paragon grows faster than the market in the automotive sector - Cost reduction program to counter negative EBIT

- **Group revenues increase by 22% to EUR 96 million in the first half of the year**
- **Electromobility operating segment once again strongest growth driver with 77% revenue growth**
- **EBITDA reaches EUR 5.5 million (previous year: EUR 11.0 million); EBIT at EUR -5.4 million**
- **Changed product mix in the automotive business and postponed revenues at Voltabox temporarily impact profitability**
- **Extensive cost reduction program initiated**

Delbrück, Germany, August 22, 2019 – Today paragon GmbH & Co. KGaA [ISIN DE0005558696] published its Group Interim Report as of June 30, 2019, and confirmed its forecast for the year as a whole.

"We are not satisfied with the first half-year, but it turned out that our business model is fundamentally very robust. We have successfully defied the weak trend in the automotive sector and have grown significantly in this business," says Klaus Dieter Frers, founder and CEO of paragon GmbH. "The revenue postponements, which required an adjustment to our forecast due to the full consolidation of our subsidiary Voltabox, relate to projects in the electromobility operating segment, in which we have not yet been active in the automobile sector. For our automotive business, we expect revenues at the upper end of the planning range by the end of the year. At the same time, our earnings are burdened by special effects in the Mechanics operating segment. We have initiated extensive cost-cutting measures that will help us to achieve a significantly improved positive EBIT already in 2020."

In a generally weak environment, Group sales again developed well with an increase of 22.2% to EUR 96.0 million. In the Electronics operating segment, the new Digital Assistance business unit contributed to revenue for the first time in the first half of the year. Over the course of the second quarter, it became clear that business performance in the Sensors business unit and Acoustics division within the Interior business unit was falling short of original plans, which is mainly attributable to the further decline in the market share of a very important OEM customer. However, this development has been substantially compensated for by better business performance than expected in the Cockpit division and in the Body Kinematics business unit - paragon movasys GmbH. The renewed significant growth in the Mechanics operating segment was attributable to the ongoing series production of software controlled rear spoilers.

In accordance with expectations, the electromobility operating segment (consisting of Voltabox AG) was the largest revenue driver with an increase in sales of 77%. In the first half of the year, battery systems for use in forklifts ensured that the business developed according to plan. In addition, Voltabox successfully ramped up series production of battery systems for use in agricultural vehicles during this period. Battery packs for pedelecs and e-bikes also contributed to revenue for the first time in the current fiscal year.

Total operating performance increases in the first half of the year

The higher level of other operating income of EUR 3.4 million (prior year: EUR 0.5 million) is primarily the result of foreign currency effects. With an increase in the inventory of finished and unfinished products of EUR 1.1 million (prior year: EUR 1.7 million) and higher planned capitalized development costs of EUR 10.7 million (prior year: EUR 9.0 million), an overall output of EUR 111.3 million (prior year: EUR 89.8 million) has been achieved.

The cost of materials increased by 37.4% to EUR 61.1 million (prior year: EUR 44.5 million). This resulted in a material input ratio (calculated from the ratio of cost of materials to revenue and inventory changes) of 62.9% (prior year: 55.5%).

This resulted in a gross profit of EUR 50.1 million (prior year: EUR 45.3 million) in the first half of the year, which constitutes a gross profit margin of 52.2% (prior year: 57.6%). Personnel expenses rose by 33.7% to EUR 31.0 million (prior year: EUR 23.2 million), due to the increase in personnel over the course of 2018. The personnel expense ratio was accordingly higher at 32.3% (prior year: 29.5%).

In consideration of the 22.8% increase in other operating expenses amounting to EUR 13.6 million (prior year: EUR 11.0 million), earnings before interest, taxes, depreciation and amortization (EBITDA) decreased about 49.8%, which totaled EUR 5.5 million (prior year: EUR 11.0 million), corresponding to an EBITDA margin of 5.8% (prior year: 14.0%). After increased depreciation and amortization and impairments totaling EUR 10.9 million (prior year: EUR 6.2 million), earnings before interest and taxes (EBIT) decreased to EUR -5.4 million (prior year: EUR 4.8 million). As a result, the EBIT margin decreased to -5.6% (prior year: 6.1%).

