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ParagonCare
Health. Covered.

Half Year Results Presentation 1H FY19

28 February 2019 | ASX:PGC

1H19 financial highlights

Revenue

- ~9% organic growth achieved in 1H19 from Continuing business (~2x market)
- FY19 revenue guidance remains unchanged and on target

EBITDA

- Gross margin for 1H19 of ~38%
- Continuing business EBITDA of ~\$14m in line with recently provided 1H19 guidance
- 1H19 EBITDA 12% for Continuing business, improvement expected in FY20 through major cost out drive

Operating cash flow

- Positive operating cash flow in an expanding business environment in 1H19

Interim dividend

- Fully franked interim dividend of 1.1 cent maintained

1H19 operational overview and outlook

Strong sales performance

- Improved sales performance with focus in 2018 to strengthen sales leadership, transform sales culture and improve accountability
- Significant future benefits anticipated from Paragon's transformation into a world-class provider of advanced technology in healthcare sector

Status



Group-wide transformation

- Commenced migration to Microsoft D365 single platform, to create standard systems and processes across the Group
- Benefits of this IT integration expected to build from 1 July 2019 – cost reductions in FY20 expected to be >\$3m
- Due diligence on legacy capital equipment business progressing well



Positive outlook for Continuing business

- Continuing business is expected to generate \$240m of revenue and \$28m of EBITDA in FY19 (incl. \$4m benefit from lease adjustment)
- Stated Group EBITDA has been negatively impacted by the legacy capital equipment business, delays with MIDAS business development, and delays to integration cost synergies.



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Strategy and transformation programme

Financial performance and outlook

Focused vision and strategy guides our growth path

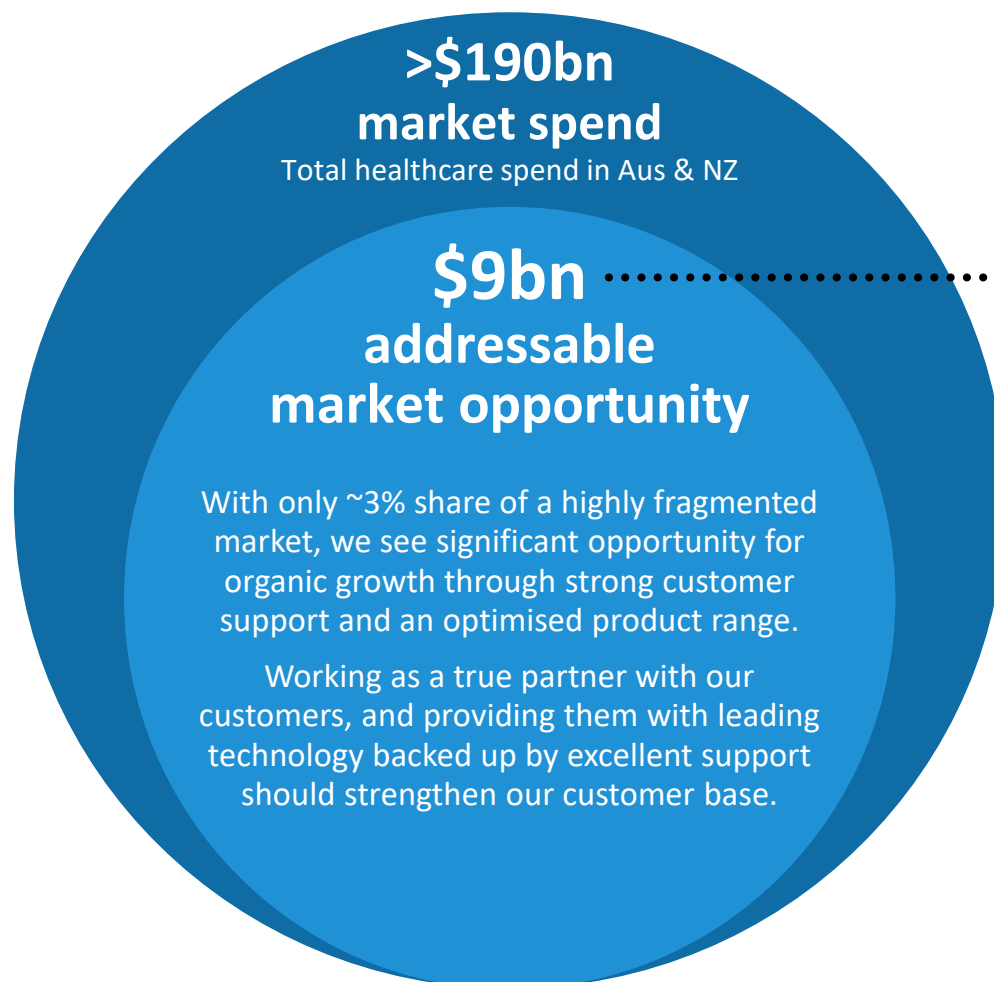
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Paragon is building a model to support a much larger business

