

27 August 2007

MBB Industries AG

Acquisition of Reimelt Henschel and IPO of Delignit boost value

MBB INDUSTRIES announced a major acquisition this morning. The company acquired Reimelt Henschel, a supplier of components to the plant engineering industry with high exposure to the food and chemicals industries. Reimelt Henschel doubles the size of MBB INDUSTRIES and is 'highly profitable' according to today's press release. With the IPO of Delignit announced last week as well as today's acquisition of Reimelt Henschel, MBB Industries has built a significant and impressive track record since its IPO in exiting restructured assets as well as on the acquisition front. Last but not least it has delivered very strong FY2006 numbers with EPS up 123% y-o-y. We expect strong H1 07 results on September 18. Tentatively we raise our FY2007/2008/2009 EPS estimates by 10%, 12% and 23% assuming moderate EBIT-margin dilution and doubling of our sales estimates. We continue to value MBB Industries both on a peer group basis as well as a NAV-multiplier basis. On that basis we increase our target price from €12.7 to €14 and strongly reiterate our BUY rating.

MBB Industries AG Forecasts and multiples

Year End	Sales	EBITDA	EPS	P/E	EV/EBITDA	Yield
Dec	(€m)	(€m)	(€)	(x)	(x)	(%)
2006 A	63	9	0.59	12.4	6.5	-
2007 E	106	15	1.09	6.6	4.8	-
2008 E	171	20	1.18	6.1	3.4	-
2009 E	182	24	1.52	4.8	2.8	-
Net cash/Share ¹	-€3.5					
NAV/Share	€3.4					

Source Company, WestLB Equity Research estimates

¹ Cash/debt at end of current year

- **Acquisition of Reimelt Henschel.** Reimelt Henschel Group manufactures components and systems for handling and processing powdered and liquid raw materials for the food and chemicals industries. The company was founded already in 1810, generates more than €80m sales and is highly profitable according to today's press release. We believe that Reimelt Henschel was acquired at attractive multiples in cash and estimate that MBB Industries paid a mid-to high single-digit €m amount. At first glance Reimelt Henschel looks like an excellent business as MBB Industries continues to be active in

MBB Industries AG

Buy €7.2

(Remains Unchanged)

Target Price: €14.0

(€12.7)

RIC: MBBG.DE

Bloomberg Ticker: MBB GR

Market Cap.: €48m

EPS

Dec 2006 A €0.59

Dec 2007 E €1.09 (€1.00)

Dec 2008 E €1.18 (€1.05)

Dec 2009 E €1.52 (€1.23)

WestLB Research Estimates

Current recommendation since

Previous recommendation was

Research Analyst

Wolfgang Fickus, +49 (0)211 826 3357

CFA

wolfgang.fickus@westlb.de

Disclosures and statements required by regulatory bodies are shown on the last page

Sales

Düsseldorf: +49 211 826 4848

London: +44 20 7020 4316

New York: +1 212 4033900

niche areas. We also like the exposure to the less cyclical and high margin food and chemical industries.

- **IPO of Delignit.** MBB announced on August 23 that it plans to IPO its affiliate Delignit very probably in CY2007. We understand that MBB Industries will keep a majority stake in Delignit and will hence continue to consolidate. The IPO of Delignit will cristalize the value of a very important subsidiary. MBB will be able to partially exit a participation taken in 2002 and create an acquisition and funding currency as growth prospects remain excellent for Delignit. In addition it will make the strong profitability of MBB Industries more transparent and should hence help to re rate a stock, which is hugely undervalued in our view.
- **Facts about Delignit.** According to our estimates Delignit contributes the largest share to MBB's revenues (43.5% of sales in FY2006A). Delignit is a niche business as the bulk of MBB's investments. It manufactures 'Delignit', a special material based on beech plywood used in the automotive, construction and military markets as well as niche markets such as piano and sports equipment manufacturing. Due to production facilities in Romania Delignit boasts a highly competitive cost structure. Its exposure to the ramp up of VW/Daimler's Crafter/Sprinter production translates into excellent growth prospects. In addition MBB is targeting new markets for Delignit, i.e. as a base material for car manufacturing plants. We estimate that Delignit can grow sales by 14% organically (CAGR FY2006-2009e) over the next three years.
- **Model changes.** We adjust our earnings model cautiously as of today. While we double our sales estimates, we only increase our EPS estimates by 10%, 12% and 23% respectively leaving significant upside surprise potential in our view. Currently we assume that Reimelt Henschel will dilute EBIT-margins by about 400 basis points for the FY2007-2009 time period. However, we believe that the Reimelt Henschel acquisition will in the mid-term only mildly dilute our previous EBIT-margin assumption of 13% for the FY2007-2009 given that this company is active in a highly profitable niche as a component supplier to the food processing and chemicals industries. We will hence review our current estimates as soon as we had the opportunity to get to know Reimelt Henschel more indepth.

