







ParagonCare
Health. Covered.

AGM Presentation

26 November 2019 ASX | PGC

Executive summary

-  **Executing on vision and strategy:** Strategic initiatives progressing well in each business vertical, focused on delivering strong organic growth and achieving category leadership
-  **Transformation back on track:** ERP implementation initially had challenges which have now been resolved, business anticipates significant benefits to be realised over FY20/21
-  **Solid start to FY20:** 6% revenue growth YTD pcp (excluding Western Biomedical where litigation is in process); with momentum building in key businesses
-  **Positive outlook:** Strategy delivery, benefits from transformation and removal of low margin products leading to continued growth and improved profitability going forward



Vision and Strategy



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Paragon's strategy on a page

Mission & vision	To achieve category leadership in focus areas to be ANZ's leading supplier of healthcare equipment and integrated services							
FY21 goals	Organic growth rate 7%+		EBITDA margin 12%+		Customer NPS +5 y.o.y		Employee NPS +5 y.o.y	
Where to play & how to win	 Devices <i>Grow with leading product set</i> <ul style="list-style-type: none"> ▪ Ophthalmic: Invest in leading products and to deepen practitioner relationships ▪ Orthopaedics: Investment to win new customers and agencies with more efficient sales model 		 Diagnostics <i>Expand into Asia, refine range</i> <ul style="list-style-type: none"> ▪ IVD: Enter Asia, broaden product offering ▪ Lab equipment: Refine product offering and sales model to improve profitability 		 Capital and Consumables <i>Focus on novel tech, improve profitability</i> <ul style="list-style-type: none"> ▪ Consumables: Optimise product mix, sourcing and digital delivery; focus on novel, differentiated products ▪ Electro-diagnostics: Deepen relationships and broaden range for key call points 		 Services <i>Redefine and grow</i> <ul style="list-style-type: none"> ▪ Services: Refined product offering focused on high margin service; codified sales approach to improve sales and delivery efficiency, and cross-sell 	
Strategic initiatives	Senior team focus on acquiring attractive new customers	Deepen practitioner relationships to increase share of wallet	Acquire differentiated, proprietary products	Substitute low margin products to higher margin products	Reduce sourcing costs through better terms and growing private label offering	Increase leverage for reps to win with practitioners	Leverage e-commerce and ERP to reduce costs to serve	Zero-based redesign of shared services cost base
Strategic enablers	Commercial Excellence		Product innovation		Technology platforms		Operating model	

Dedicated salesforce and agile solutions paying off

STRATEGY IN ACTION



Leading supplier of medical and surgical products/consumables to hospitals and specialists in Australasia



- ✓ **Dedicated national sales and service team** for core supplier
- ✓ Excellent service contributes to **additions of 4 new hospitals** in early 2020
- ✓ **Satisfied customers** with Paragon's agility to customise packs
- ✓ Key **partnerships formed** leading to **competitive pricing** model

+15%
Growth in custom surgical packs sales



- ✓ **Positive feedback** and reviews conveyed in **articles**, distributed through **wider network**
- ✓ **Proactive team** starts forming relationships with **prospective customers**
- ✓ Uplift seen in **purchase orders**, including an order **double the size of the previously largest**

+25%
Growth in power tools sales

REM Systems is Paragon's largest business by far (\$70m), and growing at **+6%**

Paragon's repeatable growth model proving successful in Capitals & Consumables

A continued transition towards premium products

STRATEGY IN ACTION



One of Australia's leading distributors in Orthopaedic, Pain Management and Infection Prevention sectors

Increased focus on higher margin products

- ✓ **Focus on higher margin products** that offer superior clinical outcomes
- ✓ AUS pain management portfolio Q1 results positive with **unit growth of +14%** and sales growth of **+20%**



Building a world-class sales culture

- ✓ **Deepened relationships** with orthopaedic surgeons
- ✓ **Tailored, effective approach** in selling - offer bespoke ultrasound regional anaesthesia training opportunities for Anaesthetists
- ✓ **Create need for continuous adductor canal nerve block** for total knee arthroplasty



Surgical Specialties is Paragon's third largest business (\$30m), and growing at **+10%**

Paragon seeing the benefits of its new sales strategy through focus on high margin products

Success of the immulab business continues post acquisition

STRATEGY IN ACTION



A leading supplier of vital reagent red blood cell products used in pathology laboratories across Australia and New Zealand.

