ParagonCare

1H FY23 Results

INVESTOR PRESENTATION

22 February 2023

ASX : PGC

Empowering Healthcare

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Mark Hooper

Group CEO & Managing Director

Overview

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1H FY23 result in line with expectations

↑ 38%

Sales revenue

- Revenue of $154m vs $111m 1H FY22
- Mainly reflects the inclusion of Quantum and SMS
- Remaining business relatively stable

↑ 37%

Underlying EBITDA*

- Underlying EBITDA* of $17.6m vs $12.8m 1H FY22
- Margins largely maintained despite higher capital sales

↑ 41%

Underlying Net Profit*

- Underlying NPAT* of $6.3m vs $4.5m in 1H FY22
- Includes higher amortisation charges ex Quantum acquisition and SaaS

8.7%

Underlying ROIC*

- Trailing 12-month calculation
- Expect this to improve in 2H FY23

0.6¢

Per share interim dividend declared (fully franked)

- Represents a 63% payout ratio of Underlying NPAT*
- Last 12 months dividends equates to a fully franked yield above 5%#

$70m

Net Debt (excluding AASB16)

- Increase since June 2022 reflects cash portion of SMS acquisition and higher inventory holdings (partly timing)
- Still expected to decrease over second half

* See slide 22 for reconciliation to Reported
# Based on share price of $0.32

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Positive progress continues

	TARGET	PROGRESS TO DATE
Earnings	Underlying EBITDA growth of 30% for **FY23**	✓ Remains on track with second half earnings expected to mirror the same market / operating conditions as H1
Integration of acquisitions	Leverage Quantum skills / geographic footprint	✓ Quantum business performing strongly ✓ Progress on ophthalmic push into Asia / imaging into ANZ ✓ Quantum team also being used to manage Paragon service offering in Australia and support Immulab push into Asia
	Successful integration of SMS	✓ Integration largely complete and business performing as expected
Strategy / execution	Full review of strategy by Pillar	✓ Now complete and Board approved ✓ Implementation commenced across the Group
	Functioning PMO to support more effective execution	✓ Now in place and initial Program review complete
	New acquisitions	Focus over last six months has been to support more efficient organic growth however M&A will be more of a focus in 2023 and through a more strategic lens

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Investing to support growth – new Mount Waverley facility

- State of the art purpose built facility originally commissioned to support an uplift in manufacturing capacity and the Immulab business expansion into Asia / other export markets

- Original scope was then expanded beyond Immulab to facilitate consolidation of all Victorian operations onto one site

- This will provide an improved opportunity for cross-pillar collaboration as well as establish a new head office that will enhance the ParagonCare team culture

- The expanded scope and some increase in building costs have meant the original budget has increased by around $10m to $12m from our original estimate ($17m-$18m)

- Currently in discussions with Centuria Healthcare (JV funding partner) to support this funding requirement

Stage 1	Corporate office	Complete
Stage 2	Subsidiary offices	Apr 2023
Stage 3	Immulab manufacturing	Dec 2023
Stage 4	Subsidiary warehousing	1H 2024

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Josephine De Martino

Group Chief Financial Officer

Financial Results

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1H FY23 Profit and Loss

Key highlights

- Underlying EBITDA* increased by 37% in 1H FY23 mainly reflecting the inclusion of Quantum results from February 2022 and SMS in September 2022.
- Despite higher capital sales, margins still largely unchanged at 41.2%, down from 42% in 1H FY22.
- Underlying NPAT* of $6.3m, up 41% on $4.5m in 1H FY22.
- Basic EPS of 0.83cps, down 47% on 1.56cps in 1H FY22. Mainly reflects the additional shares issued as part of the Quantum merger.
- Underlying ROIC* of 8.7% (based on EBIT pre AASB16).

