



PARAGON

paragon GmbH & Co. KGaA

Earnings Call 9M

Delbrück | November 14, 2024

Year 2024 challenging like Corona-Year 2020?

2020: OEM's plants temporarily closed for 6+ weeks -> Zero sales without any prior notice -> **No time to react**

2024: Weaker call-offs from OEMs -> Declined sales all year -> **Time to consequently react with countermeasures**

- ❑ Claims in regards of lower quantities & price increases
- ❑ Savings in material costs & through insourcing
- ❑ Optimization of processes and costs in all plants
- ❑ Reduction of temporary workers as well as direct/indirect personnel
- ❑ Relocation of production to Croatian plant

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Awaited moderate recovery of economics in automotive market in 2nd half-year has not yet materialized

... but paragon is in a robust position:

- ❑ **Increased earnings and cash flow despite decline in revenue**
- ❑ No impact by trends such as transformation/digitalization/autonomous driving/software-defined cars
- ❑ Product portfolio regardless of drive type, production not energy-intensive
- ❑ No impact from possible plant closures of large OEM (revenue share per Sep 30, 2024, only 2.9% - 2023 was 2.5%)

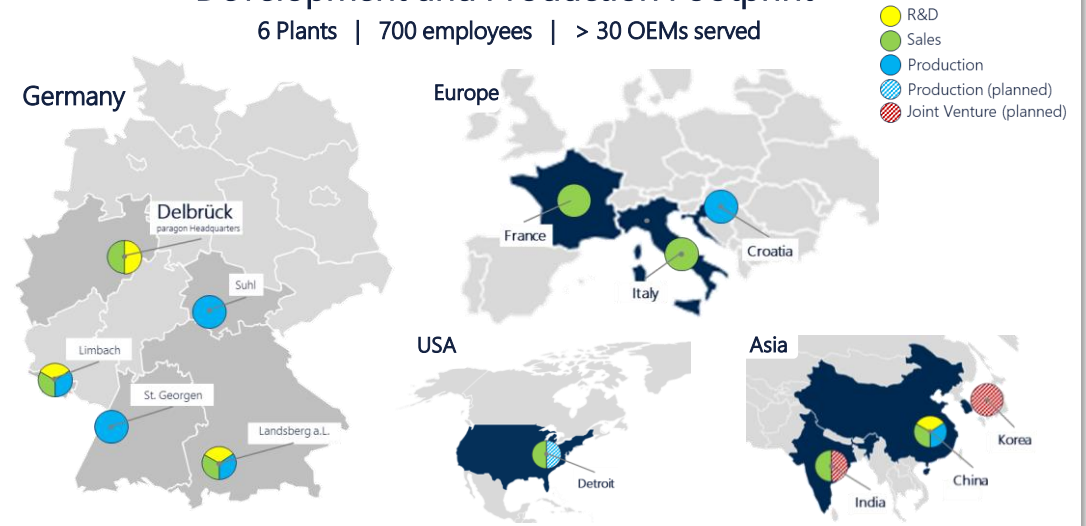
Overview

Business Description

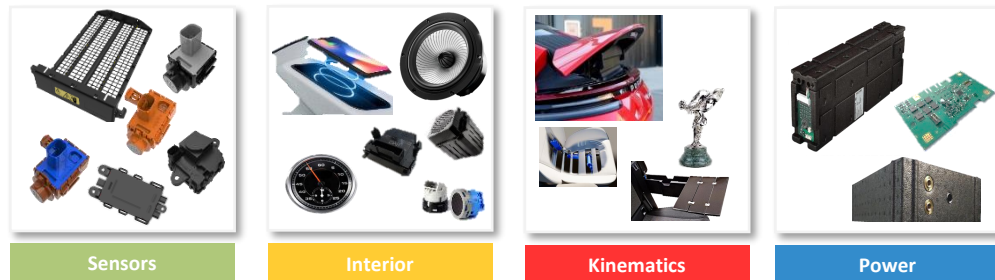
- ❑ paragon is a **product pioneer** for the automotive industry with long lasting relationships with a high number of blue-chip customers
- ❑ The company proactively develops **proprietary products along the global megatrends** to address issues the premium automotive OEMs may not even have considered yet
- ❑ paragon has strong engineering and deep value creation capabilities that enable variable **innovative solutions across car lines and customers**
- ❑ **Booked business until 2028 amounts to > EUR 750m**
- ❑ Currently, paragon is working in parallel on **advanced engineering projects and paid proof-of-concepts ("POC")** on a record-breaking level
- ❑ These projects reflect a **potential order volume** over lifetime in total of **EUR 880m**

