20. April 2012

Small Cap | Europe | Germany

DR. KALLIWODA RESEARCH GmbH

Update

paragon AG

Buy

target price: 20,48 EUR

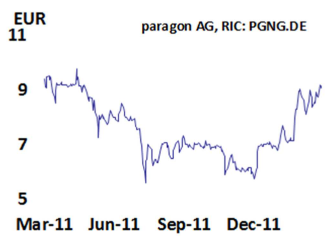
Successful Perfomance in 2011

Industry:		Automotive Supplier
Country:		Germany
Reuters:		PGNG.DE
WKN		555869
Website:		paragon-online.de
Current Price:		9,08
	High	**Low**
Price 52W.:	9,77	5,60
Market Cap. (Mill. EUR)		37,4
No. Of Shares (in Mill.)		4,1

Shareholders	
Free Float	48,00%
Klaus Dieter Frers	52,00%

Performance	
4 Weeks	2,6%
13 Weeks	53,9%
26 Weeks	25,5%
52 Weeks	-0,1%
YTD	57,9%

Dividend	**EUR/Aktie**	**in %**
2009	0,00	0%
2010	0,00	0%
2011e	0,00	0%
2012e	0,00	0%
2013e	0,00	0%



Dr. Norbert Kalliwoda
nk@kalliwoda.com

Phone: +49 69 97 20 58 53
www.kalliwoda.com

- paragon AG successfully increased its turnover by 11.1% to €67.1mn and thereby exceeded our and the management's expectations. The product ranges developed positively in Delbrück with a 19% rise in sales revenues to €32,3mn, while the product ranges located in Nuremberg in contrast saw a decline in sales revenues of about 7% to €27mn. The profits of the company developed above average compared to the turnover and thus paragon AG managed to increase the EBITDA to €13mn, and its operating result to €8.8mn. The company has thereby reached profit margins that are above the industry average.
- paragon AG is expecting another stable auto year in 2012 with a slight easing of growth in the first half of the year followed by a recovery. Likewise the management provides a conservative estimate of the growth of sales revenues in the single-digit range with stable margins. We share this estimate. Comparing the situation of pargaon AG now to the situation twelve months ago, the repayment of liabilities and a large inventory of orders have reduced the company's risk.
- In a scenario of successful development of the products that are in the pipeline with large piece numbers, paragon AG has the potential to outperform the trend of the automobile sector in the midterm. Taking the good results of 2011 and the growth rate of 4% as basis in this year, we have slightly raised our revenues forecast for the year 2012 and are expecting steady margins.
- Among the assumptions included, our DCF rating model reflects a corresponding fair share value at €21.30. The relative valuation approach of paragon AG in comparison to its peer group results in a value of €17.21. With an 80% weighting in the DCF model and a weighting of the relative valuation of 20%, the overall valuation results in a fair value of €20.48, this, in comparison to the current stock price, leads to the recommendation to buy.
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EUR m	2012e	2013e	2014e	2015e	2016e	2017e
Umsatzerlöse	72	75	79	81	83	86
EBITDA	15	15	16	17	17	18
EBIT	10	10	11	11	11	12
Nettoergebnis	7	7	7	8	8	8
EPS	1,6	1,6	1,8	1,8	1,9	2,0
BVPS	4,0	5,6	7,4	9,3	11,2	13,2
CFPS	1,3	6,9	3,2	3,4	3,5	3,6
RoA	16%	10%	10%	10%	9%	9%
RoE	16%	10%	10%	10%	9%	9%
EBIT Marge	13%	13%	13%	13%	13%	13%

Content

1 Company Profile

paragon AG was established in 1988 as an electronics manufacturer. The registered offices of the company are in Delbrück in North-Rhine Westphalia. The production facility is located in Suhl (Thuringia). Additional branch offices are in Nuremberg (Bavaria) and St. Georgen (Baden-Wuerttemberg).

1.1 Products and Market Share

Founded as a contract manufacturer for electronics, paragon is by now a genuine tier 1 auto supplier. The focus is on automobile electronics for the interior with products for comfort, health and safety, and also on the area of efficiency that was newly created in the year 2011. The product catalog includes 172 products with 18 million produced units per year. paragon AG holds 250 patents. (Status March 2012)

Efficiency	Man – Machine – Interface					
Electromobility	**Air Quality**	**Powertrain**	**Acoustics**	**Stepper Motors**	**Media Interfaces**	**Cockpit**
♦ Energy Storage ♦ Range Extender ♦ Motor Controller ♦ DC/DC Converter ♦ Onboard Charger	✱ Air Quality Sensor (85%, World) • Air Quality Improver • Air Quality Conditioner	• All-Gear Sensor • Start-Stop Sensor	✱ Seatbelt Microphone belt-mic (#2, Europe) ✱ Microphones (#2, Europe)	✱ Stepper Motors (#2, World)	✱ Interfaces (#2, Europe) ✱ Cradles & Consoles (#2, Europe) ♦ cTablet Docking Station	✱ Instruments (#3, World) • Controls • Reversing Camera Systems
Delbrück (48%)				St. Georgen (11%)	Nuremberg (40%)	

chart 1, outline: divisions – product types -- products (✱ market leading position (market share, division), ♦ new development)) -- segments by development site (share of sales); March 2012

Many products of paragon AG possess island-position characteristics, such as the all-gear sensor, which permits recognition of the gear presently shifted to as early as at the start of the shifting process. The sensor facilitates additional and at the same time faster shifting processes. Economic advantages thus created also for the vehicle manufacturer in that a separate reverse gear sensor is no longer required.

