

GROUP INTERIM REPORT
AS OF MARCH 31, 2020
FIRST QUARTER

The First Quarter of 2020 at a Glance

- Automotive revenue decreases despite coronavirus-related stop in production in the second half of March by just around 3% to € 29.5 million
- Positive EBITDA of € 2.0 million – margin at 6.8%
- Expansion of the portfolio: “The paragon 2021” program as a new guiding light
- Forecast for the current fiscal year: € 105–115 million with an EBITDA margin between 8 and 12%

Group Key Figures (IFRS)

€ '000 / as indicated	Jan. 1 to Mar. 31, 2020 ¹	Jan. 1 to Mar. 31, 2019 ²	Change in % ³
Revenue	29,452	42,955	-31.4
EBITDA	2,017	7,569	-73.4
EBITDA margin in %	6.8	17.6	n. a.
EBIT	-2,369	2,036	n. a.
EBIT margin in %	-7.9	4.7	n. a.
Group result	-3,632	1,714	n. a.
Earnings per share in €	-0.80	0.31	n. a.
Earnings per share continued and discontinued operations	-2.88	-	n. a.
Investments (CAPEX) ⁴	2,766	12,260	-77.4
Operating cash flow	1,375	-8,526	n. a.
Free cash flow ⁵	-1,391	-20,786	93.3
€ '000 / as indicated	Mar. 31, 2020	Dec. 31, 2019	Change in %
Total assets	261,365	275,328	-5.1
Equity	32,742	53,879	-39.2
Equity ratio in %	12.5	19.6	n. a.
Free liquidity	10,076	18,002	-44.0
Interest bearing liabilities	131,835	148,974	-11.5
Net debt ⁶	121,759	130,972	-7.0
Employees ⁷	809	991	-18.4

Share

	Mar. 31, 2020	Dec. 31, 2019	Change in %
Xetra closing price in €	8.10	14.50	-44.1 %
Number of shares outstanding	4,526,266	4,526,266	0 %
Market capitalization in € million	36.7	65.6	-28.9

1 Exclusively paragon Automotive (continued activities); without consideration of the Electromobility operating segment (discontinued activity)

2 Previous year's figures include paragon Automotive (electronics and mechanics operating segments) and the electromobility operating segment.

3 Comparative values from Q1 2020 only include continued activities (paragon Automotive, excl. Electromobility operating segment)

4 CAPEX = Investments in property, plant and equipment + Investments in intangible assets

5 Free cash flow = Operating cash flow – Investments (CAPEX)

6 Net debt = Interest bearing liabilities – Free Liquidity

7 Plus 41 temporary employees (Dec. 31, 2019: 46); figures for Q1 2020 include employees of paragon Automotive only

Dear shareholders,
customers, business partners
and employees,

The German industry is faced with the biggest challenge since the end of the Second World War. paragon must and will prove itself in this situation. We are confident that our company can look to the near future with optimism.

In the Electronics and Mechanics operating segments, paragon is well on its way back to full production capacity – and has thus evidently and relatively quickly put the coronavirus-induced depression in the automotive sector and the production standstill behind it. Since we are close to completing the sale of our subsidiary Voltabox, paragon will soon once again be purely a direct supplier of the automotive industry. We want to make our broad range of solutions more tangible. For this reason, we have created “The paragon 2021” and will make our product portfolio even more strongly interconnected. “The paragon 2021” program is no multi-year strategy program but rather will highlight, until the end of 2021, our new mission and with it what opportunities await us.

It's not that paragon has lost any momentum but rather that it is being systematically aligned to new underlying conditions. We have long been in the process of setting up our internal structures and processes in such a way that they meet the potential of a dynamically growing automotive business.

In recent years, we have invested extensively in new products and plant equipment. Based on our products, our upcoming market launches, the consistent increase in our scalability and our many years of expertise in optimizing production processes, we are well-positioned – the results we have achieved in the context of a challenging development in the overall market have proved us right.

Our first task was to lead paragon back to calm waters and to seize the growth opportunities presented. Above all, this means achieving sound results with continued flexibility. The developments in 2019 and in the first half of 2020 have given us valuable insights into our business. As the year goes on, we will be refining the structures.

Despite the partial production stoppages in March, paragon was able to generate Automotive revenue of € 29.5 million in the first quarter. Compared to revenue in the Automotive business in the same quarter of the previous year, this represents only a slight decline of around 3%. The generated EBITDA amounts to € 2.0 million, which corresponds to a margin of 6.8%.