	1H FY23	1H FY22	CHANGE	
	$m	$m	$m	%
Revenue	153.9	111.3	42.6	38%
Cost of sales	90.5	64.5	26.0	40%
Gross margin	63.3	46.7	16.6	36%
Gross profit margin %	41.2%	42.0%		-0.8%
Other income	1.9	0.4	1.5	375%
Operating expenses (excluding abnormal)	47.7	34.3	13.4	39%
Underlying EBITDA *	17.6	12.8	4.8	37%
Reported EBITDA	18.1	14.1	4.0	28%
Underlying NPAT *	6.3	4.5	1.8	41%
Reported NPAT	6.7	5.4	1.3	24%
Basic Earnings Per Share (EPS) **	0.83	1.56	-0.7	-47%
Underlying Return on Invested Capital (ROIC) ***	8.7%	-	-	-

*** NPAT adjusted for Non Controlling Interest (refer Note 21 1H FY23 Interim Financial Report)*

**** ROIC not reported for pcp*

* See slide 22 for reconciliation to Reported

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1H FY23 results: trends from the first quarter continue

Segment	Revenue*	Underlying EBITDA**	ROIC ***	Commentary
Devices	$42.3m	$6.3m	11%	• Gradual improvement in elective surgery although still variable across states / months • Hospital nursing capacity in rebuilding phase in a post COVID environment • Demand for pain management devices being impacted more than expected by price list reform
Diagnostics	$18.8m	$3.4m	17%	• Core Immulab business continues to perform well • Demand for COVID Test materials has slowed • SMS integration progressing well and in line with original business case expectations
Capital & Consumables	$46.2m	$6.6m	14%	• ANZ business performance has performed slightly below expectations • Reduction in elective surgery due to clinical staff shortages • Sales also impacted by slower uptake of new contracts / supplier back orders
Service & Technology	$46.6m	$6.5m	8%	• Integration of Quantum and Paragon services continues • The Quantum services business is performing well, Asia performance has been above expectations – mainly in Thailand • While there is positive progress, the rebuild of the Paragon Service & Technology business will take longer than previously expected

* Excludes Other Revenue
** See slide 22 for reconciliation to Reported
*** ROIC is based on 12 months trailing normalised EBIT (1H FY23 + 2H FY22 – pre Corporate costs) and where applicable includes proforma results for Quantum & SMS
NB. Prior comparative not available as segment reporting commenced 1 July 2022

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1H FY23 Cash Flow

Key highlights

- Net Debt* of $69.6m largely in line with 1H FY22 however this is a $19.5m increase over June 2022.
- Mainly reflects the cash portion of the SMS acquisition ($11.8m) and higher working capital.
- Key working capital movements from FY22 include:
  - **Inventories** – $10.5m increase due to a combination of SMS acquisition and a general increase in our investment in inventory.
  - **Trade and other Receivables** increase $5.5m mainly due to the inclusion of SMS balances and a return to normal payment cycles for public hospitals.
- Forecast Net Debt* at June 2023 expected to decrease slightly from December 2022 levels.

	1H FY23	1H FY22	CHANGE	
	$m	$m	$m	%
Net cash from operating activities	1.2	3.9	-2.7	-69%
Net cash used in investing activities	-16.3	-1.7	-14.6	854%
Net cash used in financing activities	-5.1	-6.9	1.8	-26%
Net increase/(decrease) in cash	**-20.2**	**-4.8**	**-15.5**	**323%**
Cash at beginning of financial half-year	46.2	33.2	13.0	39%
Effects of exchange rate changes on cash and cash equivalents	0.8	0.0	0.8	0%
Cash at end of financial half-year	26.7	28.4	-1.7	-6%
Less			0.0	0%
Current Borrowings	28.8	20.2	8.6	43%
Non-current Borrowings	67.5	77.5	-10.1	-13%
Net Debt* at the end of the financial half-year	**69.6**	**69.3**	**0.3**	**0%**

* Net Debt is pre AASB16

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Key working capital movements

	1H FY23	1H FY22	CHANGE	
	$m	$m	$m	%
Net cash from operating activities	1.2	3.9	-2.7	-69%

In 1H FY23 cashflow from operations decreased slightly to $1.2m from 1H FY22 $3.9m. This mainly reflects movements in working capital including timing differences.