1.2 Customers

Among paragon's customers are the large international automobile manufacturers. With these, paragon maintains customer relationships of many years. paragon's products are requested by 23 customers for 172 vehicle models. At this, the largest three customers account for about 30%, 20% and 11% of sales. About 60% of sales are generated by Audi, VW, Daimler, BMW and Porsche (status March 2012.) By far the largest customer is the Volkswagen group with which a particularly long and close customer relationship is maintained. One risk is constituted in the concentration of the major part of the turnover.

2 SWOT Analysis

Strengths

- **A combination of innovative and integrative force** by a company-wide innovation culture with focus on the development of new products regarding the needs of vehicle passengers in terms of comfort, safety, health and efficiency with simultaneous consideration of the product integration into the complete system for the auto manufacturer comprises the first-mover advantage and accounts for a high rate of successful market lauches: 175 products, 250 patents
- **Products with island-position characteristics in market niches** with vast piece numbers in automated production; thus high margins; indications: strong market position in several segments, 18mn produced units.
- **Direct supplier** for customers with many years of loyalty, thereby knowledge what the customer wants reflects a market entry barrier

Weaknesses

- **High business risk** by strong concentration of sales on three German automobile manufacturers in the premium segment, softened by long-term customer relationships, corresponding contracts for model series, and relatively low dependence of the premium manufacturers on the volume market.
- **Weak position in negotiations** opposite the customer on basis of being an offerer with low turnover in an environment of numerous competitors, softened by the relatively high willingness to pay on part of the end-users of the premium customers.
- **Strong competition**, high innovation pressure because more than half of the key innovations are made in the field of electronics.

Chances

- **Growth in the product range of media interfaces** due to the proliferation of smart phones; interfaces that respond flexibly to the short development cycles in the consumer electronics segment without taking a toll on the requirements for the use in the car; e.g. cTabletDockingStation.
- **Increasing use of paragon products in the compact & mid-size classes** by new technologies and efficient production with a high degree of automation, e.g. air quality; consequently resulting in effects of scale.
- **Growth and diversification by the electro-mobility segment** with the expansion of the target customer group to include smaller utility vehicles for use within companies and inside of cities, which are already using the electro-mobility applications.
- **Lowering of product-specific integration costs** for the customer by the development of applications supporting the installation in the vehicle may become one of the most significant competitive advantages.

Risks

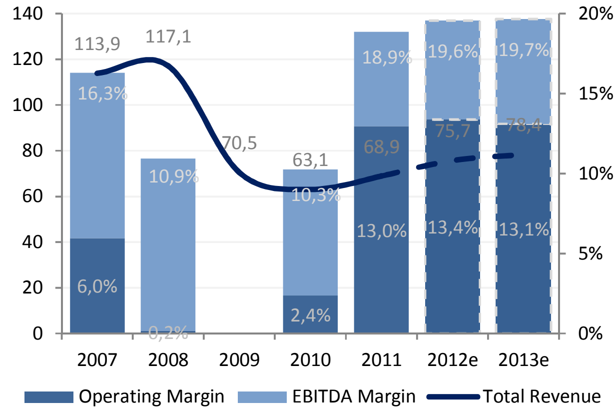
- **Products do not develop their expected potential** and the produced piece numbers cannot cover the costs. paragon tries to avoid this by way of intense dialog with the automobile manufacturers.
- **Competitors** pushing paragon out of a market niche that is essential for turnover.
- **Unexpected slump in the auto industry** leading to liquidity bottlenecks at paragon.

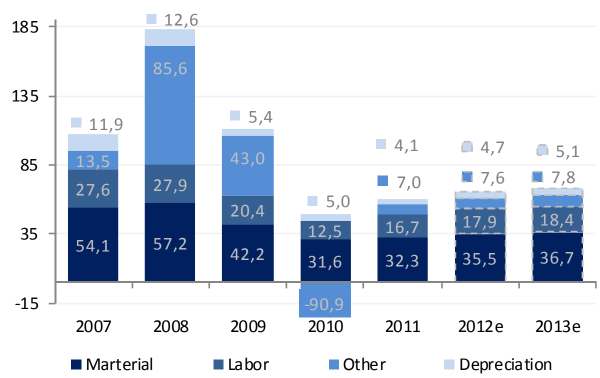
3 Current Development and Perspectives

The year 2011 developed a positive industry performance. According to the estimates of the VDA [German Association of the Automobile Industry] sales revenues of the German automobile industry rose by 13% in 2011 to €358bn and thus achieved a new record high. At this, the sales revenues of German manufacturers performed stronger than worldwide sales of new vehicles, on basis of increasing market shares in the export countries USA and in Asia. Sales of automobile suppliers are estimated in the value of €70bn, which is equivalent of a 13% increase.

Against this background paragon AG could increase its turnover by 11.1% to €67.1mn and thereby exceeded our and the management's expectations. Likewise, the product ranges developed positively in Delbrück with a 19% rise in sales revenues to €32,3mn, while the product ranges located in Nuremberg in contrast saw a decline in sales revenues of about 7% to €27mn. Meanwhile business in foreign countries expanded its share in the turnover to 34% from 26% in the previous year period. In the present study, the year 2010 was accumulated from the two shortened fiscal year in order to create a suitable basis for comparison.

Group results and estimates





Sales and expenses are shown in €mn, margins in proportion tot he total proceeds, results adjusted by special effects, 2009 EBITDA margin – 49% & EBIT margin -57%, the year 2010 accumulated from the shortened fiscal years in 2010, costs of materials in the net amount.

