

Despatch of NOM and EM in relation to Merger with CH2

Paragon Care Limited (ASX:PGC) (**Paragon**) is pleased to announce the details of the general meeting of the members of Paragon for the purposes outlined below (**Meeting**).

The purpose of the Meeting is to consider, and if thought fit pass, resolutions in connection with the proposed merger of Paragon and CH2 Holdings Pty Limited (**CH2**) (**Merger**).

As announced by Paragon on 1 March 2024, the Merger is transformative and is expected to create a leading healthcare wholesaler, distributor and manufacturer operating across healthcare markets in the Asia Pacific region.

The Paragon directors unanimously recommend that Paragon shareholders vote in favour of all resolutions at the Meeting, in the absence of a Superior Proposal.¹

Subject to the same condition and the applicable voting exclusions, each Paragon director intends to vote any Paragon shares they hold or control in favour of all resolutions at the Meeting.

Despatch of NOM and EM

Copies of the Explanatory Memorandum, which includes amongst other things, the Notice of Meeting and Independent Expert's Report (together, the **NOM and EM**) will be despatched electronically and via post to Paragon shareholders today.

The NOM and EM is attached to this announcement.

It sets out important information that Paragon shareholders may require in evaluating the Merger, including details regarding the Meeting as well as instructions on how Paragon shareholders can vote. Paragon shareholders should read the NOM and EM in its entirety.

If Paragon shareholders would like to receive a copy of the NOM and EM via post, please contact Paragon on +61 3 9692 7222.

An electronic version of the NOM and EM will also be available for viewing and downloading on Paragon's website (<https://paragoncare.com.au/>).

Meeting details

The Meeting will be held online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg on Monday, 3 June 2024 at 12.00pm (Melbourne time).

All Paragon shareholders are encouraged to vote either by participating in the Meeting or by lodging a directed proxy if they cannot participate in the Meeting.

Independent Expert's conclusion

ShineWing Australia Securities Pty Ltd has been appointed as the Independent Expert by the Board of Directors to provide an Independent Expert's Report on the merits of the Merger.

¹ Capitalised terms used but not defined have the meaning given in the NOM and EM (attached to this announcement).

John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions).

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to Paragon shareholders. The Independent Expert's conclusion should be read in context with the full Independent Expert's Report and the NOM and EM. A copy of the Independent Expert's Report is set out in Annexure 2 of the NOM and EM.

Further information

Paragon shareholders should contact shareholders@paragoncare.com.au with any questions.

Paragon shareholders are advised to monitor Paragon's ASX announcements released to ASX for further details of the Merger.

For further information, please contact:

John Walstab

Chief Executive Officer

john.walstab@paragoncare.com.au

This announcement is authorised for release to the market by the Board of Directors of Paragon Care Limited.

2 May 2024

Dear Shareholder

Notice of Access

Proposed merger

On behalf of the board of Paragon Care Limited (the **Company**), I am pleased to advise that the Company has despatched the notice of meeting and explanatory memorandum (**Notice of Meeting and Explanatory Memorandum**) in relation to the proposed merger with CH2 Holdings Pty Limited (**CH2**), under which the Company will acquire all of the issued share capital in CH2.

The Notice of Meeting and Explanatory Memorandum is an important document and requires your immediate attention. You should read it carefully and in its entirety before deciding whether or not to vote in favour of the proposed resolutions at the general meeting (**Meeting**) of shareholders of the Company (**Shareholders**) to be held on Monday, 3 June 2024 at 12.00pm (Melbourne time).

Notice of Meeting and Explanatory Memorandum

The Notice of Meeting and Explanatory Memorandum, and other documents including details as to how to participate and vote at the Meeting, can be viewed or downloaded at the Company's investor relations website at <https://www.paragoncare.com.au/asx-announcements>.

You can request a hard copy of the Notice of Meeting and Explanatory Memorandum by contacting the Company on +61 3 9692 7222.

Meeting

Notice is hereby given that the Meeting will be held on Monday, 3 June 2024 at 12.00pm (Melbourne time). The Meeting will be held online at

https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg. All Shareholders registered as at 7.00pm (Melbourne time) on Saturday, 1 June 2024 will be eligible to vote at the Meeting. To view the notice of meeting for the Meeting, please refer to Annexure 1 of the Notice of Meeting and Explanatory Memorandum.

The business of the Meeting will consider the following resolutions as outlined in the Notice of Meeting and Explanatory Memorandum:

1. Approval under item 7 of section 611 of the *Corporations Act 2001* (Cth);
2. Issue of performance rights to John Walstab;
3. Approval of waiver of performance rights vesting conditions; and
- 4-6. The appointment of the following persons as directors of the Company:
 - David Collins;
 - Carmen Riley; and
 - Peter Lacaze.

All proposed resolutions, and information material to a Shareholder's decision on how to vote on the resolutions, are explained in more detail in the Notice of Meeting and Explanatory Memorandum.

How to participate

You are invited to register in advance for the Meeting through https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg following which you will receive a confirmation email containing information about joining the Meeting. Shareholders will be able to vote, ask questions in writing or verbally, hear the discussion and participate electronically in real-time.

Even if you plan to participate online, we encourage all Shareholders to cast proxy votes beforehand at <https://investorcentre.linkgroup.com> or as otherwise directed on the proxy form accompanying the Notice of Meeting and Explanatory Memorandum. Shareholders may also lodge questions in respect of the proposed resolutions ahead of the Meeting at shareholders@paragoncare.com.au. All questions must be received by 12:00pm Saturday, 1 June 2024 and individual responses will not be sent to Shareholders. Lodging questions and casting your proxy vote ahead of the Meeting will not prevent you from attending online.

Proxy forms must be received by no later than 12.00pm (Melbourne time) on Saturday, 1 June 2024.

Further information

You should carefully read the Notice of Meeting and Explanatory Memorandum in its entirety before making any decision in relation to the proposed resolutions.

You should also monitor the Company's website and its ASX announcements for any updates about the Meeting. If it becomes necessary or appropriate to make alternative arrangements for the holding or conducting of the Meeting, the Company will make further information available through the ASX website at www.asx.com.au (ASX: PGC) and on its website at <https://paragoncare.com.au>.

On behalf of the Board, I look forward to your participation at the Meeting and thank you for your continued support of the Company.

Yours Sincerely



Shane Tanner
Chairman



Notice of Meeting and Explanatory Memorandum – ParagonCare merger with CH2

VOTE IN FAVOUR

Your ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal.

This is an important document and requires your immediate attention.

You should read it entirely before deciding whether or not to vote in favour of the Merger Resolutions.

If you are in any doubt about how to deal with this document, you should contact your broker or financial, taxation, legal or other professional adviser immediately.

LEGAL ADVISER



HERBERT
SMITH
FREEHILLS

Important notices

General

This Explanatory Memorandum is important and requires your immediate attention. You should read this Explanatory Memorandum in full before making any decision as to how to vote at the Meeting.

Nature of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for ParagonCare Shareholders in connection with the Meeting to be held online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAjNrkeC15D2Tg on Monday, 3 June 2024 at 12.00pm (Melbourne time).

The purpose of this Explanatory Memorandum is to provide ParagonCare Shareholders with information that the ParagonCare Directors believe to be material to deciding whether or not to approve the Merger Resolutions detailed in the Notice of Meeting.

ASIC

A copy of this Explanatory Memorandum has been provided to ASIC in accordance with the requirements of RG 74. Neither ASIC, nor any of its officers, takes any responsibility for the contents of this Explanatory Memorandum.

ASX

A copy of this Explanatory Memorandum has been provided to the ASX. Neither the ASX, nor any of its officers, takes any responsibility for the contents of this Explanatory Memorandum.

Notice of Meeting

The Notice of Meeting is set out in Annexure 1.

No investment advice

This Explanatory Memorandum has been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any ParagonCare Shareholder or any other person. The information and recommendations contained in this Explanatory Memorandum do not constitute, and should not be taken as, financial product advice. The ParagonCare Directors encourage you to seek independent financial and taxation advice before making any investment decision and any decision as to whether or not to vote in favour of the Merger Resolutions. This Explanatory Memorandum should be read in its entirety before making a decision on whether or not to vote in favour of the Merger Resolutions. In particular, it is important that you consider the potential risks if the Merger does not proceed, as set out in Section 8, and the views of the Independent Expert set out in the Independent Expert's Report contained in Annexure 2. If you are in doubt as to the course you should follow, you should consult an independent and appropriately licensed and authorised professional adviser immediately.

Forward looking statements

Some of the statements appearing in this Explanatory Memorandum (including in the Independent Expert's Report) may be in the nature of forward looking statements. Forward looking statements or statements of intent in relation to future events in this Explanatory Memorandum (including in the Independent Expert's Report) should not be taken to be forecasts or predictions that those events will occur. Forward looking statements generally may be identified by the use of forward looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should',

'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe the objectives, plans, goals, intentions or expectations of ParagonCare or CH2 are or may be forward looking statements. You should be aware that such statements are only opinions and are subject to inherent risks and uncertainties.

Those risks and uncertainties include factors and risks specific to ParagonCare or CH2 and / or the industries in which they operate, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in financial markets.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. None of ParagonCare, CH2, or their respective officers, directors, employees or advisers or any person named in this Explanatory Memorandum or any person involved in the preparation of this Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

Any forward looking statements in this Explanatory Memorandum reflect views held only at the date of this Explanatory Memorandum. Subject to any continuing obligations under the ASX Listing Rules or the Corporations Act, ParagonCare and CH2 and their respective officers, directors, employees and advisers, disclaim any obligation or undertaking to distribute after the date of this Explanatory Memorandum any updates or revisions to any forward looking statements to reflect (a) any change in expectations in relation to such statements; or (b) any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

ParagonCare has prepared, and is responsible for, the ParagonCare Information. Neither CH2 nor any of its Subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of such information.

CH2 has prepared, and is responsible for, the CH2 Information. Neither ParagonCare nor any of its Subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of such information.

SW has prepared the Independent Expert's Report (as set out in Annexure 2) and takes responsibility for that report. None of ParagonCare or CH2 or any of their respective Subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report.

No consenting party has withdrawn their consent to be named before the date of this Explanatory Memorandum.

Foreign jurisdictions

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions

may constitute a violation of applicable laws or regulations.

This Explanatory Memorandum has been prepared in accordance with the laws of Australia and the information contained in this Explanatory Memorandum may not be the same as that which would have been disclosed if this Explanatory Memorandum had been prepared in accordance with the laws and regulations of a jurisdiction outside of Australia.

ParagonCare Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

Financial amounts and effects of rounding

All financial amounts in this Explanatory Memorandum are expressed in Australian currency unless otherwise stated. A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding. All financial and operational information set out in this Explanatory Memorandum is current as at 26 April 2024, unless otherwise stated.

Charts and diagrams

Any diagrams, charts, graphs or tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available as at 26 April 2024.

Timetable and dates

All times and dates referred to in this Explanatory Memorandum are times and dates in Melbourne, Australia, unless otherwise indicated. All times and dates relating to the implementation of the Merger referred to in this Explanatory Memorandum may change and, among other things, are subject to all necessary approvals from Government Agencies.

External websites

Unless expressly stated otherwise, the content of the websites of ParagonCare and CH2 do not form part of

this Explanatory Memorandum and ParagonCare Shareholders should not rely on any such content.

Privacy

ParagonCare may collect personal information in the process of implementing the Merger. The type of information that it may collect about you includes your name, contact details and information on your shareholding in ParagonCare and the names of persons appointed by you to act as a proxy, attorney or corporate representative at the Meeting as relevant to you. The collection of some of this information is required or authorised by the Corporations Act. The primary purpose of the collection of personal information is to assist ParagonCare to conduct the Meeting and implement the Merger. Without this information, ParagonCare may be hindered in its ability to issue this Explanatory Memorandum and implement the Merger. Personal information of the type described above may be disclosed to the ParagonCare Share Registry, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Meeting), authorised securities brokers, professional advisers, Related Bodies Corporate of ParagonCare, Government Agencies, and also where disclosure is otherwise required or allowed by law. ParagonCare Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of the information about you held by the ParagonCare Share Registry in connection with ParagonCare Shares, please contact the ParagonCare Share Registry. ParagonCare Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meeting should ensure that they inform such an individual of the matters outlined above. Further information about how ParagonCare collects, uses and discloses personal information is contained in ParagonCare's Privacy Policy located at <https://paragoncare.com.au/corporate-governance#privacy>.

Date of Explanatory Memorandum

This Explanatory Memorandum is dated 2 May 2024.

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Letter from the Chairman of the ParagonCare Board

Dear ParagonCare Shareholder,

On behalf of the Paragon Care Limited (**ParagonCare**) Board, I am pleased to invite you to a general meeting of ParagonCare Shareholders to be held online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg on Monday, 3 June 2024 at 12.00pm (Melbourne time) (**Meeting**). This Explanatory Memorandum contains important information in relation to the proposed merger with CH2 Holdings Pty Limited (**CH2**) (**Merger**).

Background to the Merger

On 1 March 2024, ParagonCare announced that it had entered into a share sale agreement to acquire all of the issued share capital in CH2 from Peter Andre Lacaze and Dianne Maree Lacaze as trustees for the Lacaze Family Trust and David Keith Collins and Cherie Maria Millar as trustees for the Collins Millar Family Trust (**CH2 Sellers**).

CH2 is a national integrated healthcare distributor providing pharmaceutical, nutritional, medical consumables and complementary medicines Australia wide. CH2 sources 50,000+ products from 700+ suppliers for over 10,000 customer accounts across eight distinct business units. These are hospital pharmacy, retail pharmacy, aged care and community, primary care, private label, hospital medical, complementary medicines and contract logistics.

As consideration under the Merger, ParagonCare will issue 943,524,072 ordinary shares in ParagonCare to the CH2 Sellers. This implies a purchase price of \$201,494,830 assuming a \$0.214 share issue price.¹ As a result of the Merger, the CH2 Sellers will hold approximately 57% of the shares in ParagonCare in aggregate.²

The Merger is conditional on a number of matters as described in the Explanatory Memorandum, including the approval by ParagonCare Shareholders of certain resolutions in connection with the Merger, as set out in the Notice of Meeting (**Merger Resolutions**). Merger Resolution 1 (the Item 7 Section 611 Resolution) cannot be waived.

If the Merger Resolutions are approved and all other Conditions are either satisfied or waived, completion of the Merger is expected to occur on 4 June 2024.

Strategic rationale

The Merger will create an integrated pharmaceutical, medical device, consumable medical products and healthcare capital equipment wholesaler and distribution business across Australia, New Zealand and Asia. It is a transformative transaction for ParagonCare and will enable the parties to strengthen their combined operational capabilities in growing healthcare markets.

The ParagonCare Directors believe that the Merger has a compelling strategic rationale:

¹ Based on the 3-month volume weighted average price of ParagonCare shares up to, but not including, 29 February 2024.

² Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

- (a) **Combined estimated FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million:**³ The Merger is expected to result in FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million for the Merged Group.
- (b) **Earnings accretion:** The Merger is expected to be earnings accretive for ParagonCare Shareholders.
- (c) **Significant synergies and cost efficiencies:** The Merger is expected to generate annual synergies of more than \$5 million in FY25 and a total of approximately \$12 million per annum on a fully implemented basis from FY26. Please refer to Section 7.1(b) for further details.
- (d) **Broad geographic reach and growth:** The Merger allows CH2's business to expand into New Zealand and Asia using ParagonCare infrastructure. The Merger is also expected to facilitate both organic and acquisitive growth.
- (e) **Cross-selling opportunities across the ParagonCare and CH2 businesses:** ParagonCare products may be cross-sold to CH2 customers and vice versa, better utilising management, logistics, sales and marketing teams.
- (f) **Experienced board and management in the growing healthcare market:** The appointment of David Collins, Carmen Riley and Peter Lacaze brings further, complementary experience in the growing healthcare market.

Directors' recommendation

The ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal.⁴ Subject to the same condition and the applicable voting exclusions, each ParagonCare Director intends to vote any ParagonCare Shares they hold or control in favour of the Merger Resolutions. The ParagonCare Directors hold or control 20.61% of the ParagonCare Shares on issue in aggregate.

This Explanatory Memorandum contains information on the Merger for you to consider before voting, including advantages, disadvantages and risks.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of the Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger, which appears throughout the Explanatory Memorandum.⁵

³ Based on 9 months of actual, and 3 months of forecast, revenue and EBITDA for ParagonCare and CH2 respectively. These pro-forma forecast financials include a normalisation adjustment for the full-year impact of the Osborne acquisition for CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

⁴ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions) given his direct interest in these resolutions.

⁵ Subject to the relevant Merger Resolutions being approved by ParagonCare Shareholders:

- John Walstab will be entitled to be granted 26,000,000 Performance Rights in accordance with his employment agreement; and
- John Walstab will be entitled to receive 28,594,409 ParagonCare Shares through the early vesting, and subsequent conversion, of Performance Rights held in connection with the Merger.

Further detail on the interests of ParagonCare Directors and the treatment of Performance Rights in connection with the Merger is set out in Sections 4.4(b), 4.4(c), 9.1 and 9.2.

Independent Expert's conclusion

The ParagonCare Board commissioned SW to provide an Independent Expert's Report on the merits of the Merger. The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to ParagonCare Shareholders. A copy of the Independent Expert's Report is set out in Annexure 2.

What should you do?

Unless the relevant Condition is waived by the parties, the Merger can only be implemented if all of the Merger Resolutions are approved by ParagonCare Shareholders at the Meeting, which is scheduled for 12.00pm (Melbourne time) on Monday, 3 June 2024.

Your vote is important and I encourage you to vote by attending the Meeting (via the online platform) or alternatively by completing the proxy form accompanying this Explanatory Memorandum. ParagonCare Shareholders are encouraged to lodge a directed proxy ahead of the Meeting (by 12.00pm (Melbourne time) Saturday, 1 June 2024), even if you plan to attend the Meeting online so that your vote can still be counted if for any reason you cannot attend (for example, if there is an issue with your internet connection on the day of the Meeting).

If you wish for the Merger to proceed, it is important that you vote in favour of all Merger Resolutions so that it is approved.

Further information

You should carefully read this Explanatory Memorandum in its entirety before making any decision in relation to the Merger. While the ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions (in the absence of a Superior Proposal) there are a number of potential disadvantages and risks associated with the Merger which are set out in Sections 1.2 and 8.

If you have any questions, please contact shareholders@paragoncare.com.au.

If you are in any doubt as to what you should do, please consult your legal, financial, tax or other professional adviser without delay.

On behalf of the ParagonCare Board, I would like to take this opportunity to thank you for your continued support of ParagonCare.

Yours sincerely,



The ParagonCare Board considers that, despite these arrangements and interests, it is important and appropriate for Mr Walstab to make a recommendation to ParagonCare Shareholders in respect of the Merger Resolutions (except in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions)). This is due to (a) the importance of the Merger and Mr Walstab's role as Managing Director and Chief Executive Officer; (b) Mr Walstab's knowledge of ParagonCare, its operations and the industry in which it operates; and (c) ParagonCare Shareholders would likely want to know Mr Walstab's recommendations in respect of the Merger Resolutions.

Mr Walstab also considers that, despite these arrangements and interests, it is appropriate for him to make a recommendation in respect of the Merger Resolutions for the reasons above (except in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions)).

Shane Tanner
Chairman
Paragon Care Limited

Key dates

Event	Time and date
Latest time and date for receipt of proxy forms or powers of attorney by the ParagonCare Share Registry for the Meeting	12.00pm (Melbourne time) on Saturday, 1 June 2024
Time and date for determining eligibility to vote at the Meeting	7.00pm (Melbourne time) on Saturday, 1 June 2024
Meeting – online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg	12.00pm (Melbourne time) on Monday, 3 June 2024
If all of the Merger Resolutions are approved by ParagonCare Shareholders and all other Conditions are satisfied or waived	
Completion of the Merger	Tuesday, 4 June 2024

All times and dates in the above timetable are references to the time and date in Melbourne, Australia and all such times and dates are subject to change. In particular, the date of the Meeting may be postponed or adjourned if satisfaction of a condition precedent is delayed. ParagonCare Shareholders should monitor ParagonCare's website and its ASX announcements for any updates about the Meeting. If it becomes necessary or appropriate to make alternative arrangements for the holding or conducting of the Meeting, ParagonCare will make further information available through the ASX website at www.asx.com.au (ASX: PGC) and on its website at <https://paragoncare.com.au/>.

1 Key considerations relevant to your vote

This Section sets out reasons that you should consider in determining whether or not to vote in favour of the Merger Resolutions. It is not intended to address all relevant considerations for ParagonCare Shareholders. This Section should be read in conjunction with all other parts of this Explanatory Memorandum.

1.1 Why you should vote in favour of the Merger Resolutions

The ParagonCare Directors consider that there are a number of compelling advantages associated with the Merger. Some of the key advantages and reasons why ParagonCare Shareholders may wish to vote in favour of the Merger Resolutions include:

(a) The ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal

The ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal.⁶ The ParagonCare Directors have based their recommendation on the advantages, disadvantages, alternatives to and risks of the Merger, as well as the Independent Expert's Report.

Each ParagonCare Director also intends to vote any ParagonCare Shares they hold or control in favour of the Merger Resolutions, in the absence of a Superior Proposal and subject to the applicable voting exclusions. As at 26 April 2024, this comprises 20.61% of the ParagonCare Shares on issue in aggregate.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

(b) The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to ParagonCare Shareholders

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to ParagonCare Shareholders.

In reaching this conclusion, the Independent Expert has assessed the fair market value of a ParagonCare Share post-Completion (on a minority basis) to be in the range of \$0.29 to \$0.39. This is compared to the fair market value of a ParagonCare Share pre-Completion (on a control basis) of between \$0.30 to \$0.36.

Further details on the Independent Expert's conclusion are set out in Section 4.6.

The Independent Expert's Report is set out in full in Annexure 2. The ParagonCare Board encourages ParagonCare Shareholders to read this report in its entirety.

(c) The Merged Group is expected to have combined estimated FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million

⁶ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions) given his direct interest in these resolutions.

The Merged Group is expected to have combined estimated FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million.⁷

With a broader customer base and increased scale, the Merger will enable ParagonCare to better capitalise on long-term positive healthcare tailwinds.

The full pro forma combined financial statements are set out in Section 7.6.

(d) The Merger is expected to be earnings accretive

The Merger is expected to be earnings accretive for ParagonCare Shareholders.

(e) The Merger is expected to generate annual synergies of more than \$5 million in FY25 and a total of approximately \$12 million per annum from FY26

The ParagonCare Board expects the Merger to generate substantial cost savings. The ParagonCare Board has estimated the total pre-tax cost synergies from the Merger to be approximately \$5 million in FY25 and a total of approximately \$12 million per annum from FY26. These synergies are expected to be realised progressively. Key areas of cost synergies are:

- network optimisation and shared services;
- headcount;
- site closures;
- insurance;
- CH2 surplus cash; and
- interest cost savings and refinancing CH2 debt.

The details of the synergies are set out in Section 7.1(b).

(f) The Merged Group will have a broad geographic reach and enable both organic and acquisitive growth

With a broad geographic reach, spanning across diverse regions and markets, the Merged Group will be strategically positioned to capitalise on emerging opportunities and unlock new avenues for growth. This will be achieved through a synergistic blend of organic expansion and strategic acquisitions of additional medical consumable, device and equipment distributors.

⁷ Based on 9 months of actual, and 3 months of forecast, revenue and EBITDA for ParagonCare and CH2 respectively. These pro-forma forecast financials include a normalisation adjustment for the full-year impact of the Osborne acquisition for CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.



(g) There are cross-selling opportunities across the ParagonCare and CH2 businesses

As independent suppliers, the Merger will allow for cross-selling opportunities across both the ParagonCare Business and CH2 Business. Further, the combined infrastructure would enable ParagonCare to expand CH2's offering into New Zealand and Asia.

Cross-selling will open access to new customers and markets for each business, thereby improving overall sales and profitability.

(h) Experienced board and management in the growing healthcare market

If the Merger is implemented, the ParagonCare Board will comprise of:

- David Collins;
- Carmen Riley;
- Peter Lacaze;
- John Walstab;
- an independent director nominated by ParagonCare; and
- an independent director nominated by the CH2 Sellers.

The proposed board will have significant and diverse experience across the distribution of medical equipment, consumables, devices, complementary medicines, technical services and pharmaceuticals. The board members to be appointed bring a strong knowledge of the healthcare market. In addition, the appointment of David, Carmen and Peter enables the appointment of those with a comprehensive knowledge of the CH2 Business, assisting the integration of the two businesses.

The healthcare sector is expected to experience growth of 5 – 10% in the short term and 3 – 5% in the long term,⁸ and the expertise of the proposed ParagonCare Board and

⁸ Based on IQVIA historical growth rates for the retail pharmacy and hospital pharmacy sectors as at June 2021, June 2022, June 2023 and December 2023 and CH2 management's forward looking estimates.

management team will strongly position the Merged Group to capitalise on these tailwinds.

Profiles of the proposed directors and senior management team are set out in Sections 7.4 and 7.5.

1.2 Why you may consider voting against the Merger Resolutions

The Merger has a number of potential disadvantages and risks that ParagonCare Shareholders must consider in deciding whether or not to vote in favour of the Merger Resolutions. While the ParagonCare Directors are of the opinion that these disadvantages are outweighed by the Merger's advantages, ParagonCare Shareholders should consider their individual circumstances and make their own determination.

Factors which may lead ParagonCare Shareholders to consider voting against the Merger Resolutions include:

(a) You may disagree with the ParagonCare Board's recommendation or the Independent Expert's conclusion

Despite the unanimous recommendation of the ParagonCare Board to vote in favour of all Merger Resolutions, and the Independent Expert's conclusion that the Merger is fair and reasonable to ParagonCare Shareholders in the absence of a Superior Proposal, you may believe that the Merger is not in your best interests.

The Independent Expert's Report is set out in full in Annexure 2.

(b) The risk profile of ParagonCare will change, which you may consider to be disadvantageous to you relative to the risk profile of the current ParagonCare business

ParagonCare Shareholders are currently exposed to certain risks by virtue of holding shares in ParagonCare, as discussed in Section 8.3. If the Merger is implemented, ParagonCare Shareholders will maintain a level of exposure to these risks but will also become exposed to additional risks associated with CH2 and implementation of the Merger more generally. You may prefer to maintain exposure to ParagonCare related risks only.

These risks are described in more detail in Section 8.

(c) Dilution of shareholding

If the Merger is implemented, existing ParagonCare Shareholders will hold approximately 43% of the shares in ParagonCare as a result of the issue of the Consideration Shares to the CH2 Sellers.⁹ Existing ParagonCare Shareholders' aggregate shareholding and Voting Power will therefore be diluted from 100%.

For completeness, ParagonCare Shareholders will retain all of their existing ParagonCare Shares.

The impact on ParagonCare's capital structure as a result of the Merger is discussed in Section 7.2.

(d) Share register concentration

⁹ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3. If either one or both of Merger Resolutions 2 and 3 are not approved such that the vesting and conversion do not occur, and the parties agree to waive the relevant Condition, the existing ParagonCare Shareholders will hold 41% of the shares in ParagonCare in aggregate on Completion.

As a result of the Merger and issue of Consideration Shares to the CH2 Sellers, ParagonCare may have a more concentrated share register and more limited liquidity, which may impact the trading of ParagonCare Shares.

(e) Impact on future control transactions and influence of the CH2 Sellers

Following implementation of the Merger, the CH2 Sellers' aggregate interest in ParagonCare will be sufficiently large enough to block a takeover bid or scheme of arrangement vote. As a result of voting in favour of the Merger Resolutions, ParagonCare Shareholders may be foregoing an opportunity to sell their ParagonCare Shares at a premium to trading in a future control transaction.

The presence of the CH2 Sellers on ParagonCare's share register may also deter potential bidders and be perceived by the market as reducing the likelihood of a control transaction. This may potentially cause ParagonCare Shares to trade at a discount compared to the price they would otherwise have traded at.

Relatedly, the aggregate Voting Power of the CH2 Sellers following Completion means that they will have the ability to exert significant influence over resolutions put to ParagonCare Shareholders (other than those in which they are excluded from voting) including the election of directors, significant corporate transactions and certain issues of equity securities.

2 Frequently asked questions

This Section 2 answers some frequently asked questions relating to the Merger. It is not intended to address all relevant issues for ParagonCare Shareholders. This Section 2 should be read together with all other parts of this Explanatory Memorandum.

Question	Answer	More information
Why have I received this Explanatory Memorandum?	This Explanatory Memorandum is intended to help you, as a ParagonCare Shareholder, decide how to vote on the Merger Resolutions which, if approved and implemented, will result in the merger of ParagonCare with CH2.	N/A
What is the Merger?	<p>The Merger involves:</p> <ol style="list-style-type: none">1 the acquisition by ParagonCare of all of the issued share capital of CH2 from the CH2 Sellers; and2 the issue of 943,524,072 ParagonCare Shares to the CH2 Sellers. <p>As a result of that acquisition, CH2 will become a wholly-owned Subsidiary of ParagonCare and the CH2 Sellers will become shareholders in ParagonCare.</p>	Section 6.1
Who is CH2?	CH2 is a national integrated healthcare distributor providing pharmaceutical, nutritional, medical consumables and complementary medicines Australia wide.	Section 6.1(a)
What are CH2's operations?	CH2 sources 50,000+ products from 700+ suppliers for over 10,000 customer accounts across eight distinct business units. These are hospital pharmacy, retail pharmacy, aged care and community, primary care, private label, hospital medical, complementary medicines and contract logistics.	Section 6.1(a)
Who are the CH2 Sellers?	<p>The CH2 Sellers are:</p> <ol style="list-style-type: none">1 Peter Andre Lacaze and Dianne Maree Lacaze as trustees for the Lacaze Family Trust; and2 David Keith Collins and Cherie Maria Millar as trustees for the Collins Millar Family Trust.	Section 6.1(b)

Question	Answer	More information
	The CH2 Sellers hold all of the issued share capital in CH2.	
What will be the CH2 Sellers' shareholding in ParagonCare after completion of the Merger?	If the Merger completes, the CH2 Sellers will hold (in aggregate) approximately 57% of the post-Completion share capital of ParagonCare on a fully diluted basis.	Section 7.2
What are the escrow arrangements for the CH2 Sellers?	Under the Escrow Deeds, the CH2 Sellers are restricted from dealing with the Consideration Shares issued to them within 2 years of Completion, subject to certain exceptions.	Section 9.6
Do the ParagonCare Directors recommend the Merger?	The ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal. ¹⁰	Section 4.5
What are the voting intentions of the ParagonCare Directors?	Each ParagonCare Director intends to vote any ParagonCare Shares they hold or control in favour of Merger Resolutions, in the absence of a Superior Proposal and subject to the applicable voting exclusions.	Section 4.5
What has the Independent Expert said?	The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to ParagonCare Shareholders.	Section 4.6
When will the Merger be completed?	Subject to all Conditions (which includes obtaining ParagonCare Shareholder approval of the Merger Resolutions) being satisfied or waived (if capable of waiver), Completion will occur on Tuesday, 4 June 2024.	Section 9.5(d)

¹⁰ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions) given his direct interest in these resolutions.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

Question	Answer	More information
Will ParagonCare remain listed on the ASX?	Yes, ParagonCare will remain listed on the ASX following completion of the Merger.	N/A
What are the conditions to the Merger?	Completion of the Merger is subject to the Conditions, which must be satisfied or waived (if capable of waiver). The Conditions are summarised in Sections 4.3 and 9.5, and set out in full in clause 3.1 of the SSA.	Sections 4.3 and 9.5
What is the rationale and what are the key benefits for the Merger?	<p>The ParagonCare Directors believe that the Merger will create a leading healthcare wholesaler, distributor and manufacturer operating across growing healthcare markets in the Asian region.</p> <p>The key benefits of the Merger include:</p> <ul style="list-style-type: none"> • expected combined estimated FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million for the Merged Group; • expected earnings accretion for ParagonCare Shareholders; • generation of expected annual synergies of more than \$5 million in FY25 and a total of approximately \$12 million per annum on a fully implemented basis from FY26; • a broad geographic reach for the Merged Group and both organic and acquisitive growth; • cross-selling opportunities across the ParagonCare and CH2 businesses; and • an experienced board and management in the growing healthcare market. 	Section 1.1
What are the potential disadvantages of the Merger?	<p>The potential disadvantages of the Merger include:</p> <ul style="list-style-type: none"> • the risk profile of ParagonCare will change, which you may consider to be disadvantageous to you relative to the risk profile of the current ParagonCare business; • your shareholding and Voting Power in ParagonCare will be diluted; • a more concentrated share register and potentially more limited liquidity, which 	Section 1.2

Question	Answer	More information
	<p>may impact the trading of ParagonCare Shares; and</p> <ul style="list-style-type: none"> • the CH2 Sellers' aggregate interest in ParagonCare being large enough to block a takeover bid or scheme of arrangement, as well as the ability of the CH2 Sellers to exert significant influence over ParagonCare Shareholder resolutions. 	
<p>What are the potential risks of the Merger?</p>	<p>If the Merger is implemented, ParagonCare Shareholders may be exposed to several risks including, but not limited to:</p> <ul style="list-style-type: none"> • risks specific to the Merger, including in relation to performance and integration of the CH2 Business; and • general risk factors that may affect the Merged Group, including in relation to: <ul style="list-style-type: none"> – regulatory, technology and cyber, financing, counterparty and personnel matters; – changes to competitive dynamics; – inventory management and product procurement; – occupational health and safety; – accounting standards, insurance and macroeconomic conditions; and – share price and share register. <p>If the Merger is not implemented, ParagonCare Shareholders will continue to be exposed to the existing risks they face as a result of their investment in ParagonCare.</p>	<p>Section 8</p>
<p>What will the composition of the ParagonCare Board be after the Merger completes?</p>	<p>If the Merger is implemented, the composition of the ParagonCare Board will be as follows:</p> <ol style="list-style-type: none"> 1 David Collins; 2 Carmen Riley; 3 Peter Lacaze; 4 John Walstab; 5 an independent director nominated by ParagonCare; and 6 an independent director nominated by the CH2 Sellers. 	<p>Section 7.4</p>

Question	Answer	More information
What happens if the Merger Resolutions are not approved?	<p>If all of the Merger Resolutions are not approved, unless waived by the parties, the relevant Condition will not be met and ParagonCare will not acquire the shares in CH2. Merger Resolution 1 cannot be waived.</p> <p>It is therefore important that ParagonCare Shareholders vote in favour of all Merger Resolutions for the Merger to be completed.</p>	Section 8.4
Can I vote in favour of some Merger Resolutions but not other Merger Resolutions?	<p>Yes, you can vote for or against (or abstain) on each resolution. However, if all of the Merger Resolutions are not approved, unless waived by the parties, the relevant Condition will not be met and the Merger will not proceed.</p> <p>If Merger Resolution 2 is approved, then even if the Merger does not proceed, John Walstab will still be issued the 26,000,000 Performance Rights on the terms set out in this Explanatory Memorandum.</p>	Section 4.4
Has an alternative proposal been received from a Third Party?	<p>Since the announcement of the Merger on 1 March 2024, no alternative proposal has emerged from a Third Party.</p>	N/A
What happens if a Competing Proposal is received?	<p>If a Competing Proposal is received, the ParagonCare Board will carefully consider it in accordance with its obligations under the SSA and its statutory and fiduciary duties.</p> <p>ParagonCare must notify the CH2 Sellers of a Competing Proposal in accordance with the SSA.</p> <p>ParagonCare has also agreed to certain exclusivity and break fee provisions in favour of the CH2 Sellers under the SSA.</p>	Section 9.5(h)
Has ParagonCare agreed to pay a break fee?	<p>Yes, ParagonCare has agreed to pay a break fee equal to \$1,520,048 to the CH2 Sellers upon the occurrence of specified events in accordance with the SSA.</p>	Section 9.5(i)
If I wish to support the Merger, what should I do?	<p>As a ParagonCare Shareholder, if you support the Merger, you should vote in favour of all Merger Resolutions at the Meeting.</p>	Section 3

Question	Answer	More information
	<p>The Notice of Meeting is included as Annexure 1 to this Explanatory Memorandum.</p>	
<p>When and where will the Meeting be held?</p>	<p>The Meeting will be held as an online meeting through an online meeting platform which will allow ParagonCare Shareholders to vote, ask questions and participate electronically in real-time.</p> <p>The Meeting will be held at 12.00pm (Melbourne time) on Monday, 3 June 2024.</p>	<p>Section 3.2</p>
<p>What are the Merger Resolutions?</p>	<p>ParagonCare Shareholders will be asked to consider and vote on the following resolutions at the Meeting:</p> <ol style="list-style-type: none"> 1 to approve the issue of the Consideration Shares to the CH2 Sellers as consideration for ParagonCare's acquisition of all of the issued share capital in CH2, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes; 2 to approve the issue of 26,000,000 Performance Rights to John Walstab in accordance with his employment agreement and for ASX Listing Rule and termination benefits approval purposes; 3 to approve the exercise of the ParagonCare Board's discretion under the ParagonCare Employee Incentive Plan to waive all vesting conditions attaching to the Performance Rights for ASX Listing Rule purposes, subject to Completion; 4 to appoint David Collins as a director of ParagonCare with effect from Completion; 5 to appoint Carmen Riley as a director of ParagonCare with effect from Completion; and 6 to appoint Peter Lacaze as a director of ParagonCare with effect from Completion. 	<p>Section 4.4</p>
<p>What if I cannot or do not wish to attend the Meeting?</p>	<p>If you cannot or do not wish to attend the Meeting, you may appoint a proxy, attorney, or representative to vote at the Meeting on your behalf.</p> <p>Full details on how these appointments may be made are contained in the Notice of Meeting, which was accompanied by the</p>	<p>Section 3.2, Annexure 1</p>

Question	Answer	More information
	<p>proxy form, sent to ParagonCare Shareholders together with this Explanatory Memorandum. A copy of the Notice of Meeting is included as Annexure 1.</p> <p>Proxy forms and powers of attorney can be lodged up until 12.00pm (Melbourne time) on Saturday, 1 June 2024, being 48 hours before the date of the Meeting by any of the methods set out in the Notice of Meeting. Proxy forms received later than this time will be invalid.</p>	
<p>Is voting compulsory at the Meeting?</p>	<p>Whilst voting is not compulsory, the ParagonCare Board believes that the Merger is important to all ParagonCare Shareholders and encourages you to exercise your right to vote after having read this Explanatory Memorandum.</p>	<p>N/A</p>
<p>What happens if I do not vote at the Meeting?</p>	<p>The Merger Resolutions require approval by an ordinary resolution (more than 50% of the votes cast).</p> <p>If you do not vote, and more than 50% of the votes cast are in favour of each Merger Resolution, the Merger Resolutions will be approved.</p> <p>If you do not vote, and one or more of the Merger Resolutions are not approved, unless the relevant Condition is waived by the parties, the Merger will not proceed.</p> <p>If Merger Resolution 2 is approved, the 26,000,000 Performance Rights will be issued to John Walstab in accordance with this employment agreement, even if the other Merger Resolutions are not approved.</p>	<p>Section 4.4</p>
<p>When will the results of the Meeting be known?</p>	<p>The results of the votes cast at the Meeting will be made publicly available during or shortly after the conclusion of the Meeting on Monday, 3 June 2024.</p> <p>The results will be released to the ASX and uploaded to ParagonCare's website once known.</p>	<p>N/A</p>
<p>What are the tax implications of the Merger for</p>	<p>There will be no tax implications for ParagonCare Shareholders upon Completion of the Merger as the Merger itself will not</p>	<p>N/A</p>

Question	Answer	More information
ParagonCare Shareholders?	<p>result in a change to their ParagonCare shareholdings for tax purposes.</p> <p>ParagonCare Shareholders should seek their own independent taxation advice in relation to the implications of continuing to own or disposing of ParagonCare Shares at any time.</p>	
What are my options in relation to the Merger?	<p>As a ParagonCare Shareholder, your options are to:</p> <ul style="list-style-type: none"> • follow the unanimous recommendation of the ParagonCare Directors and vote in favour of all Merger Resolutions at the Meeting on Monday, 3 June 2024; • vote against (or abstain from voting on) any or all of the Merger Resolutions at the Meeting; • sell your ParagonCare Shares; or • do nothing. 	N/A
What should I do now?	<ol style="list-style-type: none"> 1 Read this Explanatory Memorandum in full before making any decision on the Merger. 2 If necessary, seek independent legal, financial, tax or other professional advice, as this Explanatory Memorandum does not take into account the financial situation, investment objectives and particular needs of any individual ParagonCare Shareholder. 3 Determine how you wish to vote on the Merger Resolutions, or abstain from voting. 4 Vote at the Meeting. 	N/A
Further questions?	<p>If you have any other questions in relation to the Merger, please contact shareholders@paragoncare.com.au</p> <p>If you are in doubt as to the course you should follow, you should consult an independent and appropriately licensed and authorised professional adviser immediately.</p>	N/A

3 What should you do?

3.1 Step 1: Read this Explanatory Memorandum

This Explanatory Memorandum has been prepared for the information of ParagonCare Shareholders in relation to the business to be conducted at the Meeting and forms part of the Notice of Meeting.

