

Recommendation:  
**BUY** (BUY)

Risk:  
**HIGH** (HIGH)

Price Target:  
**EUR 21.00** (19.00)

17 June 2014

## Electro-Mobility to drive revenue and...

### ... earnings growth in the following years

- Following on a company visit, we revised our estimates and we reiterate our BUY recommendation. The main growth driver will be the Electromobility Division on which we will shed more light in this update. Historically, paragon is an automotive supplier. With the expansion of the Electro Mobility Division the dependency on the automotive industry will decline from 100% in FY 2012 to 66% in FY 2016E according to our estimates.
- The growth in the Electro Mobility Division will be driven by a few different applications: These are mainly the backup supply for electric trolley buses, buffer battery systems for solar panel systems and battery systems to operate electric pallet lifters. Currently, the total divisional revenues are generated with trolley buses. The photovoltaic applications should contribute significantly to revenue growth as of FY 2015E. The entry in the market for battery systems for electric pallet lifters will be the most challenging task as the market is already distributed. However, the new lithium ion technology offers paragon the chance to become a systems supplier. From that application the first revenue contribution is not to be expected before FY 2016E.
- The new Body Kinematics Division should contribute also to revenue growth. Cockpit will see another year with declining sales as certain products are phased out and will be replaced with new products with lower prices.
- Based on the diversification of the business model with the expansion of the Electro Mobility Division, the strong balance sheet and the high profitability of the company the credit rating improved. At the beginning of June, Creditreform upgraded the rating from BB+ to BBB- (investment grade).
- We increase our target price from EUR 19 to EUR 21. In our view, there is significantly more potential for the share price in case paragon signs a contract with a producer of electric pallet lifters. This is essential to exploit the full potential of the Electro-Mobility Division and to reach the sales target of the company of up to EUR 150m by FY 2018E. So far, we are cautious and we did not include any contribution from that application in our forecasts.

#### Key data

| FY 12/31, EURm | 2011  | 2012  | 2013  | 2014E | 2015E | 2016E |
|----------------|-------|-------|-------|-------|-------|-------|
| Sales          | 67.1  | 70.4  | 73.9  | 79.8  | 96.5  | 109.1 |
| EBIT           | 8.8   | 7.8   | 7.9   | 8.1   | 10.8  | 12.7  |
| Net result     | 5.3   | 4.6   | 3.9   | 4.2   | 6.3   | 7.6   |
| EPS            | 1.30  | 1.13  | 0.96  | 1.01  | 1.54  | 1.85  |
| DPS            | 0.25  | 0.35  | 0.25  | 0.25  | 0.28  | 0.30  |
| EBITDA margin  | 19.4% | 16.7% | 16.9% | 16.3% | 16.9% | 17.1% |
| EBIT margin    | 13.2% | 11.0% | 10.7% | 10.2% | 11.2% | 11.6% |
| EV/EBITDA      | 2.0   | 3.3   | 4.0   | 6.0   | 4.8   | 4.2   |
| EV/EBIT        | 2.9   | 5.1   | 6.2   | 9.6   | 7.2   | 6.1   |
| P/E            | 4.4   | 7.8   | 10.8  | 15.3  | 10.1  | 8.4   |

Source: paragon AG; CBS Research AG



Source: CBS Research AG, Bloomberg, paragon AG

| Change | 2014E |      | 2015E |      | 2016E |       |
|--------|-------|------|-------|------|-------|-------|
|        | new   | old  | new   | old  | new   | old   |
| Sales  | -     | 79.8 | 96.5  | 95.7 | 109.1 | 102.4 |
| EBIT   | -     | 8.1  | 10.8  | 10.7 | 12.7  | 11.6  |
| EPS    | 1.01  | 1.15 | 1.54  | 1.57 | 1.85  | 1.72  |

Internet: paragon.ag

WKN: 555869

Reuters: PGNG.DE

Sector: Automotive

ISIN: DE0005558696

Bloomberg: PGN GY

#### Short company profile:

paragon AG develops, manufactures and sells electronic components and sensors for the automotive industry in Germany and internationally. The portfolio includes products in the field of air quality, power train, acoustics, stepper motors, media interfaces cockpit and electromobility.