Source: paragon AG, Dr. Kalliwoda Research ©

The costs of materials, adjusted by the capitalized own services, rose only slightly by 2% so that the share of the costs of materials in turnover fell to 47%, which is significantly below the 53% historic average of paragon AG. According to the statements by the management, this success was to major part due to an optimized supplier structure and it can thus be expected that the material procurement ratio will maintain this new level in the future. The costs of personnel rose by 34% because 60 employees were hired upon the integration of the assets of paragon finesse GmbH and as part of new recruitment. The number of temporary workers experienced the strongest surge so that the personnel structure of 319 employees now consists to about equal portions of commercial staff and employees. We evaluate a more flexible personnel structure with regard to the high business risk to be an advantage for the company. In addition, new management levels for the areas of operative business, electro-mobility, company development and material procurement are created, which we also deem positive compared to the previous bundling of competences. The other operating expenses as well fell to the historic low of 10% of sales revenues. The profits of the company developed above average compared to the turnover and thus paragon AG was able to increase the EBITDA to €13mn, and its operating result to €8.8mn. The company has thereby reached profit margins that are above the industry average. A loss of €1.3mn in the financial result, as well as a tax charge of €2.2mn have led to a net profit of €7.5mn, which means a profit per share of €1.3 with unchanged number of shares.

The operative cash flow increased to €8.5mn. Investments in the Delbrück site and product developments reduced the cash flow available for financing to €5.2mn. It was used, among other purposes, for the repayment of credit liabilities in the amount €6.4mn, while loans in the amount of €5.9mn became due for repayment in the year 2011. For the repayment of loans, the largest part of short-term receivables from goods and services was furthermore sold to GE Capital Bank AG under a factoring agreement. Thereby, a cash inflow of €2.7mn was earned, whereas the net receivables reduced by an estimated €3.8mn compared to the previous year. Involved here are collateralized receivables whose sale did not lead to a new collateralization of assets. Overall, liquid funds rose from €13.8mn in the year 2011 to €15mn. At this, the share of freely available funds is at 66% so that €10.1mn is now available to paragon AG as immediate source of financing. The company has thereby taken an important hurdle in 2011. The capital structure improved with a doubling of the equity ratio compared to the previous year from 10.3% to now 23.7%. We evaluate the financial situation of paragon AG as eased, however not yet solid. Even with zero growth in the next year, paragon AG is in the position to repay its mature loans. We are optimistic that the company can increase the equity ratio further and that it can reach 35% by year's end 2012.

Among the most recent developments in the company is the creation of the new efficiency segment with its electro-mobility product range. The market for eclectic automobiles will continue to grow more and more strongly in the coming years. paragon has already developed a start-stop sensor for hybrid cars, as well as a display system for electric vehicles and is thus well positioned. In this field, new growth possibilities as a supplier for electric cars will be tapped in the long term. In the past year paragon developed a module system with currently five components. The customer has the option to receive the systems individually or as a complete package, while the latter has the advantage of a homogeneous design and coordinated mode of functioning. Particularly noteworthy is the distance range expander, ExtRa15 with15kW, which is the world's first to make air-conditioning without losses in the range possible and which can be operated with hydrogen in the process. The idea and the electronics come from paragon; the product is developed in collaboration with three mid-sized companies located in Aaachen. In the course of the year, additional sizes are to follow, as well as the hydrogen version.

In addition, paragon will enter the chassis kinematics market in the year 2012. Here the company perceives great opportunities for the development of new products with flexible chassis components, such as the convertible car cover systems or spoiler systems under the theme of improving energy efficiency. Federally, there are two competitors in this market niche. paragon entered a contractual collaboration in this field with the company KarTec GmbH in Forchheim.

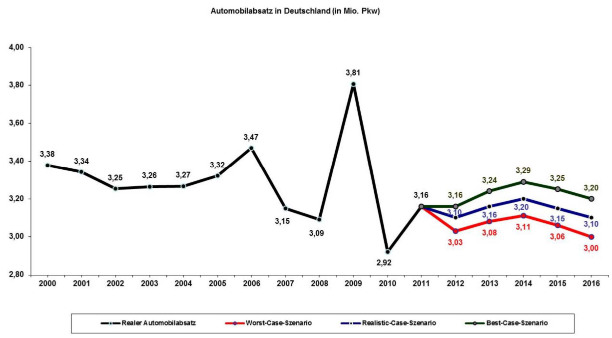
In the interface product range the cTablet docking station was developed. This product enables the control of settings for radio, air-conditioning, GPS and telephony and also to access the internet and private data. The comfort available in the premium class is intended to be offered in this way for the compact class as well. The product is to be ready for mass production in two years. Additional developments are the all-gear sensor, the serial release for the redesign of the reverse drive camera, an intelligent controller for the step and clock motors, the universal phone tray, a digital audio bus, the optimization of software for on-board clocks, as well as the intercom seat system.

Worth mentioning is that paragon, as a sign of its innovative power has won the innovations prize of MARKTVISIONEN [market visions] for its seat belt microphone belt-mike in competition with 98 other companies.

In the area of personnel, paragon will add on in 2012 in development and production, most of all in Delbrück. Also noteworthy is the opening of a sales branch for the Chinese market in Shanghai on May 1. For the year 2012, the management plans investments for replacements and new plants in the amount of €4.1mn, which are to be fully financed from the operative cash flow.

4 Market

The Center for Automobile Management (CAMA) expects a decline of automobile sales in the year of 2012. Stated reasons are a modest commercial demand due to absent economic impulses, moderated investment climate, rising raw materials prices, as well as mildly growing new orders. Private demand is curbed by rising raw materials and energy costs, alternative mobility concepts, and also by long-term demographic influences so that even a lower unemployment rate and new vehicle discounts cannot offset these effects.



