



ParagonCare
Health. Covered.

FY17

Full Year Results Presentation

7 August 2017 | PGC.ASX

Record FY17 full year results reflect another strong year of growth with positive outlook for FY18

Revenue

\$117.2m

2016: \$93.4m *up 25%*

Net profit after tax

\$10.2m

2016: \$7.5m *up 35%*

Operating cash flow

\$12.0m

2016: \$7.8m *up 54%*

Gross profit

\$46.1m

2016: \$36.5m *up 26%*

Earnings per share

6.2c

2016: 5.6c *up 11%*

Cash balance

\$18.6m

2016: \$19.1m

EBITDA

\$17.1m

2016: \$12.1m *up 41%*

Dividend per share

1.9c ff

2016: 1.4c *up 36%*

Net Debt/EBITDA

1.1x

2016: 1.6x *down 31%*

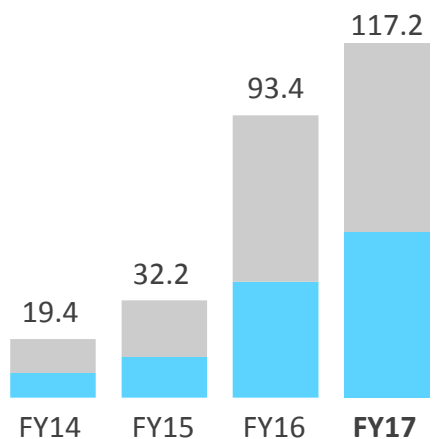
Record FY17 full year results driven by strong organic growth across all sectors

Financial highlights

- **Record full year results across all key metrics**
 - **Revenue up 25% to \$117.2m**, driven by strong organic growth and a full year of earnings capture from the FY16 acquisitions of Western Biomedical, Designs for Vision and Meditron
 - **EBITDA up 41% to \$17.1m**, with EBITDA margins improving from 13.0% to 14.6% due to cost synergies and operating leverage
- **Earnings per share up 11% to 6.2c**, driven by a strong second-half NPAT performance
- **Fully franked final dividend of 1.9c, resulting in total dividends for FY17 of 3.0c**
 - Total FY17 dividends represent a 49% payout of NPAT (top of stated target payout range), signalling the Company's confidence in future growth and cashflow

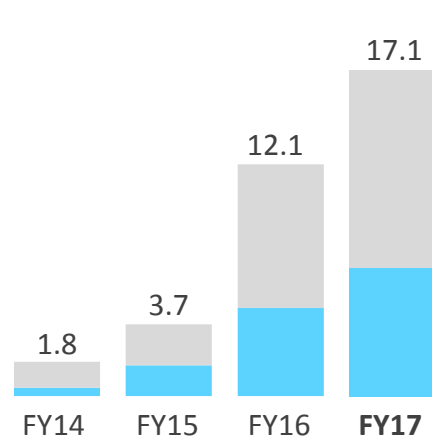
Revenue (\$m)

■ 1H ■ 2H



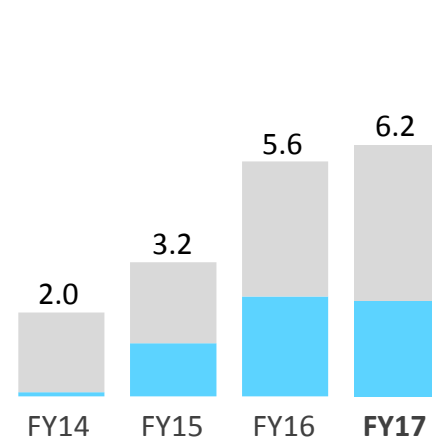
EBITDA (\$m)