- Inventory increased across the Group in 1H FY23 which is a combination of inventories acquired as part of the Quantum / SMS acquisitions, timing differences due to high end equipment sales and an increased investment in inventory to manage the ongoing impact of supply chain issues. Partly offset by increased trade payables.
- Trade receivables have also increased reflecting the impact of the Quantum / SMS acquisitions and payments from public hospitals which have reverted to normal terms. (These generally paid on reduced terms in FY22 to ensure there were no supply issues or delays during Covid-19.)

We expect working capital improvements across 2H FY23 from a continued focus on management of inventories supported by improved S&OP processes.

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Capital management

Key highlights

Dividends

- 1H FY23 interim dividend declared of 0.6cps, fully franked
- This represents a 63% payout ratio of Underlying NPAT*
- The PGC Board continues to target a dividend payout ratio of 40%-60% of Underlying NPAT
- Paragon Care has $24.7m in franking credits as at 31 December 2022

Banking arrangements

- As foreshadowed at the 2022 AGM, the Company has now entered into new finance arrangements with NAB and HSBC
- Provides PGC with a range of facilities totalling A$120m and US$30m for up to four years

Dividend – Key Dates

Release date	22 February 2023
Ex-dividend date	14 March 2023
Record date	15 March 2023
Payment date	5 April 2023

* See slide 22 for reconciliation to Reported

Mark Hooper

Group CEO & Managing Director

Strategy and Growth

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Strategy – ‘the Light on the Hill’

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A$100m EBITDA per annum
within 3-5 years
(A$1 bn market cap)

Proactive bias for
high quality earnings
(sustainable / higher margin)

