Proceeds from or repayment of debt	-	-	-	-	-	-	-
Proceeds from issuance of common stock	4.16	-	-	-	-	-	-
<b>Cash Flow from Financing Activities</b>	<b>4.16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Effect of Foreign Exchange</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Cash</b>	<b>4.80</b>	<b>14.90</b>	<b>(9.13)</b>	<b>7.71</b>	<b>12.80</b>	<b>19.06</b>	<b>21.66</b>
<b>Opening Cash Balance</b>	<b>5.79</b>	<b>10.59</b>	<b>25.49</b>	<b>16.36</b>	<b>24.07</b>	<b>36.87</b>	<b>55.93</b>
<b>Ending Cash Balance</b>	<b>5.79</b>	<b>10.59</b>	<b>16.36</b>	<b>24.07</b>	<b>36.87</b>	<b>55.93</b>	<b>77.59</b>



## Cohen Research and Grass Roots Research Current Rating Distribution



### Meaning of Ratings

#### *Speculative Buy*

The Company may be a short term trade or a long term investment provided it raises adequate capital to reach our theoretical price targets. Our price targets are academic theory and should not be relied on. All equities, especially micro-cap stocks have significant downside risk, high volatility and can continue to trade at a discount to its market.

#### *Neutral*

No recommendation; for information only.

#### *Sell*

Our analyst's view is that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable. There is a very high level of investment risk relative to reward.



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