Growing our share of a \$9bn market opportunity

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Paragon's approach to its addressable opportunity

- Focus on attractive customer 'value pools' in **acute care, critical care, surgical** and **specialty diagnostics**
- Target customer segments with **higher loyalty, higher margins** and **high end technology and service orientation**
- Prioritise customers seeking to **consolidate procurement partners** and work with them to build **lasting, solution-oriented relationships**

Notes:

1. Total healthcare expenditure includes hospitals, medical and surgical supplies, primary health care, referred medical services, other services, research and capital expenditure
2. Paragon's target market is roughly 70% of the medical and surgical supplies segment

Source: Australian Institute of Health and Welfare, Health Expenditure 2015-16

Paragon is currently in a transformation stage

Clear need for integration

By 2018, Paragon had completed 16 acquisitions in 5 years, creating vast corporate and operational complexity:

- 46 companies, 19 trading companies, 4 trust companies
- 14 different financial, operating, HR, payroll and reporting systems
- Disparate processes and procedures
- Limited cultural integration

Current focus

Transformation to accelerate integration

Following a new CEO appointment, focus shifted to transformation and capturing integration synergies:

- Board and Senior leadership team refreshed
- Investment in systems to create a uniform Paragon operational platform
- Divestment of underperforming business is underway and on track
- Deep cost out program a key focus

Stronger Continuing business delivering shareholder value

While Paragon is already seeing early sales improvements as a result of FY19 actions, major benefits are expected for FY20:

- Expense benefits expected to flow in FY20 driving bottom line improvement
- Sales capability development already driving 9% organic growth in H1 FY19
- Strong ongoing organic growth expected

Paragon is focused on transformation in the long term interests of shareholders

Early benefits from transformation programme being captured

Whole of business transformation programme across three key categories...



Business and product review

Streamlined portfolio focused on high end technology and services



Standard Work, and Progression

Consistent best-in-class culture, processes and practice across business



Single operational platform

Cost out – from 14 to 1 IT platform for efficiencies



Early benefits from the current transformation work include 9% organic growth in 1H19

Encouraging progress in delivering on transformation

Progress to date

2019 focus areas



Business and product review

- Divestment of the legacy capital equipment business is well underway
- Multiple parties conducting due diligence
- Rationalisation of obsolete products
- Innovation portfolio commenced

- Finalise divestment of legacy equipment business by the end of 2H19
- Disciplined ongoing management of business units
- Product mix improvement
- Regular introduction of new products



Standard Work, and Progression

- Increased accountability for key metrics/targets
- Blue-chip hires in sales leadership
- Introduced standard sales processes across Paragon

- Further develop sales capabilities
- Pricing/procurement analysis
- Proactive stream-lining of corporate overheads
- Change agility as a cultural competency
- Consistent cost improvement trend



Single operational platform

- Centralisation and reduction of administrative roles
- Change in IT management
- Integrated software platform selected (Microsoft Dynamics 365)
- Migration project commenced

- Roll out and migrate 70% of business onto single platform by end of 2H19, targeting 100% by FY20
- Group procurement projects
- Ongoing operational efficiencies targeted
- Cost out of >\$3m identified

Paragon is building a world-class sales organisation

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Four key sales and marketing verticals