The purpose of this Explanatory Memorandum is to provide ParagonCare Shareholders with all information known to ParagonCare which is material to a decision on how to vote on the Merger Resolutions set out in the accompanying Notice of Meeting. It explains the Merger Resolutions and identifies the ParagonCare Board's reasons for putting it to ParagonCare Shareholders.

You should carefully read this Explanatory Memorandum in its entirety before deciding whether to vote in favour of the Merger Resolutions.

If you have any questions, please contact shareholders@paragoncare.com.au.

If you are in any doubt as to what you should do, please consult your legal, financial, tax or other professional adviser without delay.

3.2 Step 2: Vote on the Merger

(a) Your vote is important

For the Merger to proceed, it is necessary that sufficient ParagonCare Shareholders vote in favour of all Merger Resolutions, unless the relevant Condition is waived by the parties.

The Meeting will be held online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg on Monday, 3 June 2024 at 12.00pm (Melbourne time).

(b) Who is entitled to vote?

If you are registered on the ParagonCare Share Register at 7.00pm (Melbourne time) on Saturday, 1 June 2024, you will be entitled to vote on the Merger Resolutions and attend the Meeting.

Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

If more than one joint holder of ParagonCare Shares is present at the Meeting (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the ParagonCare Share Register will be counted.

On a poll, ParagonCare Shareholders have one vote for every fully paid ordinary share held, subject to the applicable voting restrictions.

(c) How will the meeting be held?

The Meeting will be held as an online meeting, through an online meeting platform which will allow ParagonCare Shareholders to vote, ask questions in writing or verbally, hear the discussion and participate electronically in real-time. All ParagonCare Shareholders participating online will be deemed to be present at the Meeting. You may vote by participating in the Meeting in this way.

ParagonCare Shareholders can register in advance for the online Meeting:

https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg.

After registering, you will receive a confirmation email containing information about joining the Meeting. ParagonCare strongly recommends that ParagonCare Shareholders lodge a directed proxy as soon as possible in advance of the Meeting even if they are planning to attend the Meeting online. To lodge your proxy, please follow the directions on your personalised proxy form.

ParagonCare is happy to accept and answer questions submitted prior to the meeting by email to shareholders@paragoncare.com.au. ParagonCare will address relevant questions during the Meeting or by written response after the Meeting (subject to the discretion of ParagonCare not to respond to unreasonable and/or offensive questions).

You may vote:

- **by attending the Meeting online**, by visiting https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg on your smartphone, tablet or computer;
- **by proxy**, by lodging a proxy form online at www.linkmarketservices.com.au or by completing, signing and lodging a proxy form for the Meeting in accordance with the instructions set out on the form. To be valid, your proxy form must be received by the ParagonCare Share Registry by 12.00pm (Melbourne time) on Saturday, 1 June 2024 (being at least 48 hours before the time of the Meeting). Further instructions regarding lodging a proxy are set out in the Notice of Meeting;
- **by attorney**, by appointing an attorney to attend and vote at the Meeting on your behalf and providing a duly executed power of attorney to the ParagonCare Share Registry by 12.00pm (Melbourne time) on Saturday, 1 June 2024; or
- **by corporate representative**, in the case of a body corporate which is a ParagonCare Shareholder, by appointing a corporate representative to attend and vote at the Meeting on behalf of that ParagonCare Shareholder and providing a duly executed certificate of appointment (in accordance with section 250D of the Corporations Act) prior to admission to the Meeting. A corporate representative form may be obtained from <https://www.linkmarketservices.com.au/corporate/resources/forms.html>.

Further details on how to vote, including applicable voting exclusions, are contained in the Notice of Meeting set out in Annexure 1.

4 Overview

4.1 Overview of the Merger

On 29 February 2024, ParagonCare, the CH2 Sellers and the Covenantors entered into a share sale agreement in respect of the Merger. For a summary of the SSA, refer to Section 9.5. A full copy of the SSA can be obtained from the ASX website (www.asx.com.au).

Under the Merger, ParagonCare intends to acquire all of the issued share capital in CH2 from the CH2 Sellers, which will result in CH2 becoming a wholly-owned Subsidiary of ParagonCare. The CH2 Group Members will become part of the ParagonCare Group. The Merger is expected to create a leading healthcare wholesaler, distributor and manufacturer operating across Australia, New Zealand and Asia.

As consideration for the acquisition, ParagonCare will issue 943,524,072 ParagonCare Shares to the CH2 Sellers on Completion. This implies a purchase price of \$201,494,830 assuming a \$0.214 share issue price.¹¹ Following Completion, the CH2 Sellers will hold approximately 57% of the ParagonCare Shares on issue in aggregate on a fully diluted basis.

The Consideration Shares issued to the CH2 Sellers will be subject to a voluntary escrow period of 2 years following Completion. Under the terms of the escrow arrangements, the CH2 Sellers will be restricted from disposing of, granting security interests over or otherwise transferring effective ownership or control of the Consideration Shares issued to them, subject to certain exceptions. For further detail on the escrow arrangements, including a summary of the Escrow Deeds, refer to Section 9.6.

4.2 Rationale for the Merger

As a transformational merger of ParagonCare and CH2, the Merger aims to capitalise on and strengthen combined operational capabilities in growing healthcare markets.

There is a strong strategic rationale for the Merger, including:

- The creation of a leading healthcare wholesaler, distributor and manufacturer operating across growing healthcare markets in Australia, New Zealand and Asia.
- A drastic improvement in scale with combined estimated FY24 pro-forma revenues of \$3.3 billion and EBITDA of \$93 million.¹²
- The combined management team and board will have extensive experience, enabling them to capitalise on growth opportunities.
- Cross-selling opportunities across both businesses and as an independent supplier.
- Significant synergies have been identified across the combined business platform, resulting in expected synergies of over \$5 million in FY25 and a total

¹¹ Based on the 3-month volume weighted average price of ParagonCare shares up to, but not including, 29 February 2024.

¹² Based on 9 months of actual, and 3 months of forecast, revenue and EBITDA for ParagonCare and CH2 respectively. These pro-forma forecast financials include a normalisation adjustment for the full-year impact of the Osborne acquisition for CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

of approximately \$12 million per annum on a fully implemented basis from FY26.

- ParagonCare will cement itself as a combined first tier partner and supplier network across the Asia-Pacific region.
- The Merged Group aims to be a best-in-class logistics, technology and innovation healthcare solution provider.
- The formation of a robust financial and operational framework for both organic and acquisitive growth.
- An ideal blended business model with CH2's high-volume and ParagonCare's high-margin businesses.

4.3 Conditions to the Merger

Completion of the Merger is subject to the following Conditions:

- (a) **ASIC and ASX approval:** ASX being notified of the Merger under ASX Listing Rule 11.1 and both ASIC and ASX providing all relief, waivers, confirmations, exemptions, consents or approvals that are necessary or desirable (as reasonably agreed by ParagonCare and the CH2 Sellers) to implement the Merger;
- (b) **ParagonCare Shareholder approval:** ParagonCare Shareholders approving the Merger Resolutions, as described in Section 4.4;
- (c) **Official quotation:** ASX not indicating that it will not grant permission for the official quotation of the Consideration Shares (prior to the date on which all other Conditions are satisfied or waived);
- (d) **Consents in respect of the ParagonCare Group and the CH2 Group:** counterparties to certain material contracts with the ParagonCare Group or the CH2 Group (as applicable) provide their consent to the Merger, or if consent is not required, confirmation that they do not object to the Merger;
- (e) **Material adverse events:** there having been no ParagonCare Material Adverse Event or CH2 Material Adverse Event between the date of the SSA and Completion; and
- (f) **Rollover relief:** the CH2 Sellers obtaining a draft ruling from the ATO confirming that scrip-for-scrip rollover relief will be available under subdivision 124-M of the 1997 Act in respect of the Consideration Shares.

Completion will not occur unless all Conditions are satisfied or waived (if capable of waiver) in accordance with the SSA.

As at the date of this Explanatory Memorandum:

- the Condition regarding ASIC and ASX approval has been satisfied (refer to Section 9.3);
- the Condition regarding consents in respect of the CH2 Group has been satisfied; and
- no ParagonCare Director is aware of any circumstances which would cause any Condition to not be satisfied.

4.4 Merger Resolutions

As discussed in Section 4.3, Completion is conditional on ParagonCare Shareholders approving all Merger Resolutions. The Merger Resolutions must each be approved by an ordinary resolution, being more than 50% of the votes cast by ParagonCare Shareholders entitled to vote at the Meeting. The resolutions relate to the following matters:

- 1 approval of the issue of the Consideration Shares to the CH2 Sellers as consideration for ParagonCare's acquisition of all of the issued share capital in CH2, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes;
- 2 approval of the issue of 26,000,000 Performance Rights to John Walstab in accordance with this employment agreement;
- 3 approval of the exercise of the ParagonCare Board's discretion under the ParagonCare Employee Incentive Plan to waive all vesting conditions attaching to all Performance Rights, subject to Completion;
- 4 appointment of David Collins as a director of ParagonCare with effect from Completion;
- 5 appointment of Carmen Riley as a director of ParagonCare with effect from Completion; and
- 6 appointment of Peter Lacaze as a director of ParagonCare with effect from Completion.

The Merger Resolutions will be put to ParagonCare Shareholders at the Meeting to be held online at 12.00pm (Melbourne time) on Monday, 3 June 2024. The Notice of Meeting convening the Meeting, accompanied by the proxy form, has been sent to ParagonCare Shareholders with this Explanatory Memorandum. A copy of the Notice of Meeting, including the full text of each Merger Resolution and relevant voting exclusions, is included in Annexure 1.

(a) Merger Resolution 1: Item 7 Section 611 Resolution

Background

The issue of the Consideration Shares to the CH2 Sellers will result in each CH2 Seller having Voting Power of approximately 28.5% in ParagonCare.¹³ As discussed below, this would ordinarily contravene the '20% rule' under the Corporations Act. To avoid the Corporations Act being breached, the approval of ParagonCare Shareholders is required.

If Merger Resolution 1 is approved, all other Merger Resolutions are approved, and subject to the satisfaction or waiver of the other Conditions and satisfaction of other Completion deliverables, the Merger will proceed.

If Merger Resolution 1 is not approved, the Merger will not proceed. The relevant Condition cannot be waived in respect of Merger Resolution 1.

Section 606 prohibition

Section 606(1) of the Corporations Act provides that, unless a specific exemption applies, a person must not acquire a Relevant Interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to securities

¹³ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

entered into by or on behalf of the person and because of the transaction, that person's or someone else's Voting Power in the company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

Voting Power

Voting Power is determined in accordance with section 610 of the Corporations Act. The analysis considers the voting shares in the company that a person and its Associates have a Relevant Interest in as a proportion of all voting shares.

Relevant Interest

The meaning of a 'Relevant Interest' is determined in accordance with sections 608 and 609 of the Corporations Act. A person has a Relevant Interest in securities if they:

- are the holder of the securities;
- have power to exercise, or control the exercise of, a right to vote attached to the securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the Relevant Interest is or how it arises. If 2 or more people can jointly exercise one of these powers, each of them is taken to have that power. The Corporations Act also provides further deeming rules in determining a Relevant Interest.

Associates

A person (second person) is an 'Associate' of another person (first person) for the purposes of 'Voting Power' if:

- the first person is a body corporate and the second person is:
 - a body corporate the first person controls; or
 - a body corporate that controls the first person; or
 - a body corporate that is controlled by an entity that controls the first person;
- the second person is a person with whom the first person has, or proposes to enter into, a relevant agreement for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- the second person is a person with whom the first person is acting, or proposing to act, in concert in relation to the company's affairs.

Need for item 7 of section 611 approval

As discussed in Section 4.1, the CH2 Sellers will be issued with 943,524,072 ParagonCare Shares on Completion. This will result in the CH2 Sellers each having Voting Power of approximately 28.5% in ParagonCare.¹⁴ Each CH2 Seller is not considered to be an Associate of the other on and from Completion.

¹⁴ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

Item 7 of section 611 of the Corporations Act provides that acquisitions of Relevant Interests in a company's voting shares that are previously approved by a resolution passed at a general meeting of the company in which the acquisition is made are exempt from the prohibition in section 606 of the Corporations Act.

The approval of ParagonCare Shareholders for the purposes of item 7 of section 611 of the Corporations Act is therefore required to meet the exemption.

Item 7 of section 611 of the Corporations Act and RG 74 sets out the information required (or recommended) to be provided to ParagonCare Shareholders to obtain the Item 7 Section 611 Resolution. This information is set out below and throughout this Explanatory Memorandum. ParagonCare Shareholders are also referred to the Independent Expert's Report set out in Annexure 2.

Specific disclosures required under item 7 of section 611 of the Corporations Act and RG 74

The information set out below is required to be provided to ParagonCare Shareholders under the Corporations Act or is recommended to be provided to ParagonCare Shareholders under RG 74 in respect of the Item 7 Section 611 Resolution.

ParagonCare Shareholders should also refer to the Independent Expert's Report set out in Annexure 2.

(1) Identity of the person who will make the acquisition and their Associates

The CH2 Sellers will acquire the Consideration Shares.

As at the date of this Explanatory Memorandum, neither CH2 Seller nor their Associates have a Relevant Interest in ParagonCare Shares.

(2) The Voting Power and maximum extent of the increase in Voting Power as a result of the acquisition

On Completion, the CH2 Sellers will each acquire a Relevant Interest of 28.5% in ParagonCare Shares. Each CH2 Seller will have Voting Power of 28.5% in ParagonCare. Accordingly, each CH2 Seller's Voting Power (together with their respective Associates) will increase from 0% to a maximum of approximately 28.5% subject to, and with effect from, Completion.

This calculation assumes the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3. If either one or both of Merger Resolutions 2 and 3 are not approved such that the vesting and conversion do not occur, and the parties agree to waive the relevant Condition, the CH2 Sellers will hold approximately 59% of the shares in ParagonCare in aggregate on Completion.

(3) Explanation of the reasons for the proposed acquisition

Please refer to Section 1 which discusses the reasons to vote in favour of or against the Merger Resolutions, Section 4.1 which discusses the issue of Consideration Shares to the CH2 Sellers under the Merger and Section 4.2 which discusses the rationale for the Merger.

(4) When the proposed acquisition is to occur

Completion of the Merger, and the issue of the Consideration Shares to the CH2 Sellers, is expected to occur on Tuesday, 4 June 2024. This is subject to all Conditions being satisfied or waived. Please refer to the 'Key dates' Section for the proposed timetable.

(5) The material terms of the proposed acquisition

Please refer to Section 9.5 for a summary of the SSA, Section 9.6 for a summary of the Escrow Deeds and Section 9.7 for a summary of the Employment Agreement.

(6) Details of the terms of any other relevant agreement between the CH2 Sellers and ParagonCare (or their Associates) that is conditional on (or directly or indirectly depends on) shareholders' approval of the proposed acquisition

Please refer to Section 9.5 for a summary of the SSA, Section 9.6 for a summary of the Escrow Deeds and Section 9.7 for a summary of the Employment Agreement.

(7) Statement of the intentions regarding the future of ParagonCare

Please refer to Section 7.2 for the impact of the Merger on ParagonCare's capital structure.

Please refer to Section 7.3 for the impact of the Merger on ParagonCare, including in respect of the business, employees and financial and dividend policies.

No assets are intended to be transferred between ParagonCare and the CH2 Sellers or their Associates and no fixed assets of ParagonCare will be redeployed.

(8) Interests of ParagonCare Directors in the Merger or a relevant agreement between the CH2 Sellers and ParagonCare (or their Associates) that is conditional on (or directly or indirectly depends on) shareholders' approval of the proposed acquisition

Please refer to Section 9.1 for the Relevant Interests that ParagonCare Directors have in ParagonCare Shares and Performance Rights.

The ParagonCare Directors do not have any personal interest in the Merger or any agreement between the CH2 Sellers and ParagonCare (or either of their Associates) that is conditional on (or directly or indirectly depends on) the Item 7 Section 611 Resolution, other than:

- interests arising solely in their capacity as ParagonCare Shareholders;
- Mr Walstab's interests arising from the issue of Performance Rights and conversion of Performance Rights into ParagonCare Shares following the ParagonCare Board exercising its discretion to waive the vesting conditions under the ParagonCare Employee Incentive Plan; and
- interests arising as directors entitled to receive compensation for the provision of services to ParagonCare in that capacity.

(9) Details of proposed directors of ParagonCare

Please refer to Section 7.4 for the proposed composition of the ParagonCare Board if the Merger Resolutions are approved.

Recommendation and voting exclusion statement

Your ParagonCare Directors unanimously recommend that you vote in favour of Merger Resolution 1, in the absence of a Superior Proposal.¹⁵

A voting exclusion applies to Merger Resolution 1, which is set out in the Notice of Meeting in Annexure 1.

(b) Merger Resolution 2: issue of Performance Rights to John Walstab

Background

This Merger Resolution 2 seeks approval for 26,000,000 Performance Rights (**Unissued Performance Rights**) to be issued to Mr John Walstab (or his nominee) as part of his overall remuneration package as Managing Director and Chief Executive Officer on the terms below. The grant of Performance Rights is part of ParagonCare's remuneration strategy for executive ParagonCare Directors and employees. It aims to encourage employees to share in the ownership of ParagonCare and to promote the long term success of ParagonCare as a shared goal. Employees are motivated to achieve service and performance milestones, assisting in retention and aligning their reward with the successful growth of ParagonCare and the interests of ParagonCare Shareholders.

Mr Walstab, as Managing Director and Chief Executive Officer, is entitled to be issued the Unissued Performance Rights under the terms of his employment agreement dated 1 October 2023 (**Employment Agreement**).

If Merger Resolution 2 is approved, the Unissued Performance Rights will be issued to Mr Walstab. This is so even if the Merger does not proceed. Further, if all other Merger Resolutions are approved, the relevant Condition will be satisfied. Subject to the satisfaction or waiver of the other Conditions and satisfaction of other Completion deliverables, the Merger will proceed. In this case, the Unissued Performance Rights will immediately convert into ParagonCare Shares within a period specified by the ParagonCare Board.

If Merger Resolution 2 is not approved, the Unissued Performance Rights will not be issued to Mr Walstab and unless the relevant Condition is waived by the parties, the Merger will not proceed. If this occurs, the ParagonCare Board will further consider the treatment of the Unissued Performance Rights and subsequently seek ParagonCare Shareholder approval.

Terms of Unissued Performance Rights

If the Merger does not proceed but Merger Resolution 2 is approved, the following terms will apply to the issue of Unissued Performance Rights.

The issue of the Unissued Performance Rights to Mr Walstab is subject to the ParagonCare Employee Incentive Plan and the Employment Agreement. In the event of any inconsistency, the terms of the Employment Agreement will prevail.

The Unissued Performance Rights issued to Mr Walstab are currently subject to the below vesting conditions upon issue. If the Merger does not proceed but Merger Resolution 2 is approved, these terms will apply to the issue of Unissued Performance Rights. If the conditions are not achieved in the year of entitlement but are subsequently achieved by 31 May 2027, the relevant number of Performance Rights will vest within a period specified by the ParagonCare Board.

¹⁵ The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

Year	Condition	Number of Performance Rights vested
Within the first year	ParagonCare share price exceeds \$0.30	2,000,000
	ParagonCare share price exceeds \$0.40	5,000,000
Within the second year	ParagonCare share price exceeds \$0.50	2,000,000
	ParagonCare share price exceeds \$0.60	5,000,000
Within the third year	ParagonCare share price exceeds \$0.50	2,000,000
	ParagonCare share price exceeds \$0.70	5,000,000
	ParagonCare share price exceeds \$0.80	5,000,000
Total		26,000,000

All issued but unvested Performance Rights will also automatically vest if a 'change of control' occurs, as defined in the ParagonCare Employee Incentive Plan rules. As discussed in Section 4.4(c), a 'change of control' under the ParagonCare Employee Incentive Plan rules is not strictly triggered by the Merger.

In addition, the ParagonCare Board has an absolute discretion under the ParagonCare Employee Incentive Plan rules to waive the applicable vesting conditions (unless otherwise excluded by the terms of the offer).

For further details of ParagonCare's equity incentive arrangements, including on the ParagonCare Employee Incentive Plan, refer to Section 9.2, ParagonCare's annual report for the year ended 30 June 2023 and half year report for the half year ended 31 December 2023 which can be obtained from the ASX website (www.asx.com.au).

ASX Listing Rule 10.14

ASX Listing Rule 10.14 provides that a listed company must not permit:

- a director;
- an associate of the director; or
- a person whose relationship with the company or the preceding persons is such that the acquisition should be approved by shareholders (in ASX's opinion),

to acquire equity securities under an employee incentive scheme without the approval of ordinary shareholders.

The issue of the Unissued Performance Rights to Mr Walstab is captured by ASX Listing Rule 10.14 as Mr Walstab is a ParagonCare Director. The Performance Rights are also 'equity securities' for the purposes of the ASX Listing Rules. The issue therefore requires the approval of ParagonCare Shareholders under ASX Listing Rule 10.14.

ASX Listing Rule 10.15 requires that the following information is provided to ParagonCare Shareholders for the purpose of obtaining approval under ASX Listing Rule 10.14:

- (1) the relevant party is Mr Walstab;
- (2) Mr Walstab is a director of ParagonCare and falls under ASX Listing Rule 10.14.1;
- (3) it is proposed that Mr Walstab is issued with 26,000,000 Performance Rights. The Performance Rights are convertible into a maximum of 26,000,000 ParagonCare Shares subject to the satisfaction of vesting conditions or exercise of the ParagonCare Board's discretion under the ParagonCare Employee Incentive Plan;
- (4) details of Mr Walstab's current total remuneration package are as follows:

Fixed remuneration	Fixed remuneration package of \$555,000 composed of base salary and superannuation contributions (\$527,600 base salary and maximum base employer superannuation contributions as prescribed by law).
Short term incentive	Potential short term cash incentive of a maximum of 40% of the fixed remuneration package. Key performance indicators and incentives determined by the ParagonCare Board.
Long term incentive	Grant of 26,000,000 Performance Rights as discussed above.

- (5) Mr Walstab currently holds 129,992,627 ParagonCare Shares and 2,594,409 Performance Rights;
- (6) the total number of securities previously issued to Mr Walstab under the ParagonCare Employee Incentive Plan is 2,594,409 Performance Rights. There was no acquisition price payable;
- (7) the material terms of the ParagonCare Employee Incentive Plan rules and Performance Rights are summarised in Sections 9.2(b) and 9.2(c). The terms of the Employment Agreement were summarised in the ASX announcement dated 18 September 2023;
- (8) the Performance Rights are offered as an incentive and reward, and so that a significant proportion of total remuneration is 'at risk' remuneration. This aims to motivate executives and senior employees to achieve service and performance milestones, assisting in retention and aligning their reward with the successful growth of ParagonCare and the interests of ParagonCare Shareholders;
- (9) the total value ParagonCare attributes to the Unissued Performance Rights will be calculated each year based on a 14-day volume weighted average price during the vesting year. Subject to the satisfaction of the vesting conditions described above, Mr Walstab will

- receive one ParagonCare Share for each Performance Right exercised;
- (10) ParagonCare expects to issue the Unissued Performance Rights shortly after the date of the Meeting, and in any event, no later than 3 years after the date of the Meeting;
 - (11) the Unissued Performance Rights will be granted to Mr Walstab at a nil issue price;
 - (12) no loan will be made by ParagonCare to Mr Walstab in relation to the issue of the Unissued Performance Rights;
 - (13) details of any Performance Rights or securities issued under the ParagonCare Employee Incentive Plan will be published in each annual report of ParagonCare relating to a period in which the Performance Rights have been issued in addition to a statement that approval for the issue was obtained under ASX Listing Rule 10.14;
 - (14) any additional persons referred to in ASX Listing Rule 10.14 who become entitled to participate in the ParagonCare Employee Incentive Plan after this Merger Resolution 2 is approved and who were not named in the Notice of Meeting and Explanatory Memorandum will not participate until approval is obtained under ASX Listing Rule 10.14; and
 - (15) a voting exclusion statement is included in the Notice of Meeting.

Termination benefits approval

Under section 200B of the Corporations Act, a company must not give a person a benefit in connection with a person's retirement from an office or position of employment in the company or a related body corporate if:

- the office or position is a managerial or executive office; or
- the person held a managerial or executive office in the 3 years prior to their retirement,

unless member approval under section 200E of the Corporations Act is obtained for giving the benefit.

An exception may also apply where, for example, the benefit does not exceed limits in the Corporations Act.

Mr Walstab holds such an office.

A 'benefit' for these purposes has a wide operation and could include automatic or accelerated vesting of Performance Rights, or exercising a discretion to permit a person to maintain a benefit they would not otherwise have retained following retirement from an office or position of employment.

Accordingly, ParagonCare Shareholder approval is also sought under section 200E of the Corporations Act to allow for the ParagonCare Board to determine to accelerate vesting of some or all of Mr Walstab's unvested Performance Rights.

If ParagonCare Shareholder approval is obtained for this Merger Resolution 2, the value of the approved benefits will be disregarded when calculating Mr Walstab's termination benefits cap for the purpose of subsection 200F(2)(b) or subsection 200G(1)(c) of the Corporations Act.

Section 200E of the Corporations Act requires that, in seeking this approval, ParagonCare Shareholders be provided with the value of any benefit relating to the

Performance Rights given in connection with Mr Walstab ceasing to hold managerial or executive office or other information if this value cannot be ascertained. This value cannot presently be ascertained. However, matters, events and circumstances that will, or are likely to, affect the calculation of the value are:

- the number of Performance Rights held by Mr Walstab prior to cessation of employment;
- the date when, and circumstances in which, Mr Walstab ceases employment;
- the result of pro rating (if any) on cessation of employment;
- any other factors that the ParagonCare Board determines to be relevant when exercising its discretions;
- whether performance hurdles are waived or (if not waived) met, and the number of Performance Rights that vest (which could be all of the Performance Rights held by Mr Walstab); and
- the market price of ParagonCare Shares on ASX on the date ParagonCare Shares (or cash equivalent payment) are provided to Mr Walstab upon vesting of the Performance Rights.

Related party benefits

Chapter 2E of the Corporations Act requires that, for a public company to give a financial benefit to a related party of the public company, the public company must:

- obtain the approval of the public company's shareholders in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

The issue of the Unissued Performance Rights to Mr Walstab constitutes giving a financial benefit as Mr Walstab is a related party of ParagonCare for the purposes of the Corporations Act due to being a ParagonCare Director.

The ParagonCare Directors, other than Mr Walstab in respect of Merger Resolution 2, have determined that the proposed issue of the Unissued Performance Rights to Mr Walstab would be reasonable remuneration having regard to the circumstances of ParagonCare and Mr Walstab's position, duties and responsibilities. The reasonable remuneration exception in section 211 of the Corporations Act is therefore applicable. As such, the issue of the Unissued Performance Rights to Mr Walstab does not require the approval of ParagonCare Shareholders for the purposes of Chapter 2E of the Corporations Act.

Recommendation and voting exclusion statement

Your ParagonCare Directors unanimously recommend that you vote in favour of Merger Resolution 2, in the absence of a Superior Proposal.¹⁶

A voting exclusion applies to Merger Resolution 2, which is set out in the Notice of Meeting in Annexure 1.

¹⁶ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) given his direct interest in this resolution.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

(c) Merger Resolution 3: approval of waiver of Performance Rights vesting conditions

Background

The ParagonCare Employee Incentive Plan is discussed in Sections 4.4(b) and 9.2. Under the terms of the Performance Rights, Performance Rights are taken to automatically vest in the event of a 'change of control' (as defined in the ParagonCare Employee Incentive Plan rules). A 'change of control' is where:

- any person together with their Associates acquires a Relevant Interest in more than 50% of the issued shares in ParagonCare (when they did not previously hold such a Relevant Interest); or
- the ParagonCare Board concludes that there has been a change in the 'control' of ParagonCare, where 'control' is defined under section 50AA of the Corporations Act.

The Merger will not result in this definition being strictly satisfied. While the CH2 Sellers will each hold a Relevant Interest in approximately 28.5% of ParagonCare Shares post-Completion on a fully diluted basis, they will not be Associates and their interests cannot be aggregated. Accordingly, no person will hold a Relevant Interest of more than 50% in ParagonCare Shares. Further, there is no change in 'control' as defined in section 50AA of the Corporations Act as no person has the capacity to determine the outcome of decisions about ParagonCare's financial and operating policies post-Completion.

Despite the definition of a 'change of control' under the ParagonCare Employee Incentive Plan not being met, the ParagonCare Board has the ability to waive the applicable vesting conditions at its absolute discretion such that any unvested Performance Rights vest. This discretion is separate to any treatment of vesting on the occurrence of a 'change of control'.

The ParagonCare Board intends to exercise its discretion under the ParagonCare Employee Incentive Plan to waive all vesting conditions for all Performance Rights on issue, subject to Completion. This will result in all Performance Rights then converting into ParagonCare Shares, subject to Completion occurring.

Merger Resolution 3 is conditional on Merger Resolution 2 being approved.

If Merger Resolution 3 is approved, the vesting conditions for all 43,913,138 Performance Rights then on issue will be waived and the Performance Rights will convert into ParagonCare Shares. The total number of ParagonCare Shares on issue will increase. Further, if all other Merger Resolutions are approved, the Condition will be satisfied. Subject to the satisfaction or waiver of the other Conditions and satisfaction of other Completion deliverables, the Merger will proceed.

If Merger Resolutions 2 and 3 are passed and the Merger completes, John Walstab will hold a maximum Relevant Interest (on a fully diluted basis) of approximately 9.6% in ParagonCare Shares.

If Merger Resolution 3 is not approved, the 43,913,138 Performance Rights will not convert into ParagonCare Shares and unless the relevant Condition is waived by the parties, the Merger will not proceed. If this occurs, the ParagonCare Board will further consider the treatment of the Performance Rights and subsequently seek ParagonCare Shareholder approval.

ASX Listing Rule 6.23.3

ASX Listing Rule 6.23.3 provides that a change which has the effect of reducing the exercise price, increasing the period for exercise or increasing the number of securities received on exercise of an option cannot be made. ASX considers that the exercise of a

general discretion to waive a performance hurdle or milestone is generally an increase in the period for exercising an option. ASX also considers that performance rights are 'options' for the purposes of ASX Listing Rule 6.23.

While this is prohibited, ASX may provide a waiver from ASX Listing Rule 6.23.3, conditional on approval by securityholders.

Given the proposed treatment of the Performance Rights discussed above and the need for the ParagonCare Board to exercise a general discretion under the ParagonCare Employee Incentive Plan in light of the narrow 'change of control' definition, ParagonCare requires:

- a waiver from ASX Listing Rule 6.23.3; and
- the approval of ParagonCare Shareholders under ASX Listing Rule 6.23.4.

The waiver application is discussed further in Section 9.3(b)(2).

Related party benefits

Chapter 2E of the Corporations Act is discussed in Section 4.4(b).

The waiver of the vesting conditions attaching to the Performance Rights may constitute giving a financial benefit to Mr Walstab. Mr Walstab is a related party of ParagonCare for the purposes of the Corporations Act due to being a ParagonCare Director.

The ParagonCare Directors, other than Mr Walstab in respect of Merger Resolution 3, have determined that the proposed waiver of the vesting conditions attaching to the Performance Rights would be reasonable remuneration having regard to the circumstances of ParagonCare and Mr Walstab's position, duties and responsibilities. The reasonable remuneration exception in section 211 of the Corporations Act is therefore applicable. As such, the waiver of the vesting conditions attaching to the Performance Rights does not require the approval of ParagonCare Shareholders for the purposes of Chapter 2E of the Corporations Act.

Recommendation and voting exclusion statement

Your ParagonCare Directors unanimously recommend that you vote in favour of Merger Resolution 3, in the absence of a Superior Proposal.¹⁷

A voting exclusion applies to Merger Resolution 3, which is set out in the Notice of Meeting in Annexure 1.

(d) Merger Resolutions 4 – 6: director appointments

The purpose of Merger Resolutions 4 to 6 (inclusive) is to approve the director appointments as agreed under the SSA (other than the independent directors). Clause 3.4 of ParagonCare's constitution provides that ParagonCare may appoint directors by ordinary resolution at a general meeting. The appointments will be subject to, and with effect from, Completion.

The post-Completion ParagonCare Board includes CH2 and ParagonCare representatives.

Profiles of the proposed directors are set out in Section 7.4.

¹⁷ John Walstab makes no recommendation in respect of Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions) given his direct interest in this resolution.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

If Merger Resolutions 4 – 6 are approved, the proposed directors will be appointed to the ParagonCare Board. Further, if all other Merger Resolutions are approved, the Condition will be satisfied. Subject to the satisfaction or waiver of the other Conditions and satisfaction of other Completion deliverables, the Merger will proceed.

If Merger Resolutions 4 – 6 are not approved, the proposed directors will not be appointed and unless the relevant Condition is waived by the parties, the Merger will not proceed.

Recommendation

Your ParagonCare Directors unanimously recommend that you vote in favour of Merger Resolutions 4 – 6, in the absence of a Superior Proposal.¹⁸

4.5 Recommendation of the ParagonCare Directors

The ParagonCare Directors unanimously recommend that you vote in favour of all Merger Resolutions, in the absence of a Superior Proposal.¹⁹ The ParagonCare Directors have based their recommendation on:

- the reasons ParagonCare Shareholders should vote in favour of the Merger Resolutions (Section 1.1);
- the reasons ParagonCare Shareholders may consider voting against the Merger Resolutions (Section 1.2);
- the risks of the Merger (Section 8); and
- the Independent Expert's Report (Annexure 2).

Each ParagonCare Director also intends to vote any ParagonCare Shares they hold or control in favour of the Merger Resolutions, in the absence of a Superior Proposal and subject to the applicable voting exclusions. As at 26 April 2024, this comprises 20.61% of the ParagonCare Shares on issue in aggregate.

The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.²⁰

¹⁸ The interests of ParagonCare Directors in ParagonCare Shares and Performance Rights, and in the Merger, are disclosed in Section 9.1 of this Explanatory Memorandum. ParagonCare Shareholders should have regard to these interests when considering the ParagonCare Directors' unanimous recommendation in respect of the Merger.

¹⁹ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions) given his direct interest in these resolutions.

²⁰ Subject to the relevant Merger Resolutions being approved by ParagonCare Shareholders:

- John Walstab will be entitled to be granted 26,000,000 Performance Rights in accordance with his employment agreement; and
- John Walstab will be entitled to receive 28,594,409 ParagonCare Shares through the early vesting, and subsequent conversion, of Performance Rights held in connection with the Merger.

Further detail on the interests of ParagonCare Directors and the treatment of Performance Rights in connection with the Merger is set out in Sections 4.4(b), 4.4(c), 9.1 and 9.2.

4.6 Independent Expert's conclusion

The ParagonCare Board appointed SW to provide an Independent Expert's Report on the merits of the Merger.

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger is fair and reasonable to ParagonCare Shareholders.

In reaching this conclusion, the Independent Expert has assessed the fair market value of a ParagonCare Share post-Completion (on a minority basis) to be in the range of \$0.29 to \$0.39. This is compared to the fair market value of a ParagonCare Share pre-Completion (on a control basis) of between \$0.30 to \$0.36.

The Independent Expert has also considered the advantages, disadvantages and other factors relating to the Merger, including:

- operational diversification and an increase in scale;
- potential synergies;
- combined expertise and skills of the boards and management teams;
- change in significant shareholdings;
- dilution of ParagonCare Shareholders;
- the reduced likelihood of future control transactions;
- the implied premium over the ParagonCare Share trading price;
- the Merged Group's pro forma financials; and
- the ParagonCare Share price in the absence of the Merger.

A copy of the Independent Expert's Report is set out in full in Annexure 2.

The ParagonCare Board considers that, despite these arrangements and interests, it is important and appropriate for Mr Walstab to make a recommendation to ParagonCare Shareholders in respect of the Merger Resolutions (except in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions)). This is due to (a) the importance of the Merger and Mr Walstab's role as Managing Director and Chief Executive Officer; (b) Mr Walstab's knowledge of ParagonCare, its operations and the industry in which it operates; and (c) ParagonCare Shareholders would likely want to know Mr Walstab's recommendations in respect of the Merger Resolutions.

Mr Walstab also considers that, despite these arrangements and interests, it is appropriate for him to make a recommendation in respect of the Merger Resolutions for the reasons above (except in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions)).

5 Information about ParagonCare

5.1 Introduction

ParagonCare is a supplier of medical equipment, medical devices and consumable medical products to customers in the health, aged care and veterinary markets. ParagonCare also provides equipment repair, maintenance and management services. The ParagonCare Business was established in 2008.

ParagonCare strives to deliver world-class technology and support across all healthcare sectors. Our vision is to provide advanced solutions to improve patient experience and user workflow.

5.2 Business overview

ParagonCare operates its business across four strategic pillars as follows:

Description
Capital and consumables

- The capital and consumable business sources clinically innovative capital equipment and consumable products and solutions for customers.
- Products and services provided to medical, surgical and veterinary segments of the healthcare sector.

Devices

- The devices business focuses on eye care and orthopaedics.
- The eye care division provides devices and equipment for optometry and ophthalmic surgery. The orthopaedic focus is on innovative hip and knee prosthetic solutions and pain management.