Development and Production Footprint

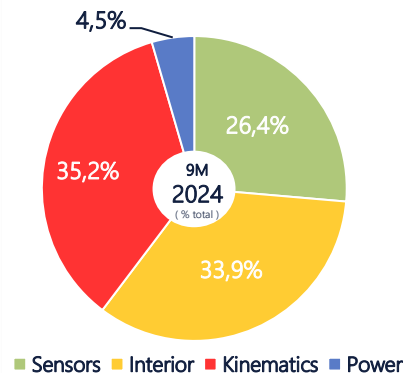
6 Plants | 700 employees | > 30 OEMs served



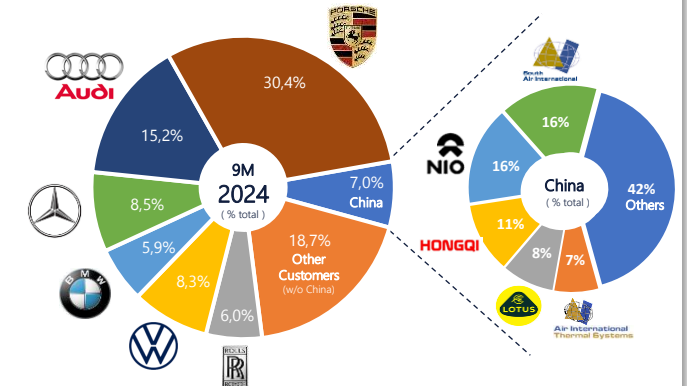
Broad Product Portfolio



Revenue (by Business Unit)



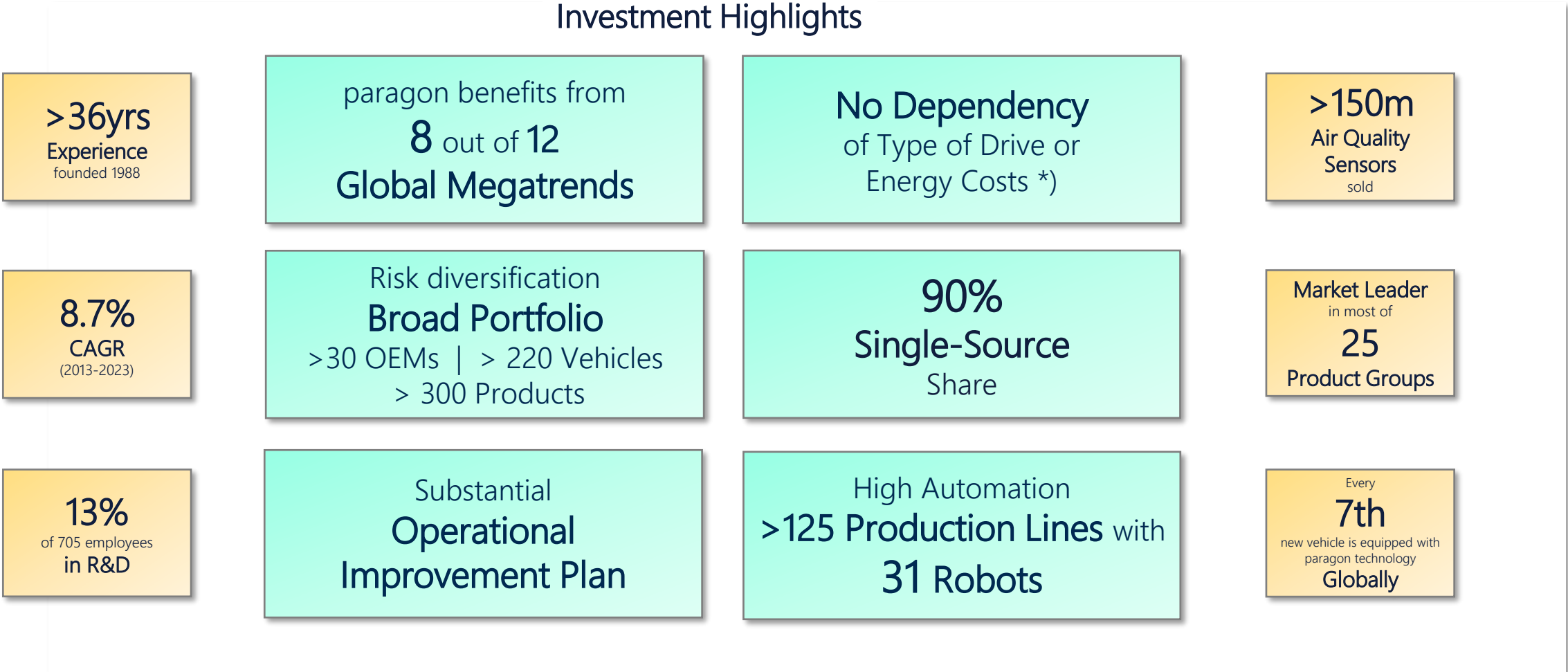
Revenue (by Customer)



