

paragon Solidly Reaches Double-Digit Growth in 2019 Even With Shrinking Overall Market – Robust First Quarter of 2020 Despite Coronavirus

- **The automotive business shows strong development in a declining overall market – growth of 16% to € 139.5 million**
- **Mechanics operating segment with significant growth in external revenue of around one-third – revenue in the Acoustics segment increases by 37%**
- **EBIT considerably burdened in particular by the announced balance sheet adjustment at subsidiary Voltabox – unadjusted EBIT of € -119.9 million, adjusted EBIT margin of -3.3%**
- **Adjusted EBITDA margin of 8.9% – unadjusted -4.4%**
- **First quarter only around 3% below the prior year despite production standstill in the second half of March; revenue of € 29.5 million with an EBITDA margin of 6.8%**
- **Focus on target “The paragon 2021” sharpens market presence and expands portfolio**
- **Forecast for 2020 confirmed: Automotive revenue between € 105 and 115 million with an EBITDA margin of 8 to 12%**

Delbrück, Germany, August 20, 2020 – paragon [ISIN DE0005558696] presented the consolidated financial statements for fiscal year 2019 and the financial statements for the first quarter of 2020 today. In 2019, the company was able to successfully continue its growth in the automotive business in recent years. In the first quarter of 2020, the company only barely missed the revenue from the previous year despite the widespread production stops implemented by vehicle manufacturers. For the second half of the year, the Management expects a significant improvement of the revenue and earnings situation – also considering the increasing effects from the efficiency enhancement program. In this context, the company refers to the half-year report due for publication on September 4.

In 2018, paragon Automotive achieved a revenue increase of 18% over the previous year. The good revenue development in the operating segment Mechanics was a key factor in the company’s continued growth in fiscal year 2019. The largest operating segment, Electronics, continued to dominate Group activities with revenue of € 94.2 million. Of this amount,

€ 89.8 million was attributable to third-party revenue in the Sensors, Interior and Digital Assistance units. While the Sensors business unit recorded a slight decrease due to life cycle effects, revenue in the Interior business unit increased as a result of take-rates rising by 4.1% to € 52.1 million. Here, the Acoustics department in particular developed well and grew by 37.1% to € 22.9 million. The new Digital Assistance unit contributed to revenue with an increase of 244.1% to € 4.2 million.

Revenue in the Mechanics operating segment totaled € 46.1 million for third parties. With an increase in growth of 31.7%, this operating segment achieved particularly strong growth. In the 2019 fiscal year, serial production of the newest generation of spoiler drive systems was a big revenue driver. Furthermore, revenue from the realization of development projects was generated in the amount of € 6.5 million.

“We overcame the challenges we faced in 2019, drew the right conclusions from the developments and continued to successfully develop our automotive business. That is something we can build on. The coronavirus pandemic will only be a temporary obstacle for us. Our measures have long been directed toward our target – “The paragon 2021.” In future, we will be able to show the diversity of our products and potential for synergies in our solutions portfolio with more straightforwardness,” says Klaus Dieter Frers, CEO and founder of paragon.

As a consequence of the substantial and partially project-related uncertainties, Voltabox AG – which represents the soon-to-be-discontinued Electromobility segment – revised its business planning for subsequent years with significantly more conservative assumptions. This resulted in a need for extraordinary write-downs of € 80.7 million in fiscal year 2019. The EBIT of paragon Automotive was burdened in particular by previously reported additional costs from product start-ups as well as consolidation and integration costs. The EBIT margin adjusted for these one-time effects is -1.8%.

Meanwhile, the process initiated to sell the shares in the subsidiary Voltabox is making good progress. The company is engaged in talks at an advanced stage. As announced, the Management expects to close the transaction in the third quarter.