#### Share data:

|   |              |
|---|--------------|
| Share price (EUR, latest closing price):      | <b>15.50</b> |
| Shares outstanding (m):                       | 4.1          |
| Market capitalisation (EUR m):                | 63.8         |
| Enterprise value (EUR m):                     | 70.4         |
| Ø daily trading volume (3 m., no. of shares): | 8,882        |

#### Performance data:

|                                   |       |
|-----------------------------------|-------|
| High 52 weeks (EUR):              | 15.98 |
| Low 52 weeks (EUR):               | 8.21  |
| Absolute performance (12 months): | 70.3% |
| Relative performance vs. CDAX:    |       |
| 1 month                           | 7.2%  |
| 3 months                          | 33.1% |
| 6 months                          | 33.2% |
| 12 months                         | 40.9% |

#### Shareholders:

|                               |     |
|-------------------------------|-----|
| Klaus Dieter Frers (Chairman) | 51% |
| Free float                    | 49% |

#### Financial calendar:

|                |                  |
|----------------|------------------|
| 1H2014 results | 20 August 2014   |
| 3Q2014 results | 19 November 2014 |

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## Reduced dependency on automotive industry

Historically, paragon was an automotive supplier. In FY 2012, 100% of the revenues were generated with the automotive industry. With the launch of the Electro-Mobility Division the dependency on the automotive industry will decline. In FY 2013, the non-automotive industry accounted already for more than 5% of the total revenues. According to our estimates, the revenue share of the non-automotive industry should increase to 34% of the total revenues by FY 2016E.

**Dependency on automotive industry to decline to 66% by FY 2016E**

### Divisional Forecasts

|                     | 2012        | 2013        | 2014E       | 2015E        | 2016E        |
|---------------------|-------------|-------------|-------------|--------------|--------------|
| Sensors             | 26.2        | 27.6        | 27.7        | 28.0         | 28.3         |
| y-o-y growth        |             | 5.2%        | 0.4%        | 1.0%         | 1.0%         |
| Acoustics           | 10.9        | 11.7        | 12.8        | 12.9         | 13.1         |
| y-o-y growth        |             | 7.1%        | 9.5%        | 1.0%         | 1.0%         |
| Cockpit             | 33.0        | 27.3        | 23.3        | 23.4         | 23.8         |
| y-o-y growth        |             | -17.2%      | -14.7%      | 0.6%         | 1.7%         |
| Electro-mobility    | 0.0         | 3.8         | 10.0        | 26.2         | 37.2         |
| y-o-y growth        |             | nm          | 164.8%      | 162.0%       | 42.0%        |
| Body Kinematics     | 0.3         | 3.5         | 6.0         | 6.0          | 6.8          |
| y-o-y growth        |             | 989.2%      | 69.5%       | 0.0%         | 12.5%        |
| <b>Total</b>        | <b>70.4</b> | <b>73.9</b> | <b>79.8</b> | <b>96.5</b>  | <b>109.1</b> |
| <b>y-o-y growth</b> |             | <b>4.9%</b> | <b>8.0%</b> | <b>21.0%</b> | <b>13.0%</b> |

Source: paragon AG, CBS Research AG

### Electro-Mobility Division

The Electro-Mobility Division was founded in FY 2011. At that time, paragon started to develop the first products. Meanwhile, paragon has developed battery systems based on two different types of cell-chemicals. Both technologies are using the lithium ion technology. The battery systems are marketed under the name Voltabox. In FY 2013 paragon received its first order from Vossloh Kiepe for battery packs for trolleybuses used in Switzerland. In FY 2013, the revenues of the Electro-Mobility division amounted to EUR 3.8m. We expect that division to post significant growth rates in the years ahead. In FY 2014E, the revenues should amount to EUR 10m growing to EUR 37m by FY 2016E. The revenue growth should be driven by the following applications:

- 1) Trolleybuses and small commercial vehicles
- 2) PV battery packs
- 3) Electric pallet-lifters (internal logistics)

The trolleybuses are the first application to use the Voltabox batteries. The divisional revenues which paragon has generated so far fully belong to this application. Voltabox acts as a system supplier for Vossloh Kiepe (world market leading producer of traction equipment for electrical vehicles). In summer 2013, Voltabox received the first order from Vossloh Kiepe to equip buses which will be in operation in Switzerland. At the beginning of May 2014, Voltabox received a major order for battery packs worth double digit millions of dollars from Vossloh Kiepe. The batteries will be used as back-up power supplies for some 200 new electric trolleybuses in Seattle and San Francisco. The order includes an option with a volume expansion to 530 electric buses.

Vossloh Kiepe is not the only company interested in the battery packs from Voltabox. There are also other major bus companies which are interested in the products. In the following months, we expect another electric bus producer in the US to place an order with the company.

**Three different applications to drive revenue growth of Electro-Mobility**

**Electric trolleybuses - first application where Voltabox realized revenues**

Another application area is the photovoltaic industry. The products of Voltabox can be used with solar panel systems as buffer battery system. At the moment, the battery systems are undergoing a certification process. This process should be finalized in the course of the current fiscal year. In FY 2015E, this application should contribute already c. 40% of the revenues of the Electromobility Division.