Executive Summary

paragon in a Nutshell

Investment Highlights



The Products and Customers

Product Portfolio Today - Overview

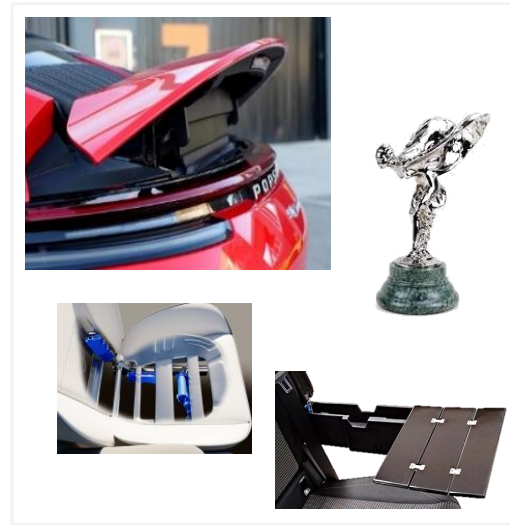
*) ... of 9M/2024 revenues



Sensors 26.4%



Interior 33.9%



Kinematics 35.2%

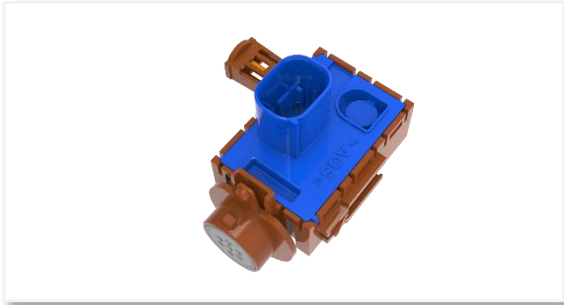


Power 4.5%

In-Cabin Wellbeing

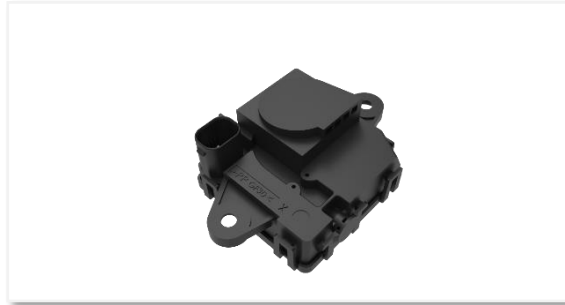
CO₂-Reduction

Product Portfolio Today - Sensors



Air Quality Sensor

- Automatic control of the vehicle recirculation flap
- Reduction of dangerous emissions inside the cabin
- Advanced technology for detection of toxic gases and unpleasant smell
- High-sophisticated SW-algorithms for detection of special traffic situations
- Over 150 million pcs. produced



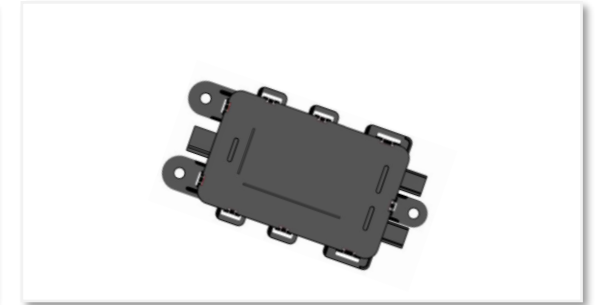
DUSTDETECT

- Measurement of particulate matter outside and in-cabin
- Exterior and interior installation
- Laser sensor with optical particle counting
- Size discrimination PM1, PM2.5 and PM10



DUSTPROTECT

- High-voltage plasma filter cleans air inside vehicle's cabin by filtering particles and viruses
- Much better than state of the art filtration systems
- Saving space, energy, waste and costs in comparison to HEPA
- Constant efficiency over lifetime



Air Quality Improver

- Fresh air effect by artificial ionization
- Enhancing of well-being of vehicle passengers
- Fine dusts, gases and smells are bound by negative ions
- Reduction of germs and bacteria in vehicle interior through physical air treatment

World market leader for In-Cabin Air-Quality

The Products and Customers

Product Portfolio Today - Interior



Loudspeakers

Broad product spectrum incl. sound systems and signal processing

Tweeters, midranges, woofers, subwoofers, headrest and ultimate speakers

Special solutions like exciters, air motion transformers, high-temperature exhaust speakers, external speakers for e-vehicles

