



Research Report (Anno)



Buy

May 5, 2008

Important Information:
Please pay regard to disclaimer/risk information as well as potential conflicts of interests according to §34b WpHG from page 15 on

05.05.2008

Impreglon AG^{(5)*}

BUY

Price Target:
€19.54

Price: €16.10 €
May 2, 2008, 9.10 h,
Frankfurt

**Previous Rating/
Price Target:**
BUY/ €16.64

Market Segment:
Entry Standard

Accounting Standard:
HGB

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Company Profile:

Sector: Surface Technology
Staff members: 319
(Dec. 31, 2007)

Headquarters: Lüneburg, D

Foundation: 1983

CEO: Henning J. Claassen

WKN: A0BLCV5

ISIN: DE000A0BLCV5

Symbol: I3M

Number of shares: 5.206 m

Markt cap.: €3.82 m

Free float: 49.40 %

52 W High: €16.90

52 W Low: €9.90

Average daily volume: €70,538

* Source DeutscheBörse (Frankfurt and Xetra, 100 days)



In m €	2006	2007	2008e	2009e
Sales	20.34	46.14	51.50	58.40
EBITDA	4.27	10.15	12.06	13.91
EBT	2.44	5.92	7.26	8.95
Net profit	1.54	4.20	5.66	6.60
In €				
Earnings per share	0.40	0.86	1.09	1.27
Dividend per share	0.20	0.30	0.40	0.50
In %				
EBITDA-margin	20.98	22.01	23.41	23.83
EBIT-margin	11.86	13.91	15.07	16.12
Dividend yield	1.24	1.86	2.48	3.11
Figures				
EV/Sales	4.58	1.94	1.81	1.60
EV/EBITDA	21.82	8.84	7.73	6.70
Price-earnings-ratio	40.5	18.65	14.80	12.71
Price-book-ratio (Dec. 31, 2007)			2.72	

Highlights:

- Sales and income in 2007 higher than expected
- Dividend raise from €0.20 to €0.30
- Further acquisitions expected in the course of the year
- Higher price target

Company

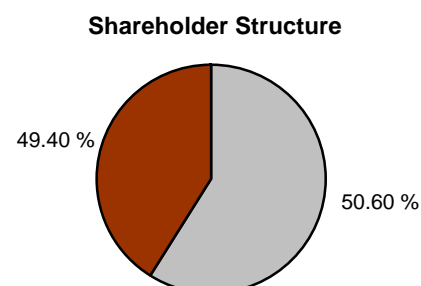
Profile

Impreglon AG, based in Lüneburg, Germany, is a specialist in surface technology and owns several patents for coatings made of plastic, metal and ceramic. In addition to its operating business, Impreglon generates sales from licences of associated companies in Europe, Japan and USA. The company which has been existing for more than 20 years, is a medium-sized business being active worldwide with sales amounting to €46.1 m in 2007. Impreglon has currently 300 staff members on 15 international production facilities in ten countries.

Currently, more than 500 companies belong to Impreglon's customer base. The company refines components and machines for different industries like packaging, food products and printing. Well-known international companies as for example Thyssen Krupp, Nestlé, AEG, Bahlsen, BMW, BASF and ContiTech are among Impreglon's customers.

Shareholder Structure:

Shareholders	in %
Claassen Holding & Management Services GmbH&Co.KG	50.60
Free Float	49.40



Source: Impreglon, GBC

Upcoming Company Events

Event	Date
Annual general meeting	July 11, 2008
Release of 6 months figures 2008	until July 31, 2008
Release of 9 months figures 2008	until October 31, 2008

