



ParagonCare
Health. Covered.

AGM Presentation

20 November 2018 | [ASX:PGC](#)

1. Executive summary

2. Vision and strategy

3. Corporate update

4. Commercial update

5. FY19 focus and initiatives

Executive summary

- Executing on the **vision and strategy** to deliver a stronger more diversified business
- Addressing a **A\$9bn market segment** growing faster than the broader healthcare sector
- Focused on delivering **strong organic growth** and **recurring revenue streams** from a greater exposure to technology and high value-added products
- Managing a **group-wide transformation programme** to extract synergies and deliver a people and infrastructure platform to support a A\$1bn revenue business
- **Major acquisition programme largely complete** – going forward all business units and product lines to be judged against aspirational organic growth target of 10%
- **FY19 operational update**: solid top-line performance in first four months of FY19, reflecting ongoing sales performance optimisation; gross margins in line with budget and cost out program underway

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Executing on a tightened vision and strategy

Mission	To simplify and improve our customers' work, thereby contributing to patient care		
Vision	To be Australia and New Zealand's leading supplier of healthcare equipment and integrated services		
Strategy	<i>We are creating a healthcare platform with a broad range of products and services for the hospital, allied and veterinary healthcare sectors</i>		
	<p>Leveraging platform economics</p> <p>To drive sustainable efficiencies to deliver benefits to our customers</p>	<p>Growing organically</p> <p>By becoming an enduring partner for our customers with our broad range of products and services</p>	<p>Growing inorganically</p> <p>Through select acquisitions to add products and services to our platform and increase our geographic reach</p>
	<p>Revenue</p> <p>\$500m</p>	<p>Organic growth</p> <p>~10% (2x market)</p>	<p>EBITDA margin</p> <p>15%</p>

Platform economics create a virtuous cycle

More products and services...

- Speciality Devices 
- Speciality Diagnostics 
- Capital & Consumables 
- Services & Technology 






- ✓ **Common warehousing and distribution logistics** lowers costs
- ✓ **National reach** offers upside benefits to product/service providers who sell their business to Paragon

...sold via one platform...

ParagonCare

- ✓ Ability to adjust product range to suit customer needs
- ✓ Significant cost synergies through centralised functions
- ✓ Single procurement platform offers significant efficiency for customer

...to more customers

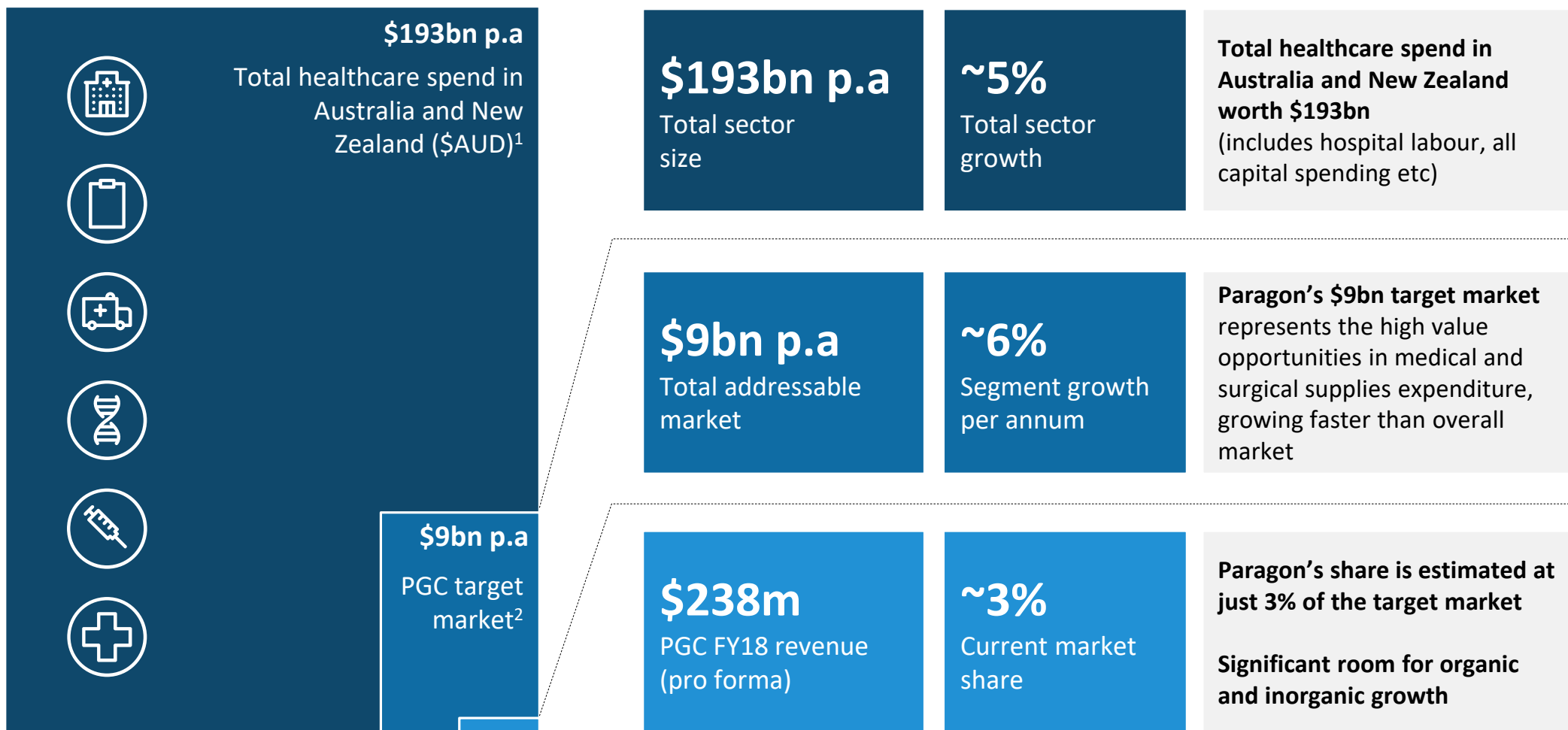
-  **Medical Specialists**
-  **Acute Care**
-  **Aged & Primary Care**
-  **Veterinary**
-  **Laboratory market**