With a virtually unchanged financial result of EUR -3.0 million (prior year: EUR -2.9 million) and positive income taxes of EUR 0.5 million (prior year: EUR -1.2 million), paragon generated a consolidated net income of EUR -7.9 million (prior year: EUR 0.7 million) in the reporting period. This corresponds to earnings per share of EUR -1.51 (prior year: EUR 0.20). Minority interests accounted for EUR -1.1 million of consolidated income (prior year: EUR -0.2 million).

Assets affected by new IFRS 16 standard

As of June 30, 2019, total assets had increased to EUR 380.8 million (December 31, 2018: EUR 362.3 million). This is attributable mainly to the EUR 19.6 million increase in noncurrent assets to EUR 196.2 million (December 31, 2018: EUR 176.7 million), while current assets remain virtually unchanged at EUR 184.6 million (December 31, 2018: EUR 185.6 million).

The increase in noncurrent assets is primarily the result of the EUR 15.0 million increase in property, plant and equipment to EUR 65.5 million (December 31, 2018: EUR 50.5 million) due to the first-time application of the new IFRS 16 accounting standards on leases effective as of January 1, 2019.

The development of current assets was mainly due to two opposing effects. While inventories increased by EUR 12.8 million to EUR 71.7 million (December 31, 2018: EUR 58.9 million), in particular as a result of the planned expansion of production in the electromobility operating segment, cash and cash equivalents decreased by EUR 31.8 million to EUR 10.1 million (December 31, 2018: EUR 41.8 million), in particular as a result of the increase in operating activities and the reduction of short-term loans and trade payables. At the same time, trade receivables grew by EUR 12.8 million to EUR 83.5 million (December 31, 2018: EUR 70.7 million).

Noncurrent provisions and liabilities increased by EUR 35.9 million to EUR 136.0 million (December 31, 2018: EUR 100.1 million), which was caused primarily by the increase in noncurrent bonds by EUR 32.0 million to EUR 81.9 million (December 31, 2018: EUR 49.9 million) due to the issue of the CHF bond in the second quarter, together with the increase in noncurrent liabilities from finance leases of EUR 5.8 million to EUR 6.7 million (December 31, 2018: EUR 0.9 million) resulting from the first-time application of the new IFRS 16 accounting standards on leases.

In contrast, current provisions and liabilities decreased by EUR 8.0 million to EUR 76.4 million (December 31, 2018: EUR 84.4 million). This can be attributed to a reduction of short-term loans by EUR 7.5 million to EUR 33.8 million (December 31, 2018: EUR 41.4 million) and a reduction of other current liabilities by EUR 3.6 million to EUR 9.1 million (December 31, 2018: EUR 12.7 million).

Equity had decreased by EUR 9.4 million to EUR 168.4 million as of the balance sheet date (December 31, 2018: EUR 177.8 million), particularly due to the negative consolidated net income together with a simultaneous increase in retained earnings to EUR 97.1 million (December 31, 2018: EUR 95.9 million). This caused the equity ratio to decrease to 44.2% (December 31, 2018: 49.1%).

Cash flow from operating activities at same level as in previous year

At EUR -26.8 million, cash flow from operating activities during the reporting period remained at essentially the same level as the same period of the prior year (prior year: EUR -27.6 million) despite negative earnings before taxes. While the depreciation and amortization of noncurrent assets increased by EUR 4.5 million to EUR 10.7 as expected, other provisions and pension provisions decreased by EUR 3.3 million (prior year: increase of EUR 0.2 million). In addition, non-cash income and expenses decreased by EUR 4.1 million to EUR 0.3 million. The increase in trade receivables decreased by EUR 7.9 million to EUR 18.5 million (prior year: EUR 26.4 million).

In contrast, the increase in inventories grew by EUR 3.7 million to EUR 12.8 million (prior year: EUR 9.1 million) following the expansion of business activities. Trade payables increased by EUR 5.1 million, after having increased by EUR 4.1 million in the prior year.