Business Development 2007

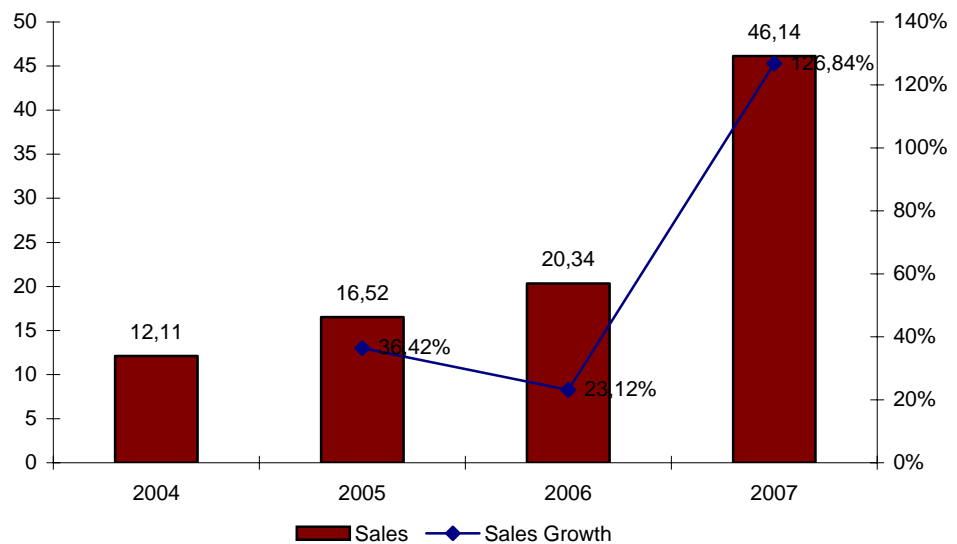
in € m	2006	2007	06 vs. 07
Total sales	20.34	46.14	+ 126.88 %
EBITDA	4.27	10.15	+ 137.54 %
EBIT	2.42	6.41	+ 165.43 %
EBT	2.44	5.92	+ 142.23 %
Net profit	1.54	4.20	+ 173.33 %
EPS in €	0.40	0.86	

Source: Impreglon, GBC

Sales Development

Business Year 2007 was excellent for Impreglon AG. High organic growth in the plants of the Impreglon group as well as a number of acquisitions characterized 2007. The company boosted sales significantly by 126.84% from €20.34 m in 2006 to €46.14 m in 2007. Thus sales were above our previous estimates and also exceeded the preliminary figures reported in January 2008. Following graph shows the rapid sales rise of the Impreglon AG from 2004 to 2007.

Sales Development FY 2004 to FY 2007 (in Mio. €)



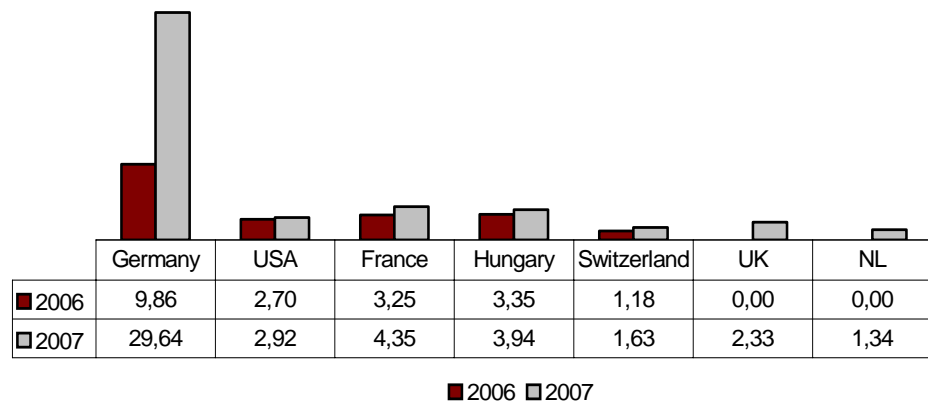
Source: Impreglon, GBC

Sales in Germany could be increased by 206 % from €9.86m in 2006 to €29.64 m in 2007. In this process Impreglon AG was able to rise its sales at the headquarters in Lüneburg by almost 12 % to €8,58 m (PY: €7.66 m). Mainly the segment standard coating was responsible for organic sales growth. Due to considerable restructuring measures regarding the headquarter in Lüneburg, sales were low in the first six months 2007. In the second half-year 2007, however, headquarter's sales showed strong growth again. Moreover, both acquisitions, Starnberger and

TE STRAKE were consolidated retrospectively on January 1, 2007 und thus contributed to sales. Starnberger GmbH generated sales amounting to €5.11 m in 2007 and TE STRAKE amounting to €11.96 m in 2007. Remaining sales in Germany were generated by Deckert Oberflächentechnik which was first consolidated on Juli 1, 2006.