Diagnostic and scientific

- The diagnostic and scientific business provides clinically advanced solutions and distributes products to immunohematology, clinical pathology, diagnostic and scientific laboratories.
 - The Immulab manufacturing business deals in reagent red cell products which are used by blood banks to ensure a compatible blood transfusion for patients.
-

Description

Service and technology

- The service and technology business provides support services and technology management for medical equipment and systems. This is mainly comprised of the Quantum Healthcare business which has been integrated into ParagonCare.

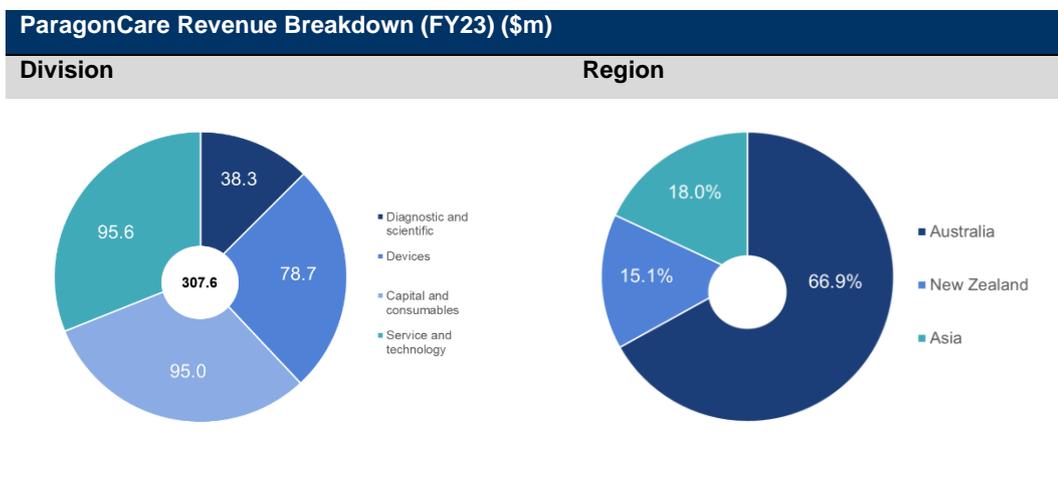
Customers of ParagonCare include public and private hospitals, laboratories, government agencies, research agencies, universities and other participants in the healthcare sector.

ParagonCare has operations in Australia, New Zealand and Asia. In addition to the eight countries it currently operates in, ParagonCare is targeting further expansion into Singapore, Malaysia and Indonesia.

ParagonCare has approximately 625 employees across the following locations:

- Australia: 384 employees;
- New Zealand: 61 employees; and
- Asia: 180 employees.

A breakdown of revenue by strategic pillar and geographical split is shown below.²¹



5.3 ParagonCare Board and senior management

(a) ParagonCare Board

The ParagonCare Board comprises the following directors as at the date of this Explanatory Memorandum:

²¹ Revenue by division only includes continuing operations. Revenue by regional split includes revenue for both continuing and discontinued operations.

Name	Position
Shane Tanner	Non-Executive Chairman
Alan McCarthy	Non-Executive Director
Geoffrey Sam OAM	Non-Executive Director
Brent Stewart	Non-Executive Director
John Walstab	Chief Executive Officer and Managing Director

(b) ParagonCare senior management

ParagonCare's senior management comprises the following members as at the date of this Explanatory Memorandum:

Name	Position
John Walstab	Chief Executive Officer and Managing Director
Michael Peters	Chief Financial Officer

5.4 Historical financial information

(a) Basis of preparation

This Section 5.4 sets out a summary of historical financial information in relation to ParagonCare for the purpose of this Explanatory Memorandum. The financial information has been derived from ParagonCare's financial statements for the financial years ended 30 June 2023 and 30 June 2022.

The historical financial information of ParagonCare is presented in an abbreviated form and does not contain all the disclosures, presentation, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. ParagonCare considers that for the purposes of this Explanatory Memorandum the historical financial information presented in an abbreviated form is more meaningful to ParagonCare Shareholders.

Further detail on ParagonCare's financial performance can be found in:

- the financial statements for the year ended 30 June 2023 (included in the Annual Report released to the ASX on 30 August 2023); and
- the financial statements for the year ended 30 June 2022 (included in the Annual Report released to the ASX on 25 August 2022),

each of which can be found in the ParagonCare's website (<https://paragoncare.com.au/investor-centre>) or the ASX website (www.asx.com.au).

(b) Historical consolidated income statement

Year ended 30 June (\$m)	FY22	FY23
Sales revenue	237.6	307.6
Cost of goods sold	(138.6)	(181.3)
Gross profit	99.0	126.3

Year ended 30 June (\$m)	FY22	FY23
Other income	2.8	3.4
Interest revenue calculated using the effective interest method	0.1	0.4
Expenses		
Employee benefits expense	(53.6)	(64.0)
Depreciation and amortisation expense	(7.9)	(10.3)
Distribution expenses	(6.6)	(7.7)
Marketing expenses	(1.8)	(3.5)
Occupancy expenses	(1.6)	(2.2)
Other expenses	(9.9)	(14.0)
Share-based payments expense	-	(0.4)
Finance costs	(6.1)	(7.0)
Profit before other items from continuing operations	14.3	21.1
Other items		
Share-based payments expense - sign on bonus	(0.9)	-
Acquisition costs	(3.0)	(0.2)
Obsolete inventory write-off	(3.5)	(0.8)
Fair value gain on derivative liability	3.0	0.7
Other (write-offs)/write-back - net	-	0.1
Profit/(loss) before income tax	9.9	20.9
Income tax expense	(3.3)	(5.2)
Profit after income tax expense from continuing operations	6.6	15.7
Profit/(loss) after income tax (expense)/benefit from discontinued operations	0.3	(2.1)
Profit after income tax (expense)/benefit for the year	6.9	13.6
Other comprehensive income for the year, net of income tax attributable to owners of the Company	0.1	0.2
Total comprehensive (loss)/income for the year is attributable to:	7.0	13.7
Non-controlling interest	0.5	2.8
Continuing operations attributable to shareholders of Paragon Care Limited	6.2	13.0
Discontinued operations attributable to shareholders of Paragon Care Limited	0.3	(2.1)
Total comprehensive (loss)/income for the year	7.0	13.7

(c) **Historical consolidated statement of financial position**

As at 30 June (\$m)	FY22	FY23
Assets		
Cash and cash equivalents	46.2	22.6
Trade and other receivables	42.9	39.4
Inventories	51.5	63.7
Other assets	9.2	5.0
Financial derivative asset	1.1	1.9
Total current assets	150.8	132.6
Deferred tax assets	8.6	9.7
Plant and equipment	10.2	25.3
Right-of-use Assets	20.3	19.6
Intangible assets	248.2	259.1
Investment properties	0.3	2.2
Total non-current assets	287.6	315.9
Total assets	438.4	448.5
Liabilities		
Trade and other payables	28.3	40.7
Borrowings	22.8	17.4
Lease liability	3.5	4.3
Income tax payable	0.5	4.8
Employee benefits	6.6	6.3
Vendor Conditional Payables	1.4	1.6
Other liabilities	26.0	18.4
Total current liabilities	89.0	93.6
Borrowings	73.5	68.9
Lease liability	31.6	31.5
Employee benefits	0.8	0.9
Vendor conditional payables	1.4	1.7
Total non-current liabilities	107.3	103.0
Total liabilities	196.3	196.6
Net assets	242.1	252.0
Equity		
Issued capital	228.7	232.3
Profit reserve	7.2	10.6
Non-controlling interest	6.3	9.1
Total equity	242.1	252.0

(d) Historical consolidated statement of cash flows

Year ended 30 June (\$m)	FY22	FY23
Cash flows from operating activities		
Cash receipts from customers	289.0	331.2
Cash paid to suppliers and employees	(263.9)	(307.5)
Other income	0.0	3.0
Interest received	0.0	0.4
Interest and other finance costs paid	(5.5)	(7.0)
Income taxes paid	(0.6)	(2.3)
Net cash, (used in)/generated from operating activities	19.0	17.8
Cash flows from investing activities		
Investment purchase of business	11.7	(11.0)
Acquisition of plant and equipment	(3.1)	(20.8)
Acquisition of intangible assets	(1.5)	(0.3)
Proceeds from release of security deposits	-	0.3
Net cash used in investing activities	7.1	(31.8)
Cash flow from financing activities		
Proceeds from issue of shares	0.0	0.4
Share issue transaction costs	(0.5)	0.0
Proceeds/Repayment of borrowings (net)	(7.9)	(10.0)
Repayment of lease liabilities	(3.5)	(5.7)
Proceeds from lease incentives	0.0	13.2
Dividend paid	0.0	(7.9)
Net cash generated from/(used in) financing activities	(11.9)	(10.0)
Net (decrease)/increase in cash and cash equivalents	14.2	(24.0)
Cash and cash equivalents at beginning of the period	33.2	46.2
Effects of exchange rate changes on cash and cash equivalents	(1.2)	0.4
Cash and cash equivalents as at 30 June	46.2	22.6

5.5 Capital structure

As at the date of this Explanatory Memorandum, the capital structure of ParagonCare is:

Type of security	Number on issue
ParagonCare Shares	667,868,179

Performance Rights granted under the ParagonCare Employee Incentive Plan 17,913,138²²

Additional details about ParagonCare’s equity incentive plan are set out in Section 9.2.

As at the date of this Explanatory Memorandum, neither CH2 Seller nor their Associates hold any ParagonCare Shares.

5.6 Substantial holders in ParagonCare Shares

As extracted from filings released on the ASX on or before the date of this Explanatory Memorandum, the following persons were substantial holders of ParagonCare Shares:

Substantial holder	Number of ParagonCare Shares	Voting Power in ParagonCare
John Walstab	129,992,627	19.46%
Pioneer Hong Kong Group	53,297,068	7.98%

²² Together with the 26,000,000 Performance Rights proposed to be issued to John Walstab, this equates to 43,913,138 Performance Rights.

6 Information about CH2

This Section 6 has been prepared by CH2. The information concerning CH2 and the intentions, views and opinions contained in this Section 6 are the responsibility of CH2. ParagonCare and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

6.1 Business overview

(a) Principal activities of CH2

CH2 is a national integrated healthcare distributor providing pharmaceutical, nutritional, medical consumables, and complementary medicines Australia-wide.

CH2 sources 50,000+ products from 700+ suppliers for over 10,000 customer accounts across eight distinct business units: hospital pharmacy, retail pharmacy, aged care and community, primary care, private label, hospital medical, complementary medicines, and contract logistics. It services these customers through its 681 team members spread across a network of 11 temperature-controlled warehouses throughout Australia, as well as specialised shared services in both Australia and Manila.

(b) Ownership of CH2

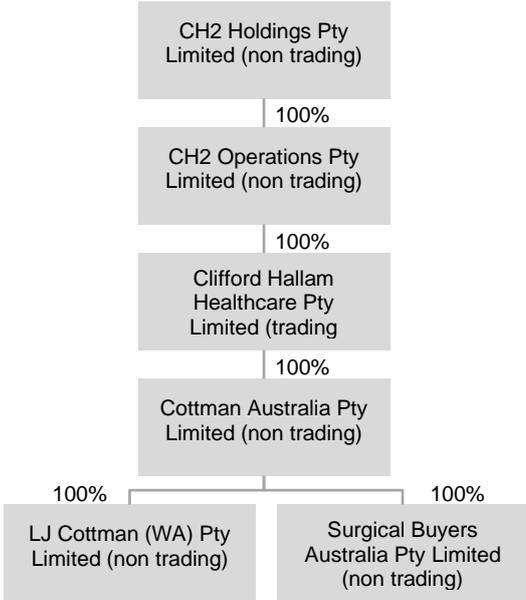
As at the date of this Explanatory Memorandum, the shareholders of CH2 are:

- Peter Lacaze and Diane Lacaze as trustees for the Lacaze Family Trust; and
- David Collins and Cherie Millar as trustees for the Collins Millar Family Trust.

Each shareholder owns 50% of CH2.

(c) Corporate Structure

CH2's corporate group structure as at the date of this Explanatory Memorandum is as follows:



(d) History of CH2

Years	Acquisition / operational development
Pre-2015	<ul style="list-style-type: none">• API-ABN AMRO JV forms CH2 by combining Hospital Supplies Australia & Clifford Hallam Pharmaceuticals• Allegro Funds acquires 45% stake from ABN AMRO• CH2 acquires Intouch Direct to provide direct-to-door solutions to those in-home care
2015 - 2016	<ul style="list-style-type: none">• David Collins and Peter Lacaze complete management buyout. Together they own 100% of CH2• CH2 acquires TCS to expand the growing private label business• Expanded Sydney and Newcastle distribution centres
2017-2018	<ul style="list-style-type: none">• CH2 appointed as community service obligation (CSO) distributor for Australian community pharmacies• CH2 becomes full line wholesaler to community pharmacies• CH2 launches 123 Strategy, 1 team, \$2bn, 3 years (123 Strategy)• CH2 moves to custom built facility in Keysborough, Victoria• IT platform moved to the cloud and outsourced to a secure data warehouse facility
2019-2020	<ul style="list-style-type: none">• CH2 divests Animal Health business to focus on human health• Realigns business focus on pharmaceuticals & supply streams, and aligning customer base to greater focus and service• CH2 opens the Townsville site to service North Queensland• Signed exclusive agreement with global provider in 2020 to drive growth in CH2's private label business• New site opened in Perth
2021-Now	<ul style="list-style-type: none">• Completion of Advanced Warehouse Management System upgrades in Brisbane, Melbourne, Sydney and Perth• CH2 achieves phase 1 of 123 Strategy, with \$2bn in annual revenue• Launch of Vantage Buying Group• Expansion of private label range• CH2 acquires Sigma Healthcare Limited's hospital pharmacy division, adding scale to the CH2 hospital pharmacy business• CH2 launches phase 2 of the 123 Strategy• CH2 starts warehouse automation journey with new Adelaide site – scheduled for May 2024 completion• CH2 acquires Osborne Health Supplies (Osborne)

(e) Strategy

CH2's strategy is to be the leading diversified distributor in the healthcare industry. CH2 aims to achieve this by providing tailored solutions, leveraging its comprehensive range of products, and offering quality service and competitive pricing to its customers. CH2's independent offering, together with providing customer and supplier value, is key to achieving core long term targets.

CH2's specific focus areas include:

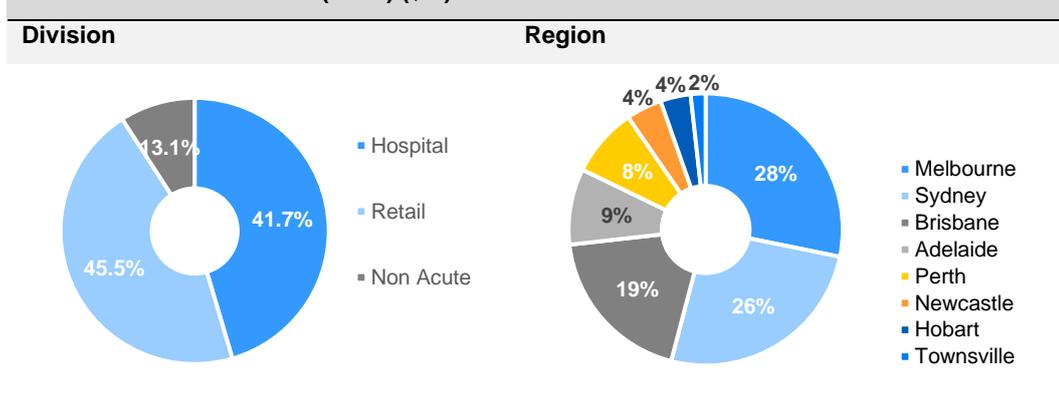
- **Low cost to serve:** CH2 operates an integrated shared service model to support its business streams, enabling a lower cost to service. This value is then passed on to customers.
- **Independent offer:** CH2 ensures that its customers have a trusted business partner that offers wholesale services without bolt-on businesses that compete with their customer base.
- **Supplier relationships:** CH2 strives to maintain high stock availability within inventory targets. This ensures that customers have access to the products they need in a timely manner, and provides suppliers with streamlined solutions in accessing the complex customer base of the healthcare market.
- **On-time delivery:** CH2 places importance on delivering products to their customers on time, ensuring reliability and customer satisfaction.
- **Value added services including real-time data and insights:** CH2 aims to fully leverage data to optimise all aspects of the business. By using real-time data and insights, CH2 makes informed decisions, improves operational efficiency and provides direct feedback to customers to enhance their decision making.
- **Contract logistics offering:** CH2 provides a specialised contract logistics offering to healthcare manufacturers. The integrated service model provides direct access to a broad national customer base without the need for suppliers to transition through a pre-wholesale distributor, resulting in instant cost benefits.

(f) Key segments and customers

Division	Description	Market size	Illustrative Customers
Hospital pharmacy	CH2 Hospital has a long history of providing innovative service offerings, such as WardBox® and Vendor Managed Inventory (VMI), continually evolving and strengthening their service offerings to meet the needs of Australian hospitals. Today, CH2 provides services to more than 700 hospitals daily across Australia.	\$6.3bn	Public & private hospitals, non-for-profit hospitals, retail hospital pharmacy who service public and private hospitals.
Retail pharmacy	CH2 is a national independent full line CSO wholesaler that services community pharmacies. Its extensive pharmaceutical range covers dispensary, over-the-counter, and front-of-shop products.	\$17.8bn	3,500 + active retail pharmacy accounts.
Aged care and community	CH2's suite of services caters to the specific needs of aged care facilities, community nurses, and individuals at home.	\$0.75bn	Corporate aged care providers, non-for-profit providers, community clients being serviced in their homes.
Primary care	CH2 services the broad primary care sector, including medical centres, radiology, dental, day surgeries, allied health, universities and research labs – through its diverse and extensive product range and logistics network.	\$0.4bn	Corporate GP practices, independent GP sites, day surgeries, radiology, and dental providers.

Division	Description	Market size	Illustrative Customers
Private label	CH2 offer private label solutions through its baremedical range of frequently use medical and surgical products. The baremedical portfolio comprises a large range of gloves, incontinence products, patient care products, protective apparel, wipes, and wound care. CH2 also partners through exclusive agency arrangements to enhance its high quality, low-cost offer of alternative brands to the market.	\$5.0bn	Public & private hospitals, aged care & community, primary care, and retail pharmacy customers.
Hospital medical	CH2 is committed to providing a comprehensive consumable range either through VMI services or direct distribution on hospital tenders, ensuring the best value.	\$5.0bn	Public & private hospitals, and non-for-profit hospitals.
Complementary medicines	CH2's acquisition of Osborne has allowed it to accelerate its entry into complementary medicines and leverage the highly experienced team at Osborne to expand its natural health customer base, and overlap the range of over 10,000 products to CH2's existing customers.	\$1.0bn	Prescribing naturopaths, health food stores, retail pharmacy, and GPs.
Contract logistics	CH2 provides comprehensive warehousing, quality systems and customer service solutions. They offer a range of customer-focused third party logistics and fourth party logistics solutions, providing direct access to CH2's customers.	\$3.4bn	Pharmaceutical, medical consumable and medical device manufacturers servicing wholesalers and direct to public & private hospitals, retail pharmacy, and the non-acute healthcare market.

CH2 Revenue Breakdown (FY23) (\$m)



(g) Competitive landscape

CH2 competes in several different markets within pharmaceuticals, medical consumables and complementary medicines. Each market has its own distinct characteristics,

concentrations and set of competitors. CH2 views its key markets as pharmacy wholesaling, institutional healthcare, aged care & community, primary care, contract logistics and complementary medicines. The table below sets out the key competitors in its markets:

Segment	Key Competitors
Pharmacy wholesaling (hospital and retail pharmacy)	<ul style="list-style-type: none"> • Symbion/EBOS • Sigma • API/Wesfarmers Health
Institutional healthcare	<ul style="list-style-type: none"> • EBOS • Medline • Manufacturers supplying direct
Aged care & community	<ul style="list-style-type: none"> • EBOS • Bunzl
Primary care	<ul style="list-style-type: none"> • EBOS • Team Medical
Contract logistics	<ul style="list-style-type: none"> • DHL • Linfox • HCL/EBOS
Complementary medicines	<ul style="list-style-type: none"> • Manufacturers supplying direct • Go Vita • Vital.ly • Unique Health Products • Renner Health

(h) Growth drivers

CH2 focuses on organic growth and continuous diversification that enhances the customer and supplier value proposition. CH2 has scoped the New Zealand market and sees this as a natural expansion to complement the Australian business. CH2 already has suppliers and customers that access both markets. The Asian market will follow the same strategy. Given the proximity and the population size, expanding into this market with established supplier relationships will enable a broad reach and bolster CH2's customer base. In pursuit of its goals, CH2 will continue a strategy expansion policy and pursue acquisitions of medical consumables, devices and equipment distributors to diversify and enhance its product lineup.

As part of its comprehensive strategy, CH2 remains committed to its low cost base to ensure it remains strong on pricing competitiveness within the market. CH2 is committed to its strategic supplier partnerships and aims to expand its private label offerings, thereby offering strong brands and exclusive products tailored to meet customer needs.

CH2 is positioning itself to become the foremost independent wholesaler across the healthcare sector by delivering tailored solutions and an extensive product range at the most cost-effective price.

6.2 CH2 Board and senior management

(a) CH2 Board

Name	Position	Profile
David Collins	Group Managing Director	David Collins has been involved in the healthcare industry for more than 20 years, with experience across multiple wholesalers in Australia and New Zealand. David is a trustee of one of the CH2 Sellers, Collins Millar Family Trust, which has been an investor in CH2 since 2006, and since taking over as Managing Director in late 2015 has led CH2 to pivot into a more diversified leading independent wholesaler. His depth of knowledge, particularly in M&A and finance, has enabled his vision at CH2 in transforming the business.
Carmen Riley	Executive Director	Carmen Riley has been with CH2 for over 12 years and has a proven track record in business transformation. As an experienced executive in the healthcare industry, Carmen has experience in all facets of business including supply chain, operations, sales and finance. Engaging with teams throughout the business and ensuring customer expectations are met every day has been pivotal to the success of CH2. As a director of CH2, Carmen is also a graduate of the Australian Institute of Company Directors and a Certified Practising Accountant.
Peter Lacaze	Non-Executive Chairman	<p>Peter Lacaze is the Chairman of CH2 (since December 2015). Peter has been involved in CH2 since he joined as an executive in 2006 (until 2008). Peter is a trustee of one of the CH2 Sellers, Lacaze Family Trust, which became a shareholder in CH2 in 2006.</p> <p>As a renowned Australian business leader, Peter has experience across a multitude of industries with particular emphasis on healthcare and travel.</p> <p>Peter brings a dynamic and practical approach with a long-term lens on driving business performance. Peter is a member of the Australian Institute of Company Directors.</p>

(b) CH2 senior management

Name	Position	Profile
David Collins	Chief Executive Officer	Please refer to Section 6.2(a) above.
Carmen Riley	Chief Operating Officer	Please refer to Section 6.2(a) above.

6.3 Historical financial information

(a) Basis of preparation

This Section 6.3 sets out a summary of historical financial information in relation to CH2 for the purpose of this Explanatory Memorandum. The financial information has been derived from CH2's financial statements for the financial years ended 30 June 2023 and 30 June 2022.

The historical financial information of CH2 is presented in an abbreviated form and does not contain all the disclosures, presentation, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. CH2 considers that for the purposes of this Explanatory Memorandum the historical financial information presented in an abbreviated form is more meaningful to ParagonCare Shareholders.

(b) Historical consolidated income statement

Year ended 30 June (\$m)	FY22	FY23
Sales revenue	1,708.2	2,187.4
Cost of goods sold	(1,597.3)	(2,055.6)
Gross profit	110.9	131.8
Warehousing and distribution expenses	(27.8)	(32.6)
Administration and general expenses	(65.0)	(70.1)
Results from operating activities	18.1	29.1
Financial income	0.3	0.2
Financial expenses	(7.5)	(10.9)
Net financing costs	(7.2)	(10.7)
Profit/(loss) before tax	10.9	18.4
Income tax benefit/(expense)	(3.3)	(5.6)
Profit/(loss) for the year attributable to owners of the Company	7.6	12.8
Other comprehensive income for the year, net of income tax attributable to owners of the Company	-	-
Total comprehensive income/(loss) for the year	7.6	12.8

(c) Historical consolidated statement of financial position

As at 30 June (\$m)	FY22	FY23
Assets		
Cash and cash equivalents	1.1	1.0
Trade and other receivables ²³	170.4	209.9
Inventories	157.6	215.6
Other assets	1.6	1.8

²³ The 'Trade and other receivables' balance is typical for a high volume pharmaceutical and medical consumable wholesale/distribution business such as CH2. CH2 also claims back rebates from suppliers relating to contract sales on tender where CH2 sells below cost, and then claims back the difference in the sales price and the original cost, plus a distribution fee. This is a standard practice in the hospital sector and for pharmaceutical generic manufacturers in the retail pharmacy sector.

As at 30 June (\$m)	FY22	FY23
Loans receivable	1.8	-
Total current assets	332.5	428.3
Deferred tax assets	0.5	-
Plant and equipment	7.9	9.4
Right-of-use Assets	28.7	26.4
Intangible assets	23.3	25.1
Other assets	-	3.0
Total non-current assets	60.4	64.0
Total assets	392.9	492.3
Liabilities		
Trade and other payables	282.1	374.0
Interest-bearing loans and borrowings	62.6	64.4
Lease liability	6.7	7.3
Income tax payable	-	0.1
Employee benefits	4.7	5.0
Total current liabilities	356.0	450.7
Lease liability	24.0	21.5
Employee benefits	0.3	0.2
Deferred tax liabilities	-	1.0
Total non-current liabilities	24.3	22.7
Total liabilities	380.3	473.4
Net assets	12.6	18.9
Equity		
Issued capital	50.9	50.9
Profit reserve	7.2	13.9
Accumulated loss	(45.5)	(45.9)
Total equity	12.6	18.9

(d) Historical consolidated statement of cash flows

Year ended 30 June (\$m)	FY22	FY23
Cash flows from operating activities		
Cash receipts from customers	1,876.7	2,389.4
Cash paid to suppliers and employees	(1,861.4)	(2,352.2)
Cash generated from operations	15.4	37.1
Interest paid	(6.6)	(9.8)
Income taxes paid	(0.8)	(3.9)
Interest paid on lease liabilities	(0.9)	(1.1)

Year ended 30 June (\$m)	FY22	FY23
Net cash, (used in)/generated from operating activities	7.1	22.4
Cash flows from investing activities		
Investment	-	(3.0)
Acquisition of plant and equipment	(1.3)	(4.4)
Acquisition of intangible assets	(2.9)	(5.4)
Net cash used in investing activities	(4.2)	(12.7)
Cash flow from financing activities		
Dividend paid	(1.0)	(4.5)
Proceeds of secured loan borrowings	1,904.6	2,629.7
Repayment of secured loan borrowings	(1,899.2)	(2,627.9)
Payment of principal portion of lease liabilities	(6.8)	(7.0)
Net cash generated from/(used in) financing activities	(2.4)	(9.7)
Net (decrease)/increase in cash and cash equivalents	0.4	(0.1)
Cash and cash equivalents at beginning of the period	0.6	1.1
Cash and cash equivalents as at 30 June	1.1	1.0

7 Impact of the Merger

7.1 Financial impact of the Merger

(a) Key metrics

30 June 2024 (\$m)	ParagonCare	CH2	Merged Group
Revenue	328	2,974	3,302
EBITDA	39.1	53.7	92.8
EBIT	29.0	40.2	69.2
Normalised NPAT	13.7	16.8	30.5
Number of Shares	711,781,317	943,524,072 ²⁴	1,655,305,389
Ownership	43% ²⁵	57% ²⁶	100%

(b) Potential synergies and value creation

Overview

The announcement of the Merger on 1 March 2024 and the investor presentation regarding the Merger on 5 March 2024 disclosed that ParagonCare and CH2 had identified expected synergies and cost efficiencies of more than \$5 million per annum resulting from implementation of the Merger.

Since that time, ParagonCare and CH2 have undertaken a more detailed review of costs and synergy opportunities, and as a result of that review, ParagonCare and CH2 have identified further synergies and value creation opportunities,

The overall synergies and cost efficiencies resulting from implementation of the Merger are expected to deliver aggregate annual savings of approximately \$12 million per annum from FY26. This amount comprises approximately:

- \$6.2 million of cost savings related to network optimisation and shared services, headcount reduction and site closures;
- \$1.8 million of interest cost savings; and
- \$4 million of synergies relating to CH2's acquisition of Osborne Health Supplies, specifically in cost reduction.

These synergies represent ongoing efficiencies net of one-off costs in FY25 and FY26. They are expected to be realised progressively and to be fully implemented by the financial year ending 30 June 2026. Arising from the same factors, approximately \$5 million in annual synergies are expected to be implemented by FY25, which will form part of the total of approximately \$12 million of annual synergies expected to be implemented from FY26.

²⁴ Represents the number of Consideration Shares issued to the CH2 Sellers.

²⁵ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

²⁶ Represents the percentage of the post-Completion share capital in ParagonCare held by the CH2 Sellers, assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

Key areas of synergies

Key areas of the Merged Group where these synergies are expected to be achieved are set out in the table below.

Synergy	Description	Impact in FY25	Impact from FY26
Network optimisation and shared services, headcount and site closures	<ul style="list-style-type: none"> 27 distribution centres with 74,424m² of capacity – reduction in locations Rationalisation of logistics across Australia Utilisation of cross functional resources Insurance cost savings Headcount reduction (duplicate roles, head office management, warehouse staff and back office) ParagonCare is upgrading its Mount Waverly facility to expand its Immulab offering²⁷ CH2 plans to implement automation across its Adelaide, Melbourne, Brisbane and Sydney warehouses²⁸ 	~\$1.2 million	~\$6.2 million per annum
Mutual cross-selling	<ul style="list-style-type: none"> ParagonCare products and services can be cross-sold to CH2 customers and vice versa Combined infrastructure would enable ParagonCare to expand CH2's business offering into New Zealand and Asia Expanded access to global manufacturers / suppliers Improved utilisation of management, logistics, sales and marketing teams 	Impact to be quantified post-Completion	Impact to be quantified post-Completion
Interest cost savings	<ul style="list-style-type: none"> CH2 has, on average, \$20 million surplus cash at the end of each month CH2 uses its cash daily to reduce outstanding debt. CH2's net debt peaks at month-end and the first week of each month, then typically decreases down to zero by the 25th day of the month. As a result, for one week each month, CH2 operates debt-free, historically having a surplus of cash ranging from \$5 million to \$50 million in this week. This surplus monthly cash can be used to offset ParagonCare's debt and save on interest costs Stronger balance sheet metrics enable better bargaining for rates and terms 	~\$1.8 million	~\$1.8 million per annum
Osborne	<ul style="list-style-type: none"> Headcount reduction IT platform integration Insurance cost reductions 	~\$2 million	~\$4 million per annum
Total annual synergies (on a fully implemented basis)		~\$5 million	~\$12 million

²⁷ The upgraded GMP-accredited site is intended to be utilised by CH2 for 4PL relabelling, repacking services, and undertaking custom procedure packs which complements the CH2 Business, thereby enhancing capabilities and creating efficiencies for the Merged Group's operations.

²⁸ The implementation of automation is expected to enhance efficiency and increase throughput for CH2 warehouses. The Merger will further amplify these benefits, optimizing warehouse processes and capability.

Cost of attainment of synergies

ParagonCare and CH2 estimate that the implementation of the potential synergies would give rise to one-off costs of approximately \$6 million, anticipated to be incurred in the first two years following implementation of the Merger.

This estimate includes provisions for severance costs, costs associated with site closures, and consultant and team costs necessary to complete the synergy attainment work.

7.2 Effect on capital structure

ParagonCare will issue 943,524,072 ParagonCare Shares to the CH2 Sellers on Completion. The total number of ParagonCare Shares on issue will increase to 1,655,305,388 post-Completion.²⁹

The Relevant Interest, and Voting Power, of existing ParagonCare Shareholders will be reduced as a result of the issue of the Consideration Shares to the CH2 Sellers.

The table below illustrates the impact of the Merger on ParagonCare's capital structure.

ParagonCare Shareholder	ParagonCare Shares pre-Completion	Percentage	ParagonCare Shares post-Completion	Percentage
ParagonCare Shareholders excluding CH2 Sellers and Associates	667,868,179	100%	711,781,317 ³⁰	43% ³¹
CH2 Sellers and Associates	0	0%	943,524,072	57% ³²
Total	667,868,179	100%	1,655,305,389	100%

If Merger Resolutions 2 and 3 are passed and the Merger completes, John Walstab will hold a maximum Relevant Interest (on a fully diluted basis) of approximately 9.6% in ParagonCare Shares.

²⁹ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

³⁰ Includes the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares, subject to approval of Merger Resolutions 2 and 3.

³¹ Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

³² Assuming the issue of 26,000,000 Performance Rights to John Walstab and the vesting and conversion of 43,913,138 Performance Rights into ParagonCare Shares in accordance with Merger Resolutions 2 and 3.

Based on the expected combined financial position of the Merged Group, ParagonCare has no current intention to raise capital to fund the current ordinary course operations of the Merged Group.³³

Aside from the subscription for the Consideration Shares as discussed above, the CH2 Sellers do not intend to inject any further capital into ParagonCare.

7.3 Strategy and operations impact

(a) Overview

The Merged Group's operational focus includes expanding into new markets, mutual cross-selling of products, optimising shared services network and pursuing inorganic growth opportunities.

The proposed changes to the ParagonCare Board and the management team are outlined in Sections 7.4 and 7.5, respectively. They bring significant industry experience across the distribution of medical equipment, medical devices, medical consumables, complementary medicines and pharmaceuticals.

The geographic distribution of over 1,300 employees will be reassessed post-Completion, and cost savings will be pursued through a detailed functional review.

No assets are intended to be transferred between ParagonCare and the CH2 Sellers or their Associates and no fixed assets of ParagonCare will be redeployed.

(b) Operations

(1) Expansion into new markets

The Merged Group's operations will be enhanced by expanding into new markets. ParagonCare's existing infrastructure will be leveraged to enable CH2 to enter New Zealand and Asian markets. These are natural expansions to complement CH2's Australian business. CH2 has already established relationships with suppliers and customers in Australia and New Zealand, and it aims to replicate this strategy in the Asian market. The Merged Group will also be able to expand ParagonCare's operations further into Asia with a focus on organic and inorganic growth in Singaporean, Malaysian and Indonesian markets. Along with direct operations, The Merged Group will expand their international support teams from primarily the Philippines to throughout Asia.

(2) Mutual cross-selling of products

With complementary product ranges spanning pharmaceuticals, medical devices, medical consumables, complementary medicines and healthcare capital equipment sectors, the Merged Group can offer a broader and more diverse range of products to customers. Both businesses plan to expand their customer base and increase sales by cross-selling products and services to each other's customers.

(3) Optimisation of shared services network

By consolidating resources and optimising operations, the Merged Group aims to achieve significant cost savings. The Merged Group aims to drive cost synergies through procurement, network optimisation and head office reduction. This is expected to lower costs and potentially enable a more competitive pricing strategy.

(4) Inorganic growth opportunities

³³ Excluding any issues of securities as part of ParagonCare's and CH2's employee incentive arrangements.

The increased scale and expanded market presence of the Merged Group position it well to pursue strategic acquisitions. The Merged Group will pursue acquisitions of medical consumables, devices and equipment distributors to diversify and enhance its product lineup.

(5) Other

Notwithstanding the above, post-Completion, the Merged Group intends to undertake a thorough assessment of ParagonCare and CH2's existing operations to identify further operational initiatives that could enhance the combined businesses.

(c) Employees

(1) Board and management:

The post-Completion ParagonCare Board brings significant industry experience across the distribution of medical equipment, medical devices, medical consumables, complementary medicines and pharmaceuticals.

The ParagonCare Board will be constituted as outlined in Section 7.4.

Senior management will be comprised of six c-suite and divisional heads as outlined in Section 7.5.

(2) Geographic distribution:

The Merged Group is estimated to have over 1,300 employees split across Australia, Asia and New Zealand. The current employee split is over 1,100 in Australia, over 215 in Asia and over 60 in New Zealand. Post-Completion, the Merged Group will determine the optimal geographic distribution of employees.

(3) Cost savings:

The Merged Group intends (under a newly constituted board) to undertake a detailed functional review post-Completion to confirm the employee requirements of the Merged Group and to explore potential savings on labour to achieve cost synergies.

As part that review and by reason of the consolidation and integration of the respective businesses of ParagonCare and CH2, a number of positions in the Merged Group may be made redundant, resulting in a reduction of headcount and associated costs. The extent and timing of any such redundancies will depend on the employee requirements of the Merged Group and cannot be specifically defined at this stage. Where employees are made redundant, the relevant employees will receive benefits in accordance with their contractual and other legal entitlements.

(d) Financial and dividend policy

The dividend policy of the Merged Group post-Completion will be determined by the ParagonCare Board once a review has been completed on future investment opportunities in the second half of the 2024 calendar year.

7.4 ParagonCare Board composition

Name	Position	Profile
David Collins	Group Managing Director	<p data-bbox="719 371 1114 405">Please refer to Section 6.2(a) above.</p> <p data-bbox="719 416 1273 477">Directorships in other entities outside of the Merged Group: Nil</p> <p data-bbox="719 488 1326 763">David Collins has an interest in the Merger and the SSA as he is a trustee of a CH2 Seller. Each CH2 Seller will have a Relevant Interest of approximately 28.5% in ParagonCare Shares on Completion on a fully diluted basis. If either one or both of Merger Resolutions 2 and 3 are not approved such that the vesting and conversion do not occur, and the parties agree to waive the relevant Condition, David will have a Relevant Interest of approximately 29.5% in ParagonCare Shares on Completion.</p> <p data-bbox="719 775 1305 864">ParagonCare has conducted appropriate checks into David's background and experience, and those checks have not revealed any information of concern.</p> <p data-bbox="719 875 1310 987">The ParagonCare Board supports the election of David due to his experience in the healthcare industry, strong record of driving business performance and knowledge of CH2.</p>
Carmen Riley	Chief Operating Officer/Executive Director	<p data-bbox="719 1021 1114 1055">Please refer to Section 6.2(a) above.</p> <p data-bbox="719 1066 1273 1126">Directorships in other entities outside of the Merged Group: Nil</p> <p data-bbox="719 1137 1326 1227">Carmen Riley has no association with the CH2 Sellers or their Associates. Carmen holds 200,000 ParagonCare Shares as at 26 April 2024.</p> <p data-bbox="719 1238 1294 1328">ParagonCare has conducted appropriate checks into Carmen's background and experience, and those checks have not revealed any information of concern.</p> <p data-bbox="719 1339 1310 1451">The ParagonCare Board supports the election of Carmen due to her experience in the healthcare industry, strong record of driving business performance and knowledge of CH2.</p>
Peter Lacaze	Chairman	<p data-bbox="719 1480 1114 1514">Please refer to Section 6.2(a) above.</p> <p data-bbox="719 1525 1273 1585">Directorships in other entities outside of the Merged Group: Aero Travel Solutions Pty Limited</p> <p data-bbox="719 1597 1326 1872">Peter Lacaze has an interest in the Merger and the SSA as he is a trustee of a CH2 Seller. Each CH2 Seller will have a Relevant Interest of approximately 28.5% in ParagonCare Shares on Completion on a fully diluted basis. If either one or both of Merger Resolutions 2 and 3 are not approved such that the vesting and conversion do not occur, and the parties agree to waive the relevant Condition, Peter will have a Relevant Interest of approximately 29.5% in ParagonCare Shares on Completion.</p> <p data-bbox="719 1883 1305 1973">ParagonCare has conducted appropriate checks into Peter's background and experience, and those checks have not revealed any information of concern.</p>

Name	Position	Profile
		The ParagonCare Board supports the election of Peter due to his experience in the healthcare industry, strong record of driving business performance and knowledge of CH2.
John Walstab	Executive director	<p>John Walstab is the current CEO and Managing Director of ParagonCare. With a passion for cutting-edge healthcare technology and innovation, he has 40 years of experience in medical equipment distribution and manufacturing in Australia, New Zealand and Asia.</p> <p>John was the founder of Quantum Healthcare in 1998 (formerly InSight Oceania) before it merged with Quantum Health Group Limited (ASX:QTM) in 2010. His previous roles include serving as the Managing Director of Advanced Technology Laboratories (Philips Medical Systems ANZ).</p> <p>John is also a member of the Australian Institute of Company Directors and serves on various boards of private hospitals and healthcare businesses.</p>
Independent Director 1	Independent director	ParagonCare will nominate an independent director to be appointed by the ParagonCare Board subject to, and with effect from or after, Completion. The independent director has not yet been selected.
Independent Director 2	Independent director	The CH2 Sellers will nominate an independent director to be appointed by the ParagonCare Board subject to, and with effect from or after, Completion. The independent director has not yet been selected.