Source: CAMA (2011)

Globally however there is a more positive trend. For example, according to the Association of the German Automobile Industry (VDA), the number of new cars will increase in the USA by 5% to 13.4mn due to an assumed economic stabilization in the country, and consequently also on basis of stable gasoline prices and low financing rates the renewal of the aged fleet of vehicles will follow. The largest growth of new vehicles is expected in the emerging countries with an addition in China by 8% to 13.2mn, in India by 10% to 2.9mn, in Brazil by 3% to 3.6mn units. Worldwide, the number of new vehicles is to increase by 4% to 68mn units in 2012. By the year 2020 the global automobile market will grow by 40% to 90mn units in the opinion of experts.

The German automobile manufacturers are to profit in greatest proportion from this trend in the export countries by further increasing market shares in the year 2012. The German automakers accomplished to growth twice as fast in China and in the USA than in the overall market in the past year. The market share for new cars is thus 50% in Western Europe, 20% in China, 12.5% in the USA, and 16% in Russia.

Worldwide the sales of auto suppliers are also increasing in parallel with car sales. According to estimates of the business consulting firm "Roland Berger", suppliers will report sales increases of €150bn by the year 2020. A major part of the increases can be observed in China (€50bn), likewise in Europe, the USA and Japan with €65bn.

Growth differs therein for the various automobile components. The following table shows the growth estimates for the respective automobile components in the period from 2008 to 2020:

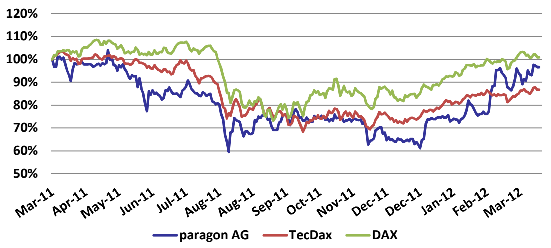
	Triad			BRIC		Other
	EU	USA	Japan	China	BRI	
Interior	1,9	1,9	-1,6	11,0	6,3	3,7
Infotainment	0,5	0,9	-1,4	1,1	0,5	0,5

in bn. Euros

Driven by a strong demand, the automobile suppliers will have reached an EBIT margin of 6% in the year 2010 according to a study by the business consulting firm "Roland Berger". This is the highest value in years.

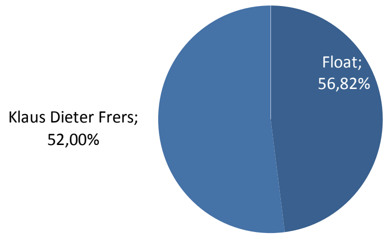
5 Stock

Share Price Development



Source: ThomsonReutersKnowledge, Dr. Kalliwoda Research ©

Shareholder Structure



Source: paragon AG

The paragon AG stock has been listed in the Prime Standard of the German stock exchange since the year 2000. The stock experienced a stronger upward trend in the past few months than the broader market and has thereby recovered significantly. When viewing the past twelve months, the performance of the stock is near to that of the broader market.

6 Investment Case and Result

Owing to the broad-based positioning we consider the company to be well established for the future. The persistent strong upward trend of the auto industry enables paragon to continue on its growth path and to generate rising turnover. The customer relationships of many years that are maintained with the large auto manufacturers, especially with the large customer Volkswagen, is likely to lead to additional orders and will thereby improve the order situation.

With the increase of staff, paragon will meet the growing demand. Risks that might be posed for the company in terms of its substance can be considered low in our opinion because of the solid economic situation in the automobile industry. The dependency on the economic success of few customers and models is also deemed low by us. Solely the rising raw materials prices as well as the stagnating producer prices might lead to price pressure on the supplier companies and thereby dampen the profit margin.

The innovations in the automobile sector are today mostly made in the electric/electronics segment. Precisely this is where paragon operates and it has positioned itself as innovation leader. The company is therefore likely to be in the position to grow substantially again in the future, and to continue expanding the customer relationships with the large international manufacturers. Particularly for premium vehicles, products are demanded that are in paragon's key areas consisting of comfort, safety and health.

paragon AG expects a decline of growth in the automobile market for the first half of the year 2012 and a recovery in the second half, which is to lead to a growth of turnover in the single-digit range for the year 2012. paragon AG has a strong correlation with the German automakers of the premium class. We expect that this segment will develop above average for worldwide sales of new vehicles with growth of more than 4% in the year 2012.

Due to its distribution structure, paragon AG has a strong correlation with the German automakers of the premium class. The President of VDA expects an increase of German automakers' market shares in 2012, particularly in the USA and the emerging countries, with a simultaneous growth of the market. paragon AG is expecting another stable auto year in 2012 with a slight easing of growth in the first half of the year followed by a recovery. Likewise the management provides a conservative estimate of the growth of sales revenues in the single-digit range with stable margins. We share this estimate. Comparing the situation of pargaon AG now to the situation twelve months ago, the repayment of liabilities and a large inventory of orders have reduced the company's risk. In a scenario of successful development of the products that are in the pipeline with large piece numbers, paragon AG has the potential to outperform the trend of the automobile sector in the midterm. Taking the good results of 2011 and the growth rate of 4% as basis in this year, we have slightly raised our revenues forecast for the year 2012 and are expecting steady margins.

Among the assumptions included, our DCF rating model reflects a corresponding fair share value at €21.30. The relative valuation approach of paragon AG compared to its peer group results in a value of €17.21. In an 80% weighting of the DCF model and a weighting of the relative valuation of 20%, the overall valuation results in a fair value of €20.48, this, in comparison to the current stock price, leads to a recommendation to buy.