Following graph shows distribution of sales in 2007 according to the different regions.

Sales Development according to regions (in €m)



Source: Impreglon, GBC

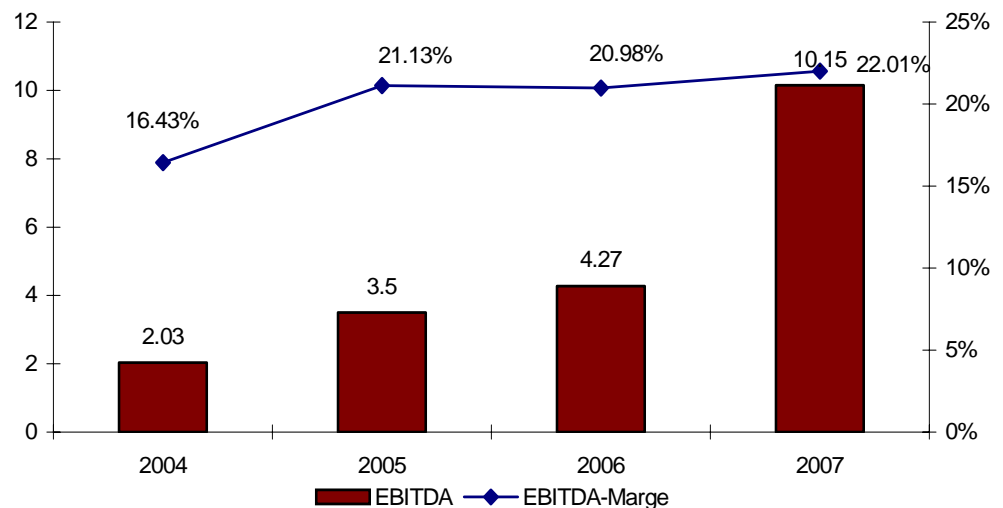
Highlight is the nice development of operating business of the largest foreign subsidiaries in France and Hungary as far as sales are concerned. Largely due to higher demand for thermal spray coatings made of metal as well as corrosion protection for mass parts, sales in France could be increased by 33.7 % from €3.25 m in 2006 to €4.35 m in 2007. The plant in Hungary as well was able to record dynamic sales growth of more than 17 % from €3.35 m in 2006 to €3.94 m in FY 2007. Significant sales growth concerning standard coatings was a result of extended production capacities at the site in Hungary in 2006 and 2007. The sales growth compensated the sales decrease regarding corrosion protection of particular components as a consequence of price reductions. The expansion of sales staff and the product range in the U.S. subsidiary in 2006 had a positive effect on operating business in 2007. All in all, U.S. sales rose from €2.70 m in 2006 to €2.92 m in 2007.

Sales at Impreglon Switzerland rose from a low level to €1.63 m (previous Year (PY): €1.18 m). As Impreglon UK and Impreglon Netherlands were not consolidated last year, there are no comparable sales figures for FY 2006. The subsidiary in England generated sales amounting to €2.33 m in 2007, whereas the subsidiary in the Netherlands generated sales of €1.34 m in the last six months 2007. Also Impreglon International was able to achieve a sales increase by receiving licences from the plants in Italy and Japan.

Profit Development

In FY 2007 gross profit clearly went up from €13.37 m to €32.67 m. Impreglon did neither capitalize own work nor had the company positive special effects in 2007. Thus increase of the gross profit margin to 70.86 % in 2007 (PY: 65.68 %) is clearly due to more efficient usage of material. At the end of 2007 the group's workforce amounted to 319 people, in comparison to 210 at the end of 2006. As a result staff costs climbed to €13.98 m in 2007 (PY: €5.16 m). Other operating expenses increased slightly in relation to sales from €3.89 m in 2006 to €8.48 m in 2007.