Strong traction in the business bouncing back from a disappointing FY19

- ✓ Strong traction across the business with **some new wins** (e.g. Sri Lanka blood grouping tender)
- ✓ **Stronger collaboration and regulatory support** leading to strong sales performance (e.g. Philippines)
- ✓ **Pick up in export sales** driving group performance



Delivering strong against financial targets

- ✓ Immulab sales YTD at **105%** to target and **120%** to prior year
- ✓ **Stand out performance in international business** with sales at **123%** of budget
- ✓ **Forecast for FY20 expected** to be well ahead of budget



immulab is our largest diagnostic business (\$15m), and growing at **+20%**

Integration of new acquisitions progressing well

Total communications a good news story

STRATEGY IN ACTION



PGC strategically acquires Total Communications in November 2018



Specialised provider of communication technology solutions in the health and aged care sectors



Strategic initiatives and growth catalysts executed



- Alignment with Paragon Services division
- Preliminary results from the Royal Commission into Aged Care leads to strong orders

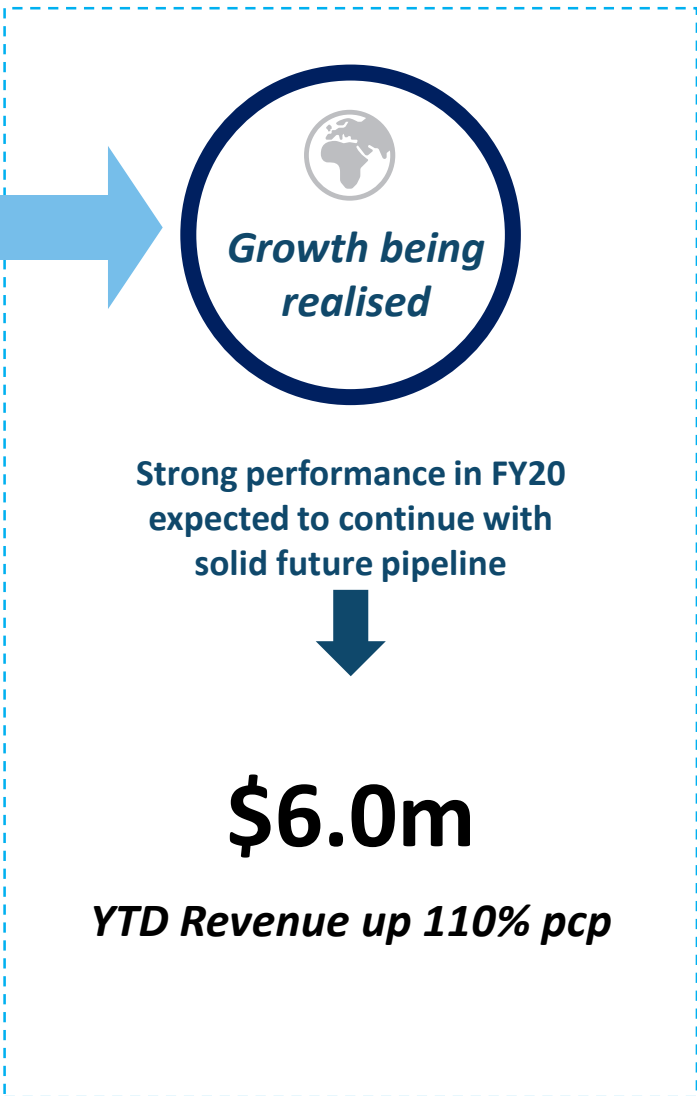


Strong performance in FY20 expected to continue with solid future pipeline



\$6.0m

YTD Revenue up 110% pcp





Transformation update



Executing on vision and strategy: Strategic initiatives progressing well in each business vertical, focused on delivering strong organic growth and achieving category leadership