At the beginning of 2020 and before the shutdown caused by the spread of the coronavirus, paragon initially managed to continue its above-average growth. However, this positive start to the year ground to an abrupt halt by mid-March through the announcement of plant closures by paragon customers. The revenue losses resulting from the subsequent temporary interruption of production at the paragon sites had an immediate impact on the results of the first quarter. In the first three months, the revenue in the Automotive business amounted to € 29.5 million – only 3% below the prior year's figure. With an EBITDA of € 2.0 million, the corresponding margin came to 6.8%.

“The top priority is the health of our employees,” emphasized Dr. Matthias Schöllmann, Managing Director of Automotive. “Our company has proven fortunately robust against the considerable global impact of the coronavirus crisis. Today, we are already producing at a very good level again. On the basis of our robust customer base, the implemented measures to increase efficiency and our product range, our operational business is very well positioned.”

In fiscal year 2019, other operating income decreased by 4.8% to € 6.9 million (prior year: € 7.2 million), while capitalized development costs increased to € 19.1 million (prior year: € 15.7 million) as a result of the necessary technological development. The cost of materials increased by 29.5% to € 137.2 million, particularly due to a margin decrease in the Electromobility operating segment (prior year: € 105.9 million). This results in a gross profit for fiscal year 2019 of € 90.1 million (prior year: € 113.5 million), which constitutes a gross profit margin of 46.9% (prior year: 60.6%).

Earnings significantly affected by impairment effects

Personnel expenses increased by 14.7% to € 59.8 million (prior year: € 52.2 million) as a result of the full consolidation of three subsidiaries throughout the year. The personnel expense ratio increased accordingly to 31.1% (prior year: 27.8%).

Other operating expenses increased by 24.3% to € 38.6 million (prior year: € 31.1 million). This was due in particular to the measurement of currency and receivables as well as higher insurance costs. Therefore, unadjusted earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to € -8.4 million (prior year: € 30.3 million), which corresponds to an EBITDA margin of -4.4 % (prior year: 16.2 %).

After increased depreciation and amortization totaling € 22.2 million (prior year: € 14.4 million), earnings before interest and taxes (EBIT) decreased to € -119.9 million (prior year: € 14.8 million). The unadjusted EBIT margin therefore decreased to -62.4% (prior year: 7.9%).

Due to increased finance costs, the financial result was € -6.9 million (prior year: € -4.2 million) as a result of the new issuance of the Swiss bond in the amount of CHF 35 million. The paragon Group generated a consolidated net income of € -123.5 million (prior year: € 3.4 million) in the reporting period. This corresponds to earnings per share of € -18.29 (prior year: € 0.52).

Significant reduction of working capital

The paragon Group's assets decreased by 24.4% to € 274.1 million as of the end of the reporting period (December 31, 2018: € 362.3 million), mainly due to depreciation, amortization and write-downs and impairment of intangible assets and inventories and lower trade receivables.

Noncurrent assets decreased to € 166.9 million (December 31, 2018: € 176.7 million). This resulted from write-downs on intangible assets and goodwill. Property, plant and equipment increased from € 50.5 million to € 69.3 million. This was mainly due to the additions in the amount of € 24.0 million resulting from the initial application of IFRS 16.

Current assets decreased to € 107.2 million (December 31, 2018: € 185.6 million). This is attributable to the 24.0% decrease in inventories to € 44.8 million (December 31, 2018: € 58.9 million) resulting from devaluations in the Electromobility operating segment. The 36.3% decrease in trade receivables to € 45.0 million (December 31, 2018: € 70.7 million) resulted from the planned reduction of payment terms for Voltabox customers.

Equity decreased to € 52.6 million (December 31, 2018: € 177.8 million) particularly as a result of a significantly lower consolidated net income of € -82.8 million (December 31, 2018: € 2.3 million). The equity ratio, which also decreased due to the initial application of IFRS 16, amounted to 19.2% as of the reporting date (December 31, 2018: 49.1%).