Earnings before interest, taxes and depreciation (EBITDA) in 2007 showed a significant year-on-year increase by almost 135 % from €4.27 m to €10.15 m. Due to economies of scale and the higher gross profit margin, also the EBITDA margin improved from 20.98 % in 2006 to now 22.01 %. Profit would have been even higher, if operating business of the Swiss subsidiary had been better. Although the Impreglon AG does not release earnings figures of the particular subsidiaries, we assume, that the location in Switzerland recorded a loss in 2007.



Source: Impreglon, GBC

As a result of the high investments in tangible fixed assets and the acquisitions, depreciation rose clearly from €1.86 m in 2006 to €3.74 m in 2007. The Impreglon AG still reports according to HGB, thus depreciation of the acquired goodwill must be proportional and came up to approximately €0.84 m in 2007. Earnings before interest and taxes (EBIT) was €6.41 m in 2007 which is a clear year-on-year increase (PY: €2,42 m). 2007 financial income and income from participations was not as high as in 2006. Due to higher net debt as a result of high investments and acquisitions, interest income amounted to €-0.31 m (PY: €-0.04 m) whereas income from participations was break even (PY: €0.44 m).

Income from the meanwhile completely consolidated companies Impreglon Netherlands as well as Impreglon UK was reported as income from participations in 2006. Largely due to one-time expenses associated with restructuring measures regarding buildings and machines, extraordinary income came up to €-0.14 m in 2007.

Considering the tax ratio at 27.22 % and less minority interest, net profit was at €4.20 m (PY: €1.54 m) equalling earnings per share (EPS) of €0.86 (PY: €0.40).

Financial situation

Equity ratio was 54.23 % at the end of the year. The acquisitions lead to a higher goodwill on the asset side of €11.61 m in 2008. TE STRAKE (€6.66 m) and Impreglon B. V. (€2.32 m) make the largest contribution. Furthermore, as a result of high investments in properties and machinery, fixed assets increased significantly from €10.17 m at the end of 2006 to €26.48 m at the end of 2007.

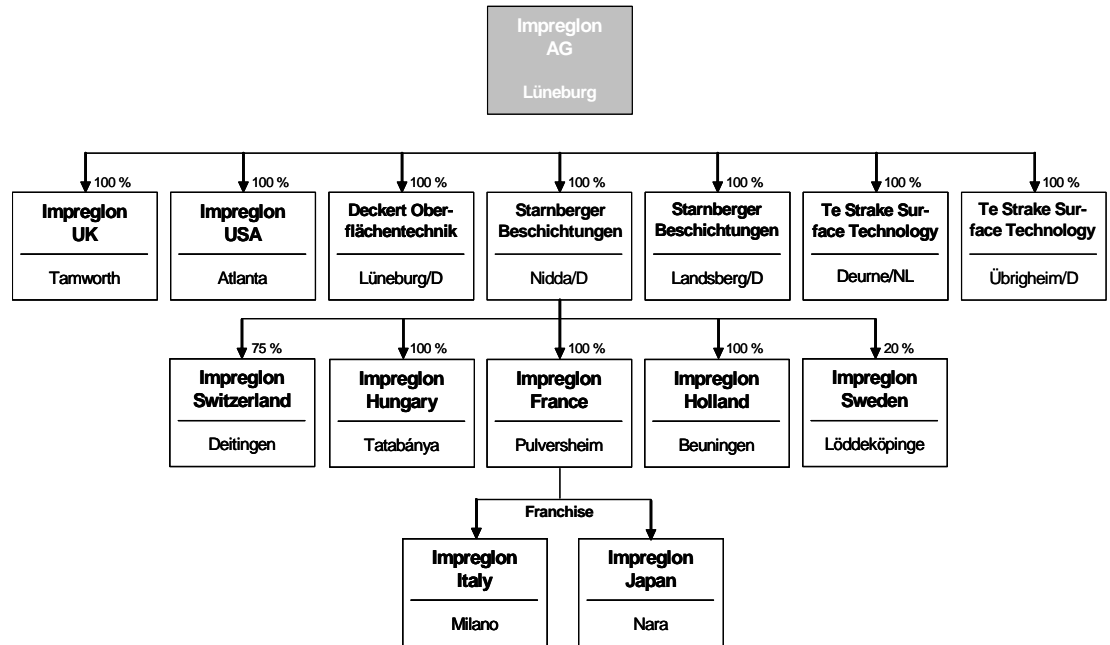
As far as the liabilities side is concerned, debt rose to €13.63 m (PY: €2.24 m) which is also due to anorganic growth as well as high investments.