As laid out in detail in the Annual Report, we expect revenue in our Automotive business to reach between € 105 to 115 million with an EBITDA margin of 8 to 12%.

Our employees deserve recognition for their trust and unfettered commitment to the company in this time, which has been challenging for us all. We would also like to thank our business partners, customers and shareholders for their loyalty and constructive cooperation.



Klaus Dieter Frers
CEO

Dr. Matthias Schöllmann
Managing Director Automotive

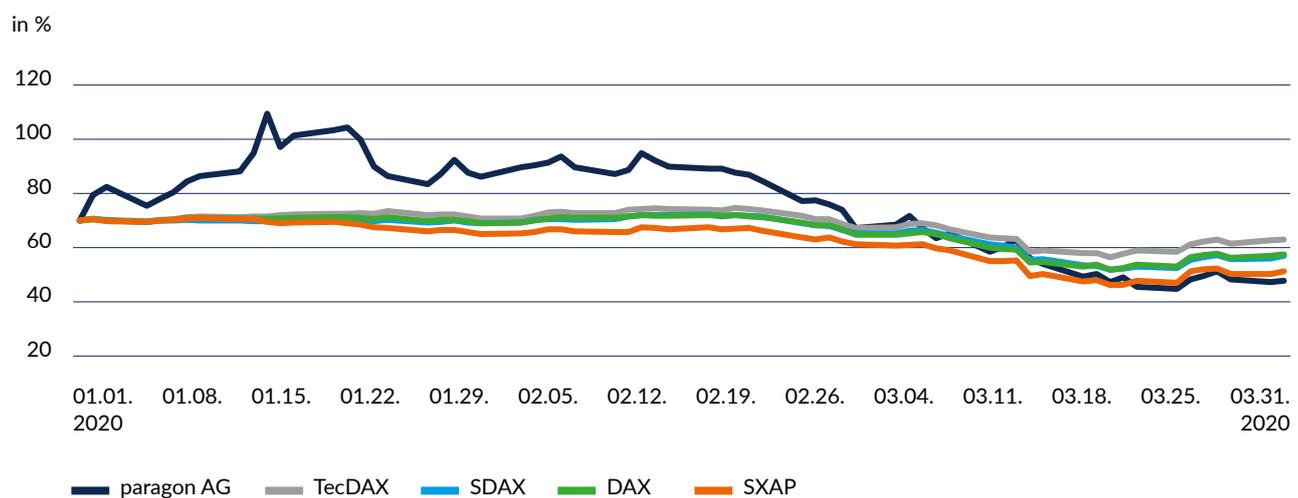
paragon in the Capital Market

Following the dynamic close to 2019 – which was marked by new record levels in the USA and annual highs in the German stock market – the DAX was gearing up for an increase to a new all-time high at the beginning of the year. The partial agreement between the U.S. and China on the trade dispute was seen as a particular reason for the stock boom. Eventually, investors in Germany became unsettled by the increasing reports on the spread of the coronavirus in China and then Italy. According to surveys by the Frankfurt Stock Exchange's Sentiment Index, the bear camp of institutional investors grew by 20 percentage points to 39 percent in the first half of February. During this period, the virus only ranked third on the list of risks of DAX investors. However, as the impact of the coronavirus pandemic in Europe became more obvious and the view eventually took hold that the USA was very slow to respond, both the German and the American stock markets were afflicted by erratic swings in exchange rates. This led to a massive increase in bearish investors, particularly in the USA. According to the Sentiment Index, the share of optimists there dropped to 29.7 percent – significantly below the historic average of 38 percent. During this phase, investors on the German stock market hoped for positive momentum through monetary and fiscal policy measures, which were ultimately approved by the German government.

In the end, the development of the most important German stock indices was markedly negative due to this extraordinary threat scenario and market situation (DAX -25.0%, SDAX -26.1%, TecDAX -13.8%). The STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, posted a significant loss of -37.5%.

During the same period, the paragon share substantially underperformed the market with a decline in value of -44.1%. Starting from an initial price of € 14.50, the paragon share saw positive development in the first few trading days of the year and rose rapidly to its high of € 25.95 in mid-January. In the weeks that followed, the share was able to maintain this high level in relation to the previous quarter until, from the second half of February onwards, the increasing spread of the coronavirus caused nervousness on the markets. The paragon share could not evade this development and came under additional pressure following the announcements by automobile manufacturers to temporarily suspend production and the resulting paragon plant closures. The share reached its low of € 7.20 on March 23, 2020. The closing price for the first quarter was € 8.10. Accordingly, the market value of paragon at this time came to € 36.7 million, which corresponds to a drop in value in the first quarter of € 28.9 million.