Model changes

(in €m)	2007			2008			2009		
	old	new	delta	old	new	delta	old	new	delta
sales	105,6	80,6	31%	170,7	86,7	97%	181,9	93,7	94%
EPS	1,09	1,00	10%	1,18	1,05	12%	1,52	1,23	23%

Source WestLB Research estimates

- **Valuation.** We continue to value MBB Industries both on a peer group basis as well as a NAV multiplier basis in line with WestLB's banking valuation model. We see potential for close to 100% performance from a fair value perspective and believe today's transactions should finally trigger better performance in the share.

Fair value range

(in €)	2007		2008			
	PER EV/EBITDA	EV/sales	PER EV/EBITDA	EV/sales		
German industrials peer group	17,63	13,46	13,73	15,37	16,44	21,75
German furniture peer group	21,20	11,60	18,56	12,48	11,60	16,74
fair value per share (in €)	19,41	12,53	16,14	13,93	14,02	19,24
Holding discount (10%)	1,94	1,25	1,61	1,39	1,40	1,92
fair value per share (in €)	17,47	11,28	14,53	12,53	12,62	17,32

Source WestLB Research estimates

Target price calculation

	2007	2008
Valuation on a peer group basis	14,43	14,16
Valuation on a NAV multiplier basis	11,77	15,67
average	13,10	14,91
share price target	14,00	