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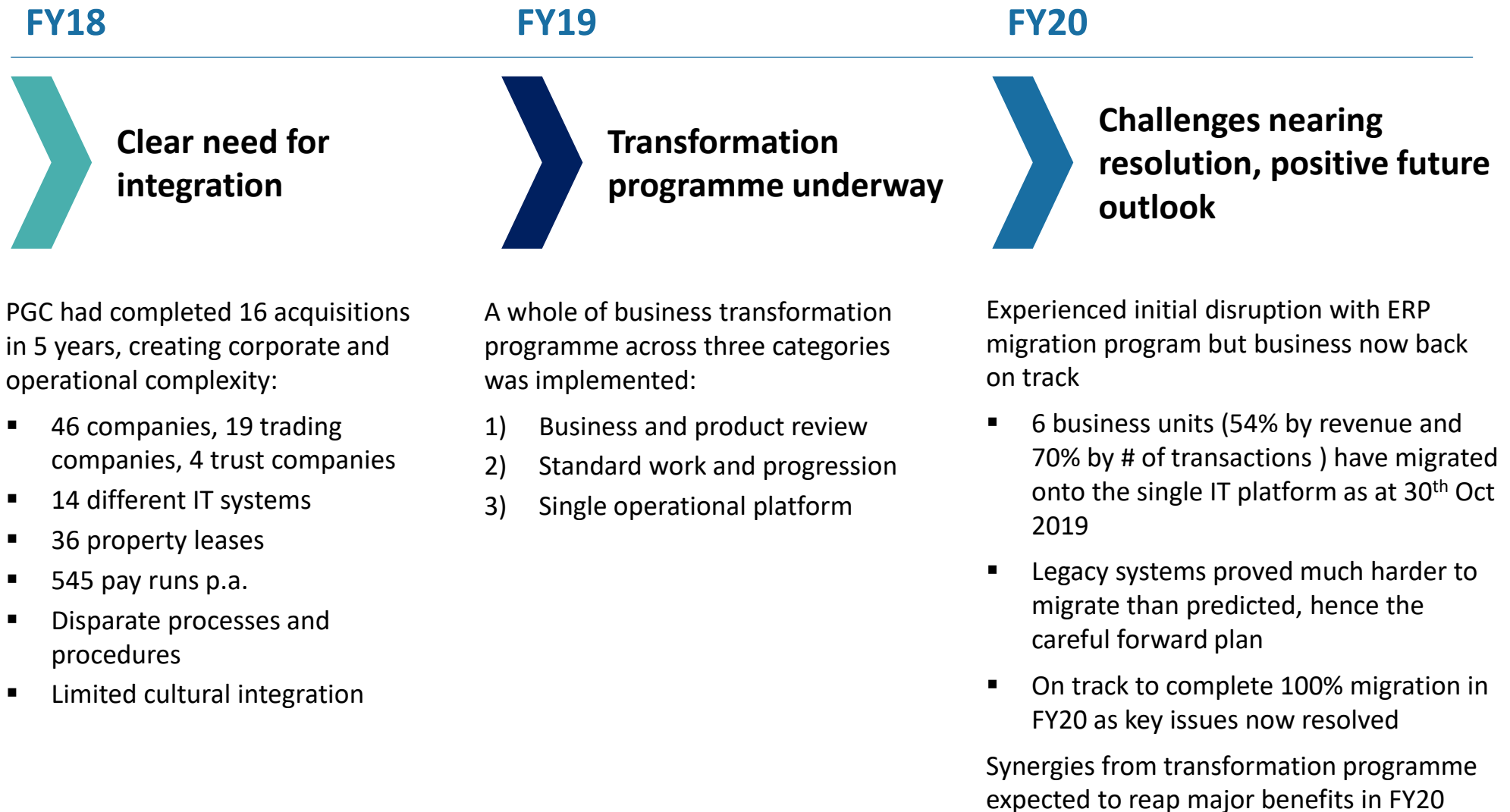


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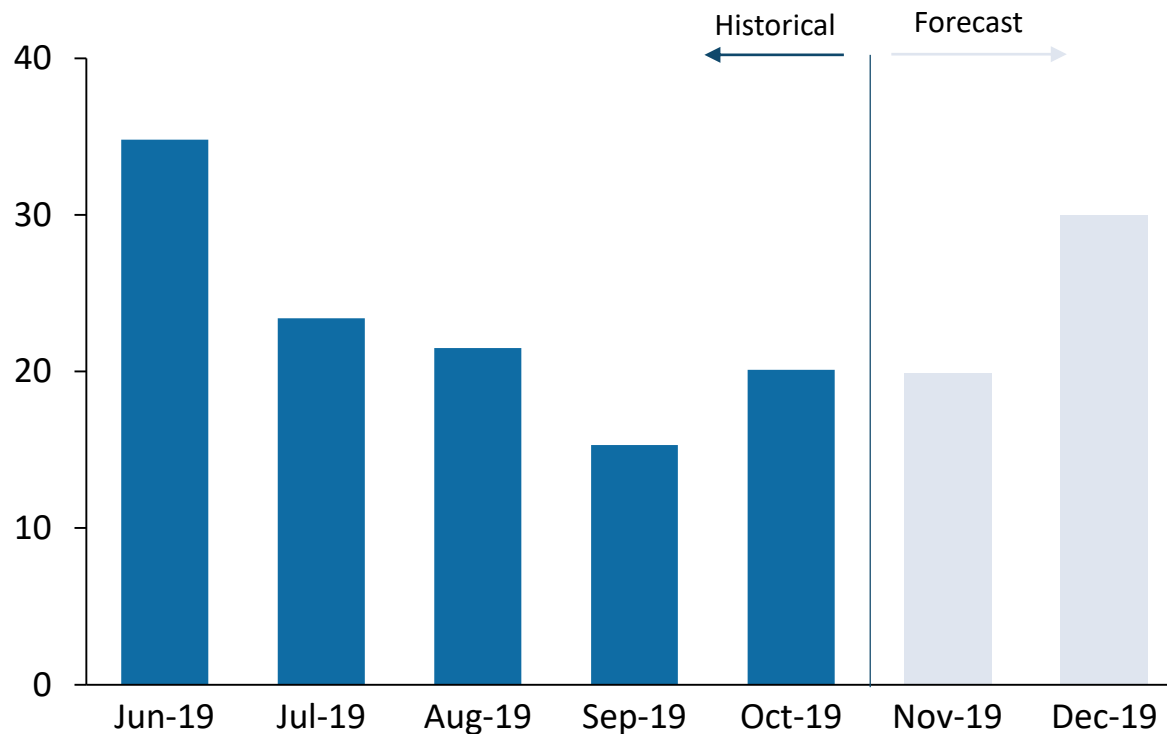
Paragon is nearing the end of a significant transformation period