Performance of the paragon share



The corporate bond 2017/22, tradable since June 28, 2017, averaged 66.97% in the first three months.

The CHF bond 2019/24, tradable since April 23, 2019, averaged 70.33% in the first quarter.

Business development

Business development in the first three months of the 2020 fiscal year was strongly affected by a production standstill starting in the second half of March. Despite the temporary close of production plants for the protection of our employees' health during the spread of the coronavirus, revenue in the Automotive unit declined by only 3% in the first three months of the year. The values in the Electromobility operating segment that apply to the Voltabox subgroup did not take IFRS 5 under consideration in the reporting year. They can therefore only be compared with the prior year's values to a limited extent.

€ '000 / as indicated	Electronics ^{1,4}			Mechanics ^{2,4}		
	Q1 2020	Q1 2019	Δ in %	Q1 2020	Q1 2019	Δ in %
Revenue with third parties	19,731	21,667	-8.9	9,721	8,703	11.7
Revenue intersegment	63	691	-90.9	-30	141	n. a.
Revenue	19,794	22,358	-11.5	9,692	8,844	9.6
EBIT	-1,512	578	n. a.	-858	-488	75.8
EBIT margin	-7.7 %	2.6 %	n. a.	-8.8 %	-5.5 %	n. a.

€ '000 / as indicated	Eliminations ^{3,4}			Group ^{3,4}		
	Q1 2020	Q1 2019	Δ in %	Q1 2020	Q1 2019	Δ in %
Revenue with third parties	0	0	0.0	29,452	42,955	-31.4
Revenue intersegment	-34	-877	96.1	0	0	0.0
Revenue	-34	-877	96.1	29,452	42,955	-31.4
EBIT	0	1,386	n. a.	-2,370	2,036	n. a.
EBIT margin	n. a.	n. a.	n. a.	-8.0 %	4.7 %	n. a.

1 Sensors, Interior and Digital Assistance business units.

2 Kinematics business unit (paragon movasys GmbH).

3 Previous year's figures include the electric mobility segment.

4 Figures regarding sales and EBIT in the first quarter of 2020 contain Voltabox as a third party.

Sales development in the individual units was as follows:

Distribution of revenues € '000	Q1 2020	Share in %	Q1 2019	Share in %	Change in %
Sensors	7,516	25.5	7,866	25.9	-4.4
Interior	11,016	37.4	13,152	43.4	-16.2
Digital Assistance	1,199	4.1	649	2.1	84.7
Kinematics	9,721	33.0	8,703	28.7	11.7
Total	29,452	100.0	30,370	100.0	-3.0

Financial Performance

In the first three months of the current fiscal year, paragon achieved revenue of around € 29.5 million in the Automotive unit (prior year¹: € 43.0 million). The reduced other operating income of € 1.8 million (prior year: € 3.3 million) is primarily the result of lower foreign currency effects. With a decrease in the inventory of finished and unfinished products of € -1.6 million (prior year: increase of € 2.1 million) due to inventory optimization as well as lower planned capitalized development costs of € 1.9 million (prior year: € 5.4 million), there was an overall output of € 31.5 million (prior year: € 53.8 million).

The cost of materials decreased by 44.8% to € 14.5 million (prior year: € 26.2 million). This resulted in a material input ratio (calculated from the ratio of cost of materials to revenue and inventory changes) of 51.8% (prior year: 58.1%).

This results in a gross profit for the first three months of € 17.1 million (prior year: € 27.6 million), which constitutes a gross profit margin of 58.0% (prior year: 64.4%). Personnel expenses were reduced by 27.7% year over year to € 10.6 million (prior year: € 14.6 million). The personnel expense ratio was accordingly 35.9% (prior year: 34.0%).

Taking into account the 17.9% decrease of € 4.5 million (prior year: € 5.5 million) in other operating expenses, earnings before interest, taxes, depreciation and amor-

tization (EBITDA) totaled € 2.0 million (prior year: € 7.6 million). This corresponds to an EBITDA margin of 6.8% (prior year: 17.6%). Following reduced depreciation and amortization of € 4.4 million (prior year: € 5.3 million), earnings before interest and taxes (EBIT) decreased to € -2.4 million (prior year: € 2.0 million). The EBIT margin accordingly came to -8.0% (prior year: 4.7%).