7.5 Senior management

Name	Position	Profile
David Collins	Chief Executive Officer	Please refer to Section 6.2(a) above.
Carmen Riley	Chief Operating Officer	Please refer to Section 6.2(a) above.
Michael Peters	Chief Financial Officer	<p>Michael has over 30 years' experience in Australian and international accounting and finance. He has previously held roles at professional services firms EY and PwC.</p> <p>He has also held senior roles in banking, wealth management and M&A, including Head of Corporate Finance at Commonwealth Bank of Australia and Head of M&A and Lending at ANZ's Global Wealth division.</p> <p>Further, Michael established a start up accounting and wealth management firm and built up to over sixty staff in three states, before selling the business to a listed funds management entity.</p>

Name	Position	Profile
		Michael has held two CFO roles for ASX listed companies.
John Walstab	Executive director	Please refer to Section 7.4 above.
James Khoshaba	Chief Information Officer	<p>James is a transformational leader with a unique blend of experience in building high-performing teams across business and IT, ultimately enhancing business performance.</p> <p>He exhibits a proven track record as a successful IT executive in global corporations, leading multiple technology teams to create IT strategies that are aligned with business goals. His leadership has driven transformational changes, enabling business growth and reducing operational costs.</p> <p>Furthermore, James has spearheaded large business teams, delivering strategic initiatives that drive efficiencies and build scalable operations for future growth.</p>
Marnie Morton	Chief People Officer	<p>Marnie brings over 25 years global and ANZ generalist HR experience, gained across multiple regulated industries including pharmaceuticals, manufacturing, distribution, professional services and utilities.</p> <p>Marnie's experience spans global growth into new and expanded markets, M&A and delivering outstanding culture and engagement initiatives that drive results and growth.</p> <p>She holds a Masters qualified in Human Resources, Marnie blends both a strategic and operational focus to create engaging, innovative and high performing workplaces and people strategies, enabling leadership excellence and high levels of business performance.</p>

7.6 Pro forma Merged Group financial information and forecasts

(a) Pro forma consolidated statement of financial position

As at 31 December 2023 (\$m)	ParagonCare	CH2	Merged Group
Assets			
Cash	28.4	1.2	29.6
Receivables	39.6	279.4	319.0
Inventories	63.2	226.6	289.8
Property, Plant & Equipment (incl ROU)	64.9	39.9	104.8
Intangibles	260.1	34.8	196.2

As at 31 December 2023 (\$m)	ParagonCare	CH2	Merged Group
Other assets	22.1	7.5	29.6
Total assets	478.3	589.4	969.0
Liabilities			
Trade and other payables	39.3	422.4	461.7
Current borrowings	26.9	0.0	26.9
Other current liabilities	40.5	11.6	52.1
Total current liabilities	106.7	434.0	540.7
Non-current borrowings	87.5	105.9	193.4
Other non-current liabilities	33.1	27.2	60.3
Total non-current liabilities	120.6	133.1	253.7
Total liabilities	227.3	567.1	794.4
Net assets	251.0	22.3	174.6
Equity			
Issued capital	233.6	50.9	203.2
Reserves	17.4	(28.6)	(28.6)
Total equity	251.0	22.3	174.6

The financial information in this Section has been derived from:

- ParagonCare's audited financial statements for the financial year ended 30 June 2023 and reviewed financial statements for the half year ended 31 December 2023; and
- CH2's audited financial statements for the financial year ended 30 June 2023 and management accounts for the half year ended 31 December 2023.

Adjustments

- Total equity will decrease as a result of the elimination of pre-acquisition issued capital in ParagonCare and upon issuing new ParagonCare Shares to fund the acquisition.
- Issued capital on consolidation will decrease to \$203.2 million due to the share issue to the CH2 Sellers under the Merger. The proposed transaction involves the issue of 943,524,072 ParagonCare Shares, assuming a \$0.214 share issue price, as noted above. Upon the issue of the Consideration Shares on Completion, the ParagonCare Share price at Completion will be applied to determine the issued capital consideration.
- Intangibles on consolidation will decrease to \$196.2 million as a result of the Merger. This is expected to be revised on Completion based on the ParagonCare Share price at Completion.
- Pre-acquisition reserves of ParagonCare of \$17.4 million will be eliminated.
- The consolidated pro forma net asset amount is less than the sum of the individual ParagonCare and CH2 net asset numbers due to the elimination of ParagonCare goodwill/ intangibles on acquisition.

(b) Pro forma consolidated income statement

Year ended 31 December 2023 (\$m)	ParagonCare	CH2	Merged Group
Sales revenue	317	2,574.6	2,891.6
Cost of goods sold	(184.2)	(2,425.1)	(2,609.3)
Gross profit	132.8	149.5	282.3
Employee benefits expense	(64.9)	(55.4)	(120.3)
Warehousing and distribution expense	(7.6)	(37.0)	(44.6)
Administration and general expense	(22.5)	(11.1)	(33.6)
Total operating expenses	(95.0)	(103.5)	(198.5)
Normalised EBITDA	37.8	46.0	83.8
Depreciation and amortisation	(10.2)	(13.0)	(23.1)
Normalised EBIT	27.6	33.0	60.7
Net interest expense	(8.0)	(11.9)	(19.9)
Normalised net profit before tax	19.6	21.1	40.7
Income tax benefit (expense)	(4.6)	(6.9)	(11.5)
Normalised net profit after tax	15.0	14.2	29.2

The financial information in this Section has been derived from:

- ParagonCare's audited financial statements for the financial year ended 30 June 2023 and reviewed financial statements for the half year ended 31 December 2023; and
- CH2's audited financial statements for the financial year ended 30 June 2023 and management accounts for the half year ended 31 December 2023.

There are no pro-forma adjustments for the Merged Group. Combined financials exclude annual synergies, transaction costs and restructuring costs.

Normalisations for ParagonCare for the year ended 31 December 2023 are:

- **Fair value loss on derivative liability (\$0.2 million):** This relates to ParagonCare's interest rate swaps.
- **Share based payments (CEO and Managing Director sign on and exit) (\$0.8 million):** These relate to exit payments made to Mark Hooper as the outgoing CEO and Managing Director, and sign-on payments made to John Walstab as the current CEO and Managing Director (appointed 1 October 2023).
- **Business restructure costs (\$2.1 million):** These relate to redundancy and restructure costs following the merger of ParagonCare and Quantum Health Group Limited in February 2022 and other general headcount reduction costs.
- **Other minor normalisations (\$0.5 million):** These include obsolete inventory write-offs.

(c) **Forecast statement of financial position**

As at 30 June 2024 (\$m)	ParagonCare	CH2	Merged Group
Assets			
Cash	32.9	0.4	33.3
Receivables	36.9	235.1	272.0
Inventories	68.2	234.0	302.2
Property, Plant & Equipment (incl ROU)	67.1	40.9	108.0
Intangibles	259.9	53.7	206.9
Other assets	19.3	46.5	65.8
Total assets	484.3	610.6	988.2
Liabilities			
Trade and other payables	58.9	457.3	516.2
Current borrowings	19.4	0.0	19.4
Other current liabilities	3.2	7.9	11.1
Total current liabilities	81.5	465.2	546.7
Non-current borrowings	93.1	90.0	191.1
Other non-current liabilities	50.7	26.7	77.4
Total non-current liabilities	143.8	116.7	268.5
Total liabilities	225.3	581.9	815.2
Net assets	259.0	28.7	173.0
Equity			
Issued capital	233.6	50.9	203.2
Reserves	25.4	(22.2)	(30.2)
Total equity	259.0	28.7	173.0

The forecast statement of financial position for the Merged Group is based on 9 months of actual, and 3 months of forecast, financial information for ParagonCare and CH2 respectively. Reserves includes forecast profit.

This Section should be read in conjunction with the commentary on adjustments in Section 7.6(a).

Note that the forecast statement of financial position for CH2 is:

- prior to a dividend expected to be paid in May 2024 of up to \$8 million to clear franking credits; and
- prior to any transaction costs being incurred in completing the Merger.

(d) **Forecast income statement**

Year ended 30 June 2024 (\$m)	ParagonCare	CH2	Merged Group
Sales revenue	328.3	2,974.3	3,302.6
Cost of goods sold	(193.0)	(2,791.0)	(2,984.0)
Gross profit	135.3	183.3	318.6
Employee benefits expense	(66.1)	(71.5)	(136.4)
Warehousing and distribution expense	(8.6)	(44.7)	(53.3)
Administration and general expense	(21.5)	(13.4)	(34.9)
Total operating expenses	(96.2)	(129.6)	(225.8)
Normalised EBITDA	39.1	53.7	92.8
Depreciation and amortisation	(10.1)	(13.5)	(23.6)
Normalised EBIT	29.0	40.2	69.2
Net interest expense	(9.7)	(16.2)	(25.9)
Normalised net profit before tax	19.3	24.0	43.3
Income tax expense	(5.5)	(7.2)	(12.7)
Normalised net profit after tax	13.7	16.8	30.5

The forecast income statement for the Merged Group is based on 9 months of actual, and 3 months of forecast, financial information for ParagonCare and CH2 respectively.

The 3 months of forecast financial information:

- in respect of ParagonCare, reflects the expected run rate and seasonality. April, May and June are typically better performing months for ParagonCare and this has been reflected. The forecast has been based on prior period actual figures with a 2% uplift; and
- in respect of CH2, reflects the expected run rate.

The pro-forma forecast financial information includes a normalisation adjustment for the full-year impact of the Osborne acquisition for CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

Normalisations for ParagonCare for the year ended 30 June 2024 are:

- **Acquisition costs (\$0.9 million):** These relate to estimated acquisition costs in respect of the Merger.
- **Fair value loss on derivative liability (\$0.2 million):** This relates to ParagonCare's interest rate swaps.
- **Share based payments (CEO and Managing Director sign on and exit) (\$0.8 million):** These relate to exit payments made to Mark Hooper as the outgoing CEO and Managing Director, and sign-on payments made to John Walstab as the current CEO and Managing Director (appointed 1 October 2023), up to March 2024.
- **Business restructure costs (\$2.1 million):** These relate to redundancy and restructure costs following the merger of ParagonCare and Quantum Health Group Limited in February 2022 and other general headcount reduction costs, up to March 2024.

- **Other minor normalisations (\$0.6 million):** These include obsolete inventory write-offs.

8 Risks

There are a number of risks and uncertainties, which are both specific to the Merger and of a general nature, that may affect the future operating and financial performance of the Merged Group and the value of ParagonCare Shares.

ParagonCare Shareholders are currently exposed to various risks as a result of their investment in ParagonCare. If the Merger proceeds, CH2 will be merged with ParagonCare. As a consequence, ParagonCare Shareholders will be exposed to risks relating to the CH2 Business and to certain additional risks arising from the Merger.

This Section sets out key risks that may arise if the Merger is implemented. These risks include:

- specific risks relating to the Merger (Section 8.1); and
- risks relating to the Merged Group (Section 8.2).

If the Merger is not implemented, ParagonCare Shareholders will continue to be exposed to the existing risks they face as a result of their investment in ParagonCare (Section 8.3).

The risks described below:

- are those risks that the ParagonCare Board believe are potentially material and are not, and should not be considered to be or relied on as, an exhaustive list of the risks that may arise if the Merger is implemented. The occurrence or consequences of some of the risks described in this Section 8 may be partially or completely outside the control of ParagonCare, CH2 or their respective directors and senior management teams. There also may be additional risks and uncertainties not currently known to ParagonCare which may have a material adverse effect on the Merged Group's operating and financial performance and the value of ParagonCare Shares; and
- are general in nature and regard has not been had to the investment objectives, financial situation, tax position or particular needs of any individual ParagonCare Shareholder.

You should carefully consider the following risk factors, as well as the other information provided by ParagonCare in connection with the Merger and the Merger Resolutions, and consult your legal, financial, tax or professional advisers before deciding whether to vote in favour of or against the Merger Resolutions.

8.1 Risks specific to the Merger

(a) Performance of the CH2 Business

Given the size and growth outlook of the CH2 Business, the operating and financial performance of CH2 in the future will have a material impact on the performance of the Merged Group and on the value of ParagonCare Shares.

(b) Influence of the CH2 Sellers

On Completion, the CH2 Sellers will have aggregate Voting Power in respect of approximately 57% of the ParagonCare Shares on a fully diluted basis. Consequently, the CH2 Sellers will have the ability to exert significant influence over resolutions put to ParagonCare Shareholders (other than those in which they are excluded from voting) including the election of directors, significant corporate transactions and certain issues of equity securities.

The CH2 Sellers' aggregate interest in ParagonCare following Completion will be sufficiently large enough to block a takeover bid or scheme of arrangement vote. As a result of voting in favour of the Merger Resolutions, ParagonCare Shareholders may be foregoing an opportunity to sell their ParagonCare Shares at a premium to trading in a future control transaction.

The presence of the CH2 Sellers on ParagonCare's share register may also deter potential bidders and be perceived by the market as reducing the likelihood of a control transaction. This may potentially cause ParagonCare Shares to trade at a discount compared to the price they would otherwise have traded at.

(c) Integration risks

The integration of a business of the size of the CH2 Business carries risk, including potential delays or costs in implementing necessary changes and difficulties in integrating various operations. The success of the Merger, and the ability to realise the expected benefits of the Merger outlined in this Explanatory Memorandum, is dependent on the effective and timely integration of the CH2 Business alongside the ParagonCare Business following Completion. Unforeseen events may adversely affect integration and the achievement of the expected benefits of the Merger, including:

- difficulties in effectively combining the cultures and management styles of the ParagonCare Business and CH2 Business;
- disruption to the ongoing operations of the ParagonCare Business and CH2 Business;
- higher than anticipated integration costs; and
- unintended loss of key personnel or reduced employee productivity.

A failure to fully integrate the operations of the CH2 Group, or a delay in the integration process, could impose unexpected costs that may adversely affect the financial performance and position of the Merged Group.

(d) Information provided by CH2

ParagonCare has prepared (and made assumptions in the preparation of) the financial information relating to the CH2 Group (on a standalone basis and also with ParagonCare post-Completion) included in this Explanatory Memorandum from financial and other information (including unaudited financial information) provided by CH2. ParagonCare is unable to verify the accuracy, reliability or completeness of all of this information. If any of the data or information provided to and relied upon by CH2 in its preparation of this Explanatory Memorandum proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of CH2 and the Merged Group may be materially different to the financial position and performance expected by ParagonCare and reflected in this Explanatory Memorandum.

(e) Future earnings may not be as expected

ParagonCare has undertaken financial and business analysis on the CH2 Group in order to determine its attractiveness to ParagonCare and whether to pursue the Merger. It is possible that such analysis, and the best estimate assumptions made by ParagonCare, draw conclusions and forecasts that are inaccurate or which will not be realised in due course. There is also the risk that unforeseen events may cause the synergies to be delayed, not be obtained, or cost more to achieve than originally expected. To the extent that the actual results achieved by the CH2 Group are different than those anticipated, there is a risk that the profitability and future earnings of the Merged Group may differ (including in a materially adverse way) from the performance as described in this Explanatory Memorandum.

(f) Contractual restrictions on change of control

Entities in the CH2 Group may be party to contracts containing change of control provisions that, in the absence of counterparty consent, may be triggered by the Merger. If a counterparty's consent is not obtained, CH2 may lose the benefit of that contract. This may potentially adversely impact CH2's operations and performance of the Merged Group. This risk is mitigated by it being a Condition in the SSA that counterparties to certain material contracts with the CH2 Group provide their consent to the Merger, or if consent is not required, confirmation that they do not object to the Merger.

(g) CH2 historical liabilities

Following Completion, the Merged Group will be responsible for any outstanding liabilities that the CH2 Group has incurred prior to the Merger, including any liabilities that were not identified during ParagonCare's due diligence or which are greater than expected, and for which ParagonCare may not have recourse under the SSA to the CH2 Sellers. Such liabilities could include liabilities relating to current or future litigation or other proceedings, failure by the CH2 Group to hold required regulatory approvals, authorisations or licences, regulatory actions, warranty or performance claims, historical tax liabilities and other liabilities.

(h) Uncovered warranty and indemnity breaches

The ability of ParagonCare to achieve its stated objectives will depend on the performance by the parties of their obligations under the agreements for, and related to, the Merger. If any party defaults in the performance of their obligations, it may be necessary for ParagonCare to approach a court to seek a legal remedy, which can be expensive and time consuming.

ParagonCare may suffer a loss as a result of the conduct of the CH2 Sellers for which the warranties and indemnities under the SSA turn out to be inadequate in the circumstances. There is no guarantee that ParagonCare will be able to recover all actual liabilities incurred from the CH2 Sellers either as a result of liability caps agreed with the CH2 Sellers or non-compliance with the terms of the SSA. Any inability to recover amounts claimed under the SSA could materially adversely affect the Merged Group's financial position and performance. See Section 9.5(k) for more information on the liability regime under the SSA.

8.2 General risk factors that may affect the Merged Group

The following risks are relevant to ParagonCare and CH2 as standalone businesses. Accordingly, they will also be relevant to the Merged Group.

(a) Regulatory risks

The Merged Group may be affected by changes to government policies and legislation, including in respect of the pharmaceutical industry, community pharmacy sector, healthcare sector, taxation, competition or other legal or regulatory changes.

CH2 operates as a pharmaceutical wholesaler, and any adverse changes to the Pharmaceutical Benefits Scheme generally or in respect of particular medicines may lead to lower margins for the CH2 Business. Regulatory changes which affect pharmacies to whom CH2 supplies may also adversely affect demand for products supplied by CH2. This may include regulatory changes which increase the range of pharmaceuticals sold by outlets other than pharmacies and regulatory changes which reduce the need for customers to regularly visit pharmacies (such as 60 day dispensing in Australia), which may decrease demand for goods in pharmacies and thereby decrease demand for the wholesale supply of such goods.

Clifford Hallam is a member of the community service obligation (**CSO**) funding pool. Under these arrangements, Clifford Hallam is a party to a CSO deed of agreement with the Commonwealth Government and receives funding in relation to its supply of

pharmaceutical products to community pharmacies (including those in remote regions). The CSO arrangements are highly regulated and there is no guarantee that the CSO funding pool will continue to be available or will not be reduced in the future. Further, Clifford Hallam's non-compliance or failure to meet service standards may result in financial sanctions or the Commonwealth Government terminating the arrangement and the loss of CSO funding.

The Merged Group is also exposed to the risk of failing to comply with the laws and regulations to which it is subject. Such non-compliance may lead to reputational damage, claims by third parties, regulatory enforcement action, loss or failure to be granted authorisations, fines and penalties.

(b) Change to competitive dynamics

The Merged Group will be operating in a competitive environment, and the actions of existing market participants as well as new entrants may result in increased competition. This includes competition from pharmaceutical wholesalers and distributors, medical equipment, medical device, complementary medicines and consumable medical product suppliers and equipment service providers. Relevant actions could include price cutting, bundling of goods and services and increased advertising and presence. The growing healthcare market may also attract new participants or result in other entities entering into corporate transactions to form larger competitors or vertically integrate with other market participants.

Increased competition may impact the Merged Group's sales and margins, lead to a loss of market share or cause a reduction in profitability. In addition to the direct adverse financial impact, this may also reduce the Merged Group's bargaining power with counterparties.

(c) Inventory management

As a wholesaler and distributor, the Merged Group will store a range of products as inventory, including pharmaceuticals, medical devices, complementary medicines and consumable medical products. It will rely on data analysis, human analysis and inventory management systems to manage its business. If there are shortcomings or failures in these methods, this could lead to errors in processing orders, supplying products and inventory imbalances.

Storing excess inventory may tie up capital, occupy excess warehouse space and increase the risk of obsolete inventory and write-offs. Insufficient inventory may result in delayed orders, loss of sales and loss of customers. Further, insufficient inventory may result in Clifford Hallam being unable to meet its obligations of supplying medicines under its CSO arrangements. This in turn may lead to financial sanctions or the Commonwealth Government terminating the arrangement and the loss of CSO funding. These consequences may have an adverse effect on the Merged Group's financial performance.

(d) Product procurement

The Merged Group will source most of its products for supply from third parties. This includes third party manufacturers of pharmaceuticals, medical equipment, medical devices, complementary medicines and consumable medical products. Loss or interruption to these supply chains, including the failure to supply products in the agreed timeframes, may result in increased product sourcing costs for the Merged Group or a reduction in the range of products available. Wide-scale shortages of particular pharmaceuticals, complementary medicines or medical products may also affect the Merged Group. This may in turn adversely impact sales and margins, reduce overall profitability and have an adverse effect on the Merged Group's financial performance.

A failure to supply a full range of pharmaceutical products may also have adverse implications under the Merged Group's CSO arrangements.

(e) Technology and cyber risks

The Merged Group will be reliant on the performance, reliability and availability of its technology platforms, systems and services. This is especially important for ParagonCare's service and technology division, which assists in the servicing and maintenance of medical equipment and systems. The Merged Group's ability to deliver these services will be adversely affected by system outages, faulty equipment, computer viruses, security breaches, hacking incidents or misuse by staff or contractors. This may in turn adversely impact sales and margins, reduce overall profitability and have an adverse effect on the Merged Group's financial performance. The Merged Group's reputation may also be adversely affected.

(f) Counterparty risk

The Merged Group will enter into commercial contracts with various third parties for its business operations. There is a risk that counterparties (including suppliers and customers) with whom the Merged Group has contracted may fail to meet their contractual obligations, resulting in financial loss to the Merged Group. This may in turn affect other business relationships of the Merged Group. The Merged Group is dependent on the actions of third parties complying with these contracts and performing to the required level of service, and cannot guarantee that this will occur.

(g) Personnel risk

The Merged Group's business relies on its ability to attract and retain experienced employees with relevant healthcare expertise. The loss of key employees or the inability to recruit or retain suitable skilled employees may adversely impact sales and margins, reduce overall profitability and have an adverse effect on the Merged Group's future financial performance.

(h) Occupational health and safety

As a wholesaler and distributor, the Merged Group has a labour intensive workforce in warehouses and distribution centres. The nature of work involves manual, repetitive tasks, use of machinery, working at heights and includes order picking, packing and transportation, which pose inherent risks to the safety and well-being of employees and contractors. This may lead to challenges in managing occupational health and safety effectively.

The potential consequences of health and safety incidents include loss of life or work-related injuries, impacting the emotional and physical health of employees or contractors leading to increased absenteeism, decreased productivity, compensation payments, fines and other legal liability, regulatory investigations, increased insurance premiums and reputational damage.

(i) Financing risk

The Merged Group will have debt facilities in place, including those currently in place for ParagonCare and CH2 immediately after Completion. There is a risk that the Merged Group may not be able to refinance those facilities or that the terms (including in relation to pricing and covenants) on refinancing will be less favourable than the terms currently in place. A high interest rate environment will also impact the Merged Group's cost of debt funding.

Where the Merged Group's financing is adversely impacted, this may also constrain its business operations and ability to execute on its strategic goals (such as acquisitions, investments in innovation or flexibly responding to market conditions).

(j) Accounting standards

The Merged Group will prepare its financial statements in accordance with the Accounting Standards. Changes to the Accounting Standards, including by the Australian

Accounting Standards Board, are outside the control of the Merged Group and may adversely affect the financial performance and position reported in the Merged Group's financial statements. For completeness, the Merged Group's financial statements will be audited.

(k) Insurance

The Merged Group will seek to maintain appropriate insurances for its business given its industry and operations. Insurances need to be renewed on an annual basis and those renewals may result in insurance premiums increasing with an adverse effect on the expenses and therefore the profitability of the Merged Group. Alternatively, those insurances may not be available on terms which are economic in light of the risks they protect against, resulting in the Merged Group having to self-insure such risks. If such risks ultimately arise, they may have an adverse effect on the financial position of the Merged Group.

(l) Macroeconomic conditions

While the demand for pharmaceuticals, medical equipment, medical devices, complementary medicines and consumable medical products is likely to be resilient given their essential nature, the Merged Group's business may still be affected by general economic conditions.

Higher interest rates will increase the cost of debt funding for customers of the Merged Group. This may result in them deferring capital expenditure for medical equipment in favour of operating existing equipment, which may adversely impact the Merged Group's sales and reduce overall profitability.

Rising inflation and the greater cost of products may also adversely affect the Merged Group. On the purchasing side, this increases the cost of goods for the Merged Group. On the supply side, failure to pass on the increase in the cost of goods would reduce the Merged Group's margins. However, if the Merged Group increases the price of its products for customers, this may reduce demand and reduce sales.

(m) Share price and share register

The price of ParagonCare's shares may increase or decrease due to a number of factors. This includes fluctuations in domestic or global financial markets and general economic conditions (including interest rates, inflation rates, exchange rates, changes to government fiscal, monetary or regulatory policies), investor sentiment, legislation or regulation, the removal or inclusion of ParagonCare from market indices and the nature of markets in which ParagonCare operates.

As a result of the Merger and issue of Consideration Shares to the CH2 Sellers, ParagonCare may have a more concentrated share register and more limited liquidity, which may impact the trading of ParagonCare Shares.

8.3 Risks that affect ParagonCare

If the Merger is not implemented, ParagonCare Shareholders will continue to be exposed to the existing risks associated with being a ParagonCare Shareholder. This includes a number of the risks described in Section 8.2, including:

- (a)** Regulatory risks, except that ParagonCare is not exposed to risks in respect of pharmaceutical wholesaling or the CSO funding pool;
- (b)** Change to competitive dynamics;
- (c)** Inventory management, except that ParagonCare is not exposed to risks in respect of pharmaceutical wholesaling or the CSO funding pool;

- (d) Product procurement, except that ParagonCare is not exposed to risks in respect of pharmaceutical wholesaling or the CSO funding pool;
- (e) Technology and cyber risks;
- (f) Counterparty risk;
- (g) Personnel risk;
- (h) Occupational health and safety;
- (i) Financing risk, noting that ParagonCare will only be exposed in respect of the debt facilities it has in place;
- (j) Accounting standards;
- (k) Insurance;
- (l) Macroeconomic conditions, except that ParagonCare will not be directly exposed to risks in respect of the demand for pharmaceuticals; and
- (m) Share price, except that the Consideration Shares will not be issued.

In addition, the key implications under Section 8.4 will apply.

8.4 Key implications if the Merger does not proceed

If the Merger does not proceed:

- the price of ParagonCare Shares may fall below the price of ParagonCare Shares at the time of the announcement of the Merger, in the absence of a Competing Proposal;
- substantial transaction costs and expenses will be incurred by ParagonCare and ParagonCare will not be reimbursed for its reasonable transaction costs in accordance with the SSA;
- the benefits of the Merger will not be realised;
- no ParagonCare Shares will be issued to the CH2 Sellers;
- ParagonCare will continue to focus on its current business plan and strategy; and
- there will be no immediate change to the ParagonCare Board or management, other than the retirement and re-election of ParagonCare Directors pursuant to ParagonCare's constitution and applicable laws.

9 Additional information

9.1 Interests of ParagonCare Directors in ParagonCare Shares and Performance Rights

As at 26 April 2024, based on public filings, the ParagonCare Directors had the following Relevant Interests in ParagonCare Shares and hold the following Performance Rights:

ParagonCare Director	Number of ParagonCare Shares	Number of Performance Rights
John Walstab	129,992,627	2,594,409
Shane Tanner	1,299,228	-
Brent Stewart	3,722,173	-
Geoffrey Sam	2,657,599	-
Alan McCarthy	-	-

The ParagonCare Directors do not have any personal interest in the Merger or any agreement between the CH2 Sellers and ParagonCare (or either of their Associates) that is conditional on (or directly or indirectly depends on) the Item 7 Section 611 Resolution, other than:

- interests arising solely in their capacity as ParagonCare Shareholders;
- Mr Walstab's interests arising from the issue of Performance Rights and conversion of Performance Rights into ParagonCare Shares following the ParagonCare Board exercising its discretion to waive the vesting conditions under the ParagonCare Employee Incentive Plan; and
- interests arising as directors entitled to receive compensation for the provision of services to ParagonCare in that capacity.

9.2 ParagonCare equity incentive arrangements

(a) Overview of arrangements

ParagonCare operates employee incentive plans under which short-term incentives (**STIs**) and long-term incentives (**LTIs**) are offered to executives and senior employees as an incentive and reward.

STIs are paid in the form of cash bonuses based on the achievement of key performance indicators.

ParagonCare's LTI program includes share based payments under the ParagonCare Employee Incentive Plan. The ParagonCare Employee Incentive Plan enables

ParagonCare to offer options, performance rights, service rights, deferred shares, exempt shares, cash rights and stock appreciation rights.

As at the date of this Explanatory Memorandum, ParagonCare has 17,913,138 Performance Rights on issue.³⁴

Each Performance Right confers on its holder the right to acquire one ParagonCare Share for an exercise price of nil, subject to the vesting conditions attached to the grant of Performance Rights. Vesting conditions typically include a service condition (continuous employment) and performance condition (share price). Upon vesting, Performance Rights automatically convert into ParagonCare Shares within a period specified by the ParagonCare Board. A summary of the ParagonCare Employee Incentive Plan is set out in Section 9.2(b).

For further details of ParagonCare's equity incentive arrangements, including on the ParagonCare Employee Incentive Plan, refer to ParagonCare's annual report for the year ended 30 June 2023 and half year report for the half year ended 31 December 2023 which can be obtained from the ASX website (www.asx.com.au).

(b) Summary of ParagonCare Employee Incentive Plan rules

The material terms and conditions of the ParagonCare Employee Incentive Plan rules are summarised below. Capitalised terms used but not otherwise defined in this Explanatory Memorandum have the meaning given in the ParagonCare Employee Incentive Plan rules.

(1) Purpose

ParagonCare has established the ParagonCare Employee Incentive Plan to encourage employees to share in the ownership of ParagonCare and to promote the long term success of ParagonCare as a shared goal.

(2) Participants and awards

'Participants' in the ParagonCare Employee Incentive Plan are full-time or permanent part-time employees, officers or directors of ParagonCare or its related bodies corporate (**Participants**) to whom 'Awards' are issued. An Award means:

- an option;
- a performance right;
- a service right;
- a deferred share award;
- an exempt share award;
- a cash right; and
- a stock appreciation right.

Relevantly, a performance right is a right to be issued a ParagonCare Share for a nil exercise price upon the satisfaction of vesting conditions specified in the Participant's offer. Performance rights have restrictions on sale or disposal until exercise or expiry or for a specified period.

(3) Offer

ParagonCare may offer and issue an Award to Participants at the discretion of the ParagonCare Board. The offer will specify the type of Award offered,

³⁴ Together with the 26,000,000 Performance Rights proposed to be issued to John Walstab, this equates to 43,913,138 Performance Rights.

number of Awards, vesting conditions, the issue price and exercise price or method of determination, expiry date (if any), restriction periods, matters required by the Corporations Act or ASX Listing Rules and other matters the ParagonCare Board determines.

(4) Vesting

Awards will vest and become exercisable (where applicable) upon any vesting conditions being satisfied. The Participant may exercise the Award following the vesting date on the terms of the offer.

Vesting conditions may be waived at the absolute discretion of the ParagonCare Board (unless excluded by the terms of the Award).

(5) Issue of ParagonCare Shares

ParagonCare Shares issued under the ParagonCare Employee Incentive Plan will be fully paid, rank equally with existing ParagonCare Shares from the date of issue or transfer and be subject to restrictions under the ParagonCare Employee Incentive Plan.

ParagonCare will, unless the ParagonCare Board resolves otherwise, apply for official quotation of any ParagonCare Shares issued on ASX.

(6) Change of control

On the occurrence of a change of control, the ParagonCare Board will determine, in its sole and absolute discretion, the manner in which unvested and vested Awards will be dealt with.

A 'change of control' is where:

- any person together with their Associates acquires a Relevant Interest in more than 50% of the issued shares in ParagonCare (when they did not previously hold such a Relevant Interest); or
- the ParagonCare Board concludes that there has been a change in the 'control' of ParagonCare, where 'control' is defined under section 50AA of the Corporations Act.

(7) Administration

The ParagonCare Board will administer the ParagonCare Employee Incentive Plan and will have absolute discretion to determine appropriate procedures for administration, resolve conclusively questions of fact or interpretation, delegate powers or discretions, formulate special terms and conditions and amend the ParagonCare Employee Incentive Plan rules (subject to no material prejudice for existing Participants' rights).

(c) Summary of Performance Right terms

The material terms and conditions of the Performance Rights are summarised below. An issue of Performance Rights is subject to the terms of the ParagonCare Employee Incentive Plan rules.

(1) Issue and expiry

The issue and expiry date are subject to the terms of the specific offer.

For further details on previous issues, refer to ParagonCare's annual report for the year ended 30 June 2023 and half year report for the half year ended 31 December 2023 which can be obtained from the ASX website (www.asx.com.au).

(2) Exercise price

Performance Rights have a nil exercise price.

Upon vesting, Performance Rights automatically exercise into ParagonCare Shares within a period specified by the ParagonCare Board.

(3) Vesting conditions

Performance Rights are typically subject to a service condition and a performance condition. The service condition is based on the Participant's continuous employment with ParagonCare from issue until the vesting date. The performance condition is based on ParagonCare achieving a specified minimum share price, with Performance Rights vesting in tranches accordingly.

For further details on previous issues, refer to ParagonCare's annual report for the year ended 30 June 2023 and half year report for the half year ended 31 December 2023 which can be obtained from the ASX website (www.asx.com.au).

In addition, the ParagonCare Board has an absolute discretion under the ParagonCare Employee Incentive Plan rules to waive the applicable vesting conditions (unless otherwise excluded by the terms of the offer).

(4) No assignment

An offer of Performance Rights is personal and cannot be assigned with the ParagonCare Board's approval.

(5) Catch up

If the vesting conditions are not satisfied in the year of entitlement but are subsequently achieved by the expiry date, the Performance Rights will automatically vest within a period specified by the ParagonCare Board.

(6) Change of control

Performance Rights will automatically vest in the event of a change of control (as defined in the ParagonCare Employee Incentive Plan rules).

(7) Restriction on disposal

Performance Rights cannot be transferred, disposed of or have a security interest imposed upon them.

(8) Rights to dividends and voting

Performance Rights typically do not confer an entitlement to dividends or voting rights at general meetings until the Performance Rights vest, are exercised and ParagonCare Shares are issued or transferred.

(9) Forfeiture

Rights in the ParagonCare Employee Incentive Plan are subject to forfeiture if the ParagonCare Board determines that a Participant has committed fraud, is ineligible to hold office under Part 2D.6 of the Corporations Act or is found to have acted in a manner that the ParagonCare Board considers to be gross misconduct.

(d) Implications of the Merger for participants in the incentive arrangements

All Performance Rights will be converted into ParagonCare Shares upon Completion.

The Performance Rights are subject to vesting conditions as described in Section 9.2(a). As discussed in Section 4.4(c), in addition to the ParagonCare Board's discretion to determine the manner in which unvested and vested Performance Rights will be dealt with on a 'change of control', the Performance Rights are also taken under their terms to

automatically vest in the event of a 'change of control' (as defined in the ParagonCare Employee Incentive Plan rules). However, given the definition of 'change of control' and despite the nature of the Merger, this is not strictly triggered.

The ParagonCare Board has the ability to waive the applicable vesting conditions at its absolute discretion such that any unvested Performance Rights vest. This discretion is separate to any treatment of vesting on the occurrence of a 'change of control'.

The ParagonCare Board intends to exercise its discretion under the ParagonCare Employee Incentive Plan to waive all vesting conditions, subject to Completion. This will result in the Performance Rights then converting into ParagonCare Shares, subject to Completion.

In addition, John Walstab is currently entitled to the issue of 26,000,000 Performance Rights under his employment agreement with ParagonCare. The ParagonCare Board proposes to issue the 26,000,000 Performance Rights to John Walstab. These Performance Rights will also be subject to the exercise of the ParagonCare Board's discretion and conversion as described above.

9.3 Regulatory approvals and relief

(a) ASIC relief

ParagonCare sought relief from ASIC such that section 609 of the Corporations Act is modified, with the effect that section 606 of the Corporations Act will not prohibit the Relevant Interest that ParagonCare acquires in the Consideration Shares as a result of the voluntary escrow arrangements under the Escrow Deeds. The voluntary escrow arrangements are described in Section 4.1 and the Escrow Deeds are summarised in Section 9.6.

ParagonCare has been granted the relief by ASIC.

(b) ASX relief and waivers

(1) ASX Listing Rule 11.1

Under ASX Listing Rule 11.1, a listed company is required to notify ASX of a proposed significant change to the nature or scale of its activities.

ASX may exercise its discretion to require that the listed company:

- seek shareholder approval in connection with the proposed transaction pursuant to ASX Listing Rule 11.1.2; and/or
- meet the requirements in chapters 1 and 2 of the ASX Listing Rules as if the listed company were applying for admission to the official list pursuant to ASX Listing Rule 11.1.3.

ParagonCare has provided the required notification to ASX under ASX Listing Rule 11.1 for a significant change to the scale of its activities. ASX has confirmed in writing to ParagonCare that ASX Listing Rules 11.1.2 and 11.1.3 do not apply to the Merger.

(2) ASX Listing Rule 6.23.3

As discussed in Section 4.4(c), ParagonCare requires a waiver from ASX Listing Rule 6.23.3 given the proposed waiver of the vesting conditions attaching to the Performance Rights.

ParagonCare has been granted the waiver by ASX, subject to the approval of Merger Resolution 3 by ParagonCare Shareholders and full details of the treatment of the Performance Rights being included in this Explanatory Memorandum (to ASX's satisfaction).

9.4 Terms of Consideration Shares

The Consideration Shares will be fully paid ParagonCare Shares that are quoted on the official list of ASX. On issue, the Consideration Shares will rank equally with all existing ParagonCare Shares on issue and be free from any Security Interest.