IT implementation programme temporarily extended cash cycle

Delayed collections as a result of the disruptions with the IT migration resulting in a lower cash balance – program is now back on track with trend expected to reverse through H2 FY20

Cash balance at end of month (A\$m)¹



- ERP migration disruptions were experienced as part of this process causing disruption to the cash collection cycle:
 - Delayed statements to customers
 - Delayed collection of receivables
- Underlying business continues to perform strongly and disruptions now resolved
- Cash position expected to improve in H2 FY2020

Notes (1) Based on latest internal cash flow forecasts (Nov 2019)

Paragon continues to make strong headway in its transformation

FY20 YTD (completed)

FY20 outlook



Business and product review

Streamlined portfolio focused on high end technology and services

- ✓ New technology added to several businesses
- ✓ Removal of obsolete/incumbent products from product product portfolio
- ✓ **Selling efforts focused on higher margin products leading to improved EBITDA margins**

- ❑ **Continued focus and addition of high margin products**
- ❑ Ongoing review of obsolete/incumbent products in portfolio
- ❑ Continuing search for new technology



Standard work, and progression

Best-in-class culture, processes and practice across business

- ✓ Payroll centralised
- ✓ Employment contracts centralised
- ✓ Insurance policies centralised
- ✓ Increased accountability for key metrics/targets
- ✓ Reduced 19 trading entities to 2
- ✓ Supplier contract governance centralised

- ❑ Introduction of **customer and employee satisfaction measurements**
- ❑ **Focus on building greater category leadership**
- ❑ Continuing standardisation of support functions
- ❑ Property lease reductions (co-location)
- ❑ Sourcing improvement (margin)



Single operational platform

Reduce complexity to realise the operational efficiencies of scale

- ✓ **On track for \$2M run rate in FY20**
- ✓ **Banking consolidated to nab**
- ✓ **Migration towards single ABN achieved**
- ✓ 54% of business onto single platform

- ❑ **Complete migration onto single IT/ERP platform in FY20**
- ❑ Ongoing operational efficiencies targeted
- ❑ **Cost reduction savings program increased from a run rate of ~\$6.5m to ~\$8.0m over FY21**
- ❑ Group wide price management program

Cost out opportunity size increased to \$8M with delivery on track

Area for improvement	Improvement opportunity	Approximate cost reduction	<i>On track for ~\$2M run rate benefits in FY20</i>		
<div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 1.2em;">FY20 & FY21</div>	Excess management layer <ul style="list-style-type: none"> • Consolidate the 'silo' management structure and rationalise middle management to suit a more focussed and integrated team • Integrate acquired business management teams 	~\$2.6m			
	Adopt same systems across the platform <ul style="list-style-type: none"> • Move to a centralised system that is capable of servicing all business units and rationalise manual administration • Expand existing system and embed process management framework • Implement shared services across all back office functions to increase speed and reduce headcount • Streamline finance function across businesses 			~\$1.4m	
	Procurement efficiencies <ul style="list-style-type: none"> • Centralise sourcing and rapid procurement • Reduce number of suppliers and supplier cost 				~\$1.9m
	Other <ul style="list-style-type: none"> • Audit fees, travel, IT support, office misc. 				
	Consolidate property holdings <ul style="list-style-type: none"> • Optimise office space and consolidate offices • Acquire group warehouse facilities to create uniformity across the operations and delivery of products and services • Reduce space required with reduced headcount 		~\$1.4m		
Total cost out = ~ \$8.0m		<i>(up from previous estimate of \$6.5m)</i>			