Cash flow from investment activity decreased in the period under review by EUR 8.2 million to EUR -24.1 million (prior year: EUR -15.9 million), which is mainly due to the EUR 7.0 million increase in payments for investments in property, plant and equipment, which totaled EUR 13.7 million (prior year: EUR 6.7 million).

Cash flow from financing activity increased during the period under review by EUR 21.4 million to EUR 19.1 million (prior year: EUR -2.3 million), particularly due to the net inflow of EUR 29.8 million from the issue of the CHF bond and the EUR 4.9 million increase in proceeds from loans. At the same time, financial loans amounting to EUR 14.1 million (previous year: EUR 1.7 million) were repaid.

Cash and cash equivalents totaled EUR 10.1 million as of the end of the reporting period (December 31, 2018: EUR 41.8 million). At the same time, free liquidity amounted to EUR 31.5 million (December 31, 2018: EUR 48.9 million).

Outlook for fiscal year 2019

On August 12, 2019, the Management of paragon announced an adjustment to its sales and earnings forecast for the 2019 fiscal year. The main reasons are the revised annual forecast of the listed subsidiary Voltabox. In the automotive business, the changed product mix had an unfavorable effect on profitability. At Voltabox, there are postponements of revenues in the US business and a temporary stoppage of production due to the conversion of an important cell supplier to the latest technology.

Earnings are burdened by various production launch problems for new products in the Body Kinematics business unit, which are leading to additional costs totaling roughly EUR 3.3 million. With a targeted cost reduction program, which should be completed by mid-2020, the earnings situation is to be raised to the level of an EBIT margin of 3 to 4%.

In addition, the costs for the consolidation and integration of new subsidiaries in the current fiscal year amount to roughly EUR 3.5 million. These also include factors such as temporarily elevated location costs. In Landsberg am Lech, a new building has been purchased and renovated for paragon movasys GmbH. The same has also been done for the new Limbach location, which is replacing the previous locations in Saarbrücken and Bexbach. The development site in Nuremberg will be abandoned and integrated into the Limbach site in the future, as will production lines from Neu-Ulm.

On the whole, the Management of paragon anticipates one-time effects in the automotive sector totaling roughly EUR 7 million that will reduce unadjusted EBIT to around EUR 3.5 million (approx. 3% EBIT margin). EBIT adjusted for these special effects will be around EUR 10 million.

Since the listed subsidiary Voltabox has also reduced its sales and earnings forecast for the full year due to the partial postponement of a major order to the American subsidiary Voltabox of Texas, Inc. in 2020 and a production stoppage due to the conversion of an important cell supplier to the latest technology, the Management of paragon has adjusted its forecast for the current year with expected revenue of now EUR 200 million to EUR 210 million and an EBIT margin of -1 to -2%. Of this, the Voltabox subgroup stands to contribute EUR 70 million to EUR 80 million (previously between EUR 105 million and EUR 115 million), with an EBIT margin of -8 to -9% (previously between 8 and 9%).

In addition, the Management of paragon expects to generate a significantly improved operating cash flow for the year as a whole. However, as this cash flow will be lower than originally expected due to the developments in mid-year, the - compared with 2018 - significantly improved free cash flow for 2019 as a whole will be in a negative mid double-digit range. This is primarily due to the increase in inventories, which will be affected in the second half of the year by materials already ordered and which can no longer be cancelled to some extent. However, this level of inventories will help the paragon Group to significantly improve earnings in fiscal year 2020.

The cumulative order backlog for the next five years at the end of the first half of the year was still at about the same level as at the end of 2018, i.e. around EUR 2.1 billion. Voltabox accounts for around EUR 1.1 billion of this.

The company's Group interim report as of June 30, 2019 – First six months is available for download at https://ir.paragon.ag/websites/paragon/English/4120/interim-reports.html.

About 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), Korntal-Münchingen and St. Georgen (Baden-Württemberg, Germany), Limbach (Saarland, Germany) and Aachen (North Rhine-Westphalia, Germany) as well as in Kunshan (China) and Austin (Texas, USA).

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

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