■ 1H ■ 2H



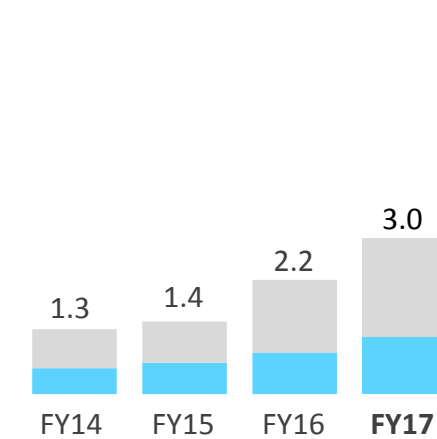
Earnings per share (c)

■ 1H ■ 2H



Dividends per share (c)

■ 1H ■ 2H



Strong operating cash flow seen in second half in line with business performance

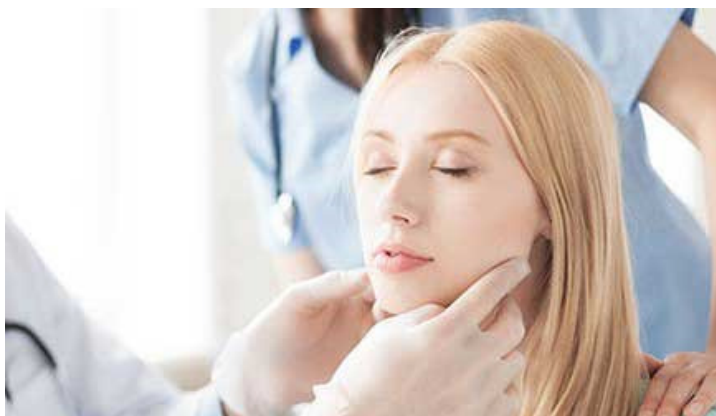
Operating cashflow of \$12.0m, up 54% from FY16

- As guided at the first half results, the business experienced strong operating cashflows of \$11m in 2H FY17 due to strong business performance and the absence of one-off factors that impacted 1H results

Investing cash outflows of \$7.9m related to acquisitions

- Midas Software Solutions and Electro Medical Group were acquired during 1H FY17
- Additional payment was also made for the Meditron earn-out to the vendor from prior-year acquisition

Cash Flow Statement Extract	FY17	FY16
Operating activities	12.0	7.8
Investing activities	(7.9)	(57.2)
Financing activities	(4.6)	64.8
<i>Net increase (decrease) in cash</i>	<i>(0.5)</i>	<i>15.4</i>
Closing balance	18.6	19.1



Strong balance sheet ensures Paragon is positioned for future growth

Strong balance sheet with Net Gearing ratio of 18%

- The strength of Paragon's balance sheet enables the business to facilitate value accretive acquisitions from its existing debt facilities and cash balance
- Net Debt/EBITDA ratio is 1.1x which is significantly below the Company's stated policy of 2.0x coverage.
- Paragon retains significant flexibility to grow while continuing to pay a high share of profits as dividends

Cash balance of \$18.6m, up \$6.9m from the Half Year

- Cash balance largely unchanged vs FY16 as a result of strong operating cash flow offset by acquisition-related cash outlays

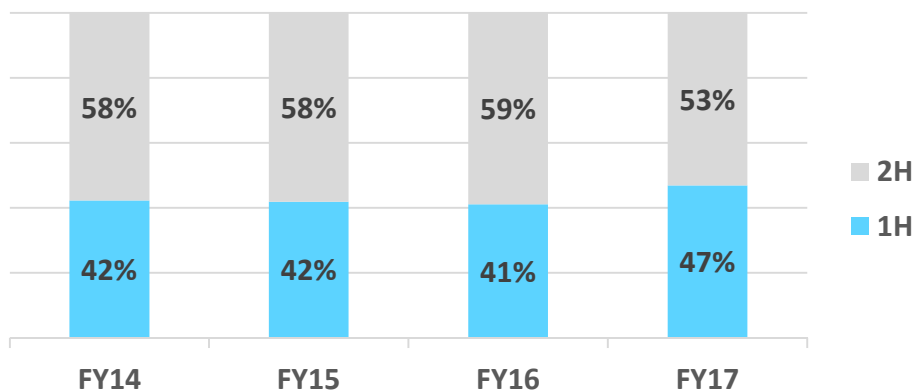
Inventories stable and Stock Turnover at target levels