Commercial update



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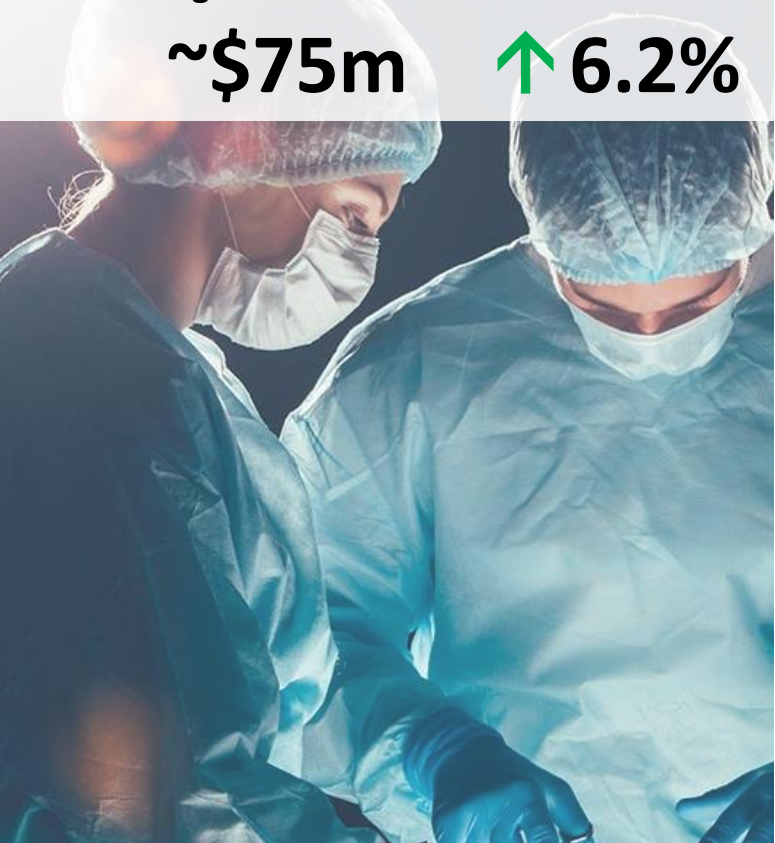
Paragon's four verticals continue to grow in FY20

On a year to date basis, total revenue flat vs pcp:

~\$81m — Flat vs pcp

Excluding Western Biomedical¹:

~\$75m ↑ **6.2%**



Devices

~\$26m

↑ 6.7%



Diagnostics

~\$8m

↑ 4.2%



Capital & Consumables

~\$38m

including Western Biomedical¹
↓ 8.6%

excluding Western Biomedical¹
↑ 2.7%



Services

~\$9m

↑ 21.0%



Notes:

1) Western Biomedical is currently in litigation. Subsequently, Western Biomedical revenue YTD of ~\$6m represents growth of -41% vs pcp

Western Biomedical a drag, currently in litigation to rectify

Situation Update

- ❑ Western Biomedical is a leading supplier of medical surgical supplies to hospitals in WA, including key multi year contracts with WA Health
- ❑ Western Biomedical business performance impacted by questionable competitive actions which resulted in loss of business
- ❑ Substantial revenue lost as a result, albeit at relatively low gross margin levels
- ❑ Paragon has commenced litigation



Corrective actions being pursued

- ❑ Litigation proceedings issued by Paragon
- ❑ Business model being evolved, towards more direct sales of high technology
- ❑ WA Health contracts continuing to be successfully delivered
- ❑ Operating expenses materially reduced to accommodate the revenue loss
- ❑ New products being introduced to sales portfolio



FY20 Outlook



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There are many reasons to be optimistic about the future



Strong underlying sales growth

Underlying top line trajectory continues to outpace broader medical devices industry growth



Continued cost out benefits

Costs are coming out with \$2m of broader cost out program already realised with remainder to be delivered over FY20/21. Size of cost out opportunity increased from initial \$6.5m to \$8.0m



Profitability improving

In line with cost out program and transition towards higher margin products, Paragon has seen significant improvement in EBITDA margin



Transformation starting to deliver

ERP migration problems now behind up - single IT/ERP platform expected to improve visibility into company performance, shorten cash cycle and increase ability for management to influence business units performance more effectively

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