7 Financial

7.1 Profit and Loss Statement

Profit & Loss Statement

	Fiscal Year										
Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
Revenues	**109**	**112**	**67**	**60**	**67**	**72**	**75**	**79**	**81**	**83**	**86**
Other Revenue	5	5	3	3	2	3	3	4	4	4	4
Total Revenue	**114**	**117**	**71**	**63**	**69**	**76**	**78**	**82**	**85**	**87**	**90**
Costs of Revenue	(54)	(57)	(42)	(32)	(32)	(35)	(37)	(39)	(40)	(41)	(42)
Labor Costs	(28)	(28)	(20)	(13)	(17)	(18)	(18)	(19)	(20)	(21)	(21)
Other Operating Expenses	(13)	(86)	(43)	91	(7)	(8)	(8)	(8)	(8)	(9)	(9)
Depreciation and Amortization	(12)	(13)	(5)	(5)	(4)	(5)	(5)	(5)	(6)	(6)	(6)
Operating Income	**7**	**(66)**	**(41)**	**105**	**9**	**10**	**10**	**11**	**11**	**11**	**12**
Financial Profit / Loss	(6)	(8)	(6)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	0
Earnings Before Taxes	**0**	**(74)**	**(47)**	**104**	**8**	**9**	**10**	**11**	**11**	**11**	**12**
Provisions for Income Tax	2	3	0	(1)	(2)	(3)	(3)	(3)	(3)	(3)	(4)
Net Incom After Taxes	**2**	**(72)**	**(47)**	**103**	**5**	**7**	**7**	**7**	**8**	**8**	**8**
Minority Interest	--	--	--	0	0	0	0	0	0	0	0
Extraordinary Items and Adjustments	--	--	--	--	--	--	--	--	--	--	--
Net Income	**2**	**(72)**	**(47)**	**103**	**5**	**7**	**7**	**7**	**8**	**8**	**8**
Profit & Loss (Growth Rate YoY)											
Revenues	**(2%)**	**3%**	**(40%)**	**(10%)**	**11%**	**8%**	**3%**	**5%**	**3%**	**3%**	**3%**
Other Revenue	(10%)	2%	(38%)	(14%)	(31%)	78%	3%	5%	3%	3%	3%
Total Revenue	**(2%)**	**3%**	**(40%)**	**(11%)**	**9%**	**10%**	**3%**	**5%**	**3%**	**3%**	**3%**
Costs of Revenue	(6%)	6%	(26%)	(25%)	2%	10%	3%	5%	3%	3%	3%
Labor Costs	4%	1%	(27%)	(39%)	34%	7%	3%	4%	4%	3%	3%
Other Operating Expenses	13%	534%	(50%)	n.m.	n.m.	8%	3%	5%	3%	3%	3%
Depreciation and Amortization	2%	6%	(57%)	(8%)	(18%)	15%	10%	3%	5%	3%	3%
Operating Income	**(19%)**	**n.m.**	**(39%)**	**n.m.**	**(92%)**	**15%**	**1%**	**8%**	**0%**	**3%**	**3%**
Financial Profit / Loss	38%	27%	(22%)	(88%)	70%	(44%)	(12%)	(45%)	(39%)	(68%)	n.m.
Earnings Before Taxes	**(92%)**	**n.m.**	**(37%)**	**n.m.**	**(93%)**	**25%**	**2%**	**11%**	**2%**	**5%**	**4%**
Provisions for Income Tax	n.m.	16%	(89%)	n.m.	233%	30%	2%	11%	2%	5%	4%
Net Incom After Taxes	**12%**	**n.m.**	**(35%)**	**n.m.**	**(95%)**	**23%**	**2%**	**11%**	**2%**	**5%**	**4%**
Minority Interest	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Extraordinary Items and Adjustments	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Income	**12%**	**n.m.**	**(35%)**	**n.m.**	**(95%)**	**23%**	**2%**	**11%**	**2%**	**5%**	**4%**
Profit & Loss (% of Total Revenues)											
Revenues	**96%**	**96%**	**96%**	**96%**	**97%**	**96%**	**96%**	**96%**	**96%**	**96%**	**96%**
Other Revenue	4%	4%	4%	4%	3%	4%	4%	4%	4%	4%	4%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Costs of Revenue	(47%)	(49%)	(60%)	(50%)	(47%)	(47%)	(47%)	(47%)	(47%)	(47%)	(47%)
Labor Costs	(24%)	(24%)	(29%)	(20%)	(24%)	(24%)	(24%)	(23%)	(24%)	(24%)	(24%)
Other Operating Expenses	(12%)	(73%)	(61%)	144%	(10%)	(10%)	(10%)	(10%)	(10%)	(10%)	(10%)
Depreciation and Amortization	(10%)	(11%)	(8%)	(8%)	(6%)	(6%)	(7%)	(6%)	(7%)	(7%)	(7%)
Operating Income	**6%**	**(56%)**	**(57%)**	**166%**	**13%**	**13%**	**13%**	**13%**	**13%**	**13%**	**13%**
Financial Profit / Loss	(6%)	(7%)	(9%)	(1%)	(2%)	(1%)	(1%)	(0%)	(0%)	(0%)	0%
Earnings Before Taxes	**0%**	**(63%)**	**(67%)**	**165%**	**11%**	**12%**	**12%**	**13%**	**13%**	**13%**	**13%**
Provisions for Income Tax	2%	2%	0%	(1%)	(3%)	(4%)	(4%)	(4%)	(4%)	(4%)	(4%)
Net Incom After Taxes	**2%**	**(61%)**	**(66%)**	**164%**	**8%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**
Minority Interest	n.m.	n.m.	n.m.	0%	0%	0%	0%	0%	0%	0%	0%
Extraordinary Items and Adjustments	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Income	**2%**	**(61%)**	**(66%)**	**164%**	**8%**	**9%**	**9%**	**9%**	**9%**	**9%**	**9%**