- ✓ **Broader offering increases share of wallet**, deepening customer relationship, leading to further sales opportunities



Market opportunity in Australia and NZ is \$9bn p.a. and growing

Significant opportunity to increase market share in an attractive and growing market



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 thorough screening process excludes low-value opportunities, resulting in a target market roughly 80% the size of the total medical and surgical supplies segment

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

Multiple drivers of organic growth

Paragon is investing in a scalable business platform to leverage opportunities to drive organic growth




Sales
Developing capabilities

- Investing into best-in-class sales management team
- Growing sales representative team for higher coverage

Organic growth multiplier through increasing share of customer 'wallet' and growing customer base

✓ **A sophisticated and effective sales team**




IT
Best-in-class IT architecture and infrastructure

- Developing IT infrastructure and architecture (e.g. ERP, CRM, EDI systems) in conjunction with appropriate third parties

Standardised IT architecture designed to enable information flows to unlock further sales opportunities

✓ **Easy and intuitive information flows from CRM**




Integration
Ability to accelerate synergies and integration

- Resource investment into building skills, FTEs and project management system to develop standardised approach across business lines

Accelerating path to leveraging customer relationships across integrated businesses for growth

✓ **Leverage synergies across business lines**



Supply Chain
Competency in sourcing products fulfilling unmet needs

- Implementing and leveraging new technology (e.g. EDI) to automate sourcing and supply of right product for customer needs

Winning business by fulfilling customer needs with right product at the right time

✓ **Effective delivery of valued products and services**

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Total Communications acquisition adds high-technology revenues



- **Strategic addition to Paragon's growth platform**
- **Total operates in a high-growth and high-margin segment**
- **Acquisition supports Paragon's transformation into a stronger, more balanced business**
- **Increases exposure to high-technology revenue streams**

Total Communications acquisition announced to the market on 29 October 2018

- Acquisition in line with Paragons' strategy to focus on high-technology opportunities, yielding recurring revenue streams
- Total is one of Australia's most highly regarded specialised technology providers for the health and aged care sectors
- Key highlights of acquisition:
 - Cash consideration of A\$27.5m
 - Revenues of ~A\$16m, EBITDA of ~A\$5m p.a
 - >10% EPS accretive in FY19 and beyond
 - Vendors will remain with the business
- Represents a significant strengthening of Paragon's Services and Technology vertical

Completed \$42.5m placement to China Pioneer

- Tranche 1 and Tranche 2 of A\$42.5m strategic equity placement to China Pioneer completed
- Comprised issue of 50.4m shares, as follows:
 - Tranche 1 – 16.5m shares
 - Tranche 2 – 33.9m shares
- China Pioneer is a leading distributor of medical devices, equipment and pharmaceutical products throughout mainland China
- Paragon and China Pioneer are exploring further cross-selling opportunities



China Pioneer's investment validates Paragon's strategy and opens up synergistic, international cross-selling opportunities