### **Buffer battery for solar panel systems**

The third area is the electric pallet-lifters. Historically, these devices are operated with lead acid batteries. However, the lithium ion technology has certain advantages as e.g. maintenance free systems, lack of a need for special charging facility and a fast charging capability which results in a better cost-effectiveness. The lithium ion batteries should partly replace the old battery technology. The change in the battery technology offers Voltabox the opportunity to enter a market segment which was so far divided by a few system producers. However, it seems that some of the established producers have problems in developing an own lithium ion technology battery systems. As paragon has already a fully developed battery system this gives paragon the opportunity to enter this market segment. So far, we have not included any revenue contribution from this application in our estimates. If paragon would be successful in this application the revenue potential of the division would increase significantly.

### **Third application are electric pallet lifters**

The objective of paragon is to realize revenues of up to EUR 150m by FY 2018E in the Electro-Mobility Division. Our estimates are by far more conservative for the time being with EUR 45m. The entry into the market segment of electrical pallet lifters will be essential to reach that sales target in our view. For conservative reasons we have not included any contribution from that application. However, it seems quite realistic to expect first revenues from that application by FY 2016E. If paragon announces a contract in that area we have to raise our estimates.

## **Development of automotive-related Divisions**

The Cockpit Division reported declining revenues in FY 2013 due to the phasing out of certain old products. As the new product generation has lower prices the revenues declined. The same trend should persist in FY 2014E. In FY 2015E, the revenues should stagnate and in FY 2016E the Division ought to return to growth.

### **Body Kinematics Division with strong growth potential**

The new Division Body Kinematics was quite successful in gaining new orders in the recent past. In three of four projects where the company was bidding it received the order. This should have a positive effect on sales in FY 2014E.

For the two other divisions Sensors and Acoustics we forecasted moderate growth rates in the following years.

## **International business expansion**

As the US market will be a huge market for electro-mobility solutions and to fulfill the Buy American Act, paragon will erect a production facility in Austin, Texas. The construction works of the factory will start short-term and the production should start towards the end of the current fiscal year. The total investment costs of the factory should amount to about EUR 7m. Therefore the cash needed for investing activities should be extraordinarily high in FY 2014 and should return to a normalized level already in FY 2015E. Then, paragon will have two production lines for the production of battery cells, one in Austin, Texas and the other one at its headquarters in Delbrück.

### **Second production line for Electro-Mobility Division in the US**

Besides the US, paragon plans to expand its automotive related business activities into China and Mexico. To take part in the growth of the Chinese automobile market and to make business with the local OEM's it is essential to establish a local production. The company plans to found a joint venture with a local automotive supplier (producer of

sensors, 550 employees). Paragon signed already a letter of intent. The interest of paragon in the joint venture will amount to 65% and the local partner will hold 35% of the company. Once the joint venture is established it will produce and market products of the Sensors and Cockpit Division.

Additionally, a major German OEM asked paragon to follow him to Mexico and to establish a local production in Mexico. Here paragon will not establish an own production. The orders will be processed by a German partner company which has already a production facility in Mexico. The production in Mexico will start in FY 2015E.

### Raised target price

We raised our target price from EUR 19 to EUR 21 based on a DCF calculation and a peer group comparison. With respect to the business prospects of the Electro-Mobility Division we remained cautious. A prerequisite to exploit the full sales potential of up to EUR 150m by FY 2018E will be that paragon will be successful in entering the market for internal logistics (electric pallet lifters) and to become a systems supplier. In our view, it seems quite reasonable that paragon will be able to enter that market. However so far we have not included any contribution from such an application. In such a case the share price potential of the stock would be well above our current target price.

**We raised our target price from EUR19 to EUR 21**

### Fair value calculation

|                                   | Weighting factor | Fair value per share (EUR) |
|-----------------------------------|------------------|----------------------------|
| Peer group valuation              | 50.0%            | 20.04                      |
| DCF valuation                     | 50.0%            | 21.33                      |
| <b>Fair value per share (EUR)</b> |                  | <b>20.69</b>               |

