

paragon

Dynamic driving

Despite rapid growth, paragon's shares have performed poorly since the positive reaction to half year results in August, in part due to value attribution from Voltabox which has also slipped back. Recent acquisitions of SemVox by paragon and Navitas and ACCURATE by Voltabox do not warrant the reaction, and we expect Q318 results in November to underpin market expectations. On our forecasts, paragon is now trading on an undemanding FY19 P/E of just 9.4x and our DCF remains at €95 a share.

Technology innovator

paragon continues to identify trends ahead of its automotive OEM customers and leverages its strong engineering capabilities to provide customers with innovative solutions that address those factors. Since the IPO of 40% of Voltabox in October 2017, the organic growth strategy has continued to be supplemented by acquisitions, increasing the ability to supply system solutions and to extend market reach. Voltabox's rapid market development provides verification of the strategy and paragon continues to pursue other technology growth opportunities such as body kinematics, air quality and voice control. As these mature into full supply paragon should see strong growth in both its Mechanics (body kinematics) and Electronics (Interiors and Sensors) activities, as well as Electromobility (Voltabox).

Digital Assistance division created

paragon recently completed the €16.4m purchase of 82% of SemVox GmbH, a leading technology supplier of proactive assistants based on Artificial Intelligence and Machine Learning. It has mid single digit annual sales and is profitable. The business will be integrated with paragon's existing Interiors division (Cockpit and Acoustics) in a new facility in Limbach-Kirkel by the year end. Combined they will form paragon semvox GmbH, the new Digital Assistance division. It should enable paragon's automotive OEM customers to acquire complete solutions for speech assistance systems from a single source.

Valuation: potential warrants higher rating

While Voltabox is directly valued in the market, we feel the rest of paragon is receiving little recognition despite strong growth prospects. Rating paragon's (ex Voltabox) FY18e EBITDA in line with peers and adding back Voltabox at market value indicates a group value of €54 per share even after the recent share price declines. Our revenue and earnings forecasts remain broadly in line with guidance and consensus, and our capped DCF returns a value of €95 per share.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/16	102.8	6.9	1.02	0.25	28.2	0.8
12/17	124.8	8.2	0.67	0.25	43.0	0.8
12/18e	178.5	13.3	1.88	0.25	15.3	0.8
12/19e	251.2	23.8	3.05	0.25	9.4	0.8

Source: Company reports, Edison Investment Research estimates

Automobiles and parts

Price €28.80

Market cap €130m

Share price graph



Share details

Code	PGN
Shares in issue	4.5m
Net cash (€m) at 30 June 2018	34.1

Business description

paragon designs and manufactures automotive electronics and solutions, selling directly to OEMs. Products include sensors, acoustics, cockpits and body kinematics. Production facilities are in Germany, the US and China. Following the IPO of Voltabox in October 2017, paragon owns 60%.

Bull

- Voltabox expanding rapidly with potential to grow its addressable market as the world electrifies.
- Increasing systems capability as acquisitions fill gaps in markets and technologies.
- Electronics expected to return to growth in 2019 as adoption of newer sensors outweighs run offs.

Bear

- Voltabox's growth and IPO has made it a major driver in perception of the parent, with other potentials possibly lacking recognition.
- Lifecycle transition period in Electronics constrains growth as sensors migrate to newer generations.
- Legal structure change to KGaA eliminates potential for unsolicited approaches.

Analysts

Andy Chambers	+44 (0)20 3077 5700
Annabel Hewson	+44 (0)20 3077 5700

industrials@edisongroup.com

**paragon is a client of Edison
Investment Research Limited**

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.