Noncurrent provisions and liabilities rose to € 143.5 million (December 31, 2018: € 100.1 million), due in particular to the increase of liabilities resulting from bonds to € 82.6 million (December 31, 2018: € 49.9 million) following the issue of the bond in Swiss francs. The increase in noncurrent lease liabilities in the amount of € 19.4 million (December 31, 2018: 0.9 million) resulted in particular from the initial application of IFRS 16.

Current provisions and liabilities were reduced to € 78.0 million (December 31, 2018: € 84.4 million). In addition to the 30.3% reduction in current loans to € 28.9 million (December 31, 2018: € 41.4 million) due to repayments and maturities, trade payables increased by 17.2% to € 33.1 million (December 31, 2018: 28.2 million) as a result of longer payment periods.

Cash flow significantly improved compared to the prior year

Cash flow from operating activities improved in the period under review to € -14.1 million (prior year: € -53.5 million). Taking into account the € 137.4 million decline in earnings before taxes (EBT) as well as an increase in depreciation of fixed assets, this development was attributable in particular to a decrease in trade receivables and inventories.

Cash flow from investment activity decreased in the period under review to € -35.4 million (prior year: € -73.4 million). This development resulted from lower investments in intangible assets and lower payments for business combinations. The Management had forecast an investment volume (CAPEX) of around € 40 million for the year under review, which was exceeded by 6.9% with EUR € 42.8 million.

This results in a free cash flow of € -55.4 million (prior year: € -102.3 million).

Well positioned for the year of the crisis

In the Sensors business unit, paragon is aiming to expand its market share through an additional series launch of the AQS air quality sensor. While six new product start-ups in the volume and premium segment are planned for fiscal year 2020 within the Interior unit in the Acoustics department, the Cockpit department expects a total of 16 new series launches in the volume and premium segment. Furthermore, the award-winning ETON Core S3 speaker will be included in the distribution of a paragon cooperation partner who is the European market leader for aftersales car HiFi. Series production starts in the Cockpit department include the production of the world's first truck infotainment and interior remote control system. Following the successful completion of the pilot series, the Body Kinematics unit is continuing the industrialization of a new drive unit for the spoiler of a high-performance vehicle from a premium German OEM. The new Digital Assistance unit is planning the start of series production for 15 products in the volume and luxury segment in 2020.

The Management had previously retracted its original forecast during the year in course in light of the at one point massive effects of the coronavirus pandemic. Based on updated customer orders, the Management expects revenue in the automotive business to reach between € 105 and 115 million in fiscal year 2020. In the core automotive business, paragon is aiming for an EBITDA margin of 8 to 12% in view of the challenging environment.

The company's complete, audited consolidated financial statements as part of the annual report as well as the interim report as of March 31, 2020, are available for download from <https://www.ir.paragon.ag>.

Profile: paragon GmbH & Co. KGaA

paragon GmbH & Co. KGaA (ISIN DE0005558696), which is listed in the regulated market (Prime Standard) of the Frankfurt Stock Exchange, develops, produces and distributes forward-looking solutions in the field of automotive electronics, body kinematics and e-mobility. As a market-leading direct supplier to the automotive industry, the company's portfolio includes the Electronics operating segment's innovative air-quality management, state-of-the-art display systems and connectivity solutions, and high-end acoustic systems. In the Mechanics operating segment, paragon develops and produces active mobile aerodynamic systems. With Voltabox AG (ISIN DE000A2E4LE9), a subsidiary that is also listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange, the Group is also active in the rapidly growing Electromobility operating segment with its cutting-edge lithium-ion battery systems developed in-house.

In addition to the company headquarters in Delbrück (North Rhine-Westphalia, Germany), paragon GmbH & Co. KGaA and its subsidiaries operate sites in Suhl (Thuringia, Germany), Landsberg am Lech and Neu-Ulm (Bavaria, Germany), St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany), Aachen (North Rhine-Westphalia, Germany) as well as in Kunshan (China), Oroslavje (Croatia) and Austin (Texas, USA).

Additional information about paragon can be found at www.paragon.ag.

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