Source: Bloomberg, CBS Research AG

### Peer group overview

| Company name               | EV / EBITDA |            |            | EV / EBIT   |            |            | P / E       |             |             |
|----------------------------|-------------|------------|------------|-------------|------------|------------|-------------|-------------|-------------|
|                            | 2014E       | 2015E      | 2016E      | 2014E       | 2015E      | 2016E      | 2014E       | 2015E       | 2016E       |
| CONTINENTAL AG             | 7.2         | 6.5        | 6.1        | 10.3        | 9.1        | 8.6        | 13.5        | 11.9        | 10.9        |
| ELRINGKLINGER AG           | 9.1         | 8.4        | 7.6        | 13.7        | 12.2       | 11.0       | 18.0        | 15.7        | 13.8        |
| GRAMMER AG                 | 6.4         | 5.6        | 5.1        | 9.9         | 8.4        | 7.6        | 13.4        | 11.2        | 9.7         |
| LEONI AG                   | 6.4         | 5.4        | 4.7        | 10.1        | 8.3        | 6.8        | 13.3        | 10.5        | 8.5         |
| LKQ CORP                   | 11.5        | 9.6        | 7.6        | 13.4        | 11.1       | 9.0        | 18.7        | 15.3        | 12.1        |
| NOK CORP                   | 5.2         | 4.8        | 4.5        | 9.4         | 9.0        | n.a.       | 12.3        | 11.2        | 9.8         |
| NORMA GROUP SE             | 9.8         | 9.0        | 8.4        | 12.3        | 11.2       | 10.5       | 18.1        | 15.6        | 14.3        |
| PROGRESS-WERK OBERKIRCH AG | 5.8         | 5.2        | 4.7        | 10.6        | 9.3        | 8.5        | 11.1        | 9.5         | 8.6         |
| RHEINMETALL AG             | 6.0         | 4.8        | 4.5        | 11.3        | 7.8        | 6.8        | 14.8        | 9.4         | 8.2         |
| RIETER HOLDING AG-REG      | 6.4         | 5.5        | 5.7        | 9.0         | 7.5        | 7.8        | 15.4        | 12.7        | 12.8        |
| TENNECO INC                | 6.5         | 5.7        | 5.1        | 8.9         | 7.6        | 6.7        | 14.8        | 12.2        | 10.7        |
| VALEO SA                   | 5.9         | 5.2        | 4.7        | 9.7         | 8.5        | 7.7        | 14.0        | 12.2        | 11.0        |
| <b>Average</b>             | <b>7.2</b>  | <b>6.3</b> | <b>5.7</b> | <b>10.7</b> | <b>9.2</b> | <b>8.3</b> | <b>14.8</b> | <b>12.3</b> | <b>10.9</b> |
| <b>Median</b>              | <b>6.4</b>  | <b>5.6</b> | <b>5.1</b> | <b>10.2</b> | <b>8.8</b> | <b>7.8</b> | <b>14.4</b> | <b>12.0</b> | <b>10.8</b> |

Source: Bloomberg, CBS Research AG

**Peer group valuation**

|  | EURm, except EPS (EUR) | EBITDA      |             |             | EBIT        |             |             | EPS         |             |             |
|--|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  |                        | 2014E       | 2015E       | 2016E       | 2014E       | 2015E       | 2016E       | 2014E       | 2015E       | 2016E       |
| paragon AG: Financial estimates CBS Research       |                        | 13.0        | 16.3        | 18.7        | 8.1         | 10.8        | 12.7        | 1.01        | 1.54        | 1.85        |
| Applied multiples: Peer group median               |                        | 6.4         | 5.6         | 5.1         | 10.2        | 8.8         | 7.8         | 14.4        | 12.0        | 10.8        |
| <b>Enterprise value (derived)</b>                  |                        | <b>83.0</b> | <b>90.6</b> | <b>95.1</b> | <b>82.9</b> | <b>94.9</b> | <b>98.7</b> | -           | -           | -           |
| + Excess cash                                      | 17.6                   |             |             |             |             |             |             |             |             |             |
| - Financial debt                                   | -24.3                  |             |             |             |             |             |             |             |             |             |
| <b>Market capitalization (derived)</b>             |                        | <b>76.4</b> | <b>84.0</b> | <b>88.4</b> | <b>76.3</b> | <b>88.2</b> | <b>92.0</b> | <b>60.0</b> | <b>75.9</b> | <b>82.5</b> |
| Median   | 82.5                   |             |             |             |             |             |             |             |             |             |
| Premium (discount) vs. Peer Group                  | 0%                     |             |             |             |             |             |             |             |             |             |
| <b>Fair market capitalization (after discount)</b> | <b>82.5</b>            |             |             |             |             |             |             |             |             |             |
| Number of shares (m)                               | 4.1                    |             |             |             |             |             |             |             |             |             |
| <b>Fair value per share (EUR)</b>                  | <b>20.04</b>           |             |             |             |             |             |             |             |             |             |