9.5 Share Sale Agreement

(a) Overview

On 29 February 2024, each of ParagonCare, the CH2 Sellers and the Covenantors entered into the SSA.

The SSA sets out the terms and conditions upon which the CH2 Sellers have agreed to sell all of the issued share capital in CH2 in exchange for the issue of the Consideration Shares.

The following is a summary of the material terms and conditions of the SSA. A full copy of the SSA was released to the ASX on 1 March 2024 and can be obtained from <https://www.asx.com.au/>.

(b) Conditions precedent

Completion under the SSA is subject to the following conditions precedent being satisfied or waived (as applicable):

(1) ASIC and ASX approval

ASX being notified of the Merger under ASX Listing Rule 11.1 and both ASIC and ASX providing all relief, waivers, confirmations, exemptions, consents or approvals that are necessary or desirable (as reasonably agreed by ParagonCare and the CH2 Sellers) to implement the Merger.

(2) ParagonCare Shareholder approval

ParagonCare Shareholders approving the Merger Resolutions.

Merger Resolution 1, being the Item 7 Section 611 Resolution, cannot be waived, but the Condition may be waived in respect of any other Merger Resolution.

(3) Official quotation

ASX not indicating to ParagonCare prior to the date on which all other Conditions have been satisfied or waived that it will not grant permission for the official quotation of the Consideration Shares.

(4) ParagonCare consents

Receipt of third party consents in respect of the Merger, or if consent is not required, confirmation that the third party does not object to the Merger, under certain material contracts to which a ParagonCare Group Member is a party.

(5) CH2 consents

Receipt of third party consents in respect of the Merger, or if consent is not required, confirmation that the third party does not object to the Merger, under certain material contracts to which a CH2 Group Member is a party.

(6) ParagonCare Material Adverse Event

There having been no ParagonCare Material Adverse Event between the date of the SSA and Completion.

(7) CH2 Material Adverse Event

There having been no CH2 Material Adverse Event between the date of the SSA and Completion.

(8) Rollover relief

If required, a draft ruling from the ATO confirming that scrip-for-scrip rollover relief will be available for the CH2 Sellers under subdivision 124-M of the 1997 Act in respect of the Consideration Shares.

(c) Period before Completion

ParagonCare and the CH2 Sellers must, and must procure that each ParagonCare Group Member and CH2 Group Member respectively, ensure that until Completion, each business is carried on in the ordinary course and in substantially the same manner as they were carried on in the 12 months prior to the date of the SSA.

ParagonCare and the CH2 Sellers must also procure that each ParagonCare Group Member and CH2 Group Member respectively do not engage in certain restricted conduct prior to Completion, including but not limited to issuing or agreeing to issue any securities, entering into certain written contracts, incurring capital expenditure above thresholds, acquiring or disposing of assets above thresholds or commencing or settling litigation above thresholds, except as permitted under the SSA.

(d) Timing for Completion

The ParagonCare Directors anticipate that Completion of the Merger will occur on Tuesday, 4 June 2024. Completion will not occur unless and until the Conditions have been satisfied or waived (if possible) in accordance with the terms of the SSA.

The CH2 Sellers have notified the ACCC of the Merger. As informal clearance has not been sought, there is no strict timeline for the ACCC to respond. If the ACCC decides to intervene and decides to conduct a public review, seek further information or otherwise opposes the Merger, Completion may be delayed.

(e) Board composition

The parties to the SSA have agreed that subject to and with effect from Completion, the ParagonCare Board will be as set out in Section 7.4 of this Explanatory Memorandum.

(f) Cleansing notice

Immediately after Completion, ParagonCare is required to provide a notice to ASX under section 708A(5)(e)(i) of the Corporations Act which complies with section 708A(6) of the Corporations Act in relation to the Consideration Shares.

(g) Termination rights

In addition to termination for non-fulfilment of a Condition, a party may terminate the SSA where:

- (1) certain insolvency events occur in respect of the other party or ParagonCare Group Members or CH2 Group Members (as applicable);
- (2) the other party has materially breached the SSA or materially breached a warranty given by that party in the SSA; or
- (3) (in the case of the CH2 Sellers) any ParagonCare Director or (in the case of ParagonCare, where permitted by the SSA) the majority of the ParagonCare Board:

- (A) fails to recommend or continue to recommend that ParagonCare Shareholders vote in favour of the Merger Resolutions;
- (B) changes, withdraws or adversely modifies their recommendation to vote in favour of the Merger Resolutions; or
- (C) makes any public statement to the effect that they do not or no longer support the Merger or recommending that ParagonCare Shareholders accept or vote in favour of a Competing Proposal.

(h) Exclusivity

The SSA provides that ParagonCare is subject to certain exclusivity obligations during the period between the date of the SSA and the earlier of Completion or termination of the SSA. These are summarised below:

(1) 'no shop' obligation

ParagonCare must not solicit, invite, encourage or initiate any enquiries, negotiations or discussions (or communicate any intention to do any of these things), with a view to obtaining a Competing Proposal.

(2) 'no talk' obligation

Subject to a fiduciary exception, ParagonCare must not:

- (A) enter into any agreement, arrangement or understanding regarding a Competing Proposal or participate in any negotiations or discussions which would reasonably be expected to encourage or lead to the making of a Competing Proposal;
- (B) disclose or provide any material non-public information about the ParagonCare Business to a Third Party (other than a Government Agency) with a view to obtaining, or which would reasonably be expected to encourage, a Competing Proposal; or
- (C) communicate to any person an intention to do anything referred to in Sections 9.5(h)(2)(A) or 9.5(h)(2)(B).

(3) Notification obligation

ParagonCare must notify the CH2 Sellers' representative in writing (within two Business Days) if it becomes aware of any:

- (A) negotiations or discussions, approaches or attempts to initiate negotiations or discussions in relation to a Competing Proposal;
- (B) proposal made to ParagonCare in connection with any exploration or completion of a Competing Proposal; or
- (C) provision by ParagonCare of any non-public information concerning the ParagonCare Business to any Third Party (other than a Government Agency) in connection with a Competing Proposal.

(4) Matching right

ParagonCare is prohibited from entering into an agreement to give effect to a Competing Proposal and must use best endeavours to procure that none of the ParagonCare Directors change their recommendation of the Merger Resolutions, unless:

- (A) the ParagonCare Board, acting in good faith and in order to satisfy its statutory or fiduciary duties, determines that the Competing Proposal would be or could be a Superior Proposal;
- (B) ParagonCare has provided the CH2 Sellers' representative with all terms and conditions of the Competing Proposal (including the price or assessed value of and the identity of the Third Party making the Competing Proposal);
- (C) ParagonCare has given the CH2 Sellers at least five Business Days after the date of the provision of the information to provide a matching or superior proposal to the terms of the Competing Proposal; and
- (D) the CH2 Sellers have not provided a matching or superior proposal to the terms of the Competing Proposal by that date.

(5) Fiduciary out

The restrictions and obligations described in Section 9.5(h)(2) do not apply to the extent that they would be reasonably likely to constitute a breach of the ParagonCare Board's fiduciary or statutory duties.

(i) Break fee and reverse break fee

ParagonCare has agreed to pay a break fee of \$1,520,048 to the CH2 Sellers in certain circumstances.

These circumstances are:

- (1) ParagonCare or the CH2 Sellers have terminated the SSA using their respective termination rights described in Section 9.5(g)(3), unless ParagonCare is entitled to terminate for material breach of the SSA or a warranty or the Independent Expert has concluded that the Merger is not fair and not reasonable to ParagonCare Shareholders (except where the reason for that conclusion is due to a Competing Proposal);
- (2) the CH2 Sellers have terminated the SSA due to a material breach of the SSA or of a warranty by ParagonCare, and the Merger does not complete; or
- (3) matters were known to ParagonCare but had not been known to the CH2 Sellers before entry into the SSA that would constitute a ParagonCare Material Adverse Event and the CH2 Sellers have terminated the SSA accordingly.

The CH2 Sellers have agreed to pay a reverse break fee of \$1,520,048 to ParagonCare in certain circumstances.

These circumstances are:

- (1) ParagonCare has terminated the SSA due to a material breach of the SSA or of a warranty by the CH2 Sellers, and the Merger does not complete; or

- (2) matters were known to the CH2 Sellers but had not been known to ParagonCare before entry into the SSA that would constitute a CH2 Material Adverse Event and ParagonCare has terminated the SSA accordingly.

(j) Protection of the CH2 Business

The CH2 Sellers and the Covenantors have undertaken that they will not, and will procure that their related entities will not:

- (1) within the restricted area, engage or be involved or interested in a business that is the same or substantially the same as or competes with, the CH2 Business;
- (2) solicit or persuade any person who a CH2 Seller (or a Covenantor) is aware is (or was at any time during the period of 12 months prior to Completion), a customer of or client of any CH2 Group Member to cease doing business with the CH2 Group or reduce the amount of business that the customer or client would otherwise do with the CH2 Group; or
- (3) solicit or persuade any person who a CH2 Seller (or a Covenantor) is aware is (or was any time during the period of 12 months prior to Completion), a director, officer or employee of a CH2 Group Member to terminate their engagement with the CH2 Group.

The restricted area comprises each Australian state and territory.

The above undertakings apply for up to three years after Completion.

(k) Warranties, indemnities and limitations

(1) Warranties

Each CH2 Seller warrants as to its capacity and authority to enter into the SSA, along with its solvency.

The CH2 Sellers also provide business warranties in relation to the CH2 Group, including in respect of the Notice of Meeting information, records, authorisations, insurance, regulatory approvals, assets, material contracts, financing, compliance with laws, litigation, accounts, property, intellectual property, information technology, privacy and data, employees and tax.

ParagonCare warrants as to its capacity and authority to enter into the SSA, along with its solvency and ability to issue the Consideration Shares.

ParagonCare also provides business warranties in relation to the ParagonCare Group, including in respect of the ParagonCare Information, records, authorisations, insurance, regulatory approvals, assets, material contracts, financing, compliance with laws, litigation, financial information, property, intellectual property, information technology, privacy and data, employees, ASX related matters and tax.

(2) Indemnities

The CH2 Sellers indemnify ParagonCare against any loss suffered as a result of breach of a warranty given by the CH2 Sellers, subject to certain limitations under the SSA.

ParagonCare indemnifies the CH2 Sellers against any loss suffered by the CH2 Sellers (to the extent of the CH2 Sellers' holdings of ParagonCare Shares, if any) as a result of a breach of a warranty given by ParagonCare, subject to certain limitations under the SSA.

The CH2 Sellers and ParagonCare provide an indemnity in respect of tax related matters.

(3) Limitations

Each CH2 Seller's liability for:

- (A) all warranty claims in respect of title and capacity warranties and tax subject claims are limited to the value of that CH2 Seller's Consideration Shares; and
- (B) all warranty claims in respect of the business warranties, in aggregate, is limited to 40% of the value of that CH2 Seller's Consideration Shares.

Each CH2 Seller's liability for all claims under the SSA is limited to the value of that CH2 Seller's Consideration Shares.

No CH2 Seller has any liability for any warranty claim unless the amount of a claim exceeds \$152,004 and the aggregate amount of all single claims exceeds \$1,520,048, in which case the CH2 Sellers will only be liable for the excess over \$1,520,048.

No CH2 Seller has any liability for any tax subject claim unless the amount of claim exceeds \$300,000 and the aggregate amount of all single tax claims exceeds \$3,000,000, in which case the CH2 Sellers will only be liable for the excess over \$3,000,000.

Title and capacity warranty claims and tax subject claims must be notified to the CH2 Sellers within 5 years of Completion. Other business warranty claims must be notified to the CH2 Sellers within 18 months of Completion. The CH2 Sellers will also have no liability for warranty or tax subject claims unless legal proceedings are validly issued or the claim has been agreed, compromised or settled within 6 months of the claim being notified or crystallising.

The SSA further contains other customary limitations on the CH2 Sellers' liability for claims, including in respect of disclosure and knowledge. Refer to sections 11.1 and 11.11 to 11.23 of the SSA.

The limitations are repeated with the necessary adjustments for ParagonCare in respect of any claims by the CH2 Sellers.

9.6 Escrow Deeds

(a) Overview

Each CH2 Seller and its respective controller (being, David Collins and Peter Lacaze) (**Controller**) has agreed to enter into an escrow deed with ParagonCare (**Escrow Deed**) restricting the disposal of each CH2 Seller's Consideration Shares (**Escrowed Shares**) and any other rights or interests through which the Controller controls, or has a substantial economic interest in, the Escrowed Shares or CH2 Seller (**Controller Interests**) from the date on which those shares are issued until the two-year anniversary of that date of issue (**Escrow Period**).

(b) Restrictions on disposal

The Escrow Deeds stipulate that during the Escrow Period, each of CH2 Sellers and their respective Controller will be prohibited from:

- disposing of, or agreeing or offering to dispose of, any part of the Escrowed Shares or the Controller Interests;

- creating, or agreeing or offering to create, any security interest over any part of the Escrowed Shares or the Controller Interests; and
- performing or failing to perform any act that would result in the transfer of effective ownership or control of any part of the Escrowed Shares or the Controller Interests.

The Escrow Deeds do not alter, remove, or limit the voting rights attached to the Escrowed Shares, nor do they affect the right to receive dividends or distributions in respect of the Escrowed Shares.

(c) Exceptions to restrictions

Under each Escrow Deed, the restrictions on the disposal of the Escrowed Shares and Controller Interests are not applicable if the ParagonCare Board waives the disposal restrictions under the Escrow Deed, or if the proposed disposal is:

- part of:
 - an equal access share buy-back or an equal reduction of share capital under Part 2J.1 of the Corporations Act;
 - a takeover or proportional takeover where at least 50% of the ordinary securities in ParagonCare that are not restricted securities have accepted the takeover offer and a holding lock will be re-applied to any Escrowed Shares not unconditionally purchased under a conditional bid; or
 - a scheme of arrangement under Part 5.1 of the Corporations Act;
- necessary to comply with a court order;
- by the personal representatives of a CH2 Seller to a person to whom the Escrowed Shares have been bequeathed or to the CH2 Seller's spouse, provided the transferee has previously agreed to be bound by the disposal restrictions;
- off-market by a CH2 Seller to any entity fully controlled by the CH2 Seller or a new or replacement trustee of the Lacaze Family Trust or the Collins Millar Family Trust (as applicable), provided the transferee has previously agreed to be bound by the disposal restrictions;
- necessary for a CH2 Seller to fund the payment of any claim made against it under the SSA; or
- approved in writing by the ParagonCare Board if it determines that the disposal is necessary to alleviate the financial hardship of a CH2 Seller or a Controller.

9.7 CEO employment agreement

ParagonCare will employ David Collins as Chief Executive Officer and Group Managing Director subject to and with effect from Completion under an employment agreement to be entered into on or before Completion.

Under the Employment Agreement, Mr Collins will:

- receive a fixed remuneration package of \$800,000 composed of base salary and superannuation contributions;
- be eligible for an annual short term incentive payment of up to 50% of the fixed remuneration package per annum, payable in cash, subject to Mr Collins achieving agreed key performance indicators; and

- be eligible to participate in the ParagonCare Employee Incentive Plan, with any long term incentive entitlement being issued in accordance with the ParagonCare Employee Incentive Plan and in a manner approved by the ParagonCare Board, at its sole discretion.

Either party may terminate the Employment Agreement by giving 12 months' notice in writing to the other party. ParagonCare may elect to make a payment in lieu of notice.

The Employment Agreement contains non-compete and non-solicitation clauses for a period of 6 months following termination of the employment.

Chapter 2E of the Corporations Act is discussed in Section 4.4(b).

If the relevant Merger Resolutions are approved and the Merger completes, the entry into the Employment Agreement may constitute giving a financial benefit as David Collins will be a related party of ParagonCare for the purposes of the Corporations Act due to being a ParagonCare Director on and from Completion.

The ParagonCare Directors have determined that entry into the Employment Agreement, and the relevant benefits thereunder, would be reasonable remuneration having regard to the circumstances of ParagonCare and David Collins' prospective position, duties and responsibilities. The reasonable remuneration exception in section 211 of the Corporations Act is therefore applicable. As such, entry into the Employment Agreement does not require the approval of ParagonCare Shareholders for the purposes of Chapter 2E of the Corporations Act.

9.8 Consents

The following persons have given, and have not withdrawn, before the date of issue of this Explanatory Memorandum, their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- 1 CH2 Sellers and CH2;
- 2 ShineWing Australia Securities Pty Ltd as the Independent Expert;
- 3 Link Market Services Limited as the ParagonCare Share Registry; and
- 4 Herbert Smith Freehills as ParagonCare's legal adviser.

The CH2 Sellers and CH2 have given, and have not withdrawn, before the date of issue of this Explanatory Memorandum, their written consent to the inclusion of the CH2 Information including, for the avoidance of doubt, the financial information about the CH2 Group that has been prepared by CH2 and provided to ParagonCare to assist it with the preparation of the pro forma Merged Group financial information and forecasts set out in Section 7.6 and the references to that information in the form and context in which they are included in this Explanatory Memorandum.

ShineWing Australia Securities Pty Ltd as the Independent Expert has given, and has not withdrawn, before the date of issue of this Explanatory Memorandum, its written consent to the inclusion of the Independent Expert's Report in Annexure 2 and references to that report in the form and context in which they are included in this Explanatory Memorandum.

Each person named in this Section 9.8:

- has not caused or authorised the issue of this Explanatory Memorandum;
- does not make or purport to make any statement in this Explanatory Memorandum or any statement on which a statement in this Explanatory Memorandum is based, other than as specifically outlined above; and

- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Explanatory Memorandum other than a reference to its name and the statement (if any) included in this Explanatory Memorandum with the consent of that party as specified in this Section 9.8.

10 Glossary

10.1 Definitions

In this Explanatory Memorandum, unless the context otherwise appears, the following terms have the meanings shown below:

Term	Meaning
123 Strategy	CH2's business strategy of 1 team, phase 2, to reach 3 billion dollars.
1997 Act	the <i>Income Tax Assessment Act 1997</i> (Cth).
ACCC	the Australian Competition and Consumer Commission.
Accounting Standards	<ol style="list-style-type: none">1 the accounting standards applicable for the purposes of the Corporations Act;2 the requirements of the Corporations Act for the preparation and content of financial statements, directors' reports and auditor's reports; and3 generally accepted and consistently applied accounting principles and practices in Australia (including Australian equivalents to the International Financial Reporting Standards), except those inconsistent with the standards or requirements referred to in paragraphs 1 or 2.
ASIC	the Australian Securities and Investments Commission.
Associate	has the meaning given in section 12 of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.
ASX Listing Rules	the official listing rules of ASX.
ATO	Australian Tax Office.

Term	Meaning
Authorisation	any authorisation, approval, licence, permit, consent, qualification, accreditation, filing, registration, certificate, resolution, direction, declaration or exemption given by a Government Agency and any renewal or variation of them.
Business Day	a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne, Australia.
CH2	CH2 Holdings Pty Limited (ABN 80 113 630 505).
CH2 Board	the board of directors of CH2.
CH2 Business	the business carried on by the CH2 Group.
CH2 Disclosure Material	<ol style="list-style-type: none"> 1 the contents of the virtual data room hosted by Microsoft Teams in connection with the Merger as at 28 February 2024, as provided by the CH2 Sellers to ParagonCare on or around 29 February 2024; and 2 the letter from the CH2 Sellers' representative to ParagonCare disclosing certain qualifications and exceptions to the warranties given by the CH2 Sellers under the SSA, together with all documents annexed to it, and provided to ParagonCare on or before 29 February 2024.
CH2 Group	CH2 and each of its Subsidiaries, and CH2 Group Member means any one of them.
CH2 Information	<p>information regarding the CH2 Group provided or prepared by or on behalf of CH2 or the CH2 Sellers for inclusion in this Explanatory Memorandum or the Notice of Meeting.</p> <p>For the avoidance of doubt, the CH2 Information excludes the ParagonCare Information, the Independent Expert's Report and any other report or opinion prepared by an external adviser to CH2.</p>
CH2 Material Adverse Event	<p>means any change, effect or other matter (whenever occurring) that is not known to ParagonCare at the time of the SSA (Specified Event) and despite any other provision of the SSA or the course of dealings between the parties in connection with the SSA:</p> <ol style="list-style-type: none"> 1 that has or is reasonably likely to have either individually or in aggregate with all such changes, effects or matters, with or without notice, lapse of time or both:

Term	Meaning
	<ul style="list-style-type: none"> – a material adverse effect on the status, terms or prospects for renewal of any Authorisation which is material to the operation of the CH2 Group; – the effect of a diminution in the EBITDA of the CH2 Group in one or more consecutive financial years, taken as a whole, by at least \$5.4 million against what it would reasonably have been expected to have been but for such Specified Event; or – the effect of a diminution in the consolidated net assets of the CH2 Group, taken as a whole, by at least \$2.3 million against what it would reasonably have been expected to have been but for such Specified Event; <p>2 being, material litigation being commenced against any CH2 Group Member; or</p> <p>3 being, a material default under any CH2 Material Contract, other than a change, effect or other matter:</p> <p>4 required or expressly permitted by the SSA or any other Transaction Document or which directly results from a Transaction Document or the Merger;</p> <p>5 Disclosed in the CH2 Disclosure Material;</p> <p>6 arising from changes in economic or business conditions that impact on the CH2 Group and its competitors in a similar manner (including interest rates, general economic, political or business conditions, including disruptions to, or fluctuations in, domestic or international financial markets);</p> <p>7 which ParagonCare has previously approved or agreed to in writing or which arises as a result of a ParagonCare Group Member taking or refusing to take certain action within their control required under any Transaction Document in respect of a CH2 Group Member or the CH2 Business;</p> <p>8 arising as a result of any applicable change in law, regulation, Accounting Standards or generally accepted accounting principles or the interpretation of any such standards or principles, or policy of a Government Agency; or</p> <p>9 arising from any outbreak or escalation of war (whether or not declared) or major hostilities, an act of God, lightning, storm, flood, fire, earthquake or explosion, cyclone, tidal wave, landslide, other natural disaster or adverse weather conditions or the like.</p>
CH2 Material Contract	the contracts agreed in writing for this purpose under the SSA by the CH2 Sellers and ParagonCare.
CH2 Sellers	1 Peter Andre Lacaze and Dianne Maree Lacaze as trustees for the Lacaze Family Trust; and

Term	Meaning
	<p>2 David Keith Collins and Cherie Maria Millar as trustees for the Collins Millar Family Trust.</p>
Clifford Hallam	Clifford Hallam Healthcare Pty Limited (ACN 001 655 554).
Competing Proposal	<p>any proposal, agreement, arrangement or transaction, which, if entered into or completed, would result in a Third Party (either alone or together with any Associate):</p> <ol style="list-style-type: none"> 1 directly or indirectly acquiring a Relevant Interest in, or having a right to acquire, a legal, beneficial or economic interest in, or Control of, 20% or more of the ParagonCare Shares; 2 acquiring Control of ParagonCare or any other material ParagonCare Group Member that holds a substantial part of the ParagonCare Group Business; 3 directly or indirectly acquiring or becoming the holder of, or otherwise acquiring or having a right to acquire, a legal, beneficial or economic interest in, or Control of, all or a substantial part of the business or assets of the ParagonCare Group; 4 otherwise directly or indirectly acquiring or merging with ParagonCare or another material ParagonCare Group Member that holds a substantial part of the ParagonCare Group Business; or 5 requiring ParagonCare to abandon, or otherwise fail to proceed with, the Merger, <p>whether by way of takeover bid, members' or creditors' scheme of arrangement, shareholder approved acquisition, capital reduction, buy-back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), deed of company arrangement, any debt for equity arrangement or other transaction or arrangement.</p> <p>Each successive material modification or variation of a Competing Proposal will constitute a new Competing Proposal.</p>
Completion	completion of the Merger.
Conditions	the conditions to Completion summarised in Sections 4.3 and 9.5 of this Explanatory Memorandum.
Consideration Shares	943,524,072 ParagonCare Shares.

Term	Meaning
Control	has the meaning given in section 50AA of the Corporations Act.
Corporations Act	the <i>Corporations Act 2001</i> (Cth), as modified or varied by ASIC.
Covenantors	<ol style="list-style-type: none"> 1 Peter Andre Lacaze; and 2 David Keith Collins.
Disclosed	fairly disclosed in sufficient detail to enable a sophisticated investor, experienced in transactions of the nature of the Merger and being advised by professional advisers, to assess the nature of the matter disclosed.
EBITDA	the underlying earnings before interest, tax, depreciation and amortisation.
Employment Agreement	the employment agreement to be entered into between ParagonCare and David Collins in the form as agreed between ParagonCare and the CH2 Sellers.
Escrow Deeds	the escrow deeds to be entered into between each CH2 Seller and ParagonCare in respect of the escrow of each CH2 Seller's Consideration Shares on the terms and conditions therein, in the form as agreed between ParagonCare and the CH2 Sellers.
Explanatory Memorandum	this explanatory memorandum.
Government Agency	<p>whether foreign or domestic:</p> <ol style="list-style-type: none"> 1 a government, whether federal, state, territorial or local or a department, office or minister of a government acting in that capacity; or 2 a commission, delegate, instrumentality, agency, board, or other government, semi government, judicial, administrative, monetary or fiscal body, department, tribunal, entity or authority, whether statutory or not, and includes any self-regulatory organisation established under statute or any stock exchange.
Independent Expert	SW, the independent expert in respect of the Merger appointed by ParagonCare.

Term	Meaning
Independent Expert's Report	the report issued by the Independent Expert in connection with the Merger, as set out in Annexure 2.
Item 7 Section 611 Resolution	the resolution to approve the issue of the Consideration Shares to the CH2 Sellers in accordance with item 7 of section 611 of the Corporations Act, as set out in Merger Resolution 1 of the Notice of Meeting.
Meeting	the meeting of ParagonCare Shareholders to consider and vote on the Merger Resolutions and includes any meeting convened following any adjournment or postponement of that meeting.
Merged Group	the ParagonCare Group and the CH2 Group following completion of the Merger.
Merger	the proposed merger between ParagonCare and CH2 to be undertaken by ParagonCare acquiring 100% of the shares in the capital of CH2 from the CH2 Sellers in consideration for the issue of the Consideration Shares, and otherwise as described in Section 4.1.
Merger Resolutions	the resolutions to be voted on at the Meeting, the details of which are set out in the Notice of Meeting, and each is a Merger Resolution .
Notice of Meeting	the notice convening the Meeting.
ParagonCare	Paragon Care Limited (ABN 76 064 551 426).
ParagonCare Board	the board of directors of ParagonCare.
ParagonCare Business	the business carried on by the ParagonCare Group.
ParagonCare Director	a member of the ParagonCare Board.
ParagonCare Disclosure Material	the contents of the virtual data room hosted by Microsoft Teams in connection with the Merger as at 28 February 2024, as provided by ParagonCare to the CH2 Sellers on or around 29 February 2024.

Term	Meaning
ParagonCare Employee Incentive Plan	the employee incentive plan approved by ParagonCare Shareholders at the 2021 annual general meeting.
ParagonCare Group	ParagonCare, its Related Bodies Corporate and, on and from Completion only, the CH2 Group, and ParagonCare Group Member means any one of them.
ParagonCare Information	<p>information regarding the ParagonCare Group provided or prepared by or on behalf of the ParagonCare Group for inclusion in this Explanatory Memorandum or the Notice of Meeting.</p> <p>For the avoidance of doubt, the ParagonCare Information excludes the CH2 Information, the Independent Expert's Report and any other report or opinion prepared by an external adviser to ParagonCare.</p>
ParagonCare Material Adverse Event	<p>means any change, effect or other matter (whenever occurring) that is not known to the CH2 Sellers at the time of the SSA (Specified Event) and despite any other provision of the SSA or the course of dealings between the parties in connection with the SSA:</p> <ol style="list-style-type: none"> 1 that has or is reasonably likely to have either individually or in aggregate with all such changes, effects or matters, with or without notice, lapse of time or both: <ul style="list-style-type: none"> – a material adverse effect on the status, terms or prospects for renewal of any Authorisation which is material to the operation of the ParagonCare Group; – the effect of a diminution in the EBITDA of the ParagonCare Group in one or more consecutive financial years, taken as a whole, by at least \$3.9 million against what it would reasonably have been expected to have been but for such Specified Event; or – the effect of a diminution in the consolidated net assets of the ParagonCare Group, taken as a whole, by at least \$25 million against what it would reasonably have been expected to have been but for such Specified Event; 2 being, material litigation being commenced against any ParagonCare Group Member; or 3 being, a material default under any ParagonCare Material Contract, <p>other than a change, effect or other matter:</p> <ol style="list-style-type: none"> 4 required or expressly permitted by the SSA or any other Transaction Document or which directly results from a Transaction Document or the Merger; 5 Disclosed in the ParagonCare Disclosure Material;

Term	Meaning
	<p>6 arising from changes in economic or business conditions that impact on the ParagonCare Group and its competitors in a similar manner (including interest rates, general economic, political or business conditions, including disruptions to, or fluctuations in, domestic or international financial markets);</p> <p>7 which the CH2 Sellers have previously approved or agreed to in writing or which arises as a result of a CH2 Group Member taking or refusing to take certain action within their control required under any Transaction Document in respect of a ParagonCare Group Member or the ParagonCare Business;</p> <p>8 arising as a result of any applicable change in law, regulation, Accounting Standards or generally accepted accounting principles or the interpretation of any such standards or principles, or policy of a Government Agency; or</p> <p>9 arising from any outbreak or escalation of war (whether or not declared) or major hostilities, an act of God, lightning, storm, flood, fire, earthquake or explosion, cyclone, tidal wave, landslide, other natural disaster or adverse weather conditions or the like.</p>
ParagonCare Material Contract	the contracts agreed in writing for this purpose under the SSA by the CH2 Sellers and ParagonCare.
ParagonCare Share	a fully paid ordinary share in the capital of ParagonCare.
ParagonCare Share Register	the register of members of ParagonCare maintained in accordance with the Corporations Act.
ParagonCare Share Registry	Link Market Services Limited (ABN 54 083 214 537).
ParagonCare Shareholder	each person who is registered as the holder of a ParagonCare Share in the ParagonCare Share Register.
Performance Right	a right issued under an employee incentive plan which confers on the holder a right to acquire a ParagonCare Share, as set out in Section 9.2.
PPSA	the <i>Personal Property Securities Act 2009</i> (Cth).
Related Bodies Corporate	has the meaning given in the Corporations Act.

Term	Meaning
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
RG 74	ASIC Regulatory Guide 74 (Acquisitions approved by members) issued in December 2011.
Security Interest	a right, interest, power or arrangement in relation to any property which provides security for the payment or satisfaction of a debt, obligation or liability, including a mortgage, charge, bill of sale, pledge, deposit, lien, encumbrance or hypothecation and a security interest as defined in sections 12(1) and 12(2) of the PPSA.
Share Sale Agreement or SSA	the share sale agreement between ParagonCare, the CH2 Sellers, Peter Andre Lacaze and David Keith Collins dated 29 February 2024 in respect of the Merger.
Subsidiary	has the meaning given in the Corporations Act.
Superior Proposal	<p>a bona fide Competing Proposal and not resulting from a breach by ParagonCare of any of its obligations under clause 17.2 or 17.3 of the SSA which the ParagonCare Board, acting in good faith, and after receiving written legal advice from its legal adviser and written advice from its financial adviser, determines:</p> <ol style="list-style-type: none"> 1 is reasonably capable of being valued and completed in a reasonable timeframe and substantially in accordance with its terms; and 2 would, if completed substantially in accordance with its terms, be reasonably likely to be more favourable to ParagonCare Shareholders (as a whole) than the Merger, <p>in each case taking into account all terms and conditions and other aspects of the Competing Proposal (including any timing considerations, any conditions precedent, the identity, expertise, reputation and technical and financial capacity of the proponent or other matters affecting the probability of the Competing Proposal being completed) and of the Merger.</p>
SW	ShineWing Australia Securities Pty Ltd.
Third Party	any person or entity (including a Government Agency) other than a CH2 Seller, a ParagonCare Group Member or a CH2 Group Member.

Term	Meaning
Transaction Document	<ol style="list-style-type: none"> 1 the SSA; 2 the confidentiality agreement dated 20 December 2023 between ParagonCare and CH2; 3 the Employment Agreement; 4 the Escrow Deeds; 5 any other documents which ParagonCare and the CH2 Sellers' representative agree in writing are Transaction Documents for the purposes of the SSA; and 6 each document entered into or provided in connection with any of the documents described in paragraphs 1 to 5.
Voting Power	has the meaning given to that term in the Corporations Act.

10.2 Interpretation

In this Explanatory Memorandum, unless expressly stated or the context otherwise appears:

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing a gender include any gender;
- (c) words importing the singular include the plural and vice versa;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section or annexure is a reference to a section of and an annexure to this Explanatory Memorandum as relevant;
- (f) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- (g) headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Memorandum;
- (h) a reference to time is a reference to time in Melbourne, Australia;
- (i) a reference to writing includes facsimile or email transmissions; and
- (j) a reference to dollars, \$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

Annexure 1

Notice of Meeting

Notice of Meeting

Notice is hereby given that a general meeting of the members of Paragon Care Limited (ACN 064 551 426) (**ParagonCare**) will be held through an online meeting platform at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg, commencing at 12.00pm (Melbourne time) on Monday, 3 June 2024 for the purposes outlined below (**Meeting**).

Important

- The accompanying Explanatory Memorandum describes the various matters to be considered at the Meeting and contains information required in respect of the Meeting. It forms part of, and should be read together with, this Notice of Meeting.
- Capitalised terms used in this notice have the same meaning given to them in the Glossary contained in the Explanatory Memorandum, unless the context requires otherwise.

Agenda

The business of the Meeting is to consider and if thought fit pass six resolutions in connection with the Merger (**Merger Resolutions**).

The purpose of Merger Resolution 1 is to enable ParagonCare to issue the Consideration Shares to the CH2 Sellers.

Merger Resolutions 2 and 3 relate to the issue and conversion of Performance Rights.

Merger Resolutions 4 – 6 relate to proposed appointments to the ParagonCare Board.

Merger Resolutions 1 – 6 are conditions to implementation of the Merger.

The ParagonCare Directors unanimously recommend that you vote in favour of the Merger Resolutions, in the absence of a Superior Proposal.¹

Each ParagonCare Director intends to vote any ParagonCare Shares they hold or control in favour of the Merger Resolutions, in the absence of a Superior Proposal and subject to the applicable voting exclusions.

Merger Resolution 1 - Proposed issue of the Consideration Shares to the CH2 Sellers

To consider and if thought fit pass the following as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for ParagonCare to issue 943,524,072 ParagonCare Shares to the CH2 Sellers, which will represent approximately 57% (or a maximum of 59%) of the ParagonCare Shares on issue immediately after Completion, as consideration for the acquisition by ParagonCare of all of the issued capital in CH2, on the basis set out in the Explanatory Memorandum."

¹ John Walstab makes no recommendation in respect of Merger Resolution 2 (issue of Performance Rights to John Walstab) and Merger Resolution 3 (approval of waiver of Performance Rights vesting conditions).

Voting exclusion statement for Merger Resolution 1

In accordance with item 7 of section 611 of the Corporations Act, ParagonCare will disregard any votes cast in favour of Merger Resolution 1 by or on behalf of the CH2 Sellers or any of their Associates.

As at the date of this Notice of Meeting, the CH2 Sellers do not hold a Relevant Interest in any ParagonCare Shares.

Merger Resolution 2 - approval of issue of Performance Rights to Mr John Walstab

To consider and if thought fit pass the following as an ordinary resolution:

“That the grant of 26,000,000 Performance Rights (being a right to acquire up to 26,000,000 fully paid ordinary shares in ParagonCare, subject to the satisfaction of relevant vesting conditions) to Mr John Walstab, Managing Director of ParagonCare, (or his nominee) under the ParagonCare Employee Incentive Plan on the basis set out in the Explanatory Memorandum is approved under and for the purpose of ASX Listing Rule 10.14, sections 200B and 200E of the Corporations Act and for all other purposes.”

Voting exclusion statement for Merger Resolution 2

ParagonCare will disregard any votes cast on Merger Resolution 2:

- by or on behalf of Mr John Walstab or a person referred to in ASX Listing Rule 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the ParagonCare Employee Incentive Plan or any associates of such persons, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of ParagonCare’s key management personnel at the date of Meeting or their closely related parties.

However, votes will not be disregarded if they are cast:

- as proxy or attorney for a person who is entitled to vote on Merger Resolution 2, in accordance with directions given to the proxy or attorney to vote on Merger Resolution 2 in that way;
- by the Chairman of the Meeting as proxy for a person who is entitled to vote on Merger Resolution 2, in accordance with an express authorisation given to the Chairman to exercise the proxy as the Chairman decides; or
- by a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on Merger Resolution 2; and
 - the holder votes on Merger Resolution 2 in accordance with directions given by the beneficiary to the holder to vote in that way.

Merger Resolution 3 - approval of waiver of vesting conditions for Performance Rights

To consider and if thought fit pass the following as an ordinary resolution:

"Subject to the approval of Merger Resolution 2, that, for the purposes of ASX Listing Rule 6.23.4 and for all other purposes, approval is given for the ParagonCare Board to exercise its discretion under clause 6.2 of the ParagonCare Employee Incentive Plan to waive all vesting conditions attaching

to all Performance Rights on issue, on the basis set out in the Explanatory Memorandum."

Voting exclusion statement for Merger Resolution 3

ParagonCare will disregard any votes cast on Merger Resolution 3:

- in favour of Merger Resolution 3 by or on behalf of any person who holds a Performance Right under the ParagonCare Employee Incentive Plan or any associates of such persons, regardless of the capacity in which the vote is cast; and
- as proxy by a person who is a member of ParagonCare's key management personnel at the date of Meeting or their closely related parties.

However, votes will not be disregarded if they are cast:

- as proxy or attorney for a person who is entitled to vote on Merger Resolution 3, in accordance with directions given to the proxy or attorney to vote on Merger Resolution 3 in that way;
- by the Chairman of the Meeting as proxy for a person who is entitled to vote on Merger Resolution 3, in accordance with an express authorisation given to the Chairman to exercise the proxy as the Chairman decides; or
- by a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on Merger Resolution 3; and
 - the holder votes on Merger Resolution 3 in accordance with directions given by the beneficiary to the holder to vote in that way.

Merger Resolution 4 - Proposed appointment of David Collins as a director of ParagonCare

To consider and if thought fit pass the following as an ordinary resolution:

"That David Collins be appointed as a director of ParagonCare subject to, and with effect from completion of, the acquisition of CH2."

Merger Resolution 5 - Proposed appointment of Carmen Riley as a director of ParagonCare

To consider and if thought fit pass the following as an ordinary resolution:

"That Carmen Riley be appointed as a director of ParagonCare subject to, and with effect from completion of, the acquisition of CH2."

Merger Resolution 6 - Proposed appointment of Peter Lacaze as a director of ParagonCare

To consider and if thought fit pass the following as an ordinary resolution:

"That Peter Lacaze be appointed as a director of ParagonCare subject to, and with effect from completion of, the acquisition of CH2."

Attendance and voting

Voting entitlement

For the purposes of determining voting entitlements at the Meeting, persons who are registered as holding ParagonCare Shares at 7.00 pm (Melbourne time) on Saturday, 1 June 2024 will be eligible to attend and vote at the Meeting. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Voting online

ParagonCare Shareholders can attend and participate in the online Meeting via the below details.