Small to high volumes, entry to award-winning high-end levels

White label branding possible (e.g. B&O, Bespoke Audio, ETON)



Microphones

Multiple use cases such as voice assistance, vehicle noise control, handsfree and in-car communication, road and wind noise cancellation, external microphones for autonomous driving

Clever combination of acoustical mechanics and adaptive electronic filter

Very low wind sensitivity by active and passive elements

Analogue and digital interfaces

Cutting edge tech and efficient manufacturing



Instruments

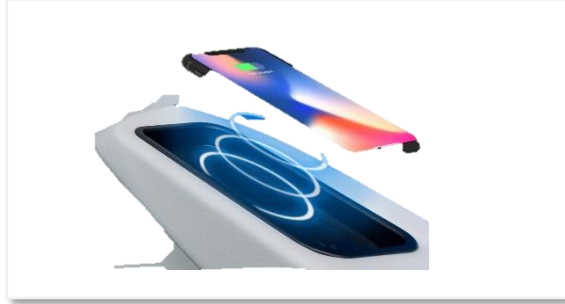
Market leader with very well-known chronometers, analogue clocks, compasses and control applications

The choice for premium and luxury cars

Many more analogue and hybrid instruments for any use case

Own design team to meet any customer requirement

Inhouse stepper motor and plastic parts development and mass production



Wireless Charging

High efficiency wireless charger based on Qi-standard

Patented active cooling system

Self diagnostic

Member of Wireless Power Consortium (WPC) since 2013

In-Cabin Wellbeing

Product Portfolio Today - Kinematics



Spoilers

Electro-mechanical systems for high variety of vehicles

Application in sportscars, hatch, station cars, SUVs, e-vehicles and trucks

High innovation and realization competence

Range extension for e-vehicle by reduction of air resistance



Actuators

Drive systems for active spoilers and seat adjustment

Integrated electronics and sensors for advanced vehicle architecture

Multi-stage gear reduction with powerful DC-motors

Fast operation of heavy loads



Folding Tables

Special folding system to minimize space

Various electronic interfaces (wireless charging, USB-C, displays and keyboards)

Lightweight through use of magnesium and aluminum

Resists head impact

Meets various crash requirements



Special Kinematics

Tailor-made solutions with cost-effective development

Electrical lowering mechanism of hood ornament

Anti-theft and pedestrian crash protection

Wind deflectors for convertible cars and motorcycles

Easy operation with 3D-movement

High-sophisticated Kinematics for Exterior and Interior

The Products and Customers

Product Portfolio Today - Power



Battery Management Systems

- Huge background with ECU projects
- Predictive algorithms
- Intelligent balancing
- SW-based safety concept incl. top-edge SOC/SOH-calculation
- New quiescent current concept (deep-sleep and transport modes for extended shelf life)



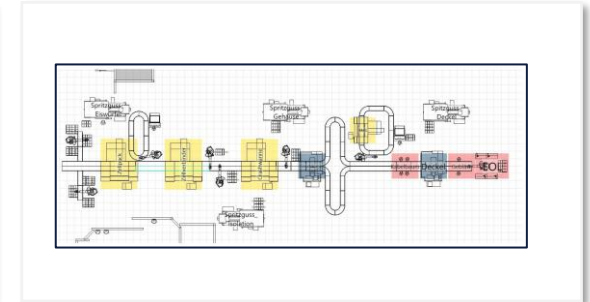
Traction Batteries

- Lightweight concepts
- Use of Flow-Shape-Design technology
- Embedded battery safety
- "Lord of the cells" battery management



Flow-Shape-Design

- Expanded foam as case for battery systems and modules
- Substitution of conventional metal housing
- Less weight/space/costs
- Absorption of shocks/vibration/temperature
- Licenses available