Source: Bloomberg, CBS Research AG

**DCF calculation**

| EURm                          | PHASE 1     |            |            | PHASE 2    |            |            |             |             |             | PHASE 3     |             |
|-------------------------------|-------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
|                               | 2014E       | 2015E      | 2016E      | 2017E      | 2018E      | 2019E      | 2020E       | 2021E       | 2022E       | 2023E       | ∞           |
| Sales                         | 79.8        | 96.5       | 109.1      | 120.0      | 129.6      | 136.1      | 142.9       | 145.7       | 148.7       | 151.6       |             |
| YoY growth                    | 19.0%       | 21.0%      | 13.0%      | 10.0%      | 8.0%       | 5.0%       | 5.0%        | 2.0%        | 2.0%        | 2.0%        |             |
| EBIT                          | 8.1         | 10.8       | 12.7       | 14.4       | 15.6       | 16.3       | 17.1        | 17.5        | 17.8        | 18.2        |             |
| EBIT margin                   | 10.2%       | 11.2%      | 11.6%      | 12.0%      | 12.0%      | 12.0%      | 12.0%       | 12.0%       | 12.0%       | 12.0%       |             |
| Income tax                    | -2.1        | -2.7       | -3.3       | -4.2       | -4.5       | -4.7       | -5.0        | -5.1        | -5.2        | -5.3        |             |
| Depreciation and amortisation | 4.8         | 5.5        | 6.0        | 6.8        | 7.4        | 7.8        | 8.1         | 8.3         | 8.5         | 8.6         |             |
| Change in net working capital | -2.0        | -2.4       | -3.1       | -1.1       | -1.1       | -0.7       | -0.7        | -0.3        | -0.3        | -0.3        |             |
| Net capital expenditure       | -13.4       | -8.2       | -8.7       | -7.8       | -8.4       | -8.8       | -9.3        | -8.3        | -8.5        | -8.6        |             |
| <b>Free cash flow</b>         | <b>-4.6</b> | <b>2.9</b> | <b>3.6</b> | <b>8.2</b> | <b>8.9</b> | <b>9.8</b> | <b>10.3</b> | <b>12.1</b> | <b>12.3</b> | <b>12.6</b> |             |
| <b>Present values</b>         | <b>-4.3</b> | <b>2.5</b> | <b>2.7</b> | <b>5.7</b> | <b>5.6</b> | <b>5.5</b> | <b>5.2</b>  | <b>5.5</b>  | <b>5.1</b>  | <b>4.7</b>  | <b>56.3</b> |
| Present value Phase 1         | 0.9         |            |            |            |            |            |             |             |             |             |             |
| Present value Phase 2         | 37.2        |            |            |            |            |            |             |             |             |             |             |
| Present value Phase 3         | 56.3        |            |            |            |            |            |             |             |             |             |             |
| Total present value           | 94.4        |            |            |            |            |            |             |             |             |             |             |
| + Excess cash                 | 17.6        |            |            |            |            |            |             |             |             |             |             |
| - Financial debt              | -24.3       |            |            |            |            |            |             |             |             |             |             |
| Fair value of equity          | 87.8        |            |            |            |            |            |             |             |             |             |             |
| Number of shares (m)          | 4.1         |            |            |            |            |            |             |             |             |             |             |
| Fair value per share (EUR)    | 21.33       |            |            |            |            |            |             |             |             |             |             |

|                     |       |                        |               |
|---------------------|-------|------------------------|---------------|
| Risk free rate      | 3.00% | Target equity ratio    | 90.0%         |
| Equity risk premium | 6.00% | Beta (fundamental)     | 1.35          |
| Debt risk premium   | 3.50% | <b>WACC</b>            | <b>10.43%</b> |
| Tax shield          | 30.0% | <b>Terminal growth</b> | <b>2.0%</b>   |

| Sensitivity analysis      |              |       |       |              |       |       |
|---------------------------|--------------|-------|-------|--------------|-------|-------|
| Terminal growth (Phase 3) |              |       |       |              |       |       |
|                           |              | 1.0%  | 1.5%  | 2.0%         | 2.5%  | 3.0%  |
| <b>WACC</b>               | <b>9.4%</b>  | 23.18 | 24.19 | 25.35        | 26.67 | 28.20 |
|                           | <b>9.9%</b>  | 21.37 | 22.24 | 23.21        | 24.32 | 25.58 |
|                           | <b>10.4%</b> | 19.76 | 20.50 | <b>21.33</b> | 22.27 | 23.32 |
|                           | <b>10.9%</b> | 18.32 | 18.96 | 19.67        | 20.46 | 21.36 |
|                           | <b>11.4%</b> | 17.02 | 17.57 | 18.19        | 18.87 | 19.63 |