Important events after reporting date

In the course of a capital increase in January 2008 the Impreglon AG realized about €4.8 m. A total of 0.34 m new shares at a price of €14.20 was placed with the shareholders. Thus the number of outstanding shares increased to 5.21 m. There will be a consolidation of the new shares from the capital increase and the old shares, subsequent to the Annual General Meeting of the Impreglon AG on July 11, 2008. The capital inflow will be used for anorganic growth and the expansion of production capacities at three important locations. Regarding the acquisition strategy, we think that Impreglon will strengthen the U.S. location by acquisition.

Moreover, the Impreglon AG announced in March 2008 that it has increased its stake in Impreglon France from 60 % to 100%. With the exception of Impreglon Switzerland and Impreglon Sweden, the Impreglon AG has a 100 % stake in all subsidiaries now. Already in FY 2007 Impreglon UK Ltd. (previously: 51 %), Impreglon Kft. in Hungary (previously: 70 %) as well as Impreglon B. V. in the Netherlands (previously: 22 %) were completely taken over.

Following graph shows the current group structure of the Impreglon AG.



Quelle: Impreglon, GBC

Impreglon Sweden and Impreglon Switzerland are not completely owned by the Impreglon AG.

SWOT - ANALYSIS

Strengths

- Due to a broad customer base and diversification of sectors, business is largely unaffected by cyclical developments
- High technology transfer within the Impreglon group
- International positioning
- High rentability in the past
- Experienced management
- Good position in the growth industry surface technology
- Impreglon disposes of environmentally friendly coating methods (FuseCoat, ZinkAluFlex, NanoFinish)

Weaknesses

- Low planning reliability as a large number of orders are acquired short time in advance
- Still low concentration of plants in USA
- Low sales in the particular countries

Opportunities

- High fragmentation in this industry offers good opportunities for acquisitions
- Strategy of internationalisation: Presence in other countries
- Investments in new coating technologies allow growth perspective
- Growth potential with in-house developed technologies, as environmental regulations increasingly force the automobile and printing industry to abandon galvanic corrosion protection techniques

Threats

- Dependence on key persons
- Limited protection of expertise

Forecast and Model Assumptions

Also in the current FY 2008 we expect the Impreglon AG to grow faster than the market. The surface technology industry should grow by 7 to 8 % in 2008 according to our estimates.

In Q1 2008 the Impreglon AG was able to increase sales to €11.56 m (PY: €7.07 m) in comparison to the same period a year ago. The extension of production capacities and the building of new plants will show its full effect in the second half-year and in 2009. EBITDA also climbed above average to €2.57 m (PY: €1.71 m) in the first three months 2008.

In Q3 2007 Te Strake Surface Technology, situated in Obrigheim, started to build a second coating plant with an investment volume of € 5 m. The new production facility should come into operation in Q3 2008. Thus the existing production capacities at Te Strake will be doubled.

Concerning the French plant we expect in 2008 a positive sales and profit trend. Corrosion protection and slide coats for mass components, particularly for the automobile industry, should develop well. Moreover, the new plant will come into operation in 2008. Due to loss carried forward, the tax rate in France will be moderate.

Production of Impreglon Switzerland is to be relocated to Impreglon France. Reason for the management was that in the past years, Impreglon Switzerland was not able to reach the high profitability of other plants. Impreglon Switzerland remains an independent association whereas production will be in the French plant in Pulversheim. The relocation to France should be finished in the course of Q2 2008. According to our estimates, Impreglon Switzerland recorded a negative result in 2007. The measures taken should at least lead to Break-even in the current FY 2008.