Source WestLB Research estimates

Financial factbook

valuation multiples	2005	2006	2007e	2008e	2009e
EV/EBIT	7,1	10,7	6,2	5,0	3,6
EV/EBITDA	3,7	6,7	4,3	3,2	2,4
EV/sales	0,5	1,0	0,6	0,37	0,32
EV/capital employed	0,5	1,2	1,1	1,0	0,9
PER	0,0	12,8	6,6	6,1	4,7
Price to Book		1,4	1,1	0,9	0,8
Margins	2005	2006	2007e	2008e	2009e
EBIT (in €m)	2,39	5,65	10,23	12,68	16,15
EBIT-margin	6,5%	9,0%	9,7%	7,4%	8,9%
EBITDA (in €m)	4,63	9,01	14,67	19,67	23,61
EBITDA-margin	12,6%	14,3%	13,9%	11,5%	13,0%
capital returns (%)	2005	2006	2007e	2008e	2009e
Return on capital employed (RoCE)	6,5%	11,2%	18,0%	19,8%	24,1%
Return on assets (RoA)	5,7%	7,7%	12,2%	12,1%	13,2%
Equity return according to DuPont Model	2005	2006	2007e	2008e	2009e
pre-tax profit margin (PBT/sales) x	6,5%	6,9%	8,9%	6,8%	8,3%
asset turnover (sales/assets) x	0,9	0,9	1,3	1,6	1,5
financial leverage ratio (assets/equity) x	2,7	2,1	1,9	2,0	1,9
(1-tax rate)	82,7%	92,9%	79,1%	69,0%	68,0%
= RoE	12,8%	11,8%	16,7%	15,3%	16,4%
balance sheet ratios	2005	2006	2007e	2008e	2009e
equity ratio (in %)	37,3%	46,9%	51,7%	48,5%	51,9%
book value per share (in €)	2,35	5,21	6,76	7,98	9,54
net debt (+)/net cash (-)	16,961	11,109	23,057	19,810	17,640
gearing (net debt/equity) (%) before pension funding gap	110%	32%	52%	38%	28%
net gearing (net debt/net equity) (%)	133,0%	41,0%	51,7%	37,6%	28,0%
Current ratio (current assets/current liabilities) (%)	0,5	1,0	1,1	1,1	1,2
net working capital	2005	2006	2007e	2008e	2009e
inventories (in €m)	6	14	21	35	37
(+) receivables (in €m)	3	8	10	16	17
(-) payables (in €m)	4	11	14	29	32
= net working capital (in €m)	5,282	10,777	17,315	21,359	21,657
delta net working capital (in €m)	-5,282	-5,495	-6,538	-4,044	-0,298
WC% of sales	14,3%	17,1%	16,4%	12,5%	11,9%
Cash flow analysis	2005	2006	2007e	2008e	2009e
operating cash flow (in €m)	7,0	-0,5	-0,2	8,9	15,3
- CAPEX (in €m)	-20,7	-2,0	-2,2	-2,5	-2,5
= free cash flow (in €m)	-13,769	-2,550	-2,419	6,448	12,809
free cash flow (in % of sales)	-37,4%	-4,1%	-2,3%	3,8%	7,0%
free cash flow yield (in % of market cap)	18,9%	-1,0%	-0,5%	18,8%	32,2%
management of net working capital	2005	2006	2007e	2008e	2009e
DSOs	33	47	35	33	33
inventory days	-138	-145	-130	-135	-135
payable days	41	63	48	62	64
inventory (in % of sales)	16,5%	21,6%	19,9%	20,3%	20,3%
receivables (in % of sales)	9,0%	12,8%	9,6%	9,2%	9,1%
payables (in % of sales)	11,2%	17,3%	13,2%	17,0%	17,5%
capital employed	2005	2006	2007e	2008e	2009e
PP&E (in €m)	28,198	31,974	32,225	35,227	37,770
(+) intangible fixed assets (in €m)	3,086	7,473	7,473	7,473	7,473
(+) net working capital (in €m)	5,282	10,777	17,315	21,359	21,657
= capital employed (in €m)	36,566	50,224	57,013	64,059	66,900
capital employed turnover	1,01	1,25	1,85	2,66	2,72
enterprise value	2005e	2006	2007e	2008e	2009e
market capitalisation (in €m)	0,000	49,500	47,520	47,520	47,520
(-) interest bearing assets (in €m)	0,339	10,463	5,939	5,086	11,161
(+) interest bearing liabilities (in €m)	16,300	20,573	20,496	20,396	20,301
(+) operating lease commitments	1,000	1,000	1,000	1,000	1,000
= enterprise value (in €m)	16,961	60,609	63,077	63,830	57,660

Source WestLB Research estimates

Published by: WestLB AG, Herzogstrasse 15, D-40217 Düsseldorf, Germany. Tel: +49 (0)211 826 71841. WestLB AG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht and by the Financial Services Authority. It is regulated by the Financial Services Authority for the conduct of UK business.

This research report was prepared by WestLB AG, an affiliate of WestLB Securities Inc (WSI) or other person that may not be registered as a broker-dealer in the United States. The company that prepared this report may not be subject to US rules regarding the preparation of research reports and the independence of research analysts.

RIDER: WSI accepts responsibility for the contents of this research report to the extent that it is delivered to a person that is not a major US Institutional Investor or a "US Institutional Investor", as those terms are defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, or to any person resident in the state of California, Colorado, Louisiana, New Mexico, Ohio, Tennessee or Vermont.

Any US person who desires to effect transactions in any security in this report should write or call WSI, 1211 Avenue of the Americas, New York, NY10036, phone (212) 403 3939.

The relevant research analyst(s), as named above, certify that (a) all of the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this report; and (b) no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views expressed by them in this report.