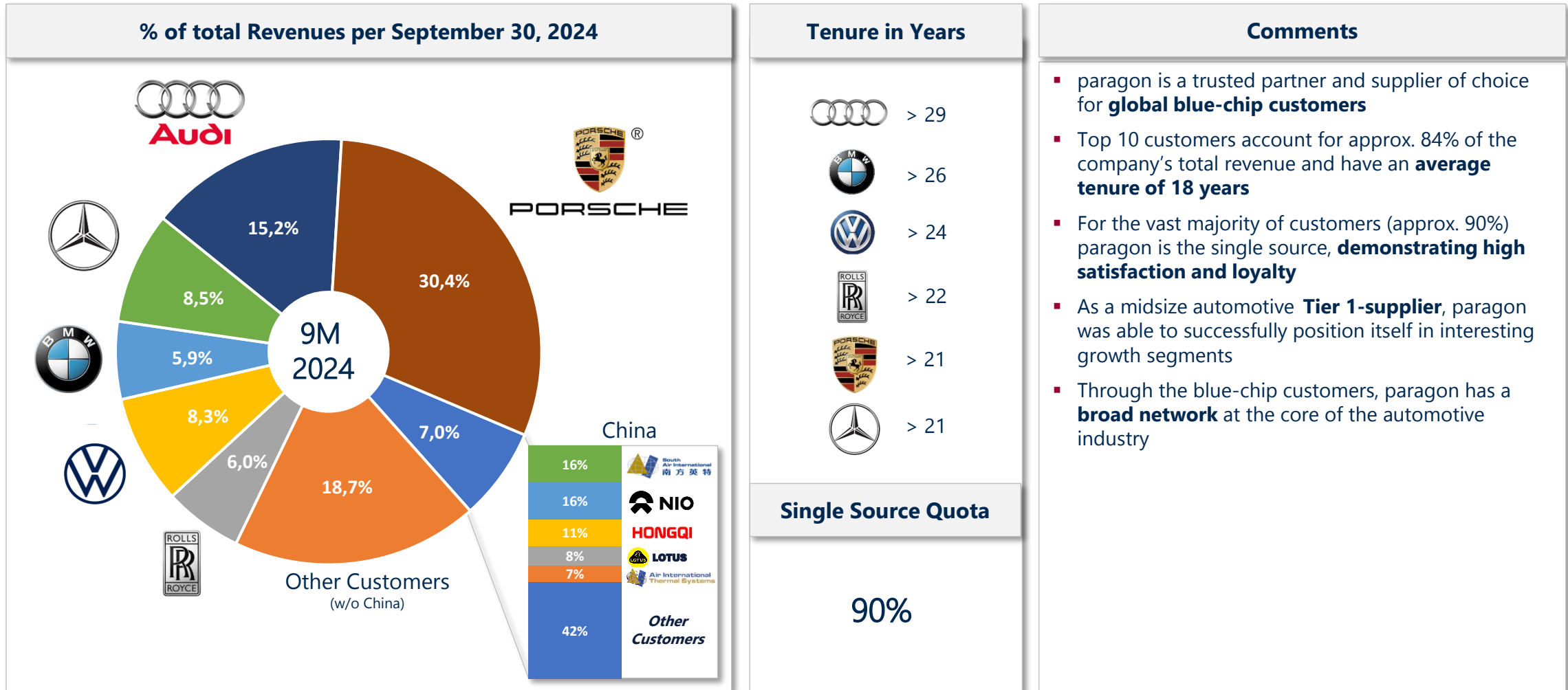
Consulting

- Technology transfer in regards of Flow-Shape-Design
- Projecting and realization of production lines
- In-house production of test equipment
- Turn-key projects

Game-Changing Battery Technologies

The Products and Customers

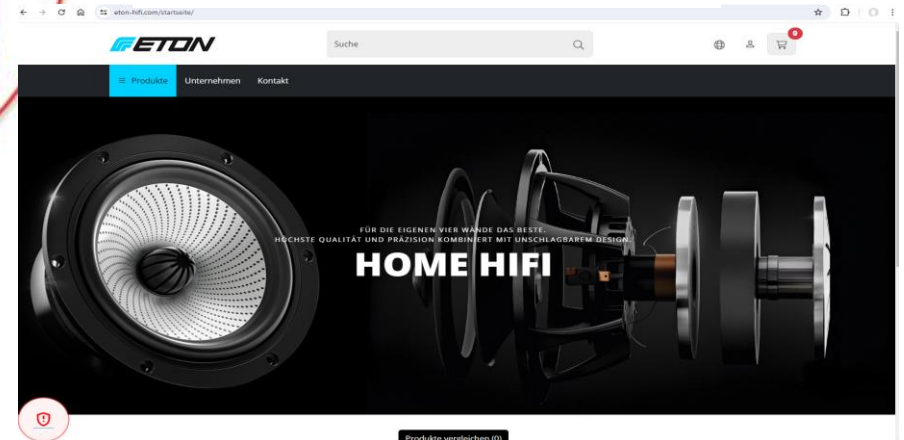
paragon's Premium Automotive Customers



TELEFUNKEN: 2nd Sales Channel and Merchandise



- ➔ License Agreement granted for EU/UK/Norway/Switzerland
- ➔ Loudspeakers, Amplifiers & Headphones



“Improved earnings and cash flow
despite decline in revenue”

“Breakeven reached in 3rd quarter”

“Positive operating cash flow at
EUR 8.1m”