With a virtually unchanged financial result of € -1.6 million (prior year: € -1.5 million) and positive deferred income taxes of € 0.4 million (prior year: negative deferred income taxes of € -1.2 million), the paragon Group generated a consolidated net income of € -3.6 million (prior year: € 1.7 million) in the reporting period. This corresponds to earnings per share of € -0.80 (prior year: € 0.31).

Net Assets

As of March 31, 2020, total assets had increased to € 261.4 million (December 31, 2019: € 275.3 million). This development is mainly attributable to the decrease of € 12.7 million in current assets to € 95.7 million (December 31, 2019: € 108.4 million). Noncurrent assets in accordance with IFRS 5 accounting remained stable and amounted to € 165.6 million (December 31, 2019: € 166.9 million).

¹ In contrast to the values from Q1 2020, the comparative values from Q1 2019 also include the Electromobility operating segment, which is now classified as a discontinued activity.

The reduction in current assets is a result of working capital management with particular regard to paragon's inventories and the reduction of Voltabox's trade receivables.

Equity was reduced by € 21.1 million as of the reporting date to € 32.7 million (December 31, 2019: € 53.9 million), particularly due to the negative total consolidated net income, which caused the equity ratio to decrease to 12.5 % (December 31, 2019: 19.6 %).

Noncurrent provisions and liabilities increased slightly by € 3.3 million to € 146.8 million (December 31, 2019: € 143.5 million), mainly due to accrued interest on bonds issued.

Current provisions and liabilities increased by 5.0% to € 81.9 million (December 31, 2019: € 78.0 million). This is mainly due to an increase in provisions at Voltabox AG, which is recognized in the "current liabilities held for sale" balance sheet item.

Financial Position

Cash flow from operating activities improved in the period under review to € 1.4 million (prior year: € -8.5 million). The primary reasons for this were the decrease in inventories by € 10.5 million, the increase in other provisions and provisions for pensions by € 4.3 million and the decrease in liabilities by € 1.3 million. There was a cash flow of € 4.1 million from discontinued operations.

Cash flow from investing activities improved by € 9.5 million to € -2.8 million in the period under review (prior year: € -12.3 million). This is largely the result of our temporarily conservative investment strategy due to the uncertainties surrounding the coronavirus pandemic. The discontinued operation accounted for a cash flow of € 5.6 million in investment activities.

The cash flow from financing activities improved in the reporting period by € 5.1 million to € 1.5 million (prior year: € -3.6 million), especially as a result of lower loan repayments. The cash flow from the financing activities of the discontinued operation amounted to € 1.7 million.

Cash and cash equivalents totaled € 4.5 million as of the end of the reporting period (December 31, 2019: € 9.5 million).

Opportunity and Risk Report

In the first quarter of 2020, there were no significant changes in the opportunities and risks described in detail under „Opportunity and Risk Report“ in the 2019 Annual Report in which the implications of the COVID-19 pandemic are already fully taken into account. The 2019 Annual Report can be accessed on the internet at <https://ir.paragon.ag>.

Events After the Balance Sheet Date

The spread of the novel coronavirus (SARS-CoV-2) has progressed considerably between the balance sheet date and the date on which the financial statements were approved for publication. The pandemic has far-reaching consequences for paragon GmbH & Co. KGaA. Suppliers are unable to make deliveries, orders from customers have decreased, and employees' situations are also affected by uncertainty due to reduced working hours, for example. It is not yet possible to specifically quantify the financial impact, as it is unclear how the dynamic development of the pandemic will continue and what the possible effects of the corresponding national countermeasures will mean for the business activities of paragon and the entire automotive industry.

By resolution of July 2, 2020, the activities of the affiliated companies paragon electroacoustic GmbH, Neu Ulm, and ETON Soundsysteme GmbH, Neu Ulm, will be transferred to other sites of the paragon Group in the year 2021. The companies will remain in their current legal form.

Forecast

The forecast for the current fiscal year and the underlying assumptions are explained in detail in the combined management report for the 2019 fiscal year. Accordingly, the Management expects reduced revenue due to the COVID-19 pandemic in the Automotive business of € 105 to 115 million and an EBITDA margin of 8 to 12%. The investment volume for this area should come to around € 20 million.