The remuneration of WestLB Research Analysts is not related to specific investment banking transactions. It is in part linked to the overall profit made by the firm, which includes the profit of the Investment Banking Department.

WestLB's investment recommendations are kept under continuous review. It follows that no date can be given for the next update of the conclusions of this report.

Disclosures of potential conflicts of interest relating to WestLB AG, its affiliates and subsidiaries (together "WestLB") as required by regulatory authorities can be accessed at http://www.westlb.de/disclosures_eq_en/ or obtained by writing to the Compliance Department address above.

Disclosures valid as of the end of the month prior to publication of this report (updating this information may take up to ten days after month end):

WestLB during the last twelve months has provided or agreed to provide investment banking services, for which it has received or will receive compensation, to MBB Industries AG.

WestLB acts as designated sponsor, broker or financial adviser to MBB Industries AG.

WestLB makes a market in the shares of MBB Industries AG.

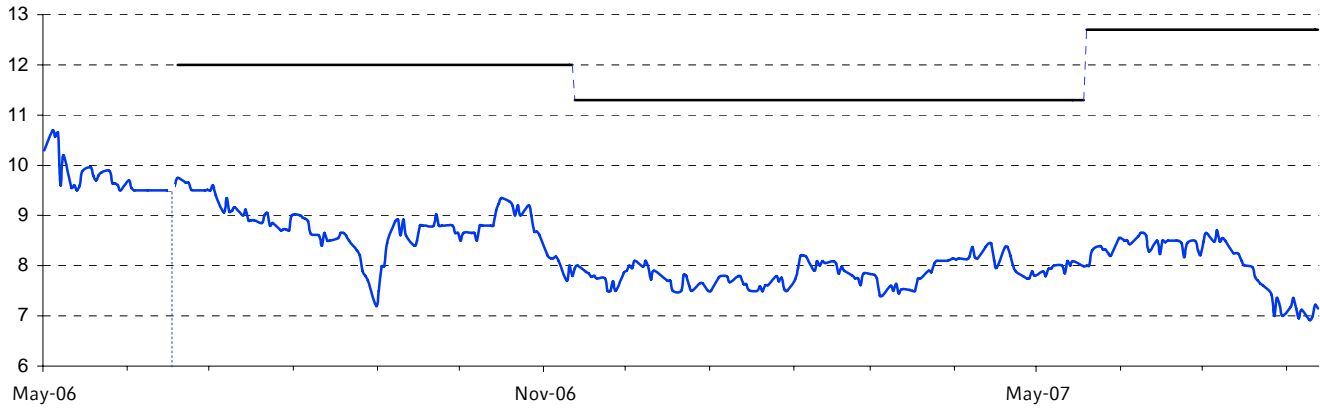
WestLB expects to receive or will seek compensation for investment banking services during the next three months from MBB Industries AG.

MBB Industries AG may during the last twelve months have been a client of WestLB. During this period WestLB may have provided MBB Industries AG with non-investment banking securities related services and/or non-securities services, for which WestLB may have received compensation.

WestLB's Policy on Management of Conflicts of Interest in Research (the Research Policy) is available at http://www.westlb.de/research_policy_en/

Unless otherwise stated in the text, prices shown in this report are as of market close on the day before the date of publication.

MBB Industries AG MBBG.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
30-Jun-06	9.75	Buy						

Source FactSet/JCF, WestLB Research

Coverage History No Rating as of 12/05/2006
 Change of analyst as of 19 Sept 2006
 Initiation of coverage as of 30 June 2006

Disclosures valid as the month prior to publication of this report*:

- WestLB expects to receive or will seek compensation for investment banking services during the next three months from MBB Industries AG.
- WestLB during the last twelve months has provided or agreed to provide investment banking services for which it has received or will receive compensation to MBB Industries AG.
- WestLB makes a market in the shares of MBB Industries AG.
- WestLB acts as designated sponsor
- MBB Industries AG may during the last twelve months have been a client of WestLB. During this period WestLB may have provided this company/these companies with non-investment banking securities related services and/or non-securities services for which WestLB may have

* Updating this information may take up to ten days after month end.