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Checking Income Statement Calculations:											
Total Revenue	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Operating Income	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Earnings Before Taxes	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Net Incom After Taxes	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Net Income	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000

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7.2 Balance Sheet

Balance Sheet											
	Fiscal Year										
Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
Assets											
Current assets											
Cah and Cash Equivalents	6	2	9	14	15	11	32	37	43	49	56
Receivables	17	5	5	5	1	2	4	5	5	6	6
Inventory	17	19	4	6	7	7	8	8	8	8	9
Prepaid Expenses	0	0	0	0	1	1	1	1	1	1	1
Other Current Assets	0	0	0	0	1	1	1	1	1	1	1
Sum current assets	**41**	**27**	**19**	**25**	**24**	**23**	**45**	**52**	**58**	**65**	**72**
Non-current assets											
Property, Plant and Equipment	32	20	15	14	13	15	15	16	16	17	17
Intangible Assets	32	6	5	3	3	4	4	4	4	4	4
Goodwill	27	0	0	0	0	0	0	0	0	0	0
Long Term Investments	0	0	0	0	0	0	0	0	0	0	0
Defered Income Taxes	4	0	1	1	0	0	0	0	0	0	0
Other Long Term Assets	0	0	0	0	0	0	0	0	0	0	0
Sum Non-Current Assets	**95**	**27**	**20**	**18**	**17**	**19**	**19**	**20**	**21**	**21**	**22**
Total Assets	**136**	**54**	**39**	**43**	**41**	**41**	**65**	**72**	**79**	**86**	**94**
Equity and Liabilities											
Current Liabilities											
Accounts Payable	14	14	36	2	3	3	21	22	23	24	24
Accruals	0	0	12	5	3	4	4	4	4	4	4
Short Term Debt	21	27	41	6	3	0	0	0	0	0	0
Other Current Liabilities	10	14	34	5	5	5	5	5	6	6	6
Sum Current Liabilities	**44**	**55**	**123**	**18**	**14**	**12**	**30**	**32**	**33**	**34**	**35**
Non-Current Liabilities											
Non-Current Loans	29	23	9	15	13	13	11	10	8	7	5
Deferred Tax Liabilities	7	0	0	0	0	0	0	0	0	0	0
Other Non-Current Liabilities	37	30	6	5	5	0	0	0	0	0	0
Sum Non-Current Liabilities	**74**	**53**	**15**	**21**	**17**	**13**	**11**	**10**	**8**	**7**	**5**
Shareholders' Equity											
Subscribed Capital	12	12	12	12	8	8	8	8	8	8	8
Retained earnings	8	-64	-111	-7	2	9	16	23	31	39	47
Other Equity	-2	-2	0	0	0	0	0	0	0	0	0
Sum Equity	**18**	**-54**	**-99**	**4**	**10**	**16**	**23**	**31**	**38**	**46**	**54**
Total Equity and Liabilities	**136**	**54**	**39**	**43**	**41**	**41**	**65**	**72**	**79**	**86**	**94**

7.3 Cash Flow Statement

Cash Flow Statement

Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
	Fiscal Year										
1. Cash from Operating Activities											
Net Profit before Tax	**0**	**(74)**	**(47)**	**104**	**8**	**9**	**10**	**11**	**11**	**11**	**12**
Amortization and Depreciation	12	13	5	5	4	5	5	5	6	6	6
Non-cash Items	4	70	7	(1)	(1)	0	0	0	0	0	0
Change in Working Capital	(10)	6	39	(101)	(2)	(9)	14	(3)	(3)	(3)	(3)
Cash from Operating Activities	**6**	**13**	**4**	**7**	**9**	**5**	**28**	**13**	**14**	**14**	**15**
2. Cash from Investment Activities											
Capital Expenditures	(14)	(10)	(2)	(3)	(3)	(6)	(6)	(6)	(6)	(6)	(7)
Other Investing Cash FlowItems	2	(1)	0	0	0	0	0	0	0	0	0
Cash from Investment Activities	**(13)**	**(11)**	**(1)**	**(3)**	**(3)**	**(6)**	**(6)**	**(6)**	**(6)**	**(6)**	**(7)**
3. Cash from Financing Activities											
Financing Cash FlowItems	2	(4)	0	(9)	2	(1)	(1)	(0)	(0)	(0)	0
Dividends Paid Out	(1)	(0)	0	0	0	0	0	0	0	0	0
Issuance (Retirement) of Stock	--	--	--	0	0	0	0	0	0	0	0
Issuance (Retirement) of Debt	3	(2)	2	10	(6)	(2)	(2)	(2)	(2)	(2)	(2)
Cash from Finacing Activities	**4**	**(6)**	**2**	**1**	**(4)**	**(3)**	**(2)**	**(2)**	**(2)**	**(2)**	**(1)**
4. Cash at End of Period											
Foreign Exchange Effects	(0)	(0)	2	0	0	0	0	0	0	0	0
Changes in Cash	(2)	(4)	7	6	2	(4)	20	5	6	6	7
Cash at Beginning of Period	9	6	2	8	14	15	11	32	37	43	49
Cash at End of Period	**6**	**2**	**9**	**14**	**15**	**11**	**32**	**37**	**43**	**49**	**56**

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8 Rating

8.1 DCF Model

For the assessment of the fair value a three-tier discounted cash flow model as well as the market data of peer group companies was used. Serving as data basis were the financial reports of paragon AG. The valuation date in the course of the year was accounted for by discounting the operative free cash flow toward the valuation date. Chosen as valuation date was August 1, 2011. Insofar as assets not required for operations were present, their value was assessed separately and added to the cash value of distributions. Subsequently the residual value phase follows, wherein we calculate a growth rate of 3 percent p.a.