The subsidiary Voltabox AG is to be sold in the course of the fiscal year and is therefore listed as discontinued activity. The Voltabox Management Board expects revenue in the current fiscal year of between € 25 and 45 million with an EBITDA of -6% at most and a slightly negative free cash flow.

Development of Key Performance Indicators

€ '000 / as indicated	2019	Year-to-date / Q1/2020 ¹	Forecast 2020	
			paragon Automotive	Subgroup Voltabox AG ²
Financial performance indicators				
Revenue	192,188	29,452	€ 105 to 115 million	€ 25 to 45 million
EBITDA margin	-2.9%	6.8%	8 to 12%	max. -6%
Investments (CAPEX) ³	42,777	2,766	about € 20 million	-

1 Exclusively paragon Automotive; without consideration of the Electromobility operating segment (discontinued activity)

2 Discontinued activity ("discontinued operation")

3 CAPEX = Investments in property, plant and equipment + investments in intangible assets

Condensed Group Interim Financial Statements

Consolidated Statement of Comprehensive Income
for the period of January 1 to March 31, 2020 (IFRS)

€ '000	Jan. 1 – Mar. 31, 2020 ¹	Jan. 1 – Mar. 31, 2019
Revenue	29,452	42,955
Other operating income	1,789	3,337
Increase or decrease in inventory of finished goods and work in progress	-1,571	2,140
Other own work capitalized	1,856	5,406
Total operating performance	31,526	53,838
Cost of materials	-14,453	-26,196
Gross profit	17,073	27,642
Personnel expenses	-10,576	-14,619
Depreciation of property, plant and equipment, and amortization of intangible assets	-4,386	-5,339
Impairment of property, plant and equipment and intangible assets	0	-194
Other operating expenses	-4,480	-5,454
Earnings before interest and taxes (EBIT)	-2,369	2,036
Financial income	19	5
Financial expenses	-1,653	-1,479
Financial result	-1,634	-1,474
Earnings before taxes (EBT)	-4,003	562
Income taxes	371	-1,152
Consolidated net income	-3,632	1,714
Earnings per share in € (basic)	-0.80	0.31
Earnings per share in € (diluted)	-0.80	0.31
Earnings per share in € continued and discontinued operations (basic)	-2.88	-
Earnings per share in € continued and discontinued operations (diluted)	-2.88	-
Average number of outstanding shares (basic)	4,526,266	4,526,266
Average number of outstanding shares (diluted)	4,526,266	4,526,266
Other comprehensive income		
Actuarial gains and losses	0	0
Currency translation reserve	-400	-678
Total comprehensive income	-4,032	-1,036
Earnings before tax from discontinued activities (EBT)	-16,235	0

1 Continued activities (paragon Automotive) – no consideration of discontinued activities (Electromobility operating segment)

Consolidated Balance Sheet as of March 31, 2020 (IFRS)

€ '000	Mar. 31, 2020	Dec. 31, 2019
ASSETS		
Noncurrent assets		
Intangible assets	59,958	71,284
Goodwill	22,375	22,375
Property, plant and equipment	47,605	69,307
Financial assets	121	1,521
Other assets	91	2,142
Deferred taxes	333	270
Noncurrent assets held for sale	35.141	0
	165.624	166.899
Current assets		
Inventories	29,115	44,799
Trade receivables	13,998	45,027
Other assets	69	84
Income tax assets	2,584	9,063
Cash and cash equivalents	4,526	9,456
Current assets held for sale	45,449	0
	95,741	108.429
Total assets	261,365	275,328

€ '000	Mar. 31, 2020	Dec. 31, 2019
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	4,526	4,526
Capital reserve	15,485	15,485
Minority interests	55,482	21,267
Revaluation reserve	-1,202	-1,202
Profit/loss carried forward	-27,207	97,181
Consolidated net income	-12,899	-82,024
Currency translation differences	-1,443	-1,354
	32,742	53,879
Noncurrent provisions and liabilities		
Noncurrent liabilities from finance lease	8,397	19,433
Noncurrent loans	15,768	15,373
Noncurrent bonds	84,426	82,625
Special item for investment grants	808	829
Deferred taxes	15,909	18,623
Pension provisions	3,368	3,320
Other noncurrent liabilities	3,837	3,256
Noncurrent liabilities held for sale	14,254	0
	146,767	143,459
Current provisions and liabilities		
Current portion of finance lease liabilities	397	2,685
Current loans and current portion of noncurrent loans	22,847	28,858
Trade payables	21,245	33,093
Other provisions	4,742	4,155
Income tax liabilities	711	716
Other current liabilities	833	8,483
Current liabilities held for sale	31,081	0
	81,856	77,990
Total equity and liabilities	261,365	275,328