- Despite experiencing revenue growth of 26%, active management of working capital resulted in a 4% reduction in Inventories compared with FY16
- Paragon's stock turnover ratio reached 5.4x, successfully reaching the target aspirational range of 5-6x quoted in the half year results presentation

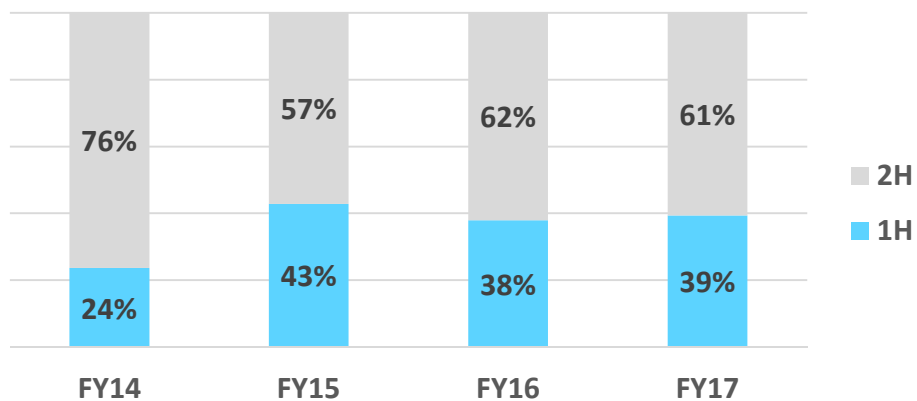
Financial Position Extract	FY17	FY16
Cash	18.6	19.1
Inventories	21.7	22.6
Receivables	20.8	19.4
Total Current Assets	61.1	61.1
PP&E	3.4	3.0
Other non-current assets	3.2	2.6
Intangibles	98.4	81.0
Total Non-Current Assets	105.0	86.6
TOTAL ASSETS	166.1	147.7
Trade and other payables	28.2	26.1
Vendor Conditional Payables	9.6	0.8
Interest bearing liabilities	8.5	7.6
Total Current Liabilities	46.3	33.7
Other payables	1.2	10.6
Vendor Conditional Payables	7.3	9.9
Interest bearing liabilities	28.6	30.6
Total Non-Current Liabilities	37.1	41.2
TOTAL LIABILITIES	83.4	74.9
NET ASSETS	82.7	72.8

As previously guided, Paragon continues to experience seasonality in revenue and EBITDA

Revenue seasonality: first half v second half



EBITDA seasonality: first half v second half



Customer procurement cycles drive seasonality in Paragon's P&L

- Seasonal trends in procurement are well established in the healthcare sector, with hospitals in the public sector consistently increasing their procurement activity in Q3 and Q4 every financial year
- Although Paragon seeks to mitigate this seasonality where possible through diversification of its portfolio and customer base, the strength of its acute care revenues will drive seasonality in Paragon's overall P&L
- This effect can consistently be seen in Paragon's reported revenues in the last four years
- This effect is magnified at the EBITDA level due to the operating leverage inherent in the business

Seasonality expected to continue being a feature of results

- Although the company saw a slight reduction in the seasonality effect in 2017 revenues, Management expects seasonality to continue in future years in the historically observed range

Paragon has a strong track record of buying sensibly and integrating successfully to support long-term growth, with further upside from recent acquisitions expected in FY18



Acquired in October 2015

Strong progress to date

- Established a strong foothold in the Western Australian market, leveraging Paragon's wider product suite



Positive outlook for FY18 and beyond

- Significant opportunity for further revenue synergies through improved penetration of Paragon products with key customers



Acquired in October 2015

- Fully integrated into the medical device portfolio with one urology device team created nationally



- Cost synergies largely realised – focus on further organic revenue growth in FY18



Acquired in October 2015

- Strong sales performance achieved, well ahead of budget resulting in vendor earn-out slightly above provision