ParagonCare Shareholders can register in advance for the online Meeting:

https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg.

After registering, you will receive a confirmation email containing information about joining the Meeting. ParagonCare strongly recommends that ParagonCare Shareholders lodge a directed proxy as soon as possible in advance of the Meeting even if they are planning to attend the Meeting online. To lodge your proxy, please follow the directions on your personalised proxy form.

ParagonCare is happy to accept and answer questions submitted prior to the meeting by email to shareholders@paragoncare.com.au. ParagonCare will address relevant questions during the Meeting or by written response after the Meeting (subject to the discretion of ParagonCare not to respond to unreasonable and/or offensive questions).

Technical difficulties when attending online

Technical difficulties may arise during the course of the Meeting. The Chairman of the Meeting has discretion as to whether and how the Meeting should proceed in the event that a technical difficulty arises. In exercising their discretion, the Chairman of the Meeting will have regard to the number of ParagonCare Shareholders impacted and the extent to which participation in the business of the Meeting is affected. Where they consider it appropriate, the Chairman of the Meeting may continue to hold the Meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions. For this reason, ParagonCare Shareholders are encouraged to lodge a directed proxy by 12.00pm (Melbourne time) Saturday, 1 June 2024, even if they plan to attend the Meeting online.

Proxy instructions

ParagonCare Shareholders are entitled to appoint up to two individuals or body corporates to act as proxies to attend and vote on their behalf by completing and returning a proxy form. The proxy may, but need not, be a shareholder of ParagonCare. A proxy form is attached to this Notice of Meeting.

Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion of the ParagonCare Shareholder's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed), once completed and signed, must be lodged:

- **online** at www.linkmarketservices.com.au. ParagonCare Shareholders will need their Shareholder Reference Number (SRN) or Holder Identification Number (HIN) which is shown on the proxy form;

- **by post to:**
 Paragon Care Limited
 C/- Link Market Services Limited
 Locked Bag A14
 Sydney South NSW 1235
 Australia;
 - **by facsimile** to +61 (02) 9287 0309; or
 - **by hand to:**
 Link Market Services Limited*
 Parramatta Square
 Level 22, Tower 6
 10 Darcy Street
 Parramatta NSW 2150
- or
- Level 12
 680 George Street
 Sydney NSW 2000

*During business hours (Monday to Friday, 9:00am – 5:00pm).

You must ensure that your proxy form is received by ParagonCare by 12.00pm (Melbourne time) Saturday, 1 June 2024 (being at least 48 hours before the time of the Meeting). Proxy forms received later than this time will be invalid.

The proxy form must be signed by the ParagonCare Shareholder or the ParagonCare Shareholder's attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act or under the hand of a duly authorised officer or attorney. If an attorney signs the proxy form on behalf of a ParagonCare Shareholder, the original or a certified copy of the power of attorney or other evidence of the attorney's authority must be received by ParagonCare at the same time as the proxy form (unless previously provided to ParagonCare).

In the case of ParagonCare Shares jointly held by two or more persons, all joint holders must sign the proxy form.

If a proxy is directed to vote on an item of business in a particular way, the proxy may only vote on that item as directed. If a proxy is not directed on how to vote, the proxy may vote as they see fit at the Meeting, subject to any applicable voting restrictions.

Unless the Chairman of the Meeting is your proxy, members of ParagonCare's key management personnel (which includes each of the Directors) will not be able to vote as proxy on Merger Resolutions 2 and 3, unless you direct them how to vote. If you intend to appoint a member of the key management personnel (such as one of the ParagonCare Directors) as your proxy, you should ensure that you direct that person how to vote on Merger Resolutions 2 and 3.

If a ParagonCare Shareholder appoints the Chairman of the Meeting as its proxy (or the Chairman of the Meeting becomes its proxy by default) and the ParagonCare Shareholder does not direct its proxy on how to vote on the Merger Resolutions, the Chairman will be authorised to vote as he decides on the Merger Resolutions. The Chairman intends to vote undirected proxies in favour of the Merger Resolutions.

All Merger Resolutions will be decided by poll. On a poll, if:

- a ParagonCare Shareholder has appointed a proxy (other than the Chairman of the Meeting) and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and

- that ParagonCare Shareholder's proxy is either not recorded as attending the Meeting or does not vote on the resolution,

the Chairman of the Meeting will, before voting on the Merger Resolution closes, be taken to have been appointed as the proxy for the ParagonCare Shareholder for the purposes of voting on that resolution and must vote in accordance with the written direction of that ParagonCare Shareholder.

Voting by attorney

ParagonCare Shareholders may appoint an attorney to attend and vote at the Meeting on their behalf. The attorney may, but need not, be a shareholder of ParagonCare.

The power of attorney appointing an attorney to attend and vote at the Meeting must be signed by the ParagonCare Shareholder and specify their name, ParagonCare, and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.

Unless previously provided to ParagonCare, the original or a certified copy of the power of attorney must be lodged:

- **online** at www.linkmarketservices.com.au;

- **by post** to:

Paragon Care Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia;

- **by facsimile** to +61 (02) 9287 0309; or

- **by hand** to:

Link Market Services Limited*
Parramatta Square
Level 22, Tower 6
10 Darcy Street
Parramatta NSW 2150

or

Level 12
680 George Street
Sydney NSW 2000

*During business hours (Monday to Friday, 9:00am – 5:00pm).

The power of attorney must be received by ParagonCare by 12.00pm (Melbourne time) Saturday, 1 June 2024.

Corporate representative

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case ParagonCare will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act. The certificate of appointment must be lodged with ParagonCare before the Meeting.

A corporate representative form may be obtained from <https://www.linkmarketservices.com.au/corporate/resources/forms.html>.

Alternative arrangements

ParagonCare Shareholders should monitor ParagonCare's website and its ASX announcements for any updates about the Meeting. If it becomes necessary or appropriate to make alternative arrangements for the holding or conducting of the Meeting, ParagonCare will make further information available through the ASX website at www.asx.com.au (ASX: PGC) and on its website at <https://paragoncare.com.au/>.

By order of the ParagonCare Board

A handwritten signature in black ink, appearing to read 'Shane Tanner', written in a cursive style.

Shane Tanner
Chairman
Paragon Care Limited

2 May 2024

Annexure 2

Independent Expert's Report

Paragon Care Limited

Independent Expert's Report

April 2024

FINANCIAL SERVICES GUIDE

We are required to issue to you, as a retail client, a Financial Service Guide (**FSG**). The FSG, dated 29 April 2024, is designed to assist retail clients in their use of the general financial product advice provided by ShineWing Australia Securities Pty Ltd ABN 98 614 606 389 (**ShineWing Australia Securities**), Australian Financial Services License (**AFSL**) number 509026. This FSG contains important information about:

- a. Who we are, what our engagement is and who engaged our services;
- b. The services we are authorised to provide under the AFSL held by ShineWing Australia Securities;
- c. Remuneration that we may receive in connection with the preparation of the general financial product advice;
- d. Any relevant associations, relationships and or referrals arrangements;
- e. Our internal and external complaints handling procedures and how you may access them;
- f. The compensation arrangements that ShineWing Australia Securities has in place;
- g. Our privacy policy; and
- h. Our contact details.

This FSG forms part of an Independent Expert's Report (**Report**) which has been prepared for inclusion in an Explanatory Memorandum to be dated on or about 29 April 2024 prepared by Paragon Care Limited ACN 064 551 426 (**Explanatory Memorandum**). The purpose of the Explanatory Memorandum is to help you make an informed decision in relation to a financial product.

1. About us

ShineWing Australia Securities is a related entity of ShineWing Australia and independent member of ShineWing International Limited.

The general financial product advice in our Report is provided by ShineWing Australia Securities and not by ShineWing Australia which provide services primarily in the areas of audit, tax and business consulting.

ShineWing Australia Securities has been engaged by Paragon Care Limited to issue a Report for inclusion in the Explanatory Memorandum.

2. Financial services we are authorised to provide and our responsibility to you

We are authorised to provide general financial product advice for securities only to retail and wholesale clients.

The Report contains only general financial product advice as it was prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice in the Report having regard to your circumstances and consider obtaining personal financial advice from an appropriately licensed person before you act on the general advice in the Report.

You should also consider all other parts of the Explanatory Memorandum before making any decision in relation to the financial product.

The Report has been prepared for the directors of Paragon Care Limited. You have not engaged us directly but have received a copy of the Report because you have been provided with a copy of the Explanatory Memorandum.

ShineWing Australia Securities is not acting for any person other than Paragon Care Limited.

ShineWing Australia Securities is responsible and accountable to you for ensuring there is a reasonable basis for the conclusions in the Report.

3. Fees, commission and other benefits we may receive

ShineWing Australia Securities charges fees for providing reports, which are agreed to upfront, and paid by, the entity who engages us to provide the report.

Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In this case, Paragon Care Limited has agreed to pay us approximately \$100,000 for preparing the Report.

Except for the fees referred to above, neither ShineWing Australia, nor any of its directors, authorised representatives, employees, associates or related entities, received any pecuniary benefit, directly or indirectly, for or in connection with the provision of the Report. All employees receive a salary and bonus based on overall productivity and not linked to our opinions expressed in this Report.

Further details may be provided on request.

4. Associations, relationships and referrals

The ShineWing Australia group, including ShineWing Australia and ShineWing Australia Securities are members of ShineWing International Limited, consisting of independent member firms and correspondents.

ShineWing Australia and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products in the ordinary course of its business. Partners of ShineWing Australia through their shareholdings will receive a direct benefit from the fees received below.

No individual involved in the preparation of the Report holds an interest in, or is a substantial creditor of Paragon Care Limited or has other material financial interests in the transaction proposed by the Explanatory Memorandum.

ShineWing Australia group does not pay commissions or provide any benefits to any person for referring customers to them in connection with the Report.

5. Complaints

Internal complaints resolution

If you have concerns with the general advice provided in the Report, please contact us at the details provided in section 8 below. If your concerns are not addressed in a timely manner, please send your complaint in writing to the Complaints Manager, ShineWing Australia Pty Ltd, Level 10, 530 Collins St, Melbourne, VIC 3000.

External dispute resolution

If your concern is not resolved, or if you are not satisfied with the decision, you may contact the Australian Financial Complaints Authority (**AFCA**).

AFCA is an ASIC-approved external dispute resolution body and provides fair and independent financial services complaint resolution that is free to consumers. Their contact details are as follows:

Australian Financial Complaints Authority

GPO Box 3, Melbourne VIC 3001

Telephone: 1 800 931 678

Email: info@afca.org.au

Website: www.afca.org.au

The Australian Securities & Investments Commission (**ASIC**) is Australia's corporate, markets and financial services regulator. ASIC contributes to maintaining Australia's economic reputation by ensuring that Australia's financial markets are fair and transparent, and is supported by informed investors and consumers alike. ASIC seeks to protect consumers against misleading or deceptive and unconscionable conduct affecting all financial products and services. You may contact ASIC by:

Australian Securities & Investments Commission

GPO Box 9827, Your Capital City

Phone: 1300 300 630

Website: www.asic.gov.au

Before you send your concern to any of these respective bodies, please contact them first to understand the process of lodging your concern with them.

6. Compensation arrangements

The law requires ShineWing Australia Securities to have arrangements in place to compensate certain persons for the loss or damage they suffer from certain breaches of the Corporations Act made by its past and present representatives.

7. Privacy Statement

We are required or authorised to collect personal information from you by certain laws. Details of these laws are in our privacy policy.

Our full privacy policy is available at <http://www.shinewing.com.au/privacy-policy>. It covers:

- a. how you can access the personal information we hold about you and ask for it to be corrected;
- b. how you may complain about a breach of the Privacy Act 1988 (Cth), or a registered privacy code and how we will deal with your complaint; and;
- c. how we collect, hold, use and disclose your personal information in more detail.

We will update our privacy policy from time to time.

Where you have provided information about another individual, you must make them aware of that fact and the contents of this privacy statement.

8. Contact Details—ShineWing Australia Securities

Level 10, 530 Collins Street

Melbourne, VIC 3000

Australia

T: +61 3 8635 1800

F: +61 3 8102 3400

www.sw-au.com.au

This Financial Services Guide has been authorised for distribution by the authorising licensee.

References to 'we' or 'us' or 'ours' should be read as ShineWing Australia Securities Pty Ltd (ABN 98 614 606 389), AFSL 509026.

29 April 2024

The Directors

Paragon Care Limited

Level 4, 96-100 Albert Road

SOUTH MELBOURNE VIC 3205

Dear Directors

Independent expert's report

1. Introduction

Paragon Care Limited (**PGC** or the **Company**) is listed on the Australian Securities Exchange (**ASX**) and is a healthcare distributor, manufacturer and service provider for high-end medical equipment, devices, consumables for hospitals, private clinics, aged care, veterinary and scientific markets throughout Australia, New Zealand and Asia. As at 3 April 2024, PGC has a market capitalisation of \$207.0 million.

CH2 Holdings Pty Limited (**CH2**) is a distributor and wholesaler of pharmaceuticals, nutritional, medical consumables and complementary medicines. CH2 is equally owned by Peter Andre Lacaze and Dianne Lacaze as trustees for the Lacaze Family Trust (**Lacaze Family Trust**) and David Keith Collins and Cherie Maria Millar as trustees for Collins Millar Family Trust (**Collins Millar Family Trust**) (collectively, the **Sellers**).

On 1 March 2024, PGC announced that it had entered into a share sale agreement (**SSA**) dated 29 February 2024 with the Sellers, whereby PGC will acquire 100% of the issued share capital in CH2 pursuant to a proposed merger of PGC and CH2 (**Merger**). The consideration for the Merger will be paid by way of issuing 943,524,072 new ordinary shares in PGC (**Consideration Shares**) at an issue price of \$0.214¹ per share, which implies a purchase price of \$201.5 million for CH2.

PGC currently has 667,868,179 ordinary shares on issue. The total PGC shares on issue immediately post-completion of the Merger will be 1,655,305,389².

¹ Based on the 3-month volume weighted average price of PGC shares up to, but not including, 29 February 2024.

² Subject to the approval of PGC Shareholders, John Walstab (Chief Executive Officer and Managing Director of PGC), will be entitled to be granted 26,000,000 performance rights in accordance with his employment agreement. The total PGC shares on issue of 1,655,305,389 immediately post-completion of the Merger assumes the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

Brisbane
Level 15
240 Queen Street
Brisbane QLD 4000
T + 61 7 3085 0888

Melbourne
Level 10
530 Collins Street
Melbourne VIC 3000
T + 61 3 8635 1800

Perth
Level 18
197 St Georges Terrace
Perth WA 6000
T + 61 8 6184 5980

Sydney
Level 7, Aurora Place
88 Phillip Street
Sydney NSW 2000
T + 61 2 8059 6800



On completion of the Merger, the Sellers will collectively hold 57%³ of the issued shares in PGC on a diluted basis, with each of the Sellers holding more than 20% of the voting shares in PGC post-Merger (**Merged PGC**) on a diluted basis.

If the Merger completes, CH2 will become a wholly-owned subsidiary of Merged PGC and PGC will remain a listed ASX entity.

The Sellers will be restricted from dealing with the Consideration Shares for two years following completion of the Merger, subject to certain exceptions.

All currencies are in Australian dollars unless stated otherwise.

2. Purpose of the report

Following the issue of the Consideration Shares, Collins Millar Family Trust will hold 28.5%⁴ of Merged PGC shares while Lacaze Family Trust will hold 28.5%⁵ of Merged PGC shares, on a diluted basis.

Section 606 of the Corporations Act 2001 (Cth) (**Corporations Act**) prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point that is above 20% and below 90%, subject to certain exemptions.

Item 7 of section 611 of the Corporations Act provides an exemption to the section 606 prohibition where shareholders approve an acquisition at a general meeting of the company.

To assist the shareholders of PGC (**PGC Shareholders**) in assessing the Merger, the directors of PGC have requested ShineWing Australia Securities Pty Ltd (**ShineWing Australia Securities** or **SW Securities**) to prepare an Independent Expert's Report (**Report**) setting out whether, in our opinion, the Merger is fair and reasonable to the PGC Shareholders for the purposes of Section 611(7) of the Corporations Act.

This Report has been prepared for inclusion in PGC's Explanatory Memorandum (**Explanatory Memorandum**) to accompany the Notice of Meeting to be sent to the PGC Shareholders to assist them in deciding whether to approve the Merger.

For the avoidance of doubt, other than Merger Resolution 1, we have not been engaged to form an opinion on the other Merger Resolutions in the Explanatory Memorandum.

3. Summary of opinion

In ShineWing Australia Securities' opinion, in the absence of a superior proposal, the Merger is **fair and reasonable to the PGC Shareholders**.

Assessment of fairness

In accordance with our basis of evaluation (set out in **Section 2** of this Report), we have assessed whether the Merger is fair by comparing our assessed value of a PGC share before the Merger (on a control basis) to our assessed value of a Merged PGC share following completion of the Merger (on a minority basis).

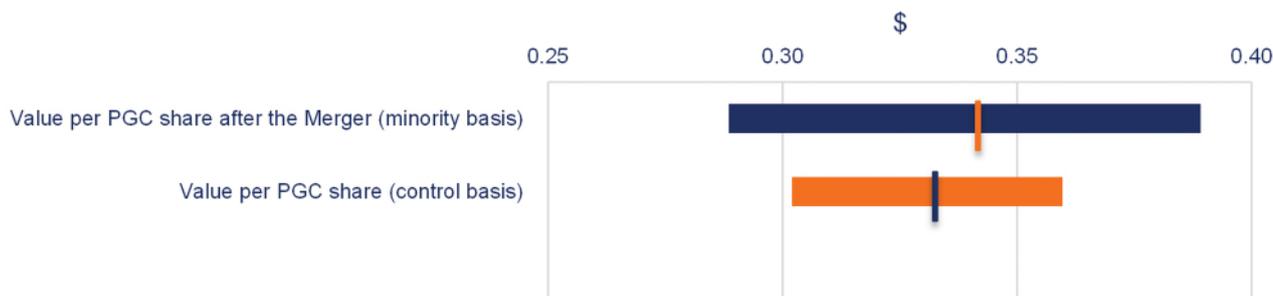
³ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

⁴ Ibid

⁵ Ibid

The result of our analysis is set out below:

Value per PGC share



Source: SW Securities analysis

As our assessed fair market value of a PGC share (on a controlling basis) before the Merger of between \$0.30 and \$0.36 overlaps the fair market value of a Merged PGC share (on a minority basis) of between \$0.29 and \$0.39, we have concluded that the fair market value of a PGC share (on a controlling basis) before the Merger is equal to the fair market value of a PGC share after the Merger (on a minority basis) and therefore the Merger is fair to PGC Shareholders.

We consider the overlap is reasonable given Merged PGC will be much larger and more diversified. The Merger will create a business that is substantially larger and more diversified relative to the current PGC business. In our experience, large, diversified businesses typically attract increased valuations and liquidity (assuming similar growth expectations). The reasons mainly include less perceived risk, better analyst coverage, inclusion in fund manager investment mandates (size filters) and better governance.

While we appreciate there will be dilution for current shareholders, we consider the benefits of size would outweigh this dilution especially given the low levels of liquidity currently observed for PGC shares (17% of free float⁶ over the last 12 months to the day before the announcement of the Merger). While the free float will decrease for the Merged PGC, we believe that there is a good chance that liquidity measured as a percentage of free float will likely improve, which will be an advantage for PGC Shareholders.

We note that the concentrated shareholding structure for the Merged PGC may be an impediment for future takeover offers. However, the two major shareholders after the merger are both independent family groups, not large institutions, with a significant proportion of their wealth tied in the Merged PGC. As such, they may look to reduce their shareholding over time for portfolio diversification, liquidity and estate planning purposes which we consider is a part of the intent of the transaction for the two groups.

PGC Shareholders should be aware that our assessment of the value per PGC share after the Merger does not reflect the price at which PGC shares will trade if the Merger is completed. The price at which PGC shares will ultimately trade depend on a range of factors including the liquidity of the PGC shares, the underlying performance of the PGC business and macro-economic conditions.

Assessment of reasonableness

The Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 111 “Contents of Expert Reports” (**RG 111**) establishes that an offer is reasonable if it is fair. As we have assessed the Merger to be fair, we have concluded that the Merger is reasonable. Notwithstanding the statutory obligation to conclude that the Merger is

⁶ Free float excludes 129.9 million PGC shares held by John Walstab and 53.3 million PGC shares held by Pioneer Pharma Australia Pty Ltd.

reasonable, we have also considered the following likely advantages, disadvantages and other factors which the PGC Shareholders may wish to consider in assessing whether to approve the Merger.

Advantages

Operational diversification and an increase in scale after the Merger

PGC and CH2 are complementary businesses, albeit focusing on different segments of the industry. The Merger offers a more diversified product mix, as well as a larger operation and client base.

While CH2 is exposed to the margin pressure faced by the Australian pharmaceutical wholesaling industry as a result of ongoing government efforts to reduce the cost of medications falling under the Pharmaceutical Benefits Scheme (**PBS**), the Merger will create a larger entity which is expected to be better positioned to compete and grow its market share.

Potential synergies

PGC has identified pre-tax synergies of approximately \$5 million in FY25 and then approximately \$12 million per annum on a fully implemented basis from FY26 after the Merger. The implementation of the potential synergies would give rise to one-off costs of approximately \$6 million, anticipated to be incurred in the first two years after completion of the Merger.

The potential synergies include cost savings relating to headcount, site closures, interest savings and corporate overheads.

The Merged PGC is also expected to benefit from potential cross-selling opportunities across the PGC and CH2 businesses over time, but they have not been included in the estimate above as these incremental synergies are currently not easily quantifiable or timed.

Combined expertise and skills of the boards and management teams

The Merged PGC has access to the combined expertise and skills of the boards and management teams of PGC and CH2. Both management teams have significant industry experience and successful track record of integrating historical acquisitions.

Disadvantages

Change in significant shareholdings

John Walstab, PGC's largest shareholder currently holds around 19.5% of PGC shares on an undiluted basis.

Following completion of the Merger, the two largest shareholders will be Lacaze Family Trust who will control 28.5%⁷ of Merged PGC shares and Collins Millar Family Trust who will control 28.5%⁸ of Merged PGC shares, on a diluted basis. These shareholdings will enable the Sellers to influence the operations of the Merged PGC.

⁷ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

⁸ Ibid

Dilution of PGC Shareholders' interest in Merged PGC

Following completion of the Merger, PGC Shareholders' will be significantly diluted, collectively holding 43%⁹ of the shares in Merged PGC.

Liquidity of Merged PGC shares

Following completion of the Merger, the collective shareholdings of the top three shareholders (including John Walstab) will comprise around 67%¹⁰ of the issued shares in Merged PGC.

This reduces the free float of PGC shares from current levels. However, we note that:

- The trading liquidity in PGC shares on the ASX prior to the Merger is limited, with 12% of the issued shares (17% free-float¹¹ shares) traded in the last 12 months to 29 February 2024 (refer to **Section 7.5** for details).
- The Merged PGC's larger scale compared to PGC on a standalone basis may attract greater investor and broker interest, which may potentially lead to improved liquidity in Merged PGC shares in the medium to long term.

Reduced likelihood of future takeover offer

After completion of the Merger, the collective shareholdings of the top three shareholders comprise around 67% of the issued shares in Merged PGC.

We consider such high ownership concentrated amongst a limited number of shareholders may deter any other bidders for PGC, thereby reducing the likelihood of a takeover bid or other control transaction in the future.

Dividend policy

The dividend policy of Merged PGC post-completion will be determined by the PGC Board once a review has been completed on future investment opportunities in the second half of the 2024 calendar year.

Integration risks

While the Explanatory Memorandum has identified a number of advantages in relation to the Merger, as with any merger, there remains an integration risk that could adversely impact the identified benefits, including the quantum and timing of any synergies.

Other considerations

Implied premium over the trading price of PGC

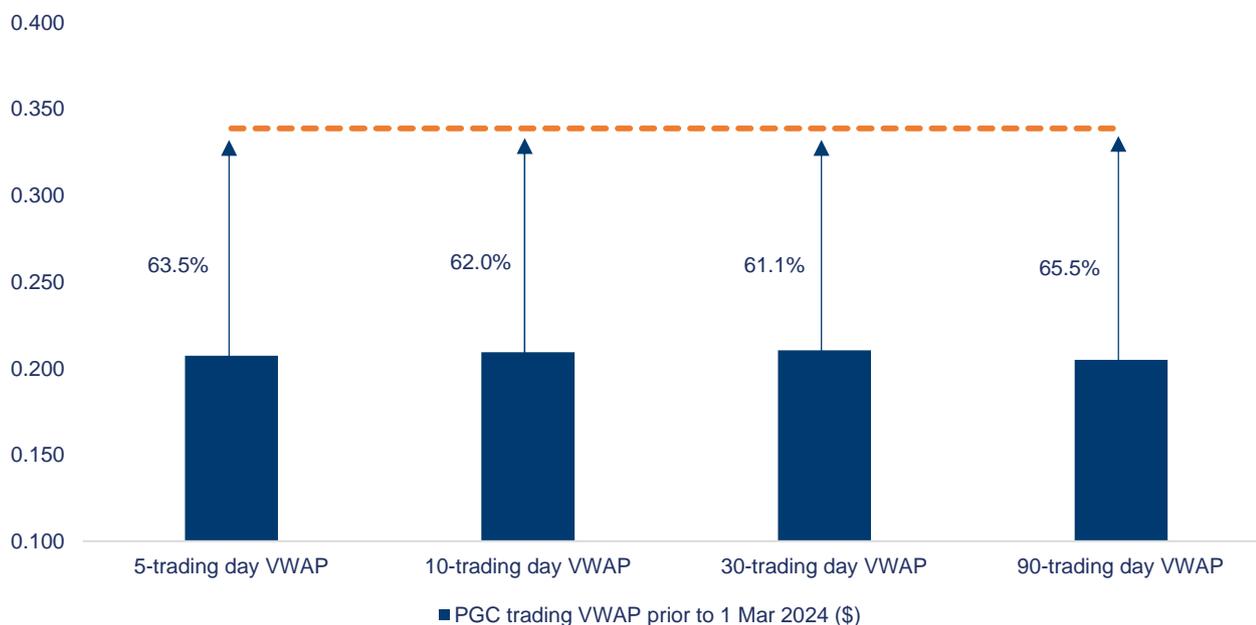
The midpoint of our assessment of the value of a Merged PGC share (on a minority basis) following completion of the Merger represents a premium ranging from 61% to 66% to PGC's historical volume weighted average price (VWAP) up to the announcement of the Merger on 1 March 2024 as shown below.

⁹ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

¹⁰ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

¹¹ Free float excludes 129.9 million PGC shares held by John Walstab and 53.3 million PGC shares held by Pioneer Pharma Australia Pty Ltd.

Implied premium to PGC VWAP before announcement of the Merger



Source: SW Securities analysis

The analysis above should be viewed with caution as our assessment of the value per PGC share after the Merger does not reflect the price at which PGC shares will trade if the Merger is completed. The liquidity of PGC shares is also limited and may not fully reflect the underlying fair market value of PGC.

Proforma financials post-Merger

PGC’s normalised EBITDA for the 12 months ended 31 December 2023 on a standalone basis is expected to increase from \$37.8 million to a Pro Forma FY24 forecast EBITDA of \$92.8 million¹² (excluding synergies, transaction costs and restructuring costs) for Merged PGC.

Implications if the Merger does not proceed

If the Merger is not approved, PGC will continue operating as it is and remain listed on the ASX.

As a result, PGC Shareholders will continue to be exposed to the ongoing benefits and risks associated with an investment in standalone PGC.

PGC share price in the absence of the Merger

The 5-trading day VWAP of PGC shares as traded on the ASX increased from \$0.207 prior to the announcement of the Merger on 1 March 2024, to \$0.304 on 3 April 2024.

While we are not in a position to anticipate the performance of PGC’s share price in the absence of the Merger, there is a risk that the price of PGC shares may decline from current levels, as the share price since the announcement has arguably been reflective of an anticipated control premium and / or merger synergies.

¹² According to the Explanatory Memorandum, the Pro Forma FY24 forecast for Merged PGC is based on nine months of actual and three months of forecast for PGC and CH2 respectively. The pro forma forecast financials include a normalisation adjustment for the full-year impact of the acquisition of Osborne Health Supplies by CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

Prospect of a superior offer

To date no superior proposal to the Merger has emerged.

Whilst PGC has agreed not to solicit any competing proposals or to participate in discussions or negotiations in relation to any competing proposals, and is liable to pay a break fee if it breaches its exclusivity obligations, there are no material impediments to an alternative proposal being submitted by potentially interested parties.

The transaction process may act as a catalyst for other interested parties and provide significant additional information in the Notice of Meeting, Explanatory Memorandum and Independent Expert's Report to enable such potential acquirers to assess the merits of potential alternative transactions.

If a superior proposal emerges before PGC Shareholders cast their vote on the Merger, the general meeting may be adjourned or PGC Shareholders may vote against it.

One-off transaction costs

If the Merger does not complete, PGC would have incurred one-off costs relating to the Merger estimated to be around \$0.9 million without gaining any benefits from the Merger. These costs relate to advisory, legal, independent expert fees and other costs associated with the Merger which will be incurred irrespective of whether the Merger is implemented.

Break fee

Under certain circumstances as set out in the SSA, PGC will pay to the Sellers a break-fee of around \$1.5 million.

Directors' recommendation

The PGC Directors have unanimously recommended that PGC Shareholders vote in favour of the Merger, in the absence of a superior proposal. Subject to the same condition and the applicable voting exclusions, each PGC Director intends to vote any PGC shares they hold or control in favour of the Merger resolution.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that on balance, the Merger is reasonable to PGC Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, ShineWing Australia Securities has concluded that in the absence of a superior proposal, the Merger is **fair and reasonable to the PGC Shareholders**.

4. Other matters

ShineWing Australia Securities has prepared a Financial Services Guide (**FSG**) in accordance with the Corporations Act.

This Report has been prepared solely for the purpose of assisting PGC Shareholders in deciding whether to approve the Merger as set out in the Explanatory Memorandum. We do not assume any responsibility or liability to any party as a result of reliance on this Report for any other purpose.

This Report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Merger to the shareholders as a whole. We have not considered the potential impact of the Merger on individual shareholders. Our opinion therefore does not consider the financial situation, objectives or needs of individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Merger on individual shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own financial situation, objectives or needs.

ShineWing Australia Securities' opinion should not be construed as a recommendation as to whether or not to vote in favour of the Merger. The decision of whether to approve the Merger is a matter for each shareholder to decide based on their views as to matters including value and future market conditions, and their particular circumstances including risk profile, liquidity preference, investment strategy and tax position. If in any doubt as to the action they should take in relation to the Merger, shareholders should consult their own professional adviser.

Our opinion is made at the date of this letter and reflects circumstances and conditions as at that date.

This letter should be read in conjunction with the full text of the Report as attached including the appendices.

Yours sincerely

ShineWing Australia Securities Pty Ltd



Phillip Rundle – Director



Vikas Nahar – Director

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1. Overview of the Merger

1.1. Key terms of the Proposed Transaction

PGC will acquire 100% of the issued share capital in CH2 pursuant to the Merger by way of issuing 943,524,072 new ordinary shares in PGC at an issue price of \$0.214 per share. The Consideration Shares implies a purchase price of \$201,494,830 for CH2.

PGC currently has 667,868,179 ordinary shares on issue. The total PGC shares on issue immediately post-completion of the Merger will be 1,655,305,389¹³.

On completion of the Merger, the Sellers will collectively hold 57%¹⁴ of the issued shares in Merged PGC on a diluted basis. Collins Millar Family Trust will hold 28.5%¹⁵ of Merged PGC shares and Lacaze Family Trust will hold 28.5%¹⁶ of Merged PGC shares, on a diluted basis.

The Sellers will be restricted from dealing with the Consideration Shares for two years following completion of the Merger, subject to certain exceptions.

Other key terms of the Merger pursuant to the SSA include the following:

- CH2 may pay a franked dividend of up to \$8 million on or before completion of the Merger.
- CH2 and PGC are subject to pre-completion restrictions on the conduct of their business.
- PGC must issue a cleansing notice in accordance with the Corporations Act immediately after completion.
- PGC is subject to customary exclusivity obligations, including no-shop, no-talk (subject to a fiduciary out), notification rights and matching rights obligations.
- PGC and the Sellers are subject to break fee and reverse break fee provisions respectively, upon the occurrence of specified events as set out in the SSA.

If the Merger completes, CH2 will become a wholly-owned subsidiary of Merged PGC and PGC will remain a listed ASX entity.

1.2. Conditions precedent

The Merger is subject to the satisfaction, or where applicable, waiver of a number of conditions precedent as set out in the Explanatory Memorandum:

- The approval of PGC Shareholders under item 7 section 611 of the Corporations Act and any other resolutions the parties agree are required or desirable in connection with the Merger.
- Receipt of all necessary consents, approvals or waivers from ASIC and ASX;

¹³ Subject to the approval of PGC Shareholders, John Walstab (Chief Executive Officer and Managing Director of PGC), will be entitled to be granted 26,000,000 performance rights in accordance with his employment agreement. The total PGC shares on issue of 1,655,305,389 immediately post-completion of the Merger assumes the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

¹⁴ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

¹⁵ Ibid

¹⁶ Ibid



Accountants & Advisors

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- ASX not indicating that it will not grant permission for the official quotation of the Consideration Shares;
- Receipt of third-party consents under certain material contracts;
- No material adverse event occurring in respect of either PGC or CH2; and
- If required, a draft ruling from the Australian Tax Office confirming that scrip-for scrip rollover relief under subdivision 124-M of Income Tax Assessment Act 1997 (Cth) will be available for the Sellers in respect of the Consideration Shares.

As at the date of the Explanatory Memorandum (please refer to **Section 4.3** of the Explanatory Memorandum):

- The condition regarding ASIC and ASX approval has been satisfied; and
- The condition regarding consents in respect of the CH2 group has been satisfied.

2. Purpose and scope of work

2.1. Purpose of the report

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point that is above 20% and below 90%, subject to certain exemptions.

Following the issue of the Consideration Shares, Collins Millar Family Trust will hold 28.5%¹⁷ of Merged PGC shares and Lacaze Family Trust will hold 28.5%¹⁸ of Merged PGC shares, on a diluted basis.

Item 7 of section 611 of the Corporations Act provides an exemption to the section 606 prohibition where shareholders approve an acquisition at a general meeting of the company.

The Corporations Act requires that shareholders voting on a resolution pursuant to Section 611(7) be provided with all material information to assess the proposed transaction. Whilst not compulsory, the company may commission an independent expert's report to discharge the requirement to disclose all material information on how to vote on the transaction.

To assist the PGC Shareholders in assessing the Merger, the directors of PGC have requested ShineWing Australia Securities to prepare a Report setting out whether, in our opinion, the Merger is fair and reasonable to the PGC Shareholders for the purposes of Section 611(7) of the Corporations Act.

This Report has been prepared for inclusion in the **Explanatory Memorandum** to accompany the Notice of Meeting to be sent to the PGC Shareholders to assist them in deciding whether to approve the Merger.

For the avoidance of doubt, other than Merger Resolution 1, we have not been engaged to form an opinion on the other Merger Resolutions in the Explanatory Memorandum.

2.2. Basis of assessment

Neither the Corporations Act, the Corporations Regulations nor the ASX Listing rules provide a definition as to the meaning of "fair and reasonable".

In preparing this Report, ShineWing Australia Securities has had regard to RG 111 which establishes certain guidelines for independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" are in the context of a takeover offer.

RG 111 provides the following guidance on the meaning of "fair and reasonable" in the context of a takeover offer:

- An offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison is made assuming 100% ownership of the target and irrespective of whether the consideration is scrip or cash. The comparison also assumes a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller acting at arm's length.
- An offer is "reasonable" if it is fair. It might also be "reasonable" if despite being "not fair" the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer. These might include:

¹⁷ Assuming the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

¹⁸ Ibid

- The bidder's pre-existing voting power, if any, in the target.
- Other significant shareholdings in the target.
- The liquidity of the market in the target's shares.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.
- Any special value of the target to the bidder.
- The likely market price if the offer is unsuccessful.
- The value to an alternative bidder and likelihood of an alternative offer being made.

Having regard to the above, ShineWing Australia Securities has assessed whether the Merger is fair to PGC Shareholders by comparing our assessed value of a PGC share before the Merger (on a control basis) to our assessed value of a Merged PGC share following completion of the Merger (on a minority basis).

In considering whether the Merger is reasonable to the PGC Shareholders, we have considered a number of factors, including:

- Whether the Merger is fair.
- The implications to PGC Shareholders if the Merger does not complete.
- Other likely advantages and disadvantages associated with the Merger.
- Other costs and risks associated with the Merger that could potentially affect PGC Shareholders.

2.3. Limitations and reliance on information

In preparing this Report, we have used and relied upon the information set out in Appendix B and representations made by the management of PGC (**PGC Management**) and the management of CH2 (**CH2 Management**). All material information and explanations requested to prepare this Report have been made available.

We have considered and relied upon this information. We believe that the information from which this Report was compiled was reliable, complete and appropriate for our purposes and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of preparing our Report. However, we do not warrant that our enquiries have identified or verified all the matters which an audit, extensive examination or 'due diligence' investigation might disclose. None of these additional tasks have been undertaken.

An important part of the information used in forming our opinion of the kind expressed in this Report comprises of the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

The information provided to ShineWing Australia Securities included forecasts / projections and other statements and assumptions about future matters prepared by PGC Management and CH2 Management. Whilst SW Securities has in part relied upon this information in preparing this Report, PGC and CH2 remain responsible for all aspects of this information.

ShineWing Australia Securities considers, based on enquiries it has undertaken and analytical procedures applied to the financial data (which do not constitute, and are not as extensive as, an audit or investigating accountant's examination), there are reasonable grounds to believe that the prospective financial information included in this Report has been prepared on a reasonable basis.

We express no opinion as to whether the prospective financial information will be achieved. Prospective financial information are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may differ from the prospective financial information and such differences may be material. Any variations in the prospective financial information may affect our valuation and opinion.

The statements and opinions included in this Report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

Other than this Report, ShineWing Australia Securities has not been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Merger. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or any other document prepared in respect of the Merger other than this Report.

Our opinions are based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time.

Our valuation of PGC at the date of the Report does not take into account events that have occurred subsequent to the date of the Report, that were not expected to occur at that date.

3. Overview of Paragon

3.1. Company overview

PGC is listed on the ASX and is a healthcare distributor, manufacturer and service provider for high-end medical equipment, devices, consumables for hospitals, private clinics, aged care, veterinary and scientific markets throughout Australia, New Zealand and Asia. PGC also develops and manufactures in-vitro diagnostics reagents used for blood grouping and antibody screening, through its Immulab brand.

PGC was originally listed as Plexus International Limited in 2004 before changing its name to Paragon Care Limited in 2008, and embarking on a series of acquisitions to position itself as a leading supplier to the healthcare market. This includes the acquisition of ASX-listed Quantum Health Group Limited (**Quantum**) in February 2022, a specialist distributor of medical imaging, patient treatment and equipment services in radiology, oncology and women’s healthcare. The Quantum acquisition expanded PGC’s Australian and New Zealand markets to Thailand, South Korea, Philippines, Vietnam and China.