P&L Development paragon – First Nine Months 2024

Income Statement in MEUR	Q3/2023	Q3/2024
Revenues	122,0	106,3
Other own work capitalized	1,7	4,9
Change of finished goods	0,6	-0,5
Other operating income	9,7	3,3
Total operating performance	134,0	114,0
Costs of materials	-68,4	-58,2
Personnel expenses	-34,0	-29,6
Other operating expenses	-15,3	-13,3
EBITDA (cont. Operations)	16,3	12,9
Depreciation & amortization	-10,8	-9
EBIT	5,5	3,9
Interests	-9,3	-4,6
Taxes	1,2	-0,3
Earnings (continued operations)	-2,6	-1,0
(Discontinued operatins)	7,0	N.A.
Earning (cont. & disc. operations)	4,4	-1,0

Comments	
❑	Revenues fell to EUR 106.3m after 9 months (9M/2023: EUR 122.0m) due to last year’s sale of starter battery business and reduced customer call-offs (mainly reduced volumes of different kinematics for a German premium OEM)
❑	Cumulative EBITDA-ratio increased from 11.3% (H1/2024) to 12.2%; EBITDA now at EUR 12.9m – previous period was EUR 16.3m and ratio 13.3%
❑	Earnings from continued operations in 3 rd quarter at break-even
❑	Cash flow from operating activities increased to EUR 8.1m (previous period: EUR -5.4m)

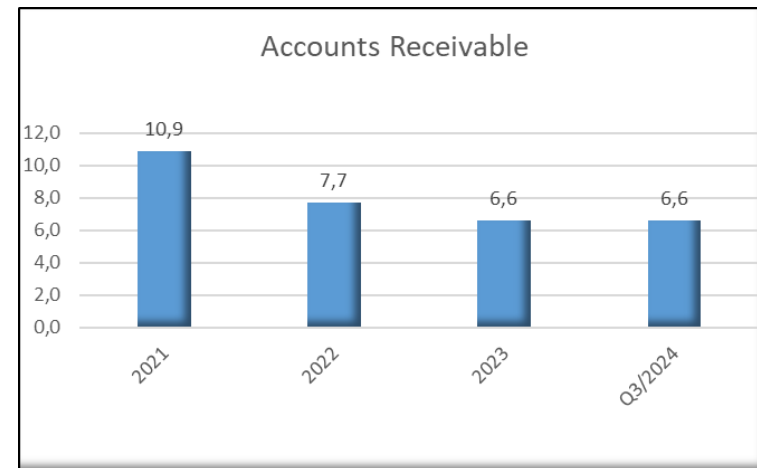
Focus on Working Capital Management

– Inventories & Contract Assets

- ❑ Inventory management activities prove to be successful with a further decrease of 22% since December 2023
- ❑ Further inventory management activities are ongoing. Continuous further improvements are achievable

– Accounts Receivable

- ❑ Current DSO (days sales outstanding) of 16.3 days seems to be a base line for paragon



Intangible Assets further decreased

– Intangible assets

- ❑ 2022: Decrease of EUR 13.7m due to sale of paragon semvox to CARIAD
- ❑ 2023: Decrease of EUR 3.7m due to planned amortization as well as the asset deal with Clarios
- ❑ Q3 2024: Maintaining current levels of development projects to create sustainable future