WestLB AG
Herzogstrasse 15
D-40217 Düsseldorf
Germany

T: +49 (0)211 826 71841
F: +49 (0)211 826 6154

WestLB AG
London Branch
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom
T: +44 (0)20 7020 2000
F: +44 (0)20 7020 4209

Regulator: WestLB AG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht and by the Financial Services Authority. It is regulated by the Financial Services Authority for the conduct of UK business.

Disclosures of potential conflicts of interest relating to WestLB AG, its affiliates and subsidiaries (together "WestLB") as required by regulatory authorities can be accessed at http://www.westlb.de/disclosures_eq_en or obtained by writing to the Compliance Department at one of the addresses above.

WestLB Equity Research: Distribution of ratings as of 01 August 2007

Coverage universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy/Add	163	61	Buy/Add	44	75
Hold	81	30	Hold	13	22
Sell/Reduce	23	9	Sell/Reduce	2	3

* Companies from which WestLB AG or an affiliate or subsidiary has received compensation for investment banking services within the past 12 months.

This research report was prepared by WestLB AG, an affiliate of WestLB Securities Inc. ("WSI") or other person that may not be registered as a broker-dealer in the United States. The company that prepared this report may not be subject to US rules regarding the preparation of research reports and the independence of research analysts.

RIDER

WSI accepts responsibility for the contents of this research report to the extent that it is delivered to a person that is not a "major U.S. Institutional Investor" or a "U.S. Institutional Investor" as those terms are defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended, or to any person resident in the state of California, Colorado, Louisiana, New Mexico, Ohio, Tennessee or Vermont.

Any US person who desires to effect transactions in any security in this report should write or call WSI, 1211 Avenue of the Americas, New York, NY 10036, phone (212) 403 3939.

The relevant research analyst(s), as named on the front cover of this report, certify that (a) all of the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this report; and (b) no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views expressed by them in this report.

The remuneration of WestLB Research Analysts is not related to specific investment banking transactions. It is in part linked to the overall profit made by the firm, which includes the profit of the Investment Banking Department.

WestLB's investment recommendations are kept under continuous review. It follows that no date can be given for the next update of the conclusions of this report.

Conflicts of interest

WestLB's Policy on Management of Conflicts of Interest in Research (the Research Policy) is available at http://www.westlb.de/research_policy_en. This report complies with the Research policy.

Valuation and Risk assessment; Recommendations

Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment.

Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available if required.

Stock ratings are based on the analyst's expectation of the stock's total return during the twelve months following assignment of the rating. This view is based on the target price, set as described above, and on the analyst's opinions on general market and economic developments.

Within that overall framework, a Buy rating means that the total return from the stock is expected to exceed 20%; Add means between 10% and 20%, Hold means movement between 0% and a positive 10%, Reduce means between 0% and minus 10%; Sell means the stock is expected to return less than minus 10%.

Distribution and Use of Report

This research report has been prepared by a research department of WestLB AG. Communication in the United Kingdom is by WestLB AG London Branch. In the United Kingdom this report is available only to investment professionals, not private customers, as defined by the rules of the Financial Services Authority. Individuals who do not have professional experience in matters relating to investments should not rely on it.

This report is for information purposes only. The information contained herein has been obtained from sources believed by WestLB AG to be reliable, however no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinion or estimate expressed in this report reflects the judgement of the author or authors on the date of this report and is subject to change without notice. The past performance of securities or financial instruments is not indicative of future results. No assurance can be given that any portfolio or investment described herein would yield favourable investment results. This material is not intended as an offer or solicitation for the purchase or sale of any security, financial instrument or any other action and will not form the basis or a part of any contract.

Further information may be obtained from your usual contact within West LB AG. No part of this publication may be copied or redistributed to persons or firms other than the authorised recipient without the prior written consent of WestLB AG. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe such restrictions.

WestLB AG London Branch is a member of the London Stock Exchange and of the International Capital Market Association.

Copyright: 2007 WestLB AG. All rights reserved.