Apart from its distribution business, PGC has an Asia Pacific-wide service department, covering Australia and New Zealand, with over 160 service engineers and repair facilities in every state in Australia and across Asia.

PGC is a distributor in Australia and other jurisdictions for a wide range of international brands of medical equipment and devices.

PGC’s customer base include public and private hospitals, optometrists, pathology laboratories and medical specialists.

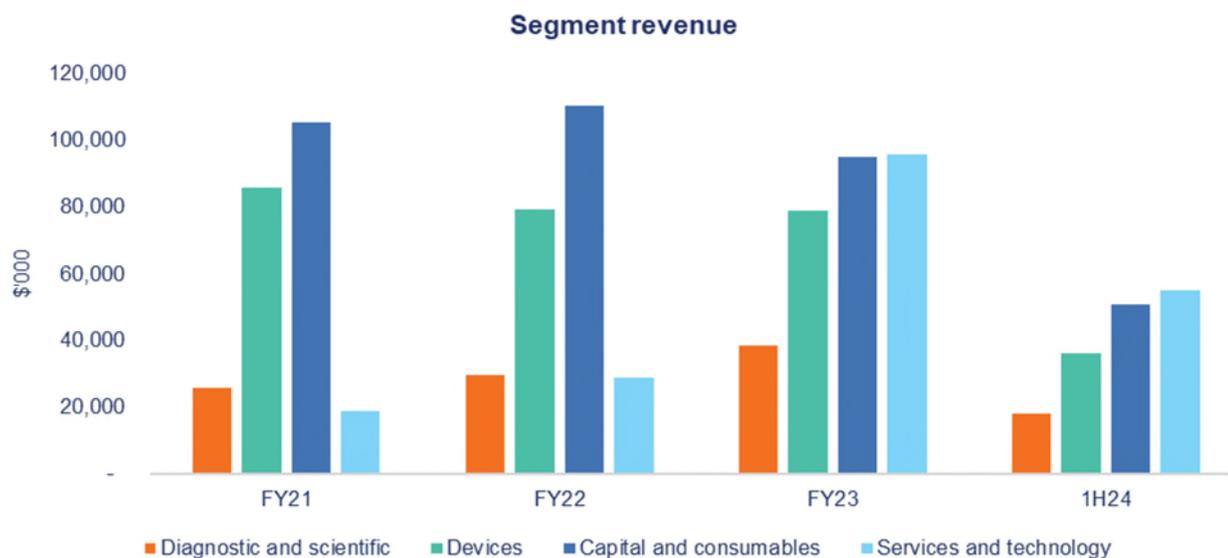
3.2. Operating segments

The key products and services of PGC’s operating segments are as follows:

Segment	Description	Key brands
Diagnostic and scientific	Blood bank diagnostics manufacturer, clinical pathology diagnostics distribution, scientific and research and development laboratory equipment distribution	Immulab, Immuno, Labgear, SMS
Devices	Ophthalmology and optometry, orthopaedics, pain management, infection prevention and orthobiologics	Designs for Vision, Surgical Specialists
Capital and consumables	Medical, surgical and veterinary services	REM Systems, Western Biomedical
Services and technology	Biomedical devices, high-end capital equipment, service support and technology management and service partnership with leading brands	Quantum Healthcare, Total Communications

Source: PGC

The revenue contribution of the operating segments are as follows:



Source: PGC Annual Report for FY23, Interim Report for 1H24

Revenue of the Services and Technology segment increased in FY23 mainly reflecting the 12 months revenue of Quantum.

3.3. Distribution centres

PGC operates out of 15 distribution centres and offices throughout Australia, and 14 sites in Japan, Korea, Thailand, Philippines and Vietnam.

In April 2022, as part of its ongoing rationalisation plan, PGC commenced a lease of office spaces and warehouse in Mount Waverly with the aim to consolidate all of its Victorian operations. The lease arrangement originally covered a works incentive of up to \$14 million towards the cost of fit-outs and other improvements, and a 6-month rent free period. When the site owner was subsequently not in a position to provide the remaining lease incentive funding (around \$11.5 million), PGC funded this through bank borrowings.

Most of the Victorian operations have since moved to Mount Waverly. The fit out for the manufacturing facilities of the Immulab business is nearing completion with the move scheduled for May / June 2024.

PGC is seeking to sublease the Seaford site which is currently unoccupied following the move to Mount Waverly. The Seaford lease expires in June 2025.

Other than Mount Waverly, the other Australian sites have a remaining lease term of less than a year to five years.

3.4. Consolidated financial performance

A summary of the consolidated historical financial performance of PGC for the financial years ended 30 June 2021 (FY21), 30 June 2022 (FY22), 30 June 2023 (FY23) and the six months ended 31 December 2023 (1H24) is set out below:

\$'000	PGC	PGC	PGC	PGC
	Audited	Restated	Audited	Reviewed
	FY21	FY22*	FY23	6 months ended 31 Dec 2023
From continuing operations				
Total revenue	235,840	237,618	307,630	159,462
Cost of goods sold	(145,527)	(138,610)	(181,314)	(93,393)
Gross margin	90,313	99,008	126,316	66,069
Other income				
Rental income	80	673	505	-
Fair value gain on derivative liability	1,526	3,043	745	(183)
Other income	4,744	1,935	3,150	824
Expenses				
Employee benefits expense	(50,632)	(53,643)	(63,991)	(32,995)
Distribution expenses	(6,331)	(6,634)	(7,749)	(4,483)
Marketing expenses	(908)	(1,760)	(3,457)	(2,669)
Occupancy expenses	(1,398)	(1,638)	(2,232)	(1,313)
Management consulting fees	(2,355)	(878)	(766)	(382)
Professional fees	(1,536)	(1,725)	(2,549)	(1,233)
Other expenses	(4,819)	(4,620)	(7,368)	(4,037)
Other corporate costs	(2,086)	(2,497)	(3,515)	(1,670)
Share-based payment expenses	(69)	(850)	(350)	(1,912)
Acquisition costs	(4)	(3,048)	(222)	-
Obsolete inventory w rite-off	-	(3,540)	(784)	-
Business restructure costs	-	-	-	(2,111)
Other w rite-off- net	-	-	53	(552)
Total expenses	(70,138)	(80,833)	(92,930)	(53,357)
EBITDA	26,525	23,826	37,786	13,353

	PGC Audited	PGC Restated	PGC Audited	PGC Reviewed
\$'000	FY21	FY22*	FY23	6 months ended 31 Dec 2023
EBITDA (cont.)	26,525	23,826	37,786	13,353
Depreciation- others	(2,899)	(4,016)	(3,881)	(2,156)
Depreciation - ROU assets	(3,056)	(3,072)	(3,499)	(2,048)
Amortisation - others	(21)	(321)	(1,196)	(518)
Amortisation - software	(224)	(529)	(1,719)	(438)
EBIT	20,325	15,888	27,491	8,193
Interest income	18	132	381	20
Interest expense - borrowings	(7,175)	(5,700)	(5,926)	(4,290)
Interest expense - lease liabilities	(837)	(411)	(1,095)	-
PBT from continuing operations	12,331	9,909	20,851	3,923
Income tax expense	(4,052)	(3,311)	(5,198)	(979)
NPAT from continuing operations	8,279	6,598	15,653	2,944
Profit after income tax from discontinued operations	-	335	(2,089)	38
NPAT	8,279	6,933	13,564	2,982
Profit for the year is attributable to:				
Non-controlling interest	-	510	2,804	-
Owners of PGC	8,279	6,423	10,760	2,982
	8,279	6,933	13,564	2,982
KPI				
Revenue growth (%)	na	0.8%	29.5%	na
Gross margin (%)	38.3%	41.7%	41.1%	41.4%
EBITDA margin (%)	11.2%	10.0%	12.3%	8.4%
EBIT margin (%)	8.6%	6.7%	8.9%	5.1%

Source: PGC Annual Reports for FY21, FY22, FY23 and Interim Report for 1H24 (with comparatives), SW Securities analysis
Note: * Sourced from the restated FY22 comparatives in PGC's FY23 Annual Report.

We note the following regarding PGC's historical consolidated financial performance as summarised above:

- Revenue increased marginally by 0.8% in FY22 despite around five months of revenue contribution from Quantum. This is due predominantly to the lingering impacts of the COVID-19 pandemic on PGC's Device and Capital & Consumables segments as a result of lockdowns in early 2022 coupled with nursing shortages and supply chain delays across all of FY22. Quantum contributed \$29 million revenue to PGC from February 2022 to June 2022.
- FY23 revenue improved by 30% reflecting 12 months of Quantum revenue as well as ten months revenue from the acquisition of Specialist Medical Supplies Pty Ltd (**SMS**), a supplier of biopsy, skin lesion instrumentation and urethral bulking agent to the NSW and Queensland markets.
- PGC achieved a relatively consistent gross margin of around 41% in FY22, FY23 and 1H24.
- Rental income of KRW5 million per month is earned from a property in Korea owned by PGC, which is no longer used by the business for operating purposes. The remaining rental income relates to the sublease of the Scoresby site, which ceased in 1H24 when the sublease as well as PGC's lease on the property expired.

- In FY21, significantly higher management consulting fees were incurred in relation to external consultants and replaced with internal employees.
- Share-based payment expenses increased in 1H24 due to the issue of additional performance rights to eligible employees pursuant to PGC's Employee Incentive Plan in July and November 2023. A total of \$0.8 million of share-based payment expenses was also recognised pursuant to a changeover in the Chief Executive Officer and Managing Director role, with the appointment of John Walstab as of 1 October 2023.
- In FY22, PGC incurred one-off costs of \$3.0 million pertaining to the acquisition of Quantum and wrote-off \$3.5 million of obsolete inventory arising from historical stock and system issues.
- A provision for business restructure cost totalling \$1.4 million was made in 1H24 relating mainly to redundancy costs as PGC continues to rationalise the business following the Quantum acquisition. This was in addition to redundancy costs of \$0.7 million paid during the period.

3.5. Maintainable EBITDA

Based on discussions with PGC Management and the information provided, we have identified the following normalisation adjustments to the FY21, FY22, FY23 and 1H24 EBITDA¹⁹:

\$'000	PGC	PGC	PGC	PGC	Note
	FY21	FY22*	FY23	6 months ended 31 Dec 2023	
Revenue	235,840	237,618	307,630	159,462	
EBITDA	26,525	23,826	37,786	13,353	
<i>EBITDA margin (%)</i>	<i>11.2%</i>	<i>10.0%</i>	<i>12.3%</i>	<i>8.4%</i>	
Normalisation adjustments					
Rental income	-	(23)	(67)	(35)	1
Other income	(1,410)	(2,051)	(3,093)	(665)	2
Jobkeeper subsidy	(3,475)	-	-	-	2
Net gain on sale of assets	(8)	190	(223)	(203)	2
Fair value gain on derivative liability	(1,526)	(3,043)	(745)	183	3
Share-based payment expenses	69	850	350	1,912	4
Acquisition costs	4	3,048	222	-	5
Obsolete inventory w rite-off	-	3,540	784	-	5
Business restructure costs	-	-	-	2,111	5
Other w rite-off- net	-	-	(53)	552	5
Adjustment to reflect full-year EBITDA for SMS	-	-	584	-	6
Total adjustments	(6,346)	2,511	(2,241)	3,855	
Normalised EBITDA	20,179	26,337	35,545	17,208	
<i>Normalised EBITDA margin (%)</i>	<i>8.6%</i>	<i>11.1%</i>	<i>11.6%</i>	<i>10.8%</i>	

Source: PGC Annual Reports for FY21, FY22, FY23 and Interim Report for 1H24 (with comparatives), PGC Management, SW Securities analysis

¹⁹ EBITDA means earnings before interest and tax, depreciation and amortisation

The normalisation adjustments are described further below:

- Note 1: Deducting rental income relating to the property in Korea, as the market value of the property is added separately as a surplus asset in assessing the value of PGC.
- Note 2: Deducting various non-recurring income such as Jobkeeper subsidy, gain on sale of assets, income or compensation paid by suppliers on termination of supply contracts, recovered earn outs from vendor of past acquisition; and an audit adjustment that was substantially reversed in the subsequent year as it was reassessed to be no longer required.
- Note 3: Deducting/adding back fair value gain/loss on derivative liability.
- Note 4: Adding back non-cash share-based payment expenses. We note this is consistent with market data for comparable companies used in our valuation analysis. The dilution, if any, as a result of the performance rights on issue are considered separately in our assessment of the value of a PGC share. Please refer to Section 7.4.5.
- Note 5: Adding back various one-off expenses such as acquisition costs, inventory write-off to restate the stock balances arising from historical system issues, redundancy costs, earn out shortfalls for a past acquisition, product recalls and certain non-recurring quality control testing costs. Also included in the FY23 write-off is earn out gains in relation to the acquisition of SMS of \$0.9 million. The inventory write-off is considered one-off in nature as PGC undertook a major review of the inventories in FY23, which also resulted in a discontinued product line. The Immulab product recalls were higher than would ordinarily be incurred, while the quality control testing costs on Seqirus related to prior years.
- Note 6: SMS was acquired on 1 September 2022. Adjustment is made to reflect SMS' full 12 months EBITDA in FY23 assuming it was acquired on 1 July 2022 based on information provided by PGC Management.

We do not consider the earnings prior to FY23 to be an appropriate basis for the future maintainable earnings of PGC as they do not reflect the full-year operations of Quantum acquired in February 2022 and the continuous improvements and rationalisation of the business post-acquisition. We also consider FY23 to better reflect the recovery from the COVID-19 pandemic.

3.6. Outlook

The commissioning of the manufacturing facility at Mount Waverly is expected to substantially expand the production capacity for Immulab, as well as realising a number of cost savings including termination of the previous Parkville lease which expires at the end of March 2024. With the increased capacity, PGC plans to target offshore markets for Immulab.

3.7. Consolidated financial position

A summary of the historical consolidated financial position of PGC as at 30 June 2021, 30 June 2022, 30 June 2023 and 31 December 2023 is set out below:

\$'000	PGC	PGC	PGC	PGC
	Audited	Restated	Audited	Reviewed
	As at 30 Jun 2021	As at 30 Jun 2022*	As at 30 Jun 2023	As at 31 Dec 2023
Current assets				
Cash and cash equivalents	33,197	46,203	22,603	28,354
Trade and other receivables	26,201	42,921	39,426	39,579
Inventories	51,578	51,454	63,691	63,147
Other assets	1,820	9,196	5,049	8,089
Forward foreign exchange contract	416	1,065	991	-
Interest rate swap contract	-	-	889	-
Total current assets	113,212	150,839	132,649	139,169
Non-current assets				
Investment properties	-	261	2,167	2,147
Property, plant and equipment	7,464	10,233	25,299	44,335
ROU assets	9,032	20,266	19,617	20,585
Goodwill	149,001	238,856	252,332	252,571
Other intangible assets	2,373	9,380	6,732	7,492
Deferred tax asset	10,838	8,600	9,723	12,066
Total non-current assets	178,708	287,596	315,870	339,196
Total assets	291,920	438,435	448,519	478,365
Current liabilities				
Trade and other payables	36,100	28,305	40,737	39,324
Contract liabilities	1,001	10,098	6,156	-
Borrowings (C)	21,794	22,759	17,384	26,937
Lease liabilities (C)	3,648	3,450	4,335	4,733
Provision for income tax	-	460	4,816	5,177
Employee benefits (C)	4,901	6,609	6,277	7,658
Interest rate swap liabilities	3,047	-	-	849
Restructure provision	-	-	-	1,432
Vendor conditional payables (C)	-	1,390	1,635	1,317
Accruals and other current liabilities	11,719	15,931	12,211	19,326
Total current liabilities	82,210	89,002	93,551	106,753

	PGC Audited	PGC Restated	PGC Audited	PGC Reviewed
\$'000	As at 30 Jun 2021	As at 30 Jun 2022*	As at 30 Jun 2023	As at 31 Dec 2023
Total current liabilities (cont.)	82,210	89,002	93,551	106,753
Non-current liabilities				
Borrowings (NC)	80,471	73,484	68,933	87,499
Lease liabilities (NC)	7,098	31,566	31,491	30,817
Employee benefits (NC)	623	816	926	911
Vendor conditional payables (NC)	-	1,443	1,661	1,350
Total non-current liabilities	88,192	107,309	103,011	120,577
Total liabilities	170,402	196,311	196,562	227,330
Net assets	121,518	242,124	251,957	251,035
Equity				
Issued capital	113,952	228,655	232,297	233,594
Reserves	7,566	7,165	10,552	17,441
Retained earnings	-	-	-	-
Equity attributable to the owners of PGC	121,518	235,820	242,849	251,035
Non-controlling interest	-	6,304	9,108	-
Total equity	121,518	242,124	251,957	251,035

Source: PGC Annual Reports for FY21, FY22, FY23 and Interim Report for 1H24 (with comparatives)

Note: * Sourced from the restated FY22 comparatives in PGC's FY23 Annual Report.

We note the following regarding PGC's historical consolidated financial position as summarised above:

- Other assets comprise mainly of prepayments and deposits, which increased significantly after the acquisition of Quantum in FY22 with supplier prepayments.
- PGC enters into forward foreign exchange contracts to hedge against foreign exchange risks as a substantial amount of product purchases are undertaken in United States dollars and Euros. PGC uses interest rate swaps to hedge against interest rate fluctuations in relation to a portion of its bank loans. Changes in the fair value of these derivatives are recognised in the profit and loss statement or in equity in accordance with PGC's accounting policies.
- Investment properties relate to a freehold office building in Korea that is not occupied by PGC, and is held for long-term rental yield.
- As at 31 December 2023, fixed assets consist mainly of plant and equipment, leasehold improvements and motor vehicles. PGC also has \$31.7 million of capital work-in-progress in relation to the fit-out at the Mount Waverly site.
- Right-of-use (ROU) assets and the corresponding lease liabilities, relate to office and warehouse leases.
- Other intangible assets include customer contracts, software development costs and website.
- Contract liabilities represent payments made by customers in advance of the goods or services being provided by PGC.

- PGC has the following financing arrangements:

Lender	Facility	Facility limit \$'000	Facility limit US\$'000
National Australia Bank	Bank loans	95,000	-
	Trade finance	20,000	-
	Bank guarantees and others	5,950	-
	Equipment finance	17,000	-
Subtotal		137,950	-
HSBC	Multi-currency revolving facility	-	30,000
Total		137,950	30,000

Source: PGC Management

The facilities with National Australia Bank are secured by a first registered company charge over all assets and undertakings including uncalled capital of PGC group.

Borrowings increased by \$28.1 million, from \$86.3 million as at 30 June 2023 to \$114.4 million as at 31 December 2023 partly to fund the fit out at Mount Waverly.

- Employee benefits comprise mainly of annual leave and long service leave provisions. PGC also has defined benefit pension plans in Korea and Philippines.
- Restructure provisions as at 31 December 2023 relate mainly to redundancies.
- As at 31 December 2023, PGC has deferred consideration of US\$0.3 million payable on the acquisition of Carestream Health Japan Co Ltd, which is due in July 2024. Deferred consideration is also payable to the vendors of Quantum Hunex Korea Co Ltd based on 45% of the forecast profits for FY24 and FY25.
- Accruals and other current liabilities as at 31 December 2023 include accruals for commissions and bonuses and other expenditure accruals.

3.8. Consolidated statement of cash flows

A summary of the historical consolidated statement of cash flows of PGC for FY21, FY22, FY23 and 1H24 is set out below:

	PGC	PGC	PGC	PGC
	Audited	Audited	Audited	Reviewed
	FY21	FY22	FY23	6 months ended 31 Dec 2023
\$'000				
Cash flow from operating activities				
Receipts from customers (inclusive of GST)	264,516	288,996	331,177	173,415
Payments to suppliers and employees (inclusive of GST)	(232,509)	(263,876)	(307,505)	(156,865)
Government assistance received (JobKeeper subsidy)	2,985	-	-	-
Other income	1,413	-	3,001	621
Interest received	18	8	381	20
Interest and other finance costs paid	(8,012)	(5,479)	(7,021)	(4,290)
Income tax refunded/ (paid)	(948)	(617)	(2,284)	(2,077)
Net cash from operating activities	27,463	19,032	17,749	10,824
Cash flow from investing activities				
Payment for purchase of subsidiary, net of cash acquired	-	11,681	(11,038)	(2,405)
Payment for prior period purchase of business	-	-	-	(1,203)
Payment for vendor earn out of prior business acquisition	(15,331)	-	-	-
Payment for acquisition of non-controlling interest	-	-	-	(223)
Payments for property, plant, and equipment	(3,327)	(3,118)	(20,779)	(21,077)
Payments for intangibles	(1,959)	(1,493)	(267)	(80)
Proceeds from disposal of property, plant, and equipment	1,948	-	5	77
Proceeds from release of security deposits	(134)	-	333	-
Net cash from/(used in) investing activities	(18,803)	7,070	(31,746)	(24,911)
Cash flow from financing activities				
Proceeds from issue of shares	-	-	425	-
Share issue transaction costs	-	(483)	(19)	-
Proceeds from borrowings (net)	3,339	(7,919)	(9,986)	25,174
Repayment of lease liabilities	(3,307)	(3,528)	(5,733)	(2,938)
Proceeds from lease incentives	-	-	13,197	-
Dividends paid	-	-	(7,886)	(2,658)
Net cash from/(used in) financing activities	32	(11,930)	(10,002)	19,578
Net increase/(decrease) in cash and cash equivalents	8,692	14,172	(23,999)	5,491
Cash and cash equivalents at the beginning of the period	24,505	33,197	46,203	22,603
Effects of exchange rate changes on cash and cash equivalents	-	(1,166)	399	260
Cash and cash equivalents at the end of the period	33,197	46,203	22,603	28,354

Source: PGC Annual Reports for FY21, FY22, FY23 and Interim Report for 1H24 (with comparatives)

3.9. Dividend history

PGC did not pay any dividends in FY21 due to ongoing challenges arising from COVID-19 related disruptions.

In FY22 and FY23, PGC resumed payment of dividends totalling 1.6 cents and 1.2 cents per share respectively. During FY23, a final dividend of 0.6 cents was declared (paid in October 2023).

PGC operates a dividend reinvestment plan that enables shareholders to elect to reinvest all, or a portion, of their dividends into additional PGC shares. The dividend reinvestment plan was suspended in FY22 and recommenced in FY23.

3.10. Taxation

As at 30 June 2023, PGC has a franking credit balance of \$22.4 million and capital tax losses carried forward of \$15.9 million.

3.11. Share capital and ownership

PGC currently has 667,868,179 ordinary shares on issue.

As at the date of the Report, the Top 20 shareholders of PGC are as follows:

Shareholder	PGC Number of ordinary shares	PGC Percentage of issued capital
John Walstab	129,992,627	19.5%
Pioneer Pharma Australia Pty Ltd	53,297,068	8.0%
HSBC Custody Nominees (Australia) Limited	30,353,138	4.5%
First Samuel Ltd	28,377,574	4.2%
Citicorp Nominees Pty Limited	27,586,225	4.1%
J P Morgan Nominees Australia Pty Limited	23,004,366	3.4%
Young Chun Kim	10,692,000	1.6%
Phillip Sidney	10,627,809	1.6%
Berne No 132 Nominees Pty Ltd	8,567,378	1.3%
Realm Group Pty Limited	7,520,575	1.1%
Bnp Paribas Noms Pty Ltd	5,602,637	0.8%
Peplon Nominees Pty Ltd	5,208,825	0.8%
Negroni Holdings Pty Ltd	4,727,531	0.7%
Dixson Trust Pty Limited	4,506,994	0.7%
Mrs Sandra Joan McDonald & Mr Andrew McDonald	4,502,524	0.7%
JMT Investment Group Vic Pty Ltd	4,500,000	0.7%
Certane Ct Pty Ltd	4,400,000	0.7%
Super Hooper Pty Ltd	4,375,558	0.7%
Rathvale Pty Limited	4,152,250	0.6%
JMT Investment Group Vic Pty Ltd	4,000,000	0.6%
Total shares held by Top 20 shareholders	375,995,079	56.3%
Other shareholders	291,873,100	43.7%
Total shares on issue	667,868,179	100.0%

Source: PGC shareholder register, PGC Management

3.12. Performance rights

As at the date of this report, PGC has 17,913,138 performance rights on issue to various directors and employees.

Holders of the performance rights receive new PGC shares subject to achieving a minimum 14-day VWAP ranging from 35 cents to 65 cents between FY24 and FY26. If the vesting conditions are not satisfied in the year of entitlement but are subsequently achieved by the expiry date, the performance rights will automatically vest within a period specified by the PGC Board. The expiry date is typically approximately three years from the issue date. No consideration is payable by the employee on exercise of the performance rights.

Additionally, subject to the approval of PGC Shareholders, John Walstab, will be entitled to be granted 26,000,000 performance rights in accordance with his employment agreement (**Unissued Performance Rights**), with the following vesting conditions:

Year	Condition	Number of performance rights vested
Within the first year	PGC share price exceeds \$0.30	2,000,000
	PGC share price exceeds \$0.40	5,000,000
Within the second year	PGC share price exceeds \$0.50	2,000,000
	PGC share price exceeds \$0.60	5,000,000
Within the third year	PGC share price exceeds \$0.50	2,000,000
	PGC share price exceeds \$0.70	5,000,000
	PGC share price exceeds \$0.80	5,000,000
Total		26,000,000

Source: Explanatory Memorandum

We understand from the Explanatory Memorandum, if approved by the PGC Shareholders, PGC expects to issue the Unissued Performance Rights shortly after the date of the general meeting, and in any event, no later than three years after the date of the general meeting.

3.13. Share price and trading volume

The following graph shows the daily share price on the ASX and the trading volume of PGC shares from 1 March 2023 to 3 April 2024:



Source: S&P Global

The daily closing price of PGC shares trended up to a closing high of \$0.32 on 2 April 2024.

In addition to regular interim and annual reporting announcements, significant announcements made by PGC in the period 1 March 2023 to 3 April 2024 that may have had an impact on the share price include:

Note	Date	Event
1	22-Jun-23	Announcement of investor presentation highlighting expansion into Asia, diagnostic pillar and Immulab opportunity
2	26-Jul-23	Trading update of FY23 results, presenting 35% increase in underlying EBITDA compared to FY22 based on unaudited accounts
3	30-Aug-23	Announcement of FY23 financial results, with 29% growth in revenue and 35% growth in EBITDA. Announcement of dividends of 0.6 cents per share
4	18-Sep-23	John Walstab appointed as the new CEO and managing director, PGC indicated it is still open to synergistic acquisitions
5	Early December	On 4 December 2023, The Australian published an article indicating EBOS' interest in PGC. On 13 December 2023, The Australian published an article regarding PGC engaging Rothschild & Co as defense advisor for market rumor of potential interest from EBOS. On 14 December 2023, both were denied by PGC.
6	1-Mar-24	Announcement of the Merger and PGC's HY24 results, with 6% growth in revenue and 3% decline in underlying EBITDA compared to HY23.

Source: ASX announcements

3.14. Share price and index

A comparison between the trading price of PGC shares, the ASX All Ordinaries Index and the peer set is set out below:



Source: S&P Global, SW Securities analysis



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PGC's share price has generally underperformed both the ASX All Ordinaries Index and PGC's peer set in the last 12 months ended 29 February 2024, being the day before the announcement of the Merger.

The peer set custom index in the graph above consists of the Australian listed companies in **Section 7.3** of this Report.

4. Overview of CH2

4.1. Company overview

Headquartered in Melbourne, Victoria, CH2 is a privately-owned distributor and wholesaler of pharmaceuticals, nutritional, medical consumables and complementary medicines. CH2 also provides logistics solutions to healthcare manufacturers, including warehousing and customer service solutions.

CH2 and its predecessors have an operating history of over 80 years. The CH2 that we know today was formed in 2005 through a merger between Hospital Supplies of Australia and Clifford Hallam Pharmaceuticals, as a joint venture between Australian Pharmaceutical Industries and ABN AMRO.

In 2015, Lacaze Family Trust and Collins Millar Family Trust became equal shareholders in CH2 following a management buy-out.

Effective 1 January 2017, CH2 was appointed a Community Service Obligation (**CSO**) distributor. The appointment allows CH2 to provide a more complete and extensive distribution solution for community pharmacies across Australia. As a CSO distributor, CH2 is entitled to receive support from the CSO funding pool.

In March 2024, CH2 acquired the business and certain assets of Osborne Health Supplies (**Osborne**). Established in 1990, Osborne distributes natural Therapeutic Goods Administration (**TGA**) -listed medicines, traditional and complementary health products to the complementary and orthodox healthcare sectors.

CH2 has a shared services hub located in Manila, Philippines.

CH2's customer base includes public and private hospital pharmacies, retail pharmacies, aged care & community, complementary medicines practitioners and primary care centres.

4.2. Products and services

CH2 distributes and wholesales a portfolio of over 50,000 products from more than 700 suppliers.

CH2's pharmaceutical range covers dispensary, over-the-counter and front-of-shop products. CH2 also offers private label solutions through its baremedical range of frequently use medical and surgical products such as gloves, incontinence products, patient care products, protective apparel wipes and wound care.

CH2 recently expanded its product offerings to include complementary medicines when it acquired Osborne.

4.3. Distribution centres

CH2 (including Osborne) has 13 distribution centres across all states, including 12 temperature-controlled warehouses.

In 2018, CH2 moved to a new 21,000 sqm custom built facility in Keysborough, Victoria to meet overwhelming demand following its appointment as a CSO distributor.

The South Australia sites will be consolidated into a new Adelaide site commencing May 2024. A new greenfield site is being constructed in Brisbane which will consolidate the Queensland sites when it is completed in mid-2026.

Osborne's distribution centres in Victoria and Western Australia are expected to be relocated to CH2's existing distribution centres in the respective states in the second half of 2024. CH2 plans to move Osborne's Queensland facility into CH2's greenfield site in Brisbane on completion in 2026.

4.4. Consolidated financial performance

A summary of the consolidated historical financial performance of CH2 for the financial years ended FY21, FY22, FY23 and 1H24 is set out below:

\$'000	CH2	CH2	CH2	CH2
	Audited	Audited	Audited	Unaudited
	FY21	FY22	FY23	6 months ended 31 Dec 2023
Sales	1,617,058	1,708,160	2,187,345	1,430,515
Cost of goods sold	(1,517,561)	(1,597,221)	(2,055,589)	(1,352,345)
Gross margin	99,497	110,938	131,756	78,169
Expenses				
Employee expenses	(44,071)	(45,614)	(50,212)	(30,328)
Warehousing and distribution expenses	(24,566)	(27,840)	(32,879)	(19,192)
Administration and general expenses	(5,996)	(8,208)	(7,723)	(5,676)
Total expenses	(74,633)	(81,663)	(90,814)	(55,196)
EBITDA	24,864	29,276	40,942	22,973
Depreciation- others	(2,870)	(2,698)	(2,844)	(1,383)
Depreciation - ROU assets	(8,004)	(7,228)	(7,394)	(3,944)
Amortisation - others	(672)	(1,291)	(1,573)	(863)
Amortisation - software	(1,121)	(1,257)	(1,942)	(1,231)
EBIT	12,197	16,801	27,189	15,551
Interest income	351	299	183	22
Interest expense - borrowings	(5,788)	(5,312)	(7,965)	(4,125)
Interest expense - lease liabilities	(978)	(928)	(1,053)	(729)
PBT	5,782	10,861	18,354	10,719
Income tax expense	(1,052)	(3,260)	(5,556)	(3,186)
NPAT	4,730	7,601	12,798	7,534

Source: CH2 Financial Statements for FY21, FY22, FY23 (with comparatives) and management accounts for 1H24, SW Securities analysis

We note the following regarding CH2's historical consolidated financial performance as summarised above:

- CH2's revenue increased by 28.1% in FY23. In July 2023, CH2 acquired certain hospital services, inventory and other assets of Central Healthcare Services Limited (**CHS Hospital Operation**), a wholesaler of pharmaceutical products to public and private hospitals in Western Australia, NSW and Victoria.
- The higher gross margin of 6.5% in FY22 compared to FY21 and FY23 was due mainly to product mix.
- The 1H24 results exclude Osborne which was acquired on 1 March 2024.

4.5. Maintainable EBITDA

Based on discussions with PGC Management, CH2 Management and the information provided, we have identified the following normalisation adjustments to the FY21, FY22, FY23 and 1H24 EBITDA:

\$'000	CH2	CH2	CH2	CH2	Note
	FY21	FY22	FY23	6 months ended 31 Dec 2023	
Sales	1,617,058	1,708,160	2,187,345	1,430,515	
EBITDA	24,864	29,276	40,942	22,973	
<i>EBITDA margin (%)</i>	1.5%	1.7%	1.9%	1.6%	
Normalisation adjustments					
Adjustment to reflect full-year EBITDA for Osborne	-	-	3,465	2,208	1
Total adjustments	-	-	3,465	2,208	
Normalised EBITDA	24,864	29,276	44,407	25,181	
<i>Normalised EBITDA margin (%)</i>	1.5%	1.7%	2.0%	1.8%	

Source: CH2 financial statements for FY21, FY22 and FY23 (with comparatives), management accounts for 1H24, PGC Management, CH2 Management, SW Securities analysis

The normalisation adjustments are described further below:

- Note 1: CHS Hospital Operation and Osborne were acquired in July 2023 and March 2024 respectively. Adjustments are made to reflect Osborne's full 12 months EBITDA in FY23 and six months EBITDA in 1H24, assuming it was acquired on 1 July 2022, based on information provided by CH2 Management.

4.6. Outlook

As part of CH2's ongoing rationalisation:

- CH2 expects to move into the new Adelaide site in May 2024.
- The Osborne distribution centres will be relocated to CH2's existing distribution centres by the second half of 2024, except for Osborne in relation to Brisbane which is expected to move into CH2's greenfield site when it is completed in mid-2026.

4.7. Consolidated financial position

A summary of the historical consolidated financial position of CH2 as at 30 June 2021, 30 June 2022, 30 June 2023 and 31 December 2023 is set out below:

	CH2	CH2	CH2	CH2
	Audited As at 30 Jun 2021	Audited As at 30 Jun 2022	Audited As at 30 Jun 2023	Unaudited As at 31 Dec 2023
\$'000				
Current assets				
Cash and cash equivalents	606	1,054	970	1,190
Trade and other receivables	149,066	170,355	209,875	279,378
Inventories	142,660	157,642	215,661	226,574
Prepayments	1,932	1,520	1,810	2,111
Shareholder loan receivable (C)	1,725	1,869	-	-
Total current assets	295,989	332,440	428,316	509,253
Non-current assets				
Deferred tax assets	3,054	476	2,636	(550)
Plant and equipment	9,276	7,900	9,427	11,916
ROU assets	29,857	28,743	26,438	27,992
Goodwill	11,706	11,706	11,856	22,632
Other intangible assets	11,153	11,558	13,256	12,140
Investment	-	-	3,000	3,000
Shareholder loan receivable (NC)	1,869	-	-	-
Total non-current assets	66,915	60,383	66,614	77,130
Total assets	362,904	392,823	494,929	586,384
Current liabilities				
Trade and other payables	261,802	282,061	373,952	422,420
Borrowings	57,206	62,590	64,359	105,885
Lease liability (C)	2,542	6,689	7,267	7,733
Income tax payable	-	(100)	145	(2,417)
Employee benefits (C)	4,260	4,689	4,975	3,857
Total current liabilities	325,810	355,929	450,698	537,478
Non-current liabilities				
Lease liability (NC)	28,841	24,036	21,538	22,801
Employee benefits (NC)	181	250	220	264
Deferred tax liabilities	-	-	3,593	3,593
Total non-current liabilities	29,022	24,285	25,351	26,658
Total liabilities	354,832	380,214	476,049	564,136
Net assets	8,072	12,609	18,880	22,248

Source: CH2 Financial Statements for FY21, FY22, FY23 (with comparatives) and management accounts for 1H24, SW Securities analysis

We note the following regarding CH2’s historical consolidated financial position as summarised above:

- On 1 March 2024, CH2 acquired Osborne for \$24.5 million. The completion payment of \$22.0 million was paid on 1 March 2024. The balance of the purchase consideration and working capital adjustment totalling \$2.9 million are expected to be paid in April 2024.
- As at 31 December 2023, fixed assets consist mainly of plant and equipment and leasehold improvements. CH2 also has \$5.0 million of capital work-in-progress in relation to the new Adelaide site.
- ROU assets and the corresponding lease liabilities, relate to office and warehouse leases.
- Other intangible assets comprise of goodwill and software.
- CH2 has invested \$3.0 million to acquire a 39.29% stake in Aero Travel Solutions Pty Ltd (**Aeronology**), an air ticketing technology start-up. The book value of this investment stood at \$3.0 million on 31 December 2023. PGC Management has advised that the investment in Aeronology will not be acquired as part of the Merger.
- CH2 has the following financing arrangements:

Facility	Facility limit \$'000
Bank loans	175,000
Corporate Mastercard facility	175
Total	175,175

Source: CH2 Management

The loan with Scottish Pacific Business Finance Pty Ltd (**Scotpac**) is secured by trade receivables and are repayable on or before 15 December 2026.

CH2 also has bank guarantees in respect of property leases with Scotpac, which are secured by a reserve held against the total loan facility.

- Employee benefits comprise mainly of annual leave and long service leave provisions.

4.8. Consolidated statement of cash flows

A summary of the historical consolidated statement of cash flows of CH2 for FY21, FY22 and FY23 is set out below:

	CH2 Audited FY21	CH2 Audited FY22	CH2 Audited FY23
\$'000			
Cash flow from operating activities			
Cash receipts from customers	1,803,101	1,876,736	2,389,357
Cash paid to suppliers and employees	(1,782,688)	(1,861,353)	(2,352,231)
<i>Cash generated from operations</i>	<i>20,413</i>	<i>15,383</i>	<i>37,126</i>
Interest paid	(5,788)	(6,563)	(9,831)
Interest received	5	-	-
Income tax paid	-	(782)	(3,877)
Interest paid on lease liabilities	(978)	(928)	(1,053)
Net cash from operating activities	13,652	7,110	22,365
Cash flow from investing activities			
Investment	-	-	(3,000)
Sale of Animal Health Division	5,000	-	-
Payment of transaction costs	(204)	-	-
Acquisition of plant and equipment	(2,986)	(1,322)	(4,371)
Acquisition of intangible assets	(5,233)	(2,912)	(5,363)
Net cash used in investing activities	(3,423)	(4,234)	(12,734)
Cash flow from financing activities			
Payments to shareholders	(2,274)	-	-
Dividends paid	-	(1,040)	(4,476)
Proceeds of secured loan borrowings		1,904,594	2,629,652
Repayment of secured loan borrowings	(1,882)	(1,899,210)	(2,627,883)
Payments of principal portion of lease liabilities	(7,372)	(6,772)	(7,008)
Net cash used in financing activities	(11,528)	(2,428)	(9,715)
Net increase/(decrease) in cash and cash equivalents	(1,299)	448	(84)
Cash and cash equivalents at beginning of the period	1,905	606	1,054
Cash and cash equivalents at the end of the period	606	1,054	970

Source: CH2 Financial Statements for FY21, FY22, FY23 (with comparatives)

4.9. Dividend history

CH2 paid dividends of \$2.0 million, \$3.1 million and \$6.5 million in FY21, F22 and FY23 respectively.