Organic growth

- based on strategic plans by pillar
- supported by improved execution

M&A growth

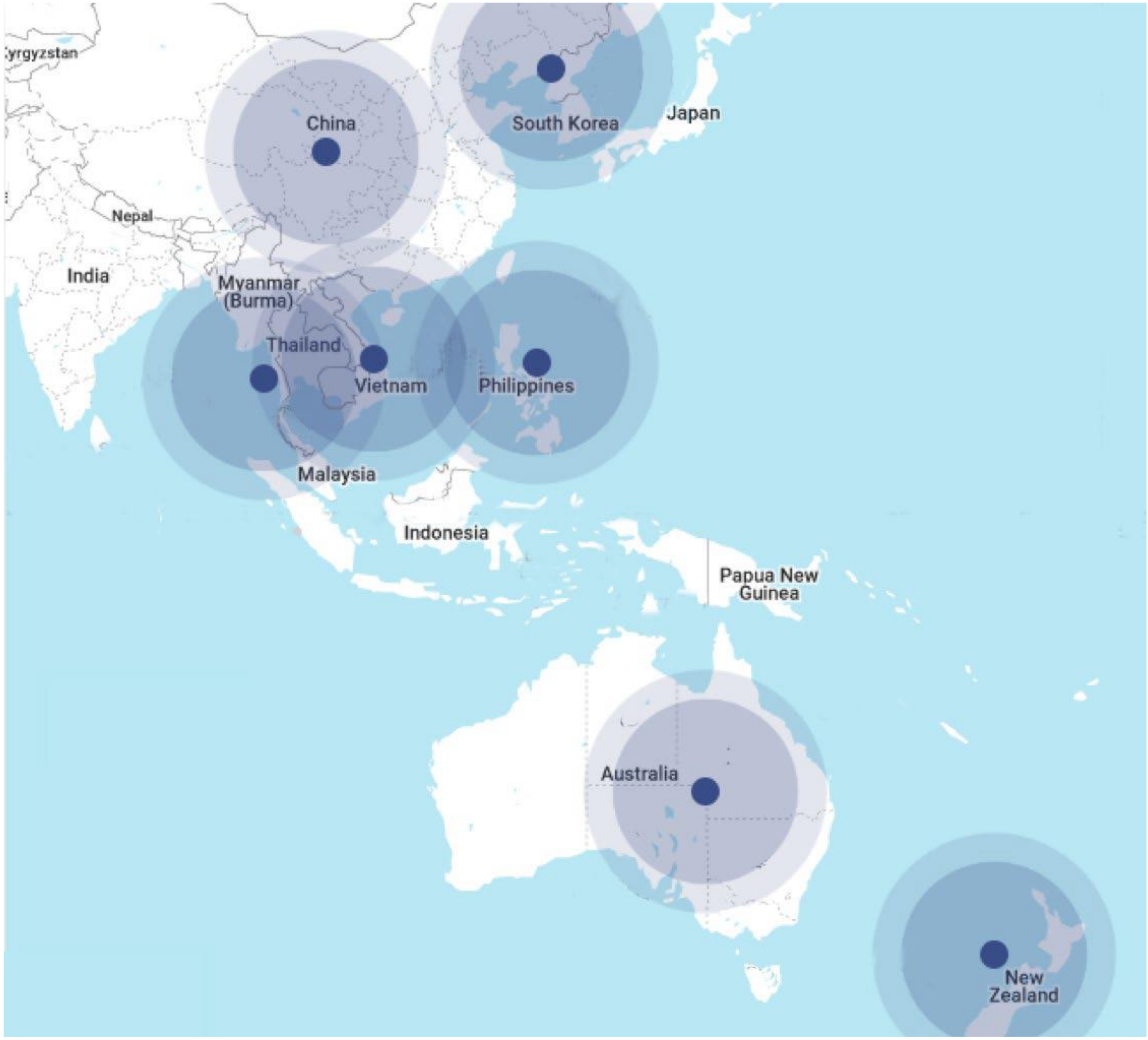
- targeted at fewer / larger opportunities
- more tightly aligned to strategy

ENABLEMENT

- Growth mindset
- Clear strategies by pillar
- Comms to engage stakeholders (including team members)
- Enhanced business reporting
- Proactive people assessment / upskilling
- Project visibility / execution capability

A more comprehensive network across AsiaPac

- Paragon Care already has a strong network across ANZ markets
- The merger with Quantum provides a presence in Thailand, Korea, Philippines, China, Vietnam and New Zealand
- Target markets beyond this include Japan, Indonesia and Singapore
- It also provides a broader product portfolio particularly in high end imaging
- A three-pronged strategy:
    - leveraging existing supplier partnerships (Paragon for Quantum and vice versa)
    - attracting new supplier relationships on the basis of a comprehensive AsiaPac footprint
    - supporting Immulab push into Asia and other export markets



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PGC has a range of organic growth prospects

Devices

- Return to elective surgery still being impacted by hospital delays / theatre nurse availability
- Once this stabilises we would expect like-for-like growth of 10%+ for the next few years
- The next 2-3 years will also be impacted by Protheses List price changes – main impact is on pain management

Key organic growth drivers

- Product & procedure innovation
- New customer conversions

Diagnostics

- A strong market position in Australia with modest medium term growth (3%-5%)
- A growing presence in the transplant reagents market but off a small base
- SMS provides an expanded product offering which can be leveraged via PGC's sales network

Key organic growth drivers

- Product innovation and expansion in domestic market
- Product offer expansion (Clinical Pathology Diagnostics and Scientific & Laboratory Equipment)

Capital & Consumables

- Core growth should be circa 5%-10% per annum but varies from year to year based on level of new vs maturing agency agreements
- Quantum merger provides a footprint in Asia and an increased presence in high end medical equipment
- The Surgical part of this pillar (including orthopaedics, urology and general surgery) is also impacted by the level of elective surgery in New Zealand