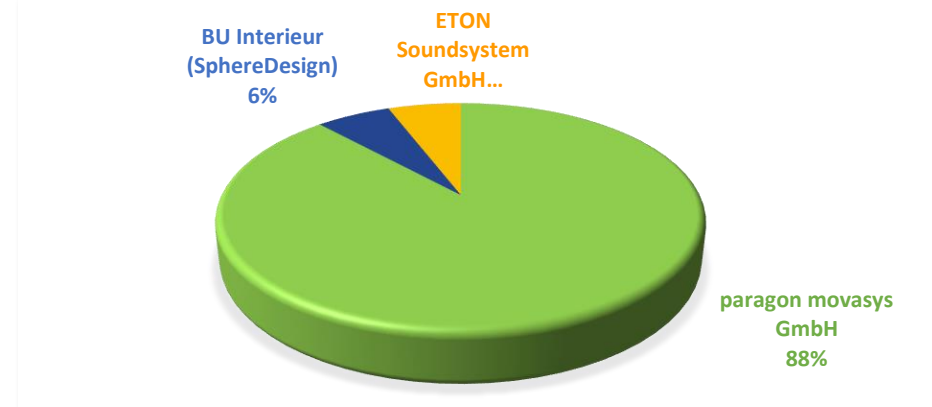
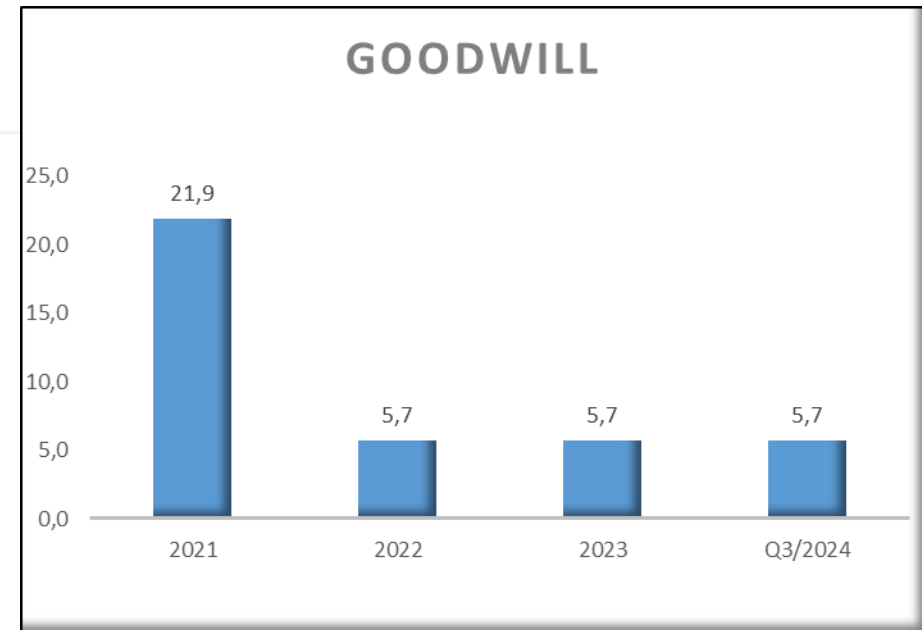


The Financials

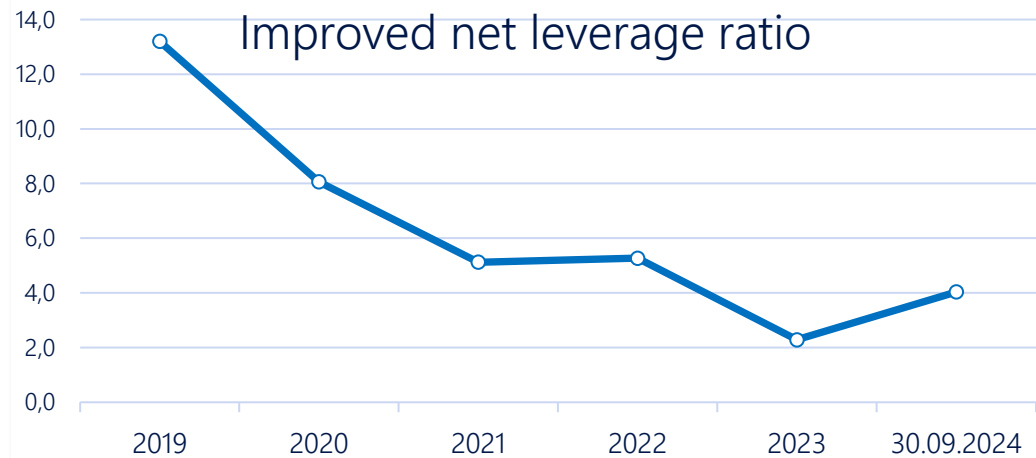
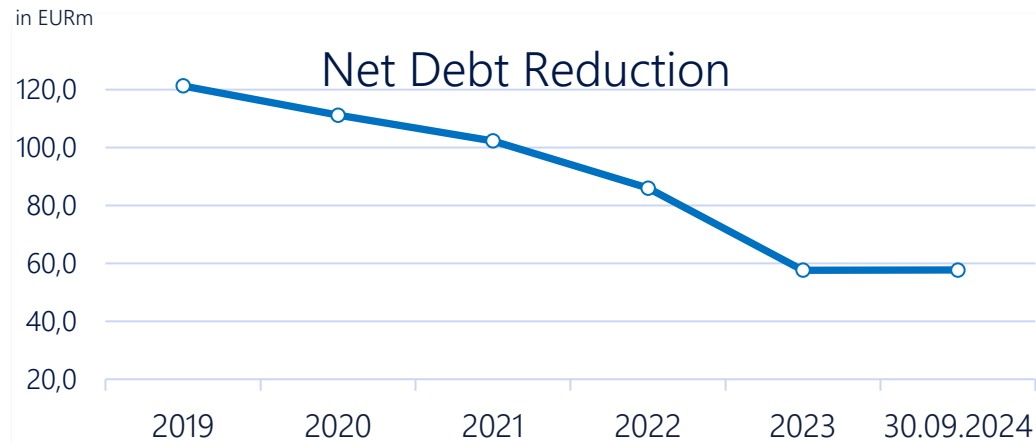
Goodwill reduced