- Continued focus on the growing Ophthalmic and Optometry market, in particular harnessing advancements in diagnostic technologies
- Cost synergies to emerge over time as the business evolves



Acquired in July 2016

- Ultrasound modules development is complete and now commercially available
- Sales strategy developed with discussions ongoing with potential reseller partners and several radiology groups



- Commercial launch underway with several customers secured for FY18 and a number of large opportunities in the pipeline for conversion during the year
- Further product development to continue to complete product suite



Acquired in July 2016

- Focus on high-quality service has been well received by Paragon clients following a low-cost integration program



- Opportunities available across hospital groups and OEM suppliers in Australia will provide strong organic growth for the business in FY18 and beyond

FY17 acquisitions improve Paragon's positioning in fast growing markets

eHealth Technology Solutions



Health technology solutions are expected to be a key driver of health professionals' productivity

- Our **MIDAS** technology introduces Paragon to the exciting and fast-growing eHealth sector where we can deliver operational and profitability benefits to our clients
- Highly attractive economics leverage the well-established SaaS ('Software as a Service') business model, with data interpretation and analytics conducted in the Cloud in a secure and cost effective manner to the client
- eHealth Technology Solutions offer an attractive cross-selling opportunity and are highly complementary to Paragon's existing customer base and sales channels

MIDAS is expected to drive a solid contribution to Paragon's performance from FY18 onwards

Preventative Service and Maintenance



Service and Maintenance contracts continue to gain traction with customers, who increasingly seek a long-term solution from a trusted and capable third party

- All of Paragon's existing service capabilities have been merged with those of recent acquisition Electro Medical Group to create a unified service and maintenance offering
- Acquisition allows Paragon to capitalise on the growing demand for the provision of preventative service and maintenance throughout the sector
- Strong organic growth across the group expected driven by the opportunities available across hospital groups and occupational and environmental medicine services

Paragon sees servicing as a strong area for organic growth and the acquisition is expected to be EPS accretive in FY18

Paragon continues to monitor the landscape for acquisition opportunities to leverage its strong platforms in the eHealth and Service/Maintenance segments

Customer centric business model makes procurement easier for the customer

Established customer base

Composition	Strategic approach	Customer focus
<p>82% acute care</p>	<p>✓ Predominately acute (hospital) care driven where there is strong demand, green/brown field developments and multi year supply arrangements available</p>	<ul style="list-style-type: none"> ▪ Providing customers with a procurement solution which encapsulates products, servicing and technology
<p>12% aged care</p>	<p>✓ Increasing proportion of private hospitals vs. public hospitals</p>	<ul style="list-style-type: none"> ▪ Paragon seeks to reduce the administrative strain on procurement staff and deliver sustainable solutions to the customers operations
<p>6% primary care</p>	<p>✓ Increased focus on aged care and community care where strong tail winds can be capitalised on</p>	<ul style="list-style-type: none"> ▪ Inroads being made into increasing the level of penetration into the private hospital market

Key customers form the backbone of the Australian Healthcare industry



Government of **Western Australia**
Department of **Health**



MELBOURNE HEALTH



The**Alfred**



Healthscope



Austin Health

Strategic product mix ensures earnings stability

Diversified Product mix

Composition

63% consumables

37% capital equipment and medical devices

Strategic approach

- ✓ Stable, high quality earnings driven by consumables mix
- ✓ Sustainable earnings growth at a reduced gross profit margin

Sales security

- Long term contracts for regularly purchased consumables in place, providing high confidence on around two-thirds of revenue each year
- High level knowledge of customer demand places Paragon at the forefront of innovative product introduction

Centralised sourcing model

Composition

80% exclusive distribution products

20% designed and manufactured products

Strategic approach

- ✓ High quality products
- ✓ Modest capital and R&D expenditure
- ✓ Ability to adjust product range to suit customer needs
- ✓ Aggressive hedging keeps COGS well managed

