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ASX ANNOUNCEMENT

3rd February 2020

ASX Market Announcements
ASX Limited
Level 4
Stock Exchange Centre
20 Bridge Street
Sydney NSW 2000

HALF YEAR MARKET UPDATE

Paragon Care Limited (ASX:PGC) expects to announce its half year financial results on or about 27th February 2020.

The PGC Board has now just received the preliminary half year financials and, although they are still subject to audit review, felt it prudent to provide this market update.

1. Revenue and Gross Margin Performance

- First half of FY20 revenues from continuing businesses were $120.7m, up from $119.4m reported in FY19.
- Excluding the Western Biomedical business in Western Australia (see Note 2), revenue from continuing businesses grew half year on half year from $102.3m (FY19) to $111.2m (FY20) – at a growth rate of 8.5%, which was pleasing.
- Gross margins have remained constant at approximately 38% half year on half year. This is also pleasing given the significant fall in the A$/US$ during the past 12 months.

2. Western Biomedical (WBM)

- Western Biomedical ("WBM") revenues declined from $17.1m in first half FY19 to $9.5m in the FY20 first half due to the loss of a number of key clients/contracts.
- Legal proceedings have been issued by Paragon via its fully owned subsidiary Western Biomedical Pty Ltd in the Supreme Court of Western Australia against two former employees and the vendor of Western Biomedical as a consequence of these lost contracts.
- The proceedings are being defended.

3. EBITDA Performance

Normalised FY20 half year EBITDA is approximately $12m – this represents a 10% margin on revenue. This is still below the 13%-14% EBITDA/Revenue Margin the Company is targeting. Operating expenses remain too high. One-off costs for the period associated with structuring and redundancies of approximately $3m, have been excluded to calculate the normalised FY20 Half Year EBITDA.

4. Cost Out Program

- The Cost Out Program continued during the first half of the financial year, but not at the pace the Board would like. To date $2m in annualised savings out of our original target of $8m has been achieved.

- The new senior management team (appointed in late November 2019) is treating this project with appropriate diligence and priority, commencing with a full company review to ascertain what can be sensibly achieved whilst delivering the optimum platform for the Company to deliver on its potential.

5. Cash, ERP and Debtors' Performance

- As highlighted at the recent Annual General Meeting, the implementation of the new ERP System (Microsoft Dynamics 365) was extremely poor and following the recent change in senior management, the Company has reset its objectives. As a consequence, a complete review of the ERP systems will be undertaken which will result in a more measured, and less risky, phased roll-out. As a consequence, the Company will not see all businesses on the new system until FY21.

- The poor implementation of the ERP System put severe pressure on invoicing and debtors' collection during the September quarter. PGC's normal trade debtors' balance of around $35m blew out to over $50m by the end of quarter one. By December 2019, trade debtors were reduced to approximately $41m. There is a way to go but management expect a return to debtor normality by June 2020. Until debtors recover in full, dividend payments will remain suspended.

- PGC's cash balance at 31st December 2019 was approximately $18m.

6. New Executive Team

- The Company's new CEO (Phil Nicholl - Surgical Specialties) and CFO (Stephen Munday) took on their new roles by late November. Since their appointment it has been a very challenging time for them; however, they have been making great progress in a short time.

- Phil and Stephen have drawn upon additional support from Mark Simari (former Managing Director and current Non-Executive Director). In addition, Blair Johnson from REM System NZ and Frank Burke from Surgical Specialties are providing invaluable financial and ERP support to the new team.

The General Managers of all of Paragon's businesses are now more integrally involved in the business, supported with an increased level of transparency and a specific target of keeping our solid organic revenue growth on track.

For further information please contact:
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This announcement is authorised for release to the market by the Board of Directors of Paragon Care Limited.

About Paragon Care Limited

Paragon Care (ASX:PGC) is an Australian based listed company which has progressively acquired businesses in the healthcare sector. It is a leading provider of medical equipment, devices and consumables for the Australian and New Zealand healthcare market. These are high growth markets driven by the ageing of the population, continuously rising consumer expectations and increasing government spending. By combining a series of strategic acquisitions of class leading companies, Paragon Care has positioned itself to provide end to end solutions including equipment and consumable solutions for acute, aged and primary care.