Source: CBS Research AG

**Profit and loss account**

| (31 December) IFRS                             | EURm | 2010        | 2011        | 2012        | 2013        | 2014E       | 2015E        | 2016E        |
|--|------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| <b>Sales</b>                                   |      | <b>60.4</b> | <b>67.1</b> | <b>70.4</b> | <b>73.9</b> | <b>79.8</b> | <b>96.5</b>  | <b>109.1</b> |
| YoY growth                                     |      | -           | 11.1%       | 5.1%        | 4.9%        | 8.0%        | 21.0%        | 13.0%        |
| Other operating income                         |      | 2.7         | 1.9         | 2.0         | 1.1         | 2.1         | 2.5          | 2.8          |
| Change in inventories                          |      | 0.6         | 0.1         | 0.6         | 0.3         | 0.8         | 1.0          | 1.1          |
| Other work performed                           |      | 0.2         | 1.3         | 2.0         | 1.7         | 1.6         | 1.9          | 2.2          |
| <b>Total output</b>                            |      | <b>63.9</b> | <b>70.3</b> | <b>75.1</b> | <b>76.9</b> | <b>84.3</b> | <b>101.9</b> | <b>115.2</b> |
| Material expenses                              |      | -32.4       | -33.7       | -37.0       | -36.3       | -42.2       | -51.7        | -60.3        |
| Staff expenses                                 |      | -13.8       | -16.7       | -18.9       | -19.6       | -20.7       | -23.6        | -24.4        |
| Other operating expenses                       |      | -7.4        | -6.9        | -7.5        | -8.5        | -8.4        | -10.3        | -11.8        |
| <b>EBITDA</b>                                  |      | <b>10.3</b> | <b>13.0</b> | <b>11.8</b> | <b>12.5</b> | <b>13.0</b> | <b>16.3</b>  | <b>18.7</b>  |
| Amortization, depreciation and impairment      |      | -5.1        | -4.2        | -4.0        | -4.6        | -4.8        | -5.5         | -6.0         |
| <b>EBIT</b>                                    |      | <b>5.2</b>  | <b>8.8</b>  | <b>7.8</b>  | <b>7.9</b>  | <b>8.1</b>  | <b>10.8</b>  | <b>12.7</b>  |
| in % of sales                                  |      | 8.6%        | 13.2%       | 11.0%       | 10.7%       | 10.2%       | 11.2%        | 11.6%        |
| Net financial result                           |      | -0.8        | -1.3        | -1.1        | -1.5        | -1.8        | -1.8         | -1.8         |
| <b>EBT</b>                                     |      | <b>4.4</b>  | <b>7.5</b>  | <b>6.7</b>  | <b>6.4</b>  | <b>6.3</b>  | <b>9.0</b>   | <b>10.9</b>  |
| in % of sales                                  |      | 7.3%        | 11.2%       | 9.5%        | 8.7%        | 7.9%        | 9.4%         | 10.0%        |
| Income taxes                                   |      | -0.7        | -2.2        | -2.1        | -2.5        | -2.1        | -2.7         | -3.3         |
| <b>Net income including minorities</b>         |      | <b>3.8</b>  | <b>5.3</b>  | <b>4.6</b>  | <b>3.9</b>  | <b>4.2</b>  | <b>6.3</b>   | <b>7.6</b>   |
| Minority interests                             |      | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          |
| <b>Net income attributable to shareholders</b> |      | <b>3.8</b>  | <b>5.3</b>  | <b>4.6</b>  | <b>3.9</b>  | <b>4.2</b>  | <b>6.3</b>   | <b>7.6</b>   |
| in % of sales                                  |      | 6.3%        | 8.0%        | 6.6%        | 5.3%        | 5.2%        | 6.5%         | 7.0%         |
| Shares outstanding (in millions)               |      | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         | 4.1          | 4.1          |
| <b>Earnings per share (EUR)</b>                |      | <b>0.92</b> | <b>1.30</b> | <b>1.13</b> | <b>0.96</b> | <b>1.01</b> | <b>1.54</b>  | <b>1.85</b>  |
| <b>Dividend per share (EUR)</b>                |      | <b>0.00</b> | <b>0.25</b> | <b>0.35</b> | <b>0.25</b> | <b>0.25</b> | <b>0.28</b>  | <b>0.30</b>  |