Focused on the customers and segments with higher growth outlook
Served by specialist sales teams with deep domain knowledge

Devices



Diagnostics



Capital & Consumables



Services



The 'Paragon Way'

A best-in-breed sales culture distinguished by agility and a market leading mindset

Single shared services platform to enable scalable growth

Centres of excellence in Finance, HR, IT, Operations. Single ERP and CRM

Early traction from transformed business

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Paragon's sales culture is undergoing a truly significant transformation. We're already seeing the benefits of our efforts to deepen customer relationships, align our incentives with shareholder-focused outcomes, and optimise our team. While much has been achieved, we're early in our journey and the entire salesforce is energised for the years ahead.



Mark McDonald

Group General Manager of Sales & Marketing (Capital Equipment & Consumables, Diagnostics)

Eye care – more effectively serving existing customers



- Demonstrated early benefits of broader product portfolio, enabling deeper relationships with ophthalmic surgeons
- Increased sales penetration of **intraocular lenses** – a high end prosthetic product
- Double digit sales growth YTD

Urology – partnering with customers to identify adjacent products



- Urology identified as 'high value pool', with customers seeking quality technology but also to stream-line providers
- Existing Paragon sales team has high technical and clinical expertise
- Working in partnership with key clients to identify high-value products to broaden Paragon's solution offering
- Double digit sales growth YTD

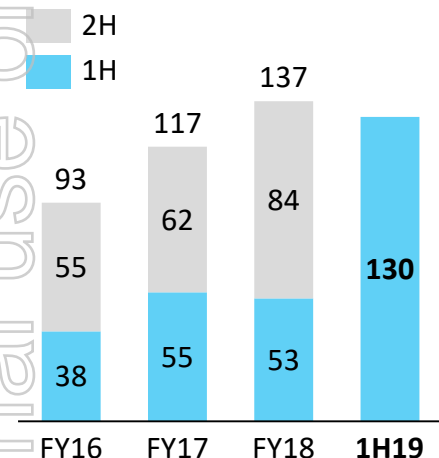
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Strategy and transformation programme

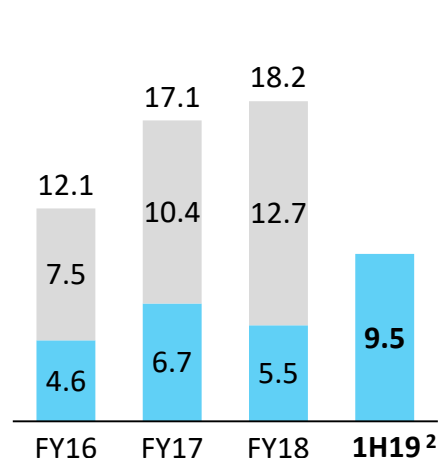
Financial performance and outlook

1H19 results summary: Group total Revenue up, EBITDA up

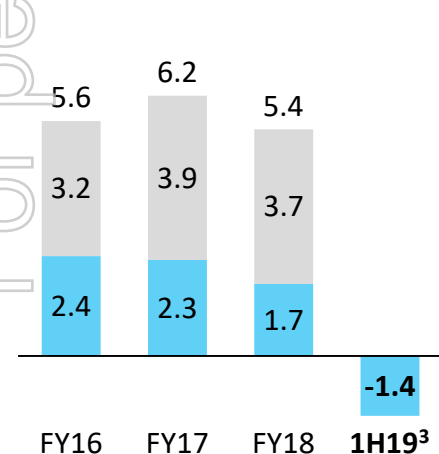
Revenue (\$m)



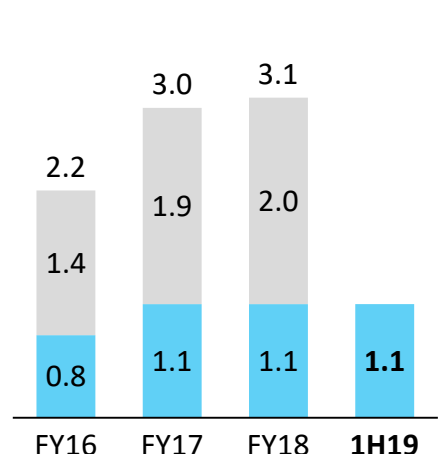
EBITDA¹ (\$m)