Key organic growth drivers

- New customer segments / expansion of existing customer base / product offer
- Leverage PGC / QHA networks / product profile

Service & Technology

- Staged integration that builds off the existing Quantum / PGC services businesses in Australia and New Zealand
- PGC/Quantum merger provides a more comprehensive coverage across geographies and product range
- Will be a slower rebuild in ANZ than previously expected but upside remains

Key organic growth drivers

- Speed of rebuild in ANZ
- Recovery in the Aged Care sector (Total Comms)
- Other segment opportunities including Home Care and Hospitals

Also targeting three additional growth areas

Immulab export opportunities

- Significant export opportunities in blood diagnostic export markets – good progress here but this will not materially impact earnings until FY25
- Also exploiting opportunities for manufacture into offshore markets including OEM (Blood Bank Diagnostics)
- Specific additional investment over the next 12 months to accelerate including new manufacturing facility at Mount Waverley

Accelerated growth in Asia

- Expansion into offshore markets via existing Quantum network – good progress to date but will accelerate over the next 1-2 years
- More active consideration of acquisition opportunities in progress
- Main criteria are filling country gaps / targeting significant volume uplift

Comprehensive Service & Technology offering across AsiaPac

- Leveraging PGC's geographic and product platform to provide service maintenance and OEM third party support with Asia-wide coverage
- Represents the most comprehensive AsiaPac offer available in the market

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A positive growth outlook remains

FY23 earnings outlook

- Underlying EBITDA still expected to increase by around 30% driven by the full year impact of Quantum and SMS and organic growth of around 5%-10%
- 2H FY23 expected to mirror the same market / operating trends as 1H FY23

Key strategic initiatives

- Still targeting EBITDA of $100m by FY27 through a combination of organic growth and M&A
- This comes from a broad range of growth initiatives across the pillars in both ANZ and Asia with an additional focus on targeted options to accelerate growth
- Enhanced project management skill base to more effectively support execution
- Investment in Mount Waverley provides state of the art manufacturing capability and a more efficient operating platform

M&A

- Further M&A opportunities continue to be reviewed but will be more tightly aligned to future strategy
- Likely to play more of a role in the growth of Asia
- PGC Board keen to maintain enough balance sheet flexibility to actively consider M&A opportunities and also continue to fund dividends within the Board's targeted range

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Appendices

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Appendix 1 | Paragon Care Group overview

Paragon Care (PGC)

- Australian based / established in 2008
- Mainly focused on sale of medical equipment and devices along with related consumables and maintenance support
- Long term relationships with >100 manufacturers globally
- Unique end to end capability across AsiaPac
- Also own standalone business manufacturing and supplying Red Cell Diagnostic Products
- Access to Asian markets and expanded OEM opportunities via Quantum merger

Devices

Diagnostics

Capital & Consumables

Service & Technology

Appendix 2 | A pillar based view of earnings (pre Corporate costs)

Devices

- Ophthalmology & Optometry
- Orthopaedics
- Pain Management
- Surgical Procedure Packs
- Infection Prevention

Pro forma revenue per annum	c. $90m
Target GP %	40%-45%
Targeted EBITDA margins	10%-15%

Diagnostics

- Blood Bank Diagnostics Manufacturer
- Clinical Pathology Diagnostics Distribution
- Scientific and R&D Laboratory Equipment Distribution

Pro forma revenue per annum	c. $40m
Target GP %	40%-45%
Targeted EBITDA margins	13%-15%

Capital and Consumables#

- Broad presence across Australia / NZ / Asia (via Quantum Healthcare)
- Medical
- Surgical (mainly NZ)
- Veterinary (mainly Australia)

Pro forma revenue per annum	c. $100m
Target GP %	30%-35%
Targeted EBITDA margins	10%-15%