Source: CBS Research AG, paragon AG

## Balance Sheet

|   | IFRS | EURm | 2010        | 2011        | 2012        | 2013        | 2014E       | 2015E       | 2016E       |
|---|------|------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Assets</b>                               |      |      |             |             |             |             |             |             |             |
| <b>Noncurrent assets</b>                    |      |      | <b>18.2</b> | <b>17.1</b> | <b>18.6</b> | <b>18.8</b> | <b>27.4</b> | <b>30.1</b> | <b>32.9</b> |
| as % of total assets                        |      |      | 41.3%       | 41.4%       | 42.2%       | 36.3%       | 46.5%       | 46.2%       | 44.9%       |
| Property, plant and equipment               |      |      | 14.3        | 13.3        | 13.5        | 13.0        | 18.3        | 19.8        | 21.3        |
| Intangible assets                           |      |      | 3.1         | 3.3         | 4.9         | 5.6         | 8.8         | 10.1        | 11.3        |
| Others                                      |      |      | 0.9         | 0.6         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         |
| <b>Current assets</b>                       |      |      | <b>25.3</b> | <b>24.3</b> | <b>25.4</b> | <b>33.1</b> | <b>31.5</b> | <b>35.1</b> | <b>40.4</b> |
| as % of total assets                        |      |      | 58.1%       | 58.6%       | 57.8%       | 63.7%       | 53.5%       | 53.8%       | 55.1%       |
| Inventories                                 |      |      | 6.5         | 6.9         | 7.3         | 7.5         | 9.9         | 13.0        | 17.0        |
| Receivables and other assets                |      |      | 5.0         | 2.1         | 4.0         | 8.0         | 8.6         | 9.3         | 10.0        |
| Cash and cash equivalents                   |      |      | 13.8        | 15.3        | 14.1        | 17.6        | 13.0        | 12.9        | 13.4        |
| <b>Total Assets</b>                         |      |      | <b>43.5</b> | <b>41.4</b> | <b>44.0</b> | <b>51.9</b> | <b>58.8</b> | <b>65.3</b> | <b>73.3</b> |
| <b>Shareholders' equity and liabilities</b> |      |      |             |             |             |             |             |             |             |
| <b>Shareholders' equity</b>                 |      |      | <b>4.5</b>  | <b>9.8</b>  | <b>13.0</b> | <b>15.9</b> | <b>19.0</b> | <b>24.3</b> | <b>30.8</b> |
| as % of total equity and liabilities        |      |      | 10.3%       | 23.7%       | 29.6%       | 30.6%       | 32.3%       | 37.3%       | 42.0%       |
| Subscribed capital                          |      |      | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         |
| Capital reserves                            |      |      | 7.8         | 3.5         | 2.5         | 2.5         | 2.5         | 2.5         | 2.5         |
| Revenue reserves                            |      |      | 3.2         | 5.3         | 6.5         | 9.3         | 12.5        | 17.8        | 24.2        |
| Loss carried forward                        |      |      | -10.6       | -3.1        | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Noncurrent liabilities</b>               |      |      | <b>20.6</b> | <b>17.2</b> | <b>17.1</b> | <b>23.9</b> | <b>26.6</b> | <b>26.5</b> | <b>26.3</b> |
| as % of total equity and liabilities        |      |      | 47.3%       | 41.6%       | 38.8%       | 45.9%       | 45.3%       | 40.6%       | 35.9%       |
| Long-term financial debt                    |      |      | 14.7        | 12.3        | 12.0        | 10.2        | 10.1        | 10.0        | 9.9         |
| Pension provisions                          |      |      | 1.9         | 2.0         | 2.7         | 1.2         | 1.3         | 1.3         | 1.4         |
| Investment grants                           |      |      | 3.5         | 2.7         | 2.1         | 1.5         | 1.3         | 1.2         | 1.1         |
| Finance lease obligations                   |      |      | 0.4         | 0.2         | 0.2         | 0.3         | 0.3         | 0.3         | 0.3         |
| Bonds                                       |      |      | 0.0         | 0.0         | 0.0         | 9.7         | 12.7        | 12.7        | 12.7        |
| Deferred tax liabilities                    |      |      | 0.0         | 0.0         | 0.0         | 0.9         | 0.9         | 0.9         | 0.9         |
| <b>Current liabilities</b>                  |      |      | <b>18.5</b> | <b>14.4</b> | <b>13.9</b> | <b>12.2</b> | <b>13.2</b> | <b>14.5</b> | <b>16.2</b> |
| as % of total equity and liabilities        |      |      | 42.5%       | 34.7%       | 31.5%       | 23.5%       | 22.4%       | 22.2%       | 22.0%       |
| Trade accounts payable                      |      |      | 2.1         | 3.1         | 3.0         | 3.4         | 4.4         | 5.7         | 7.4         |
| Current financial debt                      |      |      | 5.9         | 2.4         | 2.1         | 2.2         | 2.2         | 2.1         | 2.1         |
| Finance lease obligations                   |      |      | 0.4         | 0.2         | 0.3         | 0.7         | 0.7         | 0.7         | 0.7         |
| Others                                      |      |      | 10.1        | 8.6         | 8.4         | 6.0         | 6.0         | 6.0         | 6.0         |
| <b>Total equity and liabilities</b>         |      |      | <b>43.5</b> | <b>41.4</b> | <b>44.0</b> | <b>51.9</b> | <b>58.8</b> | <b>65.3</b> | <b>73.3</b> |