/ Discounted Cash Flow-Modell (Basis 4/2012)

	Phase 1					
(m EUR)	2012e	2013e	2014e	2015e	2016e	2017e
Total Revenues	**76**	**78**	**82**	**85**	**87**	**90**
Rate of change	10%	3%	5%	3%	3%	3%
EBIT	**10**	**10**	**11**	**11**	**11**	**12**
Rate of change	15%	1%	8%	0%	3%	3%
Margin	13%	13%	13%	13%	13%	13%
Interest and Shareholding Income	**-1**	**-1**	**0**	**0**	**0**	**0**
EBT	9	10	11	11	11	12
Operational tax expenses	**-3**	**-3**	**-3**	**-3**	**-3**	**-4**
Effective Tax Rate (ex. Interest Income)	30%	30%	30%	30%	30%	30%
Depreciation and Amortization	**5**	**5**	**5**	**6**	**6**	**6**
Depreciation Ratio (% Revenues)	6%	7%	6%	7%	7%	7%
Changes in long-term provisions	**0**	**0**	**0**	**0**	**0**	**0**
Proportion of Revenues	-	-	-	-	-	-
Change in Working Capital	**-9**	**14**	**-3**	**-3**	**-3**	**-3**
Working-Capital-Ratio (% Revenues)	-12%	17%	-3%	-3%	-3%	-3%
Investments into fixed assets	**-6**	**-6**	**-6**	**-6**	**-6**	**-7**
Investments ratio (% Revenues)	-8%	-7%	-8%	-7%	-7%	-7%
Other	**0**	**0**	**0**	**0**	**0**	**0**
Free Cash-Flow	**-4**	**20**	**4**	**4**	**5**	**5**

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8.2 WACC

The discount rate was arrived at by means of the weighted costs of capital. We assume that the capital structure will not change significantly in the coming fiscal years. Adjustments of debt capital to the current market interest were not made. The risk-free yield is based on the average yield of the 30-year bond. The assessment of the risk prime follows from the Capital Asset Pricing Model (CAPM) and covers especially the systemic risks (market risk prime). The beta-value used by us for the assessment of the company-specific risk is oriented on the performance of the reference index DAX.

WACC Assumptions	
Growth Propositions	
Long-Term growth / inflation	3,0%
Assimilation Phase (from 2015)	5 Jahre
Revenue growth in the beginning	3,0%
Margin development (p.a.)	+1 BP
Equity Cost	
Long-Term risk-free rate	3,8%
Market Risk Premium	6,0%
Beta oft he Company	0,90
Equity Cost	**9,2%**
Debt Cost	
Debt Cost (before tax)	7,0%
Tax rate on Debt interest	30,0%
Debt Cost (after tax)	**4,9%**
Equity Value	37
Market Value of Debt	15
Gearing (Market Values)	40,1%
WACC	**7,97%**

8.3 Fair Value – Sensitivities

The modification of the action parameters in the terminal value can be seen in the sensitivity analysis below. It shows the variability of our derived fair value.

Sensitivity analysis		Fair value per share			
(EUR)			Discount rate		
ß = 0,9	7,47%	7,72%	7,97%	8,22%	8,47%
Groth 2,0%	21,44	20,47	19,57	18,75	17,98
2,5%	22,46	21,36	20,36	19,44	18,60
3,0%	23,70	22,44	**21,30**	20,27	19,34
3,5%	25,25	23,77	22,46	21,28	20,22
4,0%	27,24	25,46	23,90	22,52	21,30

Sensitivity analysis		Market capitalization			
(EUR m)			Discount rate		
ß = 0,9	7,47%	7,72%	7,97%	8,22%	8,47%
Groth 2,0%	88	84	81	77	74
2,5%	92	88	84	80	77
3,0%	98	92	**88**	83	80
3,5%	104	98	92	88	83
4,0%	112	105	98	93	88

8.4 Peer Group Analysis

We have additionally subjected the valuation of the company resulting from our DCF model to a plausibility check by means of a peer group analysis. The application of a relative valuation model is based on the concept that comparable companies possess corresponding market values. Accordingly, primarily stock exchange listed companies are selected, which supply similar products or which have an equivalent business model. An analysis of the key financial figures of all companies delivers an estimate as to in how far the valuation result for the company can be traced back to lower comparability with its peer group or specifically to an under- or overvaluation.

The initial data of the comparison companies originates from the information service provider Thomson Reuters. The future-oriented financial data of the comparison companies represents the median value of all analysts' estimates that are available for the product at ThomsonReutersKnowledge. The market value of financial liabilities is estimated in the book value for all companies.