Platform economics

- Centralised procurement, finance and logistics divisions provide significant cost synergies
- Product portfolio continually strengthened through new products with distribution partners
- Expand the platform strategy to capitalise on opportunities available to Paragon in Queensland, South Australia and New Zealand over coming year

Sample of product suite on platform



Paragon's strategy is aided by favourable macroeconomic tailwinds

Public and Private Healthcare spend of \$160bn+ is highly fragmented across multiple providers

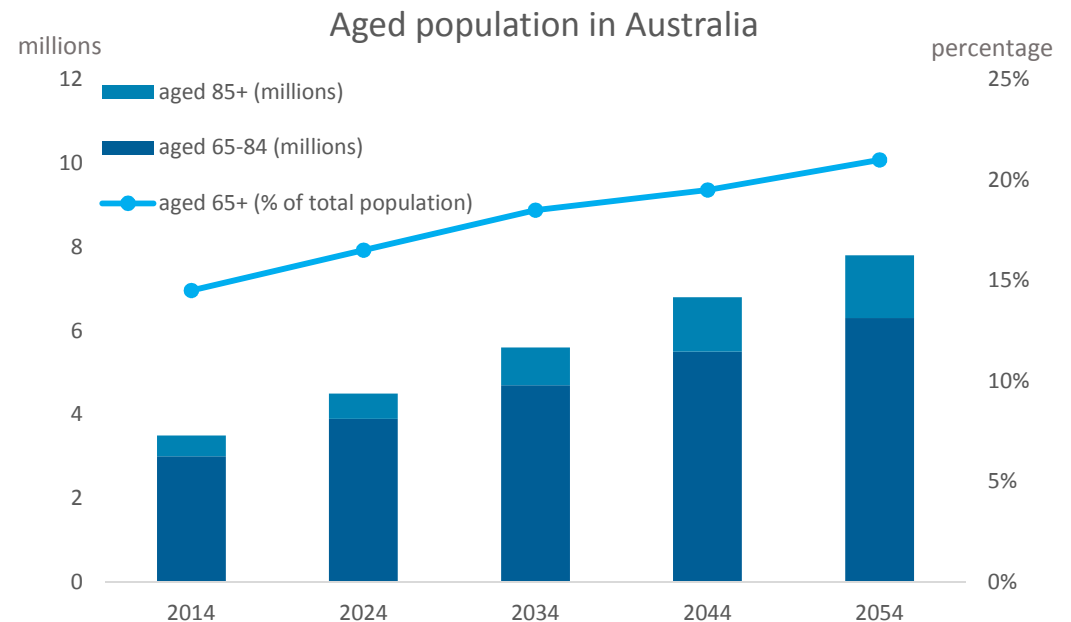
- Healthcare expenditure in Australia over the past decade has increased at 5% per year in real terms
- Underlying business is driven by increasing demand in the acute and aged care sector

Expanding Australian population provides strong foundation for sector growth rates

- Population aging further underpins increased spend on health and aged care into the future
- Australian Bureau of Statistics predicts that over 20% of the Australian population will be above 65 years of age by 2054

Paragon's business model addresses is well-positioned to benefit from these trends

- Key customers control multi-million dollar procurement budgets for major hospitals, primary care and aged care providers



Source: AIHW analysis of ABS data

Paragon's vision is to be Australia's leading supplier of medical equipment, devices and consumables

Strategy



To create a healthcare platform with a valuable range of **products and services** to successfully service the **acute, aged and primary care sectors**

We do this by:

- Driving efficiencies by leveraging platform economics
- Growing organically and inorganically to reach a critical mass that best serves our customers procurement needs
- Continuing to provide procurement solutions to our customers and be a **"true partner"** to them

Unique selling proposition



Highly fragmented industry, characterised by a large number of smaller, privately owned businesses

Significant **administrative burden** when procuring for hospitals and other health care providers

Opportunity for a single supplier of high quality products and services to improve the quality of care and deliver efficiencies for its customers

Target revenue

\$250m

Aspirational target driven by strong double digit organic growth and value accretive M&A