On group level we expect a 2008 sales growth of 11.61 % to then €51.50 m. Anorganic growth has not been considered in our estimates. However, we think that further acquisitions will follow in 2008. The margin situation should also improve. Thus we calculate an EBITDA margin for 2008 of 23.41% and an EBITDA of €12.06 m.

Depreciation should be higher as a result of the high investments and the higher goodwill. We estimate depreciation at €4.30 m which includes, like in 2007, goodwill write-off amounting to €0.84 m and has to be treated in line with HGB. If Impreglon changes to IFRS in the following year, these write-offs will be eliminated in the future. Financial income should be slightly negative (€-0.5 m). In this case Impreglon benefits from a very attractive interest rate of about 5 % regarding the financing with credit capital. With a tax rate on group level of 22 %, we expect net profit at €5.66 m which corresponds to an EPS of €1.09.

As far as FY 2009 is concerned, we assume that the expansion of production capacities will lead to further sales growth. Part of the larger manufacturing capacities regarding the locations Obrigheim, Lüneburg, Hungary and France, will not completely be finished until the second half-year. Due to economies of scale, the EBITDA margin should improve slightly to 23.83 % in 2009.

Valuation

DCF-Valuation

Determination of Cost of Capital

The weighted average cost of capital (WACC) of the Impreglon AG is calculated from the equity cost and cost of debt. In order to calculate the capital cost, the risk premium, the beta as well as the risk-free interest rate are to be determined.

As risk free rate, we take the interest rate of the German 10-year Treasury bill. This is currently at 4.05 %.

Our calculation of the market premium is based on the historical risk premium of 5.5 % which is backed upon historical analysis. The market premium reflects the extra return that the overall stock market or a particular stock must provide over the rate on Treasury bills to compensate for market risk.

According to our internal estimates we calculated a beta of 1.20. In this context we assume a slightly above average market exposure.

Regarding the assumptions implied, we calculate equity cost of 10.60 % (10-year interest rate plus beta multiplied with risk premium). Implying a long-term debt financing rate of 17 %, the WACC will be at 9.60 %.

Cost of Capital	in %
Cost of equity	10.6%
Weight in %	83.3%
Cost of debt	6.5%
Weight in %	16.7%
Taxshield in %	30.0%
WACC	9.6%

Value driver - DCF Valuation from 2009 on - Phase 2

Sales growth	8.0%
EBITDA-margin	23.8%
Tax rate	29%
Working Capital in % of sales	4.3%
Sales to OA	2.2
Depreciation of OA	15.6%

Discounted Cashflow-Model

We valued the Impreglon AG according to our three phase DCF model. Starting with concrete estimates for the years 2008 & 2009 in phase one, the forecast from 2010 to 2014 in phase two is based on value drivers. We expect sales to grow by 8 %, assuming an EBITDA margin of 23.8 %. In phase 2 we considered a tax rate of 29 %. In phase 3, at the end of the forecast period, a residual value is calculated through the perpetuity. Regarding the continuing value, we assume a tax rate of 29 %.

Discounting of future cash flows is based on the entity model. We calculated the corresponding cost of capital (WACC) at 9.6 %.

The resulting fair value on basis of 2008 is €19.54 (previously: €16.64)

Value driver - DCF Valuation Continuing value - Phase 3

Sales growth	2.0%
EBITDA-Marge	23.8%
Tax rate	29.0%
Working Capital in % of sales	4.3%
Sales to OA	2.4
Depreciation of OA	15.6%