Peer Group Multiples	Enterprise Value Multiples									Equity Value Multiples		
Peers	EV / Sales			EV / EBITDA			EV / EBIT			Price / Eps		
	FY2012	FY2013	FY2014	FY2012	FY2013	FY2014	FY2012	FY2013	FY2014	FY2012	FY2013	FY2014
Continental AG	0,9	0,8	0,8	6,6	6,1	5,7	9,3	8,3	7,9	8,2	7,1	6,3
Elringklinger AG	2,0	1,8	1,8	8,7	8,6	7,8	13,6	12,0	11,2	13,5	11,5	10,4
Funkwerk AG	0,3	0,2	0,2	11,7	4,5	2,7	22,9	7,9	29,4	50,3	5,7	n.a.
GRAMMER AG	0,4	0,4	0,4	5,5	5,1	4,7	8,0	7,2	6,9	6,9	5,9	n.a.
Leoni AG	0,5	0,5	0,5	5,5	5,1	4,8	7,4	7,0	6,5	7,4	6,9	6,3
Renk AG	0,8	0,9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6,8	7,7	n.a.
Saf Holland SA	0,7	0,6	0,6	8,2	7,5	6,7	10,1	8,7	6,8	8,0	6,5	5,5
Twintec AG	0,3	n.a.	n.a.	4,2	2,4	n.a.	3,1	n.a.	n.a.	8,5	n.a.	n.a.
paragon AG	0,6	0,5	0,5	3,4	3,2	3,0	5,8	5,2	5,0	7,8	6,6	6,2
Median	0,6	0,6	0,5	6,1	5,1	4,8	8,6	7,9	6,9	8,0	6,8	6,3
Mean	0,7	0,7	0,7	6,7	5,3	5,1	10,0	8,0	10,5	13,1	7,2	6,9
Peer Benchmark	**1,0**	**0,9**	**0,8**	**6,1**	**9,1**	**8,0**	**8,6**	**7,9**	**13,1**	**9,1**	**7,9**	**6,7**
Discount (-)/Premium (+)	-47%	-44%	-40%	-43%	-65%	-62%	-32%	-34%	-62%	-14%	-16%	-6%
Valuation												
Peer Benchmark	**1,0**	**0,9**	**0,8**	**6,1**	**9,1**	**8,0**	**8,6**	**7,9**	**13,1**	**9,1**	**7,9**	**6,7**
paragon AG financials	78	82	85	13	14	14	7	8	9	1,1	1,3	1,4
Implied Enterprise Value	81	78	72	76	124	115	64	65	114			
+ Cash and Cash Equivalents	10	10	10	10	10	10	10	10	10			
- Financial Debt	15	15	15	15	15	15	15	15	15			
- Pension Liabilities	2	2	2	2	2	2	2	2	2			
- Minority Interest	0	0	0	0	0	0	0	0	0			
- Preferred Equity	0	0	0	0	0	0	0	0	0			
+ Change in Equity Capital	0	0	0	0	0	0	0	0	0			
Implied Equtiy Value	74	71	65	69	117	108	57	58	107			
Number of Shares	4	4	4	4	4	4	4	4	4			
Implied fair value per share	**18,1**	**17,2**	**15,7**	**16,8**	**28,3**	**26,2**	**13,8**	**14,2**	**26,0**	**10,3**	**10,5**	**9,4**
Weights	11%	11%	11%	11%	11%	11%	11%	11%	11%	33%	33%	33%
Results					**19,59**						**10,06**	
Weights	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Fair Value Implied by Both Peer Multiples: 17,21 EUR												
Premium (Discount) to Peer Benchmark: 0 %												
Fair Value per Share 17,21 EUR												

Source: Dr. Kalliwoda | Research 2012

9 Kontakt

paragon AG

Schwalbenweg 29
33129 Delbrück

Tel.: +49(0)52 50-97 62-0
Fax: +49(0)52 50-97 62-60
E-Mail: info@paragon-online.de

DR. KALLIWODA RESEARCH GmbH Primary Research | Fair Value Analysis | International Roadshows		Rüsterstraße 4a 60325 Frankfurt Tel.: 069-97 20 58 53 www.kalliwoda.com
Head: **Dr. Norbert Kalliwoda** E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PhD in Economics; Dipl.-Kfm.	Sectors: IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Sven Bedbur E-Mail: sb@kalliwoda.com	Dipl.-Kfm. Analyst; University of Frankfurt/Main	Sectors: IT Seriveses & Software, Financial Services, Mining & Exploration
Adrian Kowollik Email: ak@kalliwoda.com	Dipl.Kfm; Humboldt-Universität zu Berlin, CFA candidate	Sectors: Media, Gaming, Internet, Technology, Eastern European stocks
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	Sectors: Biotech & Healthcare; Medical Technology Pharmaceutical
Maximilian F. Kaessens E-Mail: mk@kalliwoda.com	Bachelor of Science in Business Administration (Babson College (05/2012), Babson Park, MA (US))	Sectors: Financials, Real Estate
Dr. Erik Schneider **E-Mail:** es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	Sectors: Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	Sectors: IT/Logistics; Quantitative Modelling
Hellmut Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt/Main.	Sectors: Oil, Regenerative Energies, Specialities Chemicals, Utilities
Michael John E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	Sectors: Chemicals, Chemical Engineering, Basic Metals, Renewable Energies, Laser/Physics
Dr. Thomas Krassmann E-Mail: tk@kalliwoda.com	Dipl.-Geologist, M.Sc.;University of Göttingen & Rhodes University, South Africa;	Sectors: Raw Materials, Mining, Precious Metals, Gem stones.
Patrick Bellmann E-Mail: pb@kalliwoda.com	Junior-Analyst; WHU - Otto Beisheim School of Management, Vallendar (2012)	Sectors: Support Research and Quantitative Approach
Robin-Andreas Braun E-Mail: rab@kalliwoda.com	Junior-Analyst; University of Frankfurt/Main (2012)	Sectors: Support Research and Quantitative Approach
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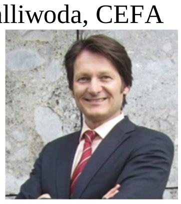

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