Target EBITDA margin

15%

Aspirational target leveraging platform economics as marginal revenue becomes increasingly profitable

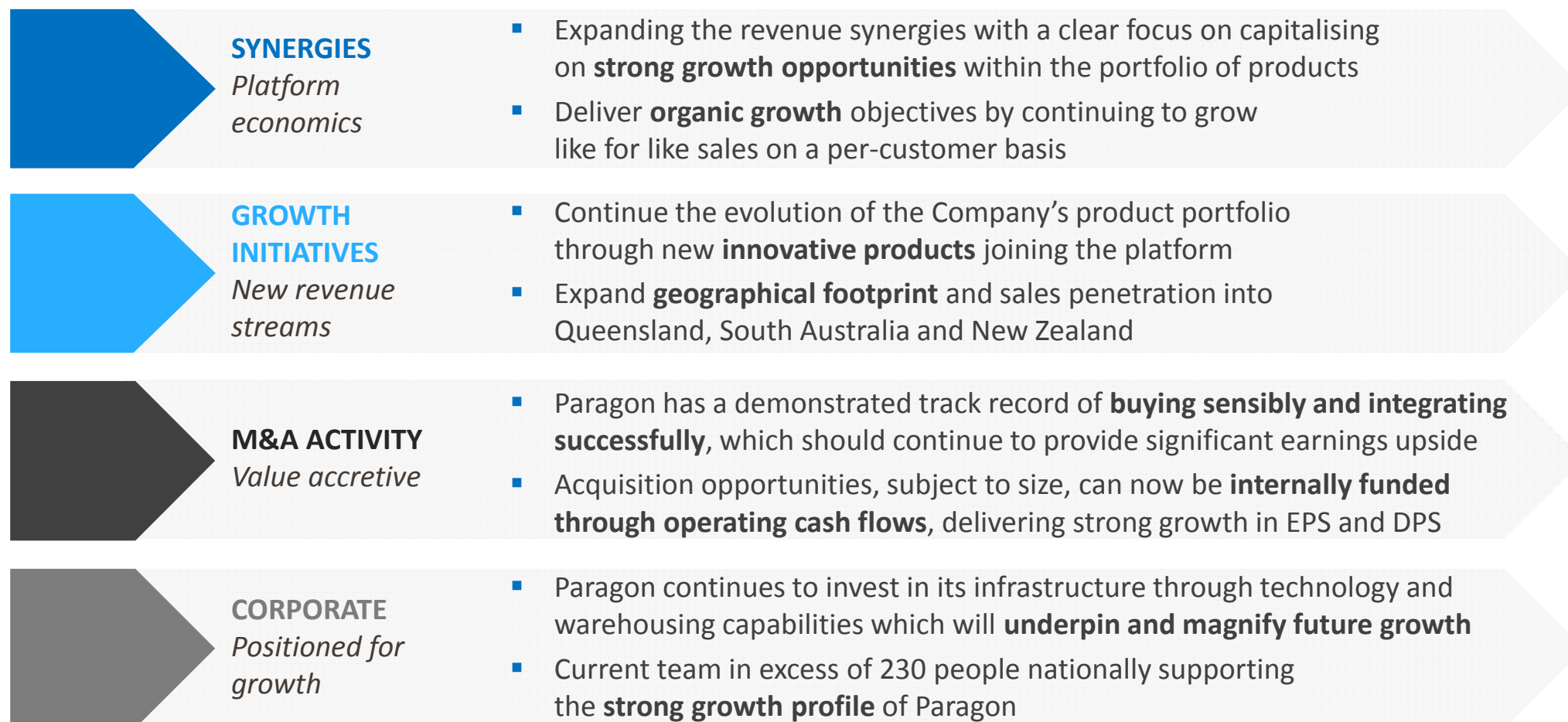


Target stock turnover

5-6x

Achieved target driven by strict working capital management initiatives

Continued operational outperformance underpins potential for attractive risk-adjusted returns