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Solid start to FY19

- ✔ Solid start to FY19 – first four months of year ahead of revenue budget
- ✔ ~7% organic revenue growth achieved year to date (vs pro forma FY18)
- ✔ Gross profit margin ~40% year to date, on budget
- ✔ Operating costs running at around ~30% of revenues for the first 4 months, against our target of 26% due to recent acquisitions. Major cost out program underway.
- ✔ Product mix evolving as expected, with more consumables and less capital, reducing seasonality between the first and second half of the year
- ✔ Early progress on leveraging the greater breadth of the platform to deepen customer relationships and expand share of the customer wallet

Encouraging trends on organic sales growth, reflecting the benefits of a larger and increasingly high value-added product platform

Strong basis for sustained organic revenue growth

Broader product platform underpins strategy to expand share per customer

Early success story in Specialist Eye Care products

- Eye-care sales team seeing early benefits of Paragon's scale, with the broader product portfolio enabling deeper relationships with ophthalmic surgeons
- Sales team delivering increased penetration of **intraocular lenses**, a high-value and high-margin, prosthetics product
- Illustrates the benefits for one of Paragon's strongest revenue streams of broader distribution and wider product portfolio



Eye Care is just one example of Paragon's customer segments with high potential for similar cross-sell and up-sell opportunities

Group-wide transformation underway to deliver cost synergies

- Significant medium and long-term opportunity for cost synergies from acquisitive history
- Whole-of-business transformation programme established and well progressed, designed to generate synergies and build the platform to support a \$1bn revenue business
- Transformation introduces greater discipline on reviewing business unit performance against group-wide growth hurdles and contribution to the platform
- Opportunities to remove cost and increase productivity are well-defined, to meet A\$3m cost reduction commitment
- Delivery of planned cost savings expected in second half of FY19, subject to ongoing evaluation of pace of change to optimise group sales trajectory
- Operating costs in 1H19 are above historical trend for previous corresponding periods, as transformation programme builds momentum and recent acquisitions integrate

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FY19 focus and initiatives

Synergies

Platform economics

- Delivering revenue synergies from growth opportunities within the portfolio of products
- Drive organic growth objectives by investing in scalable platform for growth
- Boost supply chain capability to simplify customer and supplier transactions

Growth initiatives

New revenue streams

- Sales and gross margin in line with budget
- Continue the evolution of the Company's product portfolio through the addition of new and innovative products to Paragon's platform
- Focus on high-margin and high-technology recurring revenue streams

Corporate

Positioned for growth

- Significant investment into scalable business platform to drive organic growth
- Investment into sales capabilities, IT infrastructure, integration and supply chain
- Major cost out program underway

M&A initiatives

Disciplined approach

- Strong demonstrated track record of buying sensibly
- Selective approach to EPS-accretive acquisitions to develop customer base, and create recurring revenue streams
- Greater discipline on managing existing portfolio of assets to achieve group objectives

Appendix

- FY18 results summary
- Corporate overview

FY18 results summary

Revenue \$136.7m 2017: \$117.2m <i>up 17%</i>	Net profit after tax \$10.9m 2017: \$10.2m <i>up 7%</i>	Operating cash flow \$7.6m 2017: \$12.0m
Gross profit \$54.9m 2017: \$46.1m <i>up 19%</i>	Earnings per share 5.4c 2017: 6.2c <i>FY18pf: 6.6c</i>	Cash balance \$40.4m 2017: \$18.6m
EBITDA \$19.7m¹ 2017: \$17.1m <i>up 15%</i>	Dividend per share 2.0c ff 2017: 1.9c <i>up 5%</i>	Net Debt/EBITDA 2.1 x 2017: 1.1 x

Notes:

1. Underlying EBITDA quoted before one-off costs of approximately \$1.5m largely related to acquisitions (reported EBITDA of \$18.2m)

Corporate overview

Highly experienced Board of Directors

Financial overview

Financial Information	
Share price (16-Nov-18)	\$0.736
Number of shares ¹ (m)	337.1
Market capitalisation	\$248.1m
Pro-forma cash ¹ (31-Oct-18)	\$43.1m
Interest bearing debt (30-Jun-18)	\$104.8m
Enterprise value (adjusted)¹	\$309.8m

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 Health 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

Notes:

1. Market capitalisation and adjusted Enterprise Value includes impact of Tranche 2 of the China Pioneer placement proceeds (approx. \$30.2m cash proceeds for issue of approx. 33.9m shares) plus the purchase consideration of Total Communications.

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