Inventories

- ❑ Goodwill amounts to EUR 5.7m
- ❑ Goodwill related to paragon semvox GmbH (EUR 16.1m) (73.5%) sold to CARIAD SE
- ❑ Reduction of Goodwill by appr. ¾ (EUR 16.1m)
- ❑ EUR 5.1m relates to paragon movasys GmbH (largest BU)
- ❑ EUR 0.3m each are attributable to SphereDesign GmbH and ETON Soundsysteme GmbH



Substantial Debt Reduction



Comments

– Net Debt Reduction

- ❑ Since end of 2019 net debt was reduced by more than 50% from EUR 121.3m to EUR 57.7m
- ❑ Average monthly reduction in the last 57 months was EUR 1.1m
- ❑ paragon has achieved a solid base

– Improved Net Leverage Ratio (“NLR”)

- ❑ NLR significantly improved from 13.2 to 2.3 at the end of 2023 due to reduced debt level and improved profitability
- ❑ Interest rate of bond depends on net leverage ratio; Reduced NLR led to an interest rate of 7.5% from Jan 5, 2024, onwards
- ❑ Q3 NLR of 4.0 is temporary; NLR by year end is decisive

EUR-Bond: Buy-back Program

- Nominal-Volume: EUR 50.0m
- Details:
 - Nominal volume (“Rahmennominal”) reduced to EUR 45.2m in 2023
 - ❑ Interest rate dependent on net leverage ratio confirmed by auditor at year end
 - ❑ Down from 9.25% to 7.5% from January 5, 2024, on
 - ❑ Bond is due July 5, 2027
- Buy back program:
 - Actual terms and conditions give paragon the right to chose from different options to reduce the outstanding volume after selling paragon semvox GmbH**
 - ❑ Current repurchasing program of EUR 20.1m fulfills terms and conditions completely
 - ❑ paragon has to comply with the Market Abuse Regulation; daily trading is limited - until Sept 30, 2024 paragon acquired EUR 0.705m
 - ❑ If repurchasing program isn’t successful until July 5, 2025, program could be prolonged or followed by a second repurchasing program
 - ❑ Only final maturity in three years is decisive – too far away in time as anyone could have an already fixed solution on hand
 - ❑ paragon has different options for repayment in 2027 in mind (new bond, syndicated loan, or combination of both)

Very unsatisfactory: Share Price & Bond Price

- ❑ Decline of share price in last 12 months: **./.** 54.0%
- ❑ Decline of bond price in last 12 months: **./.** 51.2%

- ❑ Market doesn't honor yet facts like...
 - ❑ Debt reduction from EUR 121.3m (end of 2019) to EUR 57.7 (as of Sept 30, 2024)
 - ❑ Improved earnings and cashflow despite strong headwinds and decline in revenue
 - ❑ No impact by trends such as transformation/digitalization/autonomous driving/software-defined cars
 - ❑ Product portfolio regardless of drive type, production not energy-intensive
 - ❑ No impact from possible plant closures of large OEM

Our View – Our Expectations

No further decline of customer's call-offs visible

FY 2024e revenues now expected at EUR 135 to 140m

FY 2024e EBITDA forecast unchanged at EUR 18 to 20m

FY 2024e earnings after interest and taxes expected slightly positive

2025e: Increase in net income, stable to slightly higher revenue

The Outlook

Our Targets

paragon targets to strengthen its resilience:

- ❑ Sustainable achievement of **positive net income and high operative cash flow** – even with less revenues
- ❑ Accomplish **solid finance position**
- ❑ Transition to **flexible planning** and production – as reaction to less confidence on customer's forecasts
- ❑ Continuation of perpetual **optimization of processes**
- ❑ Achieving mid-term budget plan in challenging environment by...
 - ❑ Broadening **activities in China** to use shifting of market
 - ❑ **Regional expansion** to USA and India (New markets – new cooperations)
 - ❑ **New products** for automotive and other markets with cristal clear USPs
 - ❑ Growing use of licensed **brand TELEFUNKEN** (from 2025 onwards)

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The background of the entire page is a long-exposure photograph of a tunnel. The perspective is from the center of the tunnel, looking towards the bright exit. The walls and floor of the tunnel are blurred into streaks of light, primarily in shades of blue and purple, with some orange and yellow light trails near the exit. The sky at the end of the tunnel is a bright, clear blue.

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