Source: CBS Research AG, paragon AG

### Cash flow statement

|  | IFRS | EURm | 2011        | 2012        | 2013        | 2014E        | 2015E       | 2016E       |
|--|------|------|-------------|-------------|-------------|--------------|-------------|-------------|
| <b>EBT</b>   |      |      | <b>7.5</b>  | <b>6.7</b>  | <b>6.4</b>  | <b>6.3</b>   | <b>9.0</b>  | <b>10.9</b> |
| Depreciation, amortisation and impairment                              |      |      | 4.2         | 4.0         | 4.6         | 4.8          | 5.5         | 6.0         |
| Financial result   |      |      | 1.3         | 1.1         | 1.5         | 1.8          | 1.8         | 1.8         |
| Income from the reversal of the special item for investment grants     |      |      | -0.8        | -0.6        | -0.6        | -0.1         | -0.1        | -0.1        |
| Other non-cash expenses/income   |      |      | -0.2        | -0.1        | -0.1        | 0.0          | 0.0         | 0.0         |
| <b>Movements in working capital:</b>                                   |      |      | <b>-0.6</b> | <b>-1.9</b> | <b>-3.4</b> | <b>-1.9</b>  | <b>-2.4</b> | <b>-3.0</b> |
| Change in inventories  |      |      | -0.4        | -0.4        | -0.2        | -2.4         | -3.1        | -4.1        |
| Change in trade receivables, other receivables and other assets        |      |      | 0.2         | -1.6        | -4.0        | -0.6         | -0.7        | -0.7        |
| Change in trade payables and other liabilities                         |      |      | 1.4         | 0.5         | 0.7         | 1.0          | 1.3         | 1.7         |
| Change in provisions   |      |      | -1.8        | -0.2        | 0.1         | 0.1          | 0.1         | 0.1         |
| Interest paid  |      |      | -1.2        | -1.0        | -1.4        | -1.8         | -1.8        | -1.8        |
| Income taxes paid  |      |      | -1.6        | -2.4        | -1.9        | -2.1         | -2.7        | -3.3        |
| <b>Cash flow from operating activities</b>                             |      |      | <b>8.6</b>  | <b>5.8</b>  | <b>5.1</b>  | <b>6.9</b>   | <b>9.3</b>  | <b>10.4</b> |
| Capital expenditures for intangibles assets and PPE                    |      |      | -3.4        | -5.5        | -4.7        | -13.4        | -8.2        | -8.7        |
| Proceeds from disposal of PPE  |      |      | 0.1         | 0.0         | 0.0         | 0.0          | 0.0         | 0.0         |
| Interest received  |      |      | 0.0         | 0.0         | 0.0         | 0.0          | 0.0         | 0.0         |
| <b>Cash flow from investing activities</b>                             |      |      | <b>-3.3</b> | <b>-6.2</b> | <b>-4.8</b> | <b>-13.4</b> | <b>-8.2</b> | <b>-8.7</b> |
| Increase/Decrease in debt position                                     |      |      | -5.8        | -2.8        | -2.1        | -0.1         | -0.1        | -0.1        |
| Dividends paid   |      |      | 0.0         | 0.0         | -1.4        | -1.0         | -1.0        | -1.2        |
| Others   |      |      | 2.0         | 1.9         | -2.5        | 0.0          | 0.0         | 0.0         |
| net cash proceeds from issuance of bonds                               |      |      | 0.0         | 0.0         | 9.3         | 3.0          | 0.0         | 0.0         |
| <b>Cash flow from financing activities</b>                             |      |      | <b>-3.7</b> | <b>-0.9</b> | <b>3.3</b>  | <b>1.8</b>   | <b>-1.2</b> | <b>-1.3</b> |
| <b>Net increase (decrease) in cash&amp;cash equivalents for period</b> |      |      | <b>1.5</b>  | <b>-1.2</b> | <b>3.6</b>  | <b>-4.6</b>  | <b>-0.1</b> | <b>0.4</b>  |
| <b>Cash&amp;cash equivalents at beginning of period</b>                |      |      | <b>13.8</b> | <b>15.3</b> | <b>14.1</b> | <b>17.6</b>  | <b>13.0</b> | <b>12.9</b> |
| <b>Cash and cash equivalents at the end of the period</b>              |      |      | <b>15.3</b> | <b>14.1</b> | <b>17.6</b> | <b>13.0</b>  | <b>12.9</b> | <b>13.4</b> |

Source: CBS Research AG, paragon AG

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This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

| Date             | Recommendation | Price at change date | Price target |
|------------------|----------------|----------------------|--------------|
| 17 June 2014     | BUY            | EUR 15.50            | EUR 21.00    |
| 15 May 2014      | BUY            | EUR 14.35            | EUR 19.00    |
| 19 March 2014    | BUY            | EUR 11.05            | EUR 17.00    |
| 26 February 2014 | BUY            | EUR 11.40            | EUR 17.00    |
| 31 January 2014  | BUY            | EUR 11.00            | EUR 17.00    |
| 26 November 2013 | BUY            | EUR 9.89             | EUR 17.00    |

|                |     |          |           |
|----------------|-----|----------|-----------|
|                |     |          |           |
| 23 August 2013 | BUY | EUR 8.42 | EUR 17.00 |

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MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

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