Service and Technology*#

- Comprehensive offering from biomedical devices to high end capital equipment
- Service support and Technology Management
- Service partnership with leading brands

Pro forma revenue per annum	c. $100m
Target GP %	45%-50%
Targeted EBITDA margins	15%-20%

Split between Capital & Consumables and Service & Technology has been further refined in the calculations above

* Service & Tech currently includes capital sales that will eventually be shown as part of the Capital & Consumables pillar

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Appendix 3 | Reconciliation from Reported to Underlying Results

	1H FY23 $m	1H FY22 $m	CHANGE %
Reported EBITDA	18.1	14.1	28%
Normalisations			
Fair value gain - Interest rate swap	-0.7	-1.3	
Acquisition costs	0.2	0.0	
Underlying EBITDA	17.6	12.8	37%

	1H FY23 $m	1H FY22 $m	CHANGE %
Reported NPAT	6.7	5.4	24%
Normalisations			
Fair value gain - Interest rate swap	-0.7	-1.3	
Acquisition costs	0.2	0.0	
30% Tax Adjustment add back on items above	0.2	0.4	
Underlying NPAT	6.3	4.5	41%

	1H FY23 $m	1H FY22 $m	CHANGE %
Reported NPAT	6.7	5.4	24%
Basic EPS: (cps)	0.83	1.56	-47%
Diluted EPS: (cps)	0.81	1.52	-47%
Underlying NPAT	6.3	4.5	41%
Normalised EPS: (cps)	0.77	1.30	-41%

** Refer Note 21 HY Financial Report*

	1H FY23 $m
Invested Capital/ Capital Employed	318.4
EBIT (Pre AASB16) *	19.4
Normalisations to EBIT **	8.4
Normalised ROIC * **	**8.7%**

** 12 month trailing EBIT (1H FY23 + 2H FY22)*

*** Adjusted for Proforma results Quantum and SMS and other reported normalisations (1H FY23 + 2H FY22)*

**** ROIC not reported for pcp*

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Appendix 4 | 1H FY23 Balance Sheet movements

Commentary

- **Net Debt* (Borrowings less Cash and Cash Equivalents)** largely in line with December 2021 however a $19.5m increase over June 2022.

  Mainly reflects the cash portion of the SMS acquisition ($11.8m) and higher working capital.

- **Main drivers of higher working capital** are a $10.5m increase in inventory balances, timing on higher value equipment which went across the half year and a $4.4m increase in receivables due to the impact of acquisitions and a return to normal payment cycles for public hospitals post Covid-19.

- **Intangibles** $16.8m increase mainly due to SMS acquisition.

- **Trade and other Payables** $10.3m increase reflecting the impact of acquisitions, higher inventory purchases and some timing differences over half year end.

* Net Debt is pre AASB16

	1H FY23	FY22	CHANGE	
	$m	$m	$m	%
Cash	26.7	46.2	-19.5	-42.3%
Receivables	47.3	42.9	4.4	10.3%
Inventories	61.9	51.5	10.5	20.4%
Investments	2.2	0.3	1.9	737.2%
Property, Plant & Equipment (Incl ROU)	31.3	30.5	0.8	2.7%
Intangibles	261.2	244.4	16.8	6.9%
Other assets	23.7	21.3	2.4	11.2%
Total assets	454.3	437.0	17.3	4.0%
Trade and other payables	38.6	28.3	10.3	36.5%
Current borrowings	28.8	22.8	6.1	26.6%
Other current liabilities	37.0	36.3	0.7	1.9%
Total current liabilities	**104.5**	**87.4**	**17.1**	**19.5%**
Non-current borrowings	67.5	73.5	-6.0	-8.2%
Other non-current liabilities	33.6	33.8	-0.2	-0.6%
Total non-current liabilities	*101.1*	*107.3*	*-6.2*	*-5.8%*
Total Liabilities	205.5	194.7	10.8	5.6%
Net assets	248.8	242.3	6.5	2.7%

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