Highly aligned Board and management team with a long term, supportive shareholder base

Board of Directors

Shane Tanner

Non-Executive Chairman

- Chairman of Funtastic and Zenitas Healthcare, and former Chairman of Vision Eye Institute
- Extensive commercial and financial experience

Mark Simari

Managing Director / Chief Executive Officer

- Extensive corporate and management experience and prior experience integrating multiple acquisitions
- Strong business acumen and hands on management philosophy

Brett Cheong

Executive Director

- Over 35 years' experience in the durable medical equipment industry
- Founder and Managing Director of Axishealth

Michael Rice

Alternate Director / Chief Operating Officer

- Founder and Managing Director of GM Medical: April 2002 - June 2011
- Over 30 years experience in the healthcare sector

Michael Newton

Non-Executive Director

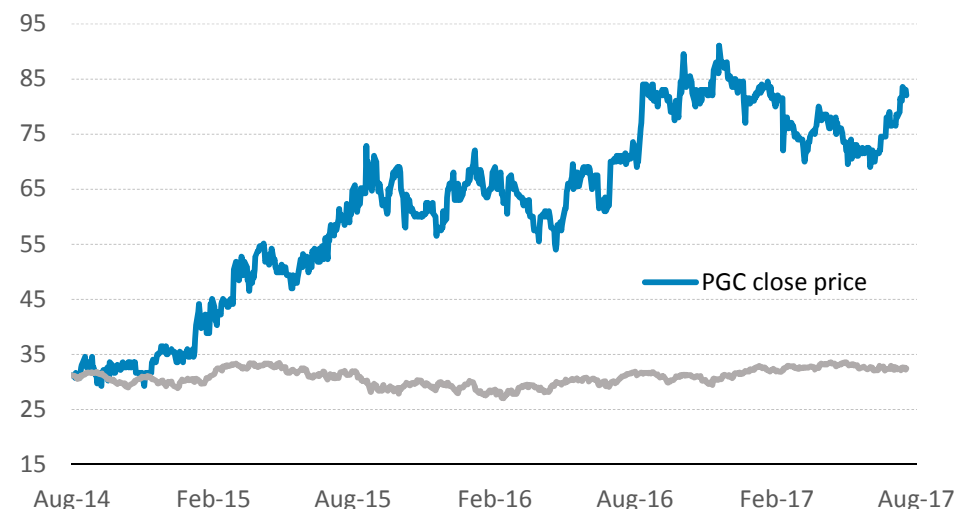
- Experienced operator specialising in the industrial chemical sector with previous executive roles with both Unilever and ICL PLC

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

Share price (cents)



Source: IRESS

Financial Information		Top Shareholders	
Share price (03-Aug-17)	\$0.80	First Samuel	7.5
Number of shares (m)	165.0	JMT Investment Group	6.3
Market capitalisation	\$132m	Board, management and associates (other than JMT Investment Group)	6.3
Cash (30-Jun-17)	\$18.6m		
Interest Bearing Debt (30-Jun-17)	\$37.1m		
Enterprise value	\$150.5m		

A low-risk exposure to a rapidly growing health care company

- Paragon is one of the **premier medical equipment, device and consumables suppliers** on the ASX
- **Platform economics**, valuable distribution networks and a customer-centric business model all differentiate Paragon's service offering
- **Favourable macro tailwinds** given the ageing population and increasing investment in health care
- **Well-capitalised balance sheet** to pursue additional growth opportunities, with a conservative approach to debt finance and ability to use scrip for acquisitions
- **Highly aligned Board and management team** with supportive institutional shareholder base
- Shareholder returns will continue to be driven by **strong growth in earnings**, targeting \$250 million in revenue, which supports increasing fully franked dividends to shareholders
- **13 value accretive acquisitions** over the last 8 years have supported **strong organic and inorganic growth** in a highly fragmented industry





THANK YOU

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These forward-looking statements reflect Paragon Care Limited’s current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside Paragon Care Limited’s control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks.

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