Earnings per share (c)



Dividends per share (c)



1H19 financials reflect a business in transition

- Step-change in revenue from prior comparable period largely reflects acquisition activity in calendar year 2018
- Seasonality removed through mix change to recurring revenue streams
- Stated financials include business unit identified for divestment (see following slide for Continuing business performance)
- EBITDA of \$9.5m reflects high inherited cost base, and costs associated with divestment and acquisition integration synergy delays
- Fully franked interim dividend of 1.1 cent maintained

1. EBITDA includes a \$1.8m positive benefit from AASB 16 (lease adjustment)
 2. EBITDA for Continuing business is \$14.5m
 3. 1H19 EPS for Continuing business is +1.68 cents

1H19 results – key sales verticals (Continuing business)

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Paragon verticals	Devices	Diagnostics	Capital & Consumables	Services	
Revenue	~\$37m	~\$12m	~\$63m	~\$7m	\$119m
				<p>Technical ParagonCare Service & Technology</p> <p>Support TOTAL COMMUNICATIONS </p>	
Organic growth	↑ 9%	↑ 2%	↑ 10%	↑ 7%	9%

Positive outlook for future growth
Targeting a long-term sustainable organic growth rate of 9% per annum

1H19 financials – key takeaways

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Strong 'Continuing business' sales performance, revenues of \$119m and organic growth of ~9% per annum



Group EBITDA impacted by poor performance in capital, one-off costs, and delayed integration synergies



Underlying EBITDA held back by slower realisation of cost synergies and ongoing capital investments. Cost out in Continuing business a key focus.



Positive operating cash flow in an expanding environment, assisted by higher recurring revenues, increased active inventories to meet growing demand and increased investment into long term growth



Strong revenue growth, stable gross profit, and a clear path to an improved cost base offer value upside

Full year FY19 outlook

Strong full year FY19 outlook for Continuing business

Revenue

FY19 Continuing business revenue target of \$240m

- *Strong organic growth tracking at ~9%*
- *Reflects improved sales performance following actions in 2018 to strengthen sales leadership, transform sales culture and improve accountability*

EBITDA

FY19 Continuing business EBITDA target of \$28m¹

- *Reflects negative impact of legacy equipment business not returning to level of profitability as planned*
- *Delays in MIDAS business development*
- *Benefits of integration are expected to flow from 1 July 2019 – cost reductions in FY20 are expected to be >\$3m*

1. Includes \$4m expected positive benefit from AASB 16 (lease adjustment)

Corporate overview

Highly experienced Board of Directors

Financial overview

Financial Information	
Share price (26-Feb-19)	\$0.47
Number of shares (m)	337
Market capitalisation	\$157m
Cash & Cash equivalents (31-Dec-18)	\$44.0m
Net debt (31-Dec-18)	\$88.8m
Enterprise value	\$245.5m

Board of Directors

Shane Tanner

Non-Executive Chairman

- Chairman of Zenitas Healthcare, Rhythm Biosciences Limited and Funtastic
- Co-founder of Paragon Care
- Extensive commercial and financial experience

Andrew Just *(appointed 31 May 2018)*

Managing Director

- 25 years' experience across Fortune 500 and ASX-listed healthcare companies
- Senior management roles at leading companies General Electric, Cochlear, Stryker and Danaher

Michael Newton

Non-Executive Director

- Experienced operator specialising in the industrial chemical sector with previous executive roles with both Unilever and ICL PLC

Geoff Sam OAM

Non-Executive Director

- Over 35 years' experience in the health sector
- Board positions with ASX-listed companies and for profit and not-for-profit hospital groups including Healthe Care, CML Group, Money3 Corporation and Nova Health

Brent Stewart *(appointed 31 May 2018)*

Non-Executive Director

- 25 years' experience in a number of senior executive and board roles
- Professional background includes a wide range of experience in marketing, technology and strategic planning at both domestic and international levels

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