DISCOUNTED CASHFLOW Model scenario Impreglon AG

in € m	2008 E	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E	Continued
Sales	51.50	58.40	63.07	68.12	73.57	79.45	85.81	87.52
Change in %	11.6%	13.4%	8.0%	8.0%	8.0%	8.0%	8.0%	2.0%
EBITDA margin	23.4%	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%
EBITDA	7.76	9.41	10.41	11.38	12.39	13.75	14.84	15.14
EBITDA margin	15.1%	16.1%	16.5%	16.7%	16.8%	17.3%	17.3%	17.3%
Tax rate (on EBITA)	22.0%	26.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Working Capital	2.00	2.5	2.71	2.93	3.16	3.42	3.69	3.76
in % of sales	3.9%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Operating assets (OA)	28.50	28.90	29.47	30.96	32.84	33.11	35.75	36.47
Sales to OA	1.8	2.0	2.1	2.2	2.2	2.4	2.4	2.4
Depreciation	-4.30	-4.5	-4.60	-4.83	-5.12	-5.16	-5.58	-5.69
Depreciation of OA	15.1%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%
Free Cashflows								
EBITDA	12.06	13.91	15.01	16.21	17.51	18.91	20.42	20.83
Tax on EBITA	-1.71	-2.45	-3.02	-3.30	-3.59	-3.99	-4.31	-4.39
Investments in OA	-6.00	-4.90	-5.17	-6.32	-7.00	-5.43	-8.23	-6.40
Change of Working Capital	-2.06	-0.50	-0.21	-0.22	-0.23	-0.25	-0.27	-0.07
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Free Cashflow	2.29	6.07	6.61	6.37	6.68	9.24	7.62	9.96

VALUATION in Mio. EUR	FY 2007	FY 2008e	FY 2009e	FY 2010e
Cash value of explicit FCFs	30.2	30.8	27.6	23.7
Cash value of Continuing Value	69.1	75.7	83.0	91.0
Value operating business (due date)	99.3	106.5	110.6	114.7
Net debt	9.40	4.34	0.86	-2.65
Cash value of all options	0.00	0.00	0.00	0.00
Equity value	89.9	102.2	109.8	117.3
Minorities	-0.4	-0.4	-0.5	-0.5
Value of share capital	89.5	101.7	109.3	116.8
Outstanding shares in m	4.87	5.21	5.21	5.21
Fair Value per share in EUR	18.39	19.54	21.00	22.43

FINANZCASHFLOW in Mio. EUR	FY 2007	FY 2008e	FY 2009e	FY 2010e
Dividend payment	-1.56	-2.08	-2.60	-3.12
Capital increase	4.83	0.00	0.00	0.00
Interest income	-0.50	-0.50	-0.50	-0.40

Sensitivity Analysis - Fair value per share in EUR—FY 2008e

		WACC				
		8.6%	9.1%	9.6%	10.1%	10.6%
Sustainable Growth	1.0%	20.97	19.50	18.22	17.04	16.01
	1.5%	21.84	20.23	18.84	17.57	16.46
	2.0%	22.85	21.06	19.54	18.16	16.96
	2.5%	24.02	22.03	20.34	18.83	17.53
	3.0%	25.40	23.14	21.26	19.59	18.16

Conclusion

Regarding 2007 sales and income figures, the Impreglon AG has more than met our expectations. Apart from a 20 % organic growth, increase was mainly generated by acquisitions. In the current FY 2008, sales are to exceed the line of €50 m. The management aims to double sales in the next 5 years to €100 m by a double-digit organic growth as well as further acquisitions.

Furthermore, management announced a dividend raise from €0.20 to €0.30 for 2007. The low payout ratio in terms of figures is due to the planned anorganic growth. We expect further acquisitions in the current FY which has not been considered in our estimates, however. The solid structure of the balance sheet offers the company excellent possibilities.

Concerning the current FY we expect sales and operating income to increase and higher margins as well. The high investments of 2007 and 2008 regarding the expansion of production capacities should show effects in a sales increase in the second half-year.

Based on 2007 figures we increased our sales and profit estimates. We now see the fair value on basis of 2008 at €19.54 (previously: €16.64). Thus our rating for the Impreglon share is Buy.

Annex

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BUY	The expected yield, based on the calculated price target, incl. dividend payment within the corresponding time horizon
HOLD	The expected yield, based on the calculated price target, incl. dividend payment within the corresponding time horizon
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