Consolidated Cash Flow Statement for the period of January 1 to March 31, 2020 (IFRS)

€ '000	Jan. 1 – Mar. 31, 2020 ¹	Jan. 1 – Mar. 31, 2020 discontinued activities	Jan. 1 – Mar. 31, 2019
Earnings before income taxes	-3,650		562
Depreciation/amortization of noncurrent fixed assets	3,577		5,339
Financial result	1,485		1,474
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	0		0
Increase (+), decrease (-) in other provisions and pension provisions	4,383		102
Income from the reversal of the special item for investment grants	-21		-22
Other non-cash income and expenses	1,229		-1,043
Increase (-), decrease (+) in trade receivables, other receivables and other assets	-913		664
Impairment of intangible assets	0		194
Increase (-), decrease (+) in inventories	482		-9,974
Increase (+), decrease (-) in trade payables and other liabilities	-3,700		-5,015
Interest paid	-1,492		-1,479
Income taxes	-5		672
Cash flow from operating activities	1,375	4,100	-8,526
Cash payments for investments in property, plant and equipment	-910		-6,854
Cash payments for investments in intangible assets	-1,856		-5,406
Cash payments for investments in financial assets	0		0
Interest received	11		0
Cash flow from investment activities	-2,755	-5,635	-12,255
Dividend payouts to shareholders	0		0
Loan repayments	-599		-8,495
Proceeds from loans	966		5,225
Cash payments for finance lease liabilities	1,118		-334
Cash flow from financing activities	1,485	-1,658	-3,604
Changes in cash and cash equivalents	106	-3,193	-24,385
Cash and cash equivalents at the beginning of the period	4,420	5,036	41,841
Cash and cash equivalents at the end of the period	4,526	1,843	17,456

Notes

IFRS 5

After the balance sheet date, paragon GmbH & Co. KGaA adopted a plan to sell the Voltabox subgroup and actively started searching for buyers. The sale is expected to be completed within twelve months.

As a result of the sale, paragon GmbH & Co. KGaA will lose control over the subsidiaries Voltabox AG, Voltabox of Texas, Inc., Voltabox of North America, Inc. and Voltabox Kunshan Co., Ltd. For this reason, in financial statements prepared after January 1, 2020, the Voltabox subgroup is reported as a “discontinued operation” in accordance with IFRS 5. The assets and liabilities of the discontinued operations are disclosed as “held for sale” in the balance sheet, distinguished between current and noncurrent.

More detailed information on the planned transaction is provided in this chapter of this interim report.

The Voltabox subgroup originated from a spin-off of the paragon Group. It represents the Electromobility operating segment in the paragon Group. The subgroup includes the companies listed and an investment in ForkOn GmbH.

As of the balance sheet date, paragon GmbH & Co. KGaA holds about 58% of Voltabox AG and is therefore the parent company of the Voltabox subgroup. paragon GmbH & Co. KGaA plans to sell all its shares during fiscal year 2020. In this process, the shares will not be offered on the open stock market, but rather sold in their entirety in a bidding process involving only potentially suitable industrial companies.

paragon GmbH & Co. KGaA does not expect an impairment from accounting in accordance with IFRS 5 in future financial statements. Voltabox’s share price was € 3.86 on March 31, 2020. paragon GmbH & Co. KGaA holds 9,150,000 shares. This results in a proportionate market value of € 35,319,000 as of the balance sheet date.

In the separate financial statements of paragon GmbH & Co. KGaA under German commercial law, the investment is shown with a carrying amount of € 10,745,989.11.

Financial Calendar

August 20, 2020	Annual Report – Consolidated Financial Statements 2019
August 20, 2020	Group Interim Report as of March 31, 2020 – First quarter
September 4, 2020	Group Interim Report as of June 30, 2020 – First six months
September 15, 2020	Annual General Meeting, Delbrück (virtual)
September 29, 2020	Family Office Day, Vienna
November 12, 2020	Group Interim Report as of September 30, 2020 – Nine months
November 16-18, 2020	Eigenkapitalforum (virtual)

The background of the page is an abstract, blurred image with a color gradient from light blue to deep purple. The image has a sense of motion, with diagonal streaks and a bright, hazy horizon line. The overall effect is dynamic and modern.

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