CH2 Management has indicated that CH2 expects to pay dividends of \$8 million in May 2024 prior to the completion of the Merger.

4.10. Share capital and ownership

As at the date of this report, CH2 has 94,598,568 ordinary shares on issue, held as follows:

Shareholder	CH2 Number of ordinary shares	CH2 Percentage of issued capital
Peter Andre Lacaze and Dianne Lacaze atf the Lacaze Family Trust	47,299,284	50.0%
David Keith Collins and Cherie Maria Millar atf the Collins Millar Family Trust	47,299,284	50.0%
Total shares on issue	94,598,568	100.0%

Source: CH2

5. Merged PGC

5.1. Company overview

Paragon supplies medical equipment, devices and consumables, while CH2 distributes pharmaceuticals and complementary medicines. The Merger will create a diversified and complementary healthcare distribution and wholesaling group with over 1,300 employees across eight countries.

Merged PGC will have an expanded expertise and client base compared to PGC, and allow CH2 to expand its product offerings into new markets in New Zealand and Asia through PGC’s established infrastructure. The Merger is also expected to facilitate both organic and acquisitive growth.

Following the Merger, PGC and the Sellers have no intention to transfer any business or material assets. An operational review will be conducted for Merged PGC to streamline post-merger operations.

PGC products may be cross-sold to CH2 customers and vice versa, better utilising management, logistics, sales and marketing teams.

Please refer to **Section 7.3** of the Explanatory Memorandum for further details.

5.2. Historical financial performance

PGC has prepared the Merged PGC Pro Forma financial information, showing:

- the combined financial performance of PGC and CH2 for the last 12 months ended 31 December 2023 as if the Merger had occurred on 1 January 2023
- the combined financial position of PGC and CH2 for 31 December 2023 as if the Merger had occurred on 1 January 2023

These are set out in **Section 7** of the Explanatory Memorandum.

5.3. Pro Forma historical financial performance

The Pro Forma historical financial performance of Merged PGC for the last 12 months ended 31 December 2023 is summarised below.

\$' million	PGC	CH2	Merged PGC
	12 months ended 31 Dec 2023	12 months ended 31 Dec 2023	12 months ended 31 Dec 2023
Revenue	317	2,574.6	2,891.6
Normalised EBITDA	37.8	46.0	83.8
Normalised EBIT	27.6	33.0	60.7
Normalised NPAT	15.0	14.2	29.2

Source: Explanatory Memorandum

We note the following regarding Merged PGC’s Pro Forma historical financial performance as summarised above:

- We understand the above is on a post-AASB 16 basis.
- The above does not include any potential synergies that are expected to arise as a result of the Merger.
- Please refer to **Section 7.6** of the Explanatory Memorandum for further commentary.

5.4. Outlook

Merged PGC's strategy will focus on expanding into new markets, mutual cross-selling of products, optimising shared services network and pursuing inorganic growth opportunities.

PGC has identified pre-tax operating cost savings of approximately \$5 million in FY25 and then approximately \$12 million per annum on a fully implemented basis from FY26 after the Merger. Realising these cost synergies will result in Merged PGC having lower overheads.

The forecast in the Explanatory Memorandum indicates a Merged PGC Pro Forma forecast FY24 revenue of \$3,302 million and Proforma forecast EBITDA of \$92.8 million²⁰ (before synergies, transaction costs and restructuring costs). We understand the Pro Forma FY24 forecast is on a post-AASB16 basis.

5.5. Pro Forma historical financial position

The Pro Forma historical financial position of Merged PGC as at 31 December 2023 is summarised below:

\$' million	PGC	CH2	Merged PGC
	As at 31 Dec 2023	As at 31 Dec 2023	As at 31 Dec 2023
Assets			
Cash	28.4	1.2	29.6
Receivables	39.6	279.4	319.0
Inventories	63.2	226.6	289.8
Property, plant & equipment (incl ROU)	64.9	39.9	104.8
Intangibles	260.1	34.8	196.2
Other assets	22.1	7.5	29.6
Total assets	478.3	589.4	969.0
Liabilities			
Trade and other payables	39.3	422.4	461.7
Current borrowings	26.9	-	26.9
Other current liabilities	40.5	11.6	52.1
Total current liabilities	106.7	434.0	540.7
Non-current borrowings	87.5	105.9	193.4
Other non-current liabilities	33.1	27.2	60.3
Total non-current liabilities	120.6	133.1	253.7
Total liabilities	227.3	567.1	794.4
Net assets	251.0	22.3	174.6

Source: Explanatory Memorandum

²⁰ According to the Explanatory Memorandum, the Pro Forma FY24 forecast for Merged PGC is based on nine months actual and 3 months forecast for PGC and CH2 respectively. The pro forma forecast financials include a normalisation adjustment for the full-year impact of the acquisition of Osborne Health Supplies by CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

We note the following regarding Merged PGC's Pro Forma historical financial position as summarised above:

- The financial position as at 31 December 2023 does not include Osborne, which was acquired in March 2024.
- Please refer to **Section 7.6** of the Explanatory Memorandum for further commentary.

5.6. Dividends

The dividend policy of Merged PGC post-completion will be determined by the PGC Board once a review has been completed on future investment opportunities in the second half of the 2024 calendar year.

5.7. Performance rights

As at the date of this report, PGC has 17,913,138 performance rights on issue to various directors and employees.

We understand from the Explanatory Memorandum:

- Subject to the approval of PGC Shareholders, John Walstab, will be entitled to be granted 26,000,000 performance rights in accordance with his employment agreement. If approved, PGC expects to issue the Unissued Performance Rights shortly after the date of the general meeting, and in any event, no later than 3 years after the date of the general meeting.
- Subject to the approval of PGC Shareholders and the approval of the resolution for the issue of the Unissued Performance Rights, the PGC Board intends to exercise its discretion under the PGC Employee Incentive Plan to waive all vesting conditions, subject to completion of the Merger. This will result in the waiver of the vesting conditions for all 43,913,138 performance rights then on issue, and the performance rights will convert into PGC shares, subject to completion of the Merger.

If these resolutions are not approved by PGC Shareholders:

- the 43,913,138 performance rights will not convert into PGC shares and unless the relevant condition is waived by the parties, the Merger will not proceed.

5.8. Share capital and ownership post-Merger

Consideration for the acquisition of CH2 includes the issue of 943,524,072 new ordinary shares in PGC. Following completion of the Merger, the original shareholders of PGC will collectively retain 43% interest in Merged PGC as summarised below:

Shareholder	Number of PGC		Number of PGC	
	shares held pre-Merger	Percentage of issued capital	shares held post-Merger	Percentage of issued capital
PGC shareholders excluding Sellers and associates	667,868,179	100%	711,781,317	43%
Sellers and associates	-	-	943,524,072	57%
Total	667,868,179	100%	1,655,305,389	100%

Source: PGC Management

Note: The 711,781,317 ordinary shares held by PGC shareholders (excluding Sellers and associates) assumes the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum. If either one or both of Merger Resolutions 2 and 3 are not approved such that the vesting and conversion do not occur, and the parties agree to waive the relevant condition, the existing PGC Shareholders will hold 41% of the shares in PGC in aggregate on completion.

5.9. Board of directors and management

Following completion of the Merger, the PGC Board is expected to comprise of:

- David Collins;
- Carmen Riley;
- Peter Lacaze;
- John Walstab; and
- One independent director to be nominated by each of PGC and the Sellers' representatives respectively.

Mr David Collins, the Chief Executive Officer of CH2 will become the Chief Executive Officer and Managing Director of Merged PGC. On completion of the Merger, the Sellers will have four nominees out of six members of the PGC Board.

5.10. Synergies

PGC has identified pre-tax operating cost savings of approximately \$5 million in FY25 and then approximately \$12 million per annum on a fully implemented basis from FY26 after the Merger. These synergies are expected to be realised progressively.

The implementation of the potential synergies would give rise to one-off costs of approximately \$6 million, anticipated to be incurred in the first two years after completion of the Merger.

The potential synergies include cost savings relating to headcount, site closures, interest savings and corporate overheads.

The labour synergies are expected to be derived from savings following redundancies of duplicate roles as well the elimination of management roles and board position.

Synergies from site closures are expected to be derived from the relocation of PGC distribution centres in NSW, Queensland, South Australia and Western Australia to CH2's existing distribution centres in the respective states.

A portion of CH2's borrowings are expected to be refinanced at a lower interest rate, and surplus cash from CH2 are anticipated to be used to reduce borrowings.

The Merged PGC is also expected to benefit from potential cross-selling opportunities across the PGC and CH2 businesses over time, but they have not been included in the estimate above as these incremental synergies are currently not easily quantifiable or timed.

6. Valuation approach

6.1. Introduction

ShineWing Australia Securities has assessed the value of PGC using the concept of fair market value. Fair market value is commonly defined as the amount that would be negotiated in an open and unrestricted market between an informed and willing but not anxious buyer and an informed and willing but not anxious seller acting at arm's length.

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. Special purchasers may be willing to pay higher prices to gain control or obtain the capacity to reduce or eliminate competition, ensure a source of material supply or sales, achieve cost savings arising on business combinations following acquisitions or other synergies which could be enjoyed by the purchaser. Our valuation is not premised on the existence of a special purchaser.

6.2. Valuation methodologies

The value of shares in a company or the value of a business is usually determined with regards to both asset values and the consistency and quality of earnings / cash flows. The principal methodologies which can be used are as follows:

- capitalisation of maintainable earnings
- discounted cash flow analysis
- asset-based valuations
- comparable market value
- quoted market price valuations.

A summary of each of these methodologies is outlined in **Appendix D**.

We have considered the relevance of each of these methodologies prior to undertaking our valuation. Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of the company and available information.

6.3. Valuation methodologies adopted

We have adopted the capitalisation of future maintainable earnings as our primary method to assess the value of both PGC and Merged PGC after considering the following:

- PGC and CH2 each have a long operating history, are profitable and have growth prospects. Further, there is sufficient market and transactional evidence in similar markets from which a meaningful earnings multiple can be derived.
- No detailed long-term forecast cash flows are available to undertake a discounted cash flow analysis.
- The asset-based method does not reflect the future earnings potential of the companies.

In applying the future maintainable earnings approach, we have used earnings before interest, tax, depreciation and amortisation (**EBITDA**) because it ignores the distorting effects of different depreciation and amortisation treatments, or gearing structures and tax rates across comparable companies.

As PGC's shares have historically had limited trading liquidity on the ASX, we have not considered historical trading prices as a primary valuation approach, however, have adopted it as a cross-check to our primary method.

6.4. Capitalisation of future maintainable earnings methodology

The capitalisation of future maintainable earnings method estimates fair market value of the business by capitalising future maintainable earnings using an appropriate multiple.

To value the business using the capitalisation of future maintainable earnings requires the determination of the following:

- An estimate of future maintainable earnings.
- An appropriate earnings multiple.
- Consideration of any surplus or unrelated assets and liabilities that are not reflected in the future maintainable earnings.

6.5. Premium for control

Multiples applied in a capitalised earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business as a whole, i.e. 100%, it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Controlling interests in companies generally confer benefits greater than non-controlling interests. Such benefits include the ability to:

- elect directors and appoint management
- influence managerial control, including day to day running of the business
- determine management compensation
- set company policies and business strategy
- award business contracts
- make acquisitions
- influence decisions about the corporate structure
- register the company's shares for a public offering
- impact dividend policy.

Accordingly, controlling interests are generally considered to be more valuable than non-controlling interests.

It is observed that takeovers involving the acquisition of a majority interest generally take place at significant premiums to portfolio or minority interests. This premium is generally in the range of 20% to 40% and represents two elements:

- a pure control premium, and
- the expected synergy benefits which the acquirer is prepared to pay the target shareholders.



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Observed premiums in takeovers therefore include both elements however it is not possible to separate these two elements in any meaningful way. A number of studies have been conducted in this area, and they are subject to the facts surrounding the company being valued and the unique features of the transaction including:

- the synergies to be achieved, and
- the costs of integrating the businesses.

7. Valuation of PGC

7.1. Valuation approach

We have adopted a capitalisation of future maintainable earnings method to assess the value of PGC.

7.2. Future maintainable earnings

Future maintainable earnings (**FME**) represent the level of maintainable earnings that the business could reasonably expect to generate in future on an ongoing basis.

In determining the future maintainable EBITDA of PGC, we have considered the following:

- We do not consider earnings prior to FY23 to be an appropriate basis for the future maintainable EBITDA of PGC as they do not reflect the full-year operations of Quantum acquired in February 2022 and the continuous improvements and rationalisation of the business post-acquisition. We also consider FY23 to better reflect the recovery from the COVID-19 pandemic.
- PGC achieved a normalised EBITDA of \$35.5 million in FY23 and based on the Explanatory Memorandum, normalised EBITDA of \$37.8 million for the 12 months ended 31 December 2023.
- Normalised EBITDA of \$17.2 million for 1H24.
- The forecast in the Explanatory Memorandum indicates a forecast FY24 EBITDA of \$39.1 million for PGC (before synergies, transaction costs and restructuring costs).
- We've also had regard to forecasts prepared by PGC, which have not been made public for confidentiality reasons and recent broker estimates.
- PGC's year-to-date performance, based on management accounts and discussions with PGC Management.

Based on the above, we have assessed PGC's future maintainable EBITDA to be \$38.5 million.

7.3. Earnings multiples

In selecting an appropriate multiple, we have considered the following:

- Earnings multiples of listed comparable companies.
- Transaction multiples of recent comparable company acquisitions that have occurred in the relevant industry.

These comparators are discussed further below.

Share market evidence

We have considered the EBITDA multiples of observed listed Australian and New Zealand distributors of medical equipment, devices, consumables and pharmaceutical products. Due to the limited number of listed comparable medical equipment distributors in Australia, we have also considered companies operating in the broader medical equipment industry in Australia and the multiples of international companies.

A summary of the trading multiples of the observed listed companies is set out below:

Company name	Country	Latest FY	Enterprise value (A\$m)	Historical	Forecast
				EBITDA multiple LTM	EBITDA multiple FY+1
Paragon Care Limited	Australia	30/06/2023	335	8.4x	6.5x
Australian medical equipment suppliers					
Ansell Limited	Australia	30/06/2023	3,525	9.0x	9.3x
SDI Limited	Australia	30/06/2023	122	7.7x	na
Australian pharmaceutical distributors					
EBOS Group Limited	Australia	30/06/2023	7,539	13.1x	12.3x
Sigma Healthcare Limited	Australia	31/01/2024	1,839	15.8x	10.4x
International medical equipment and solution suppliers					
Henry Schein, Inc.	United States	30/12/2023	20,388	12.0x	11.6x
Patterson Companies, Inc.	United States	29/04/2023	4,821	7.5x	8.8x
Owens & Minor, Inc.	United States	31/12/2023	6,337	5.5x	7.4x
Agilitti, Inc.	United States	31/12/2023	3,787	8.4x	9.2x
AdaptHealth Corp.	United States	31/12/2023	5,467	5.1x	5.4x
InfuSystem Holdings, Inc.	United States	31/12/2023	321	9.4x	8.3x
			Mean	9.3x	9.2x
			Median	8.7x	9.2x
			Low	5.1x	5.4x
			High	15.8x	12.3x

Source: S&P Global, ASX announcements, SW Securities analysis

Notes:

- 1 Enterprise value is the sum of market capitalisation as at 2 April 2024 and net debt as at the latest reporting date, adjusted for minority interest holdings (if applicable) (downloaded on 2 April 2024)
- 2 FY – Financial year
- 3 LTM – Last twelve months
- 4 Forecast based on broker consensus estimates.
- 5 nmf / na– not meaningful or not available
- 6 Post-AASB 16 EBITDA has been adopted in the table above
- 7 The mean and median analysis in the table above exclude PGC.
- 8 PGC and Sigma's EBITDA multiple reflect the share price prior to announcement of the merger with CH2 on 1 March 2024 and Chemist Warehouse on 11 December 2023 respectively. The forecast EBITDA is based on broker consensus estimates available on the date prior to the announcement of the respective mergers. Sigma's LTM EBITDA and net debt are based on the financial year ended 31 January 2024. Sigma's EBITDA multiple is calculated after removing the proceeds from its \$400 million institutional entitlement offer and retail entitlement offer (net of transaction costs) which were completed in December 2023 and January 2024 respectively, from the cash balance as at 31 January 2024. We have made this adjustment as Sigma announced the entitlement offer on 11 December 2023, and the market is assumed not to have reflected the entitlement offer prior to the announcement.

We note the following:

- The trading multiples of comparable listed companies are based on sharemarket prices and, therefore, do not typically include a control premium.
- The observed companies are not directly comparable to PGC due to the nature of business activities, market segment, scale of operation and / or level of diversification.
- Except for SDI Limited and InfuSystem Holdings Inc, the observed comparable companies are significantly larger than PGC in terms of revenue. Larger companies generally have a higher earnings multiple.
- Ansell Limited develops and manufactures protective solutions such as surgical gloves, single use and examination gloves as well as medical consumables. SDI Limited develops and manufactures dental restorative materials, whitening systems and other dental materials. These companies differ from PGC which has more diversified product offerings and is primarily a distributor and wholesaler, rather than equipment manufacturer. As broad comparison, Ansell Limited traded at 9.3x forecast FY24 EBITDA. A forecast multiple is not available for SDI Limited.
- The observed international medical equipment distributors primarily focus on dental products, home medical equipment, infusion pumps and medical equipment management. They traded at between 5.4x and 11.6x forecast DecFY24 EBITDA, except for Patterson Companies Inc which traded at 9.2x forecast AprFY24 EBITDA. We note that lease expenses are accounted for and disclosed differently in the financial statements under US GAAP compared to AASB 16. Due to the limitation of publicly available information, the EBITDA multiple for the US-based companies in the table above may not be directly comparable to the Australian companies.
- EBOS Group Limited (**EBOS**) and Sigma Healthcare Limited (**Sigma**) are pharmaceutical distributors and operate or are aligned with retail pharmacies. While operating in the broader healthcare distribution industry, they are not directly comparable to PGC. EBOS traded at 12.3x forecast FY24 EBITDA and Sigma traded at 10.4x forecast JanFY25 EBITDA.

A brief description of the business activities of the observed listed companies is set out in **Appendix E**.

Transaction evidence

We have considered the EBITDA multiples implied by recent transactions involving distributors of medical equipment, devices, consumables and pharmaceutical products in Australian and New Zealand.

A summary of the observed comparable transactions is set out below:

Completion date	Target	Acquirer	Currency	Implied enterprise value ('m)	Implied EBITDA multiple (times)
Medical equipment and device distributors					
01-Sep-22	Specialist Medical Supplies Pty Ltd	Paragon Care Limited	AUD	15.5	5.2x
31-May-22	LifeHealthcare	EBOS Group Limited	AUD	1,275.0	11.4x
16-Feb-22	Quantum Health Group Limited	Paragon Care Limited	AUD	92.5	9.0x
30-Jun-20	Lasers and Ultrasound Business Segment of Ellex Medical Lasers Limited	The Lumibird Group	AUD	100.0	10.5x
31-Jul-18	REM SYSTEMS Limited	Paragon Care Limited	NZD	54.4	7.6x
28-May-18	LifeHealthcare	Pacific Equity Partners	AUD	211.0	10.3x
28-Feb-18	Surgical Specialties Group	Paragon Care Limited	AUD	32.4	6.6x
				Average	8.7x
				Median	9.0x
Pharmaceutical distributors					
Ongoing	Probiotec Limited	PYFA Australia Pty Ltd	AUD	325.0	9.2x
31-Mar-22	Australian Pharmaceutical Industries Limited	Wesfarmers Limited	AUD	1,051.0	6.6x
10-Jul-19	Arrow Pharmaceuticals Pty Ltd	Apotex Pty Ltd	AUD	394.0	9.9x
				Average	8.6x
				Median	8.6x

Source: S&P Global, Mergermarket, ASX announcements, press releases, SW Securities analysis

Notes:

1 The implied multiple for the acquisition of LifeHealthcare and REM Systems Limited are based on forecast EBITDA, while the remaining transactions are based on historical EBITDA.

2 The proposed acquisition of Probiotec Limited was announced in December 2023 and has yet to complete at the date of this Report.

We note the following:

- The transaction multiples of comparable companies provide guidance as to the price that potential acquirers might be willing to pay for a controlling interest in a company.
- Transaction multiples can vary significantly depending on the anticipated synergy of the acquisition, strategic considerations of the buyer and the number of bidders.
- We consider the acquisition of Quantum and LifeHealthcare to be more comparable to PGC in terms of nature of business activities and size.
- In 2022, PGC acquired Quantum through an all scrip transaction. Quantum is a specialist distributor of medical imaging, patient treatment and equipment services in radiology, oncology and women's healthcare. Although slightly more than half the size of PGC in terms of revenue, the transaction expanded PGC offerings in higher margin high-tech equipment and provided exposure to Quantum's Asian markets. Quantum was acquired for an implied EBITDA multiple of 9.0x (post-AASB 16 basis).
- LifeHealthcare is an independent distributor of third-party medical devices, consumables, capital equipment and in-house manufactured allograft materials in Australia, New Zealand and South East Asia. In 2018, Pacific Equity Partners acquired LifeHealthcare for an implied EBITDA multiple of 10.3x. LifeHealthcare subsequently expanded its business into Asia through the acquisition of Transmedic in 2021. In 2022, EBOS acquired 100% of LifeHealthcare's Australian and New Zealand subsidiaries and 51% of LifeHealthcare's Asian subsidiary, Transmedic for an implied multiple of 11.4x forecast EBITDA. The acquisition marked EBOS' first material investment into South East Asia. In FY21, LifeHealthcare generated \$326 million in pro forma revenue and \$92 million in pro forma EBITDA (on a 100% consolidated basis), implying an EBITDA margin of 28%.

- Ellex Medical Lasers Limited (**Ellex**) designs, develops, manufactures and sells medical devices. The acquisition of the lasers and ultrasound business includes the Ellex brand name and its R&D and production site in Adelaide. In 2020, The Lumibird Group, a leading European laser technology company, acquired Ellex to complement its existing Quantel Medical business to become a leader in ophthalmology. As an intellectual property owner and manufacturer, we would expect the Ellex business to have a higher earnings multiple compared to PGC. The Lumibird Group acquired the business for an implied EBITDA multiple of 10.5x (excluding head office costs). Including head office costs, the implied EBITDA multiple would be higher.
- PGC acquired a number of smaller medical equipment distributors in the past six years. The implied EBITDA multiple ranged from 5.2x (historic) to 7.6x (forecast). Some of these acquisitions were completed prior to the adoption of AASB 16.
- We have also identified a number of transactions involving pharmaceutical distributors in Australia. While operating in the broader healthcare distribution industry, they are not directly comparable to PGC. The implied EBITDA multiple of the completed transactions ranged from 6.6x to 9.9x. On 22 December 2023, Probiotec Limited (**Probiotec**), a contract manufacturer, packer and distributor of pharmaceuticals and complementary products, announced it has entered into a binding scheme implementation deed to sell 100% of its shares to a wholly-owned subsidiary of PT Pyridam Farma. The transaction has yet to complete at the date of this Report. Therefore, the implied EBITDA multiple for Probiotec in the table above should be viewed with caution.

A brief description of the business activities of the observed listed companies is set out in **Appendix F**.

Conclusion on multiple

In determining an appropriate EBITDA multiple range for PGC, we have considered the following:

- The observed comparable listed companies are not directly comparable to PGC in terms of the nature of their business, product offering, level of diversification or geographic location. However, we consider the share market evidence provides directional guidance regarding the EBITDA multiple.
- We consider the transaction multiples to be more relevant as they focus on medical equipment distribution and wholesale.
- AASB 16 is effective for reporting periods beginning on or after 1 January 2019. Acquisitions completed prior to the adoption of AASB 16 are presumably on a pre-AASB16 basis.

Based on the above, we consider an EBITDA multiple of between 8.5 times and 9.5 times (on a controlling basis) to be appropriate in assessing the value of PGC.

7.4. Valuation of PGC

We have assessed the value of PGC, inclusive of a premium for control, to be in the range \$0.30 to \$0.36 per share:

\$'000	Section reference	PGC	
		Low	High
Future maintainable earnings	7.2	38,500	38,500
EBITDA multiple (control basis)	7.3	8.5x	9.5x
Enterprise value of PGC		327,250	365,750
Debt	7.4.1	(150,835)	(150,835)
Cash and cash equivalents	7.4.1	28,354	28,354
Investment property	7.4.2	2,147	2,147
Restructure provision	7.4.3	(2,528)	(2,528)
Vendor conditional payables	7.4.4	(2,667)	(2,667)
Equity value of PGC (control basis)		201,721	240,221
Ordinary shares on issue ('000)	7.4.5	667,868	667,868
Value per PGC share (\$) (control basis)		0.30	0.36

Source: SW Securities analysis

7.4.1. Net debt

As at 31 December 2023, PGC has the following net debt:

	PGC
\$'000	
Bank loans	85,291
Trade finance facility	19,440
Other loans	6,995
Hire purchase	2,710
Lease liabilities	35,550
Interest rate swap liabilities	849
Debt	150,835
Cash and cash equivalents	(28,354)
Net debt	122,481

Source: PGC Management

7.4.2. Investment property

The book value of the investment property in Korea is \$2.1 million as at 31 December 2023. PGC Management has indicated that the latest valuation undertaken on the property was two years ago and was booked into the accounts at the time. PGC Management advised they do not expect the market value of the property to be materially different from the current book value. On that basis, we have adopted the book value of the investment property for the purpose of our analysis.

7.4.3. Restructure provision

PGC Management anticipates restructurings costs of \$3.6 million will be incurred in FY24 (of this amount \$1.4 million has been provided for as at 31 December 2023). On that basis, we have included restructuring costs of \$3.6 million (tax effected) as a surplus liability.

7.4.4. Vendor conditional payables

PGC Management has indicated the book value of the vendor conditional payables are based on their best estimate of the amounts payable. We have assumed the book value of the vendor conditional payables as at 31 December 2023 represent their market value for the purpose of our analysis.

7.4.5. Shares on issue

As set out in **Section 3**, PGC has 667,868,179 ordinary shares on issue.

PGC also has 17,913,138 performance rights on issue as at the date. Further, subject to the approval of PGC Shareholders, John Walstab, will be granted 26,000,000 performance rights in accordance with his employment agreement.

For the purpose of determining the value per PGC share, we have assumed a total of 43,913,138 performance rights (inclusive of the Unissued Performance Rights). We have included the Unissued Performance Rights considering that the Merger will not proceed if, inter alia, the issue of the Unissued Performance Rights is not approved by PGC Shareholders (unless the parties agree to waive the relevant condition precedent).

Our assessed value range of PGC shares before the Merger, inclusive of a control premium, of \$0.30 to \$0.36 per share is lower than the target vesting price of the performance rights ranging from \$0.30 to \$0.80.

Based on the above, we have assumed the performance rights will not vest²¹. We have excluded the performance rights in calculating the diluted number of shares, in calculating the value per PGC share, and assumed only the total number of ordinary shares on issue of 667,868,179.

While we have not included the performance rights in assessing the value of a PGC share before the Merger, as the share price vesting conditions ranging from \$0.30 to \$0.80 have not been satisfied as they are lower than our assessed value of a PGC share of \$0.30 to \$0.36, it should be noted that when we assess the value of a Merged PGC share, the performance rights have been assumed to have vested and converted into ordinary shares.

²¹ We note 2,000,000 of the Unissued Performance Rights will vest if the PGC share price exceeds \$0.30. For the purpose of our analysis, we have assumed the 2,000,000 performance rights will not vest. We note even if we were to assume vesting and exercise of the 2,000,000 performance rights, our opinion will be the same.

7.5. Valuation cross-check – Quoted security price

As a cross-check to our primary capitalisation of earnings method, we have considered the price of PGC shares as traded on the ASX.

The following table summarises the trading prices and volume of trade in PGC shares on the ASX in the 12 months to 29 February 2024, being a day prior to the announcement of the Merger:

Month end	Volume traded ('000)	Total value of shares traded (\$'000)	Monthly VWAP (\$)	Volume traded as % of total shares	Volume traded as % of total free float shares
Feb-24	5,318	1,120	0.211	0.8%	1.3%
Jan-24	2,547	540	0.212	0.4%	0.6%
Dec-23	5,486	1,219	0.222	0.8%	1.3%
Nov-23	4,531	811	0.179	0.7%	1.1%
Oct-23	3,618	642	0.178	0.5%	0.9%
Sep-23	17,265	2,985	0.173	2.6%	4.5%
Aug-23	11,969	2,586	0.216	1.8%	3.1%
Jul-23	4,747	1,164	0.245	0.7%	1.2%
Jun-23	13,857	3,197	0.231	2.1%	3.6%
May-23	3,693	943	0.255	0.6%	1.0%
Apr-23	2,287	613	0.268	0.3%	0.6%
Mar-23	6,523	1,587	0.243	1.0%	1.7%

Source: S&P Global, SW Securities analysis

In relation to the table above, we note the following:

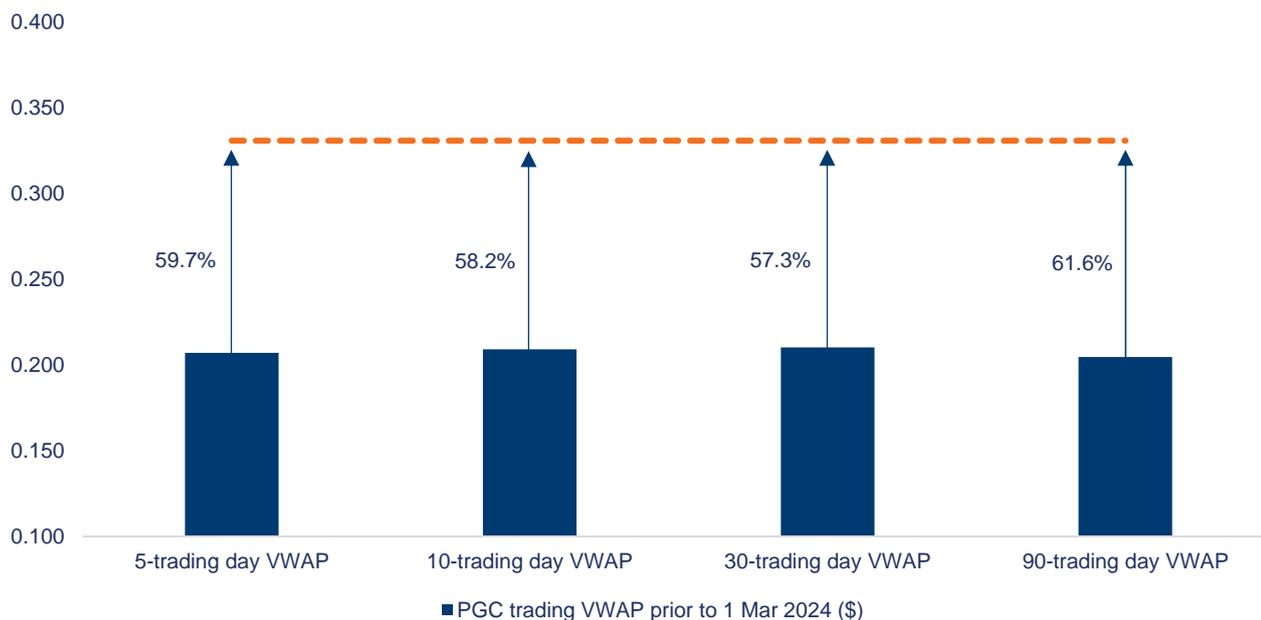
- PGC complies with the full disclosure regime required by ASX. As a result, the market is fully informed regarding the performance of PGC.
- 12% of total shares on issue traded over the 12 months to 29 February 2024, and 17% on free float shares²².
- The monthly volume traded as a percentage of outstanding shares is between 0.3% and 2.6%.

Based on the above, we consider PGC shares demonstrated limited liquidity. Accordingly, the trading share price of PGC shares may not be fully reflective of market value.

In the absence of a takeover, the trading share price of listed companies reflect the value of portfolio interests in the underlying company. As a high-level cross-check, we calculated the implied control premium by comparing the midpoint of our assessed control value to the VWAP of PGC shares prior to the announcement of the Merger.

²² Free float excludes 129.9 million PGC shares held by John Walstab and 53.3 million PGC shares held by Pioneer Pharma Australia Pty Ltd

Implied premium to PGC VWAP before announcement of the Merger



Source: S&P Global, SW Securities analysis

In relation to the table above, we note the following:

- The midpoint of our assessed value of \$0.33 (control basis) implies a control premium of 57% to 62% compared to the 5-day, 10-day, 30-day and 90-day VWAP of a PGC share.
- The implied control premium is higher than the range of observed premiums paid in Australia of 20% to 40%.

We note that the implied control premium is higher than typically observed premium for listed companies in Australia. However, we do not believe that this is unreasonable given the low liquidity for PGC shares prior to the announcement of the Merger. We note that less liquid share can attract much higher bid premiums.

Based on the above, we consider our assessment of the value of PGC on a control basis using the capitalisation of maintainable earnings approach is consistent with the trading prices.

8. Valuation of Merged PGC

8.1. Valuation approach

We have assessed the value of Merged PGC using the capitalisation of future maintainable earnings method.

8.2. Future maintainable earnings

In determining the future maintainable EBITDA of Merged PGC, we have considered the following:

- Merged PGC's Pro Forma EBITDA on a normalised basis for the last 12 months ended 31 December 2023 of \$83.8 million, which we understand excludes Osborne. The Pro Forma EBITDA for the 12 months ended 31 December 2023 will be higher including Osborne's results on a full-year basis. Our assessed future maintainable earnings include an approximately 5% growth on the Pro Forma EBITDA which we consider is reasonable taking into account recent growth for the two businesses and exposure to growing healthcare markets in Asia.
- The forecast in the Explanatory Memorandum indicates a forecast FY24 EBITDA of \$92.8²³ million for Merged PGC, including Osborne (before synergies, transaction costs and restructuring costs), on a normalised basis.
- Merged PGC will have an expanded expertise and client base compared to PGC, and allow CH2 to expand its product offerings into new markets in New Zealand and Asia through PGC's established infrastructure.
- The commissioning of PGC's manufacturing facility at Mount Waverly is expected to substantially expand the production capacity for Immulab. With the increased capacity, PGC plans to target offshore markets for Immulab.
- The Osborne distribution centres (except Brisbane) will be relocated to CH2's existing distribution centres by the second half of 2024. thereby generating lease savings.
- We have also had regard to forecasts prepared by PGC and CH2, which have not been made public for confidentiality reasons and recent broker consensus estimates.
- PGC and CH2's year-to-date performance, based on management accounts and discussions with PGC Management and CH2 Management.

Based on the above, we have assessed Merged PGC's future maintainable EBITDA to be \$92.2 million.

8.3. Earnings multiples

As there is no directly comparable companies or transactions to Merged PGC (combination of similar size PBS and medical equipment distribution businesses), in determining an appropriate EBITDA multiple range for Merged PGC, we have considered the following:

- Our assessed multiple range for PGC on a standalone basis of 8.5x – 9.5x.
- Forecast EBITDA multiples for listed PBS distribution businesses EBOS and Sigma discussed below.
- Merged PGC will be substantially larger than PGC and have more diversified product offerings, thereby resulting in a premium compared to the EBITDA multiple range for the standalone PGC.

²³ According to the Explanatory Memorandum, the Pro Forma FY24 forecast for Merged PGC is based on nine months actual and 3 months forecast for PGC and CH2 respectively. The pro forma forecast financials include a normalisation adjustment for the full-year impact of the acquisition of Osborne by CH2. Combined financials exclude annual synergies, transaction costs and restructuring costs.

- PGC will be exposed to CH2's PBS distribution business which is characterised by high volumes and low margins. However, as the pharmaceutical distribution business is highly regulated, it also generates consistent cash flows.

As Merged PGC will continue to operate in the same general business and sectors as PGC, we consider that the same companies and transactions comparators used for PGC can be referred to.

After the Merger, pharmaceutical distribution will be PGC's main revenue stream, while the medical equipment segment will continue to be a sizeable contributor.

In terms of listed comparable companies:

- We consider pharmaceutical distributors, EBOS and Sigma to be comparable to Merged PGC, EBOS being more so by virtue of its secondary medical equipment distribution business. EBOS and Sigma are two of the four national CSO distributors²⁴ (including CH2). Unlike Merged PGC however, both EBOS and Sigma have significant retail pharmacy operations.
- EBOS is a marketer, wholesaler and distributor of healthcare, medical, pharmaceutical and animal care products. EBOS is also the franchisor for TerryWhite Chemmart, one of Australia's largest community pharmacy networks with 550+ stores. In June 2023, EBOS announced its five-year exclusive wholesale distribution of pharmaceutical products to Chemist Warehouse stores will not be renewed beyond its expiry on 30 June 2024. The contract generated \$1.9 billion in revenue in FY23. EBOS traded at 12.3x forecast FY24 EBITDA. EBOS is significantly larger than Merged PGC, generating revenue of \$12.2 billion in FY23. On that basis, we would expect the EBITDA multiple of Merged PGC to be at a discount to EBOS' trading multiple.
- Sigma is involved in the wholesale distribution of pharmaceutical goods and medical consumables to community pharmacies. Sigma also operates various aligned pharmacies under the Amcal, Discount Drug Stores, Guardian and Pharma Save brands. In 2023, Sigma successfully won the Chemist Warehouse Group PBS and front of store supply contract for the next five years. On 11 December 2023, Sigma and Chemist Warehouse entered into a merger implementation agreement, which is pending completion at the date of this Report. Sigma was forecast to achieve \$90 million next year based on consensus forecast and is more comparable in size to Merged PGC. Sigma traded at 10.4x forecast JanFY25 EBITDA. We note Sigma has a higher growth expectation with the Chemist Warehouse supply contract expected to commence on 1 July 2024.
- We note that trading multiples are based on sharemarket prices and, therefore, do not typically include a control premium. The trading multiples will be higher if a control premium is applied.

In terms of comparable transactions:

- In 2022, Wesfarmers Limited acquired Australian Pharmaceutical Industries Limited (**API**) for an implied multiple of 6.6x EBITDA. API is involved in the wholesale distribution of PBS medicines, over-the-counter products, health and beauty goods, as well as in the sale of health and beauty retail products and services through its owned and franchise network of stores (Priceline, Priceline Pharmacy, Soul Pattinson Chemist) and clinics (Skincare Clinics). We believe that a lower multiple is reflective of API's exposure to retail.

Having regard to the above, we consider an EBITDA multiple of between 10.0 times and 11.0 times (on a controlling basis) to be appropriate in assessing the value of Merged PGC.

²⁴ There are four national CSO distributors and two state based distributors (one in South Australia and one in Victoria).

8.4. Valuation of Merged PGC

We have assessed the value of Merged PGC on a minority basis, to be in the range \$0.29 to \$0.39 per share:

\$'000	Section reference	Merged PGC	
		Low	High
Future maintainable earnings - Merged PGC	8.2	92,200	92,200
EBITDA multiple (control basis)	8.3	10.0x	11.0x
Capitalised earnings (A)		922,000	1,014,200
Synergies	8.4.1	12,000	12,000
Synergies multiple (control basis)	8.4.1	4.0x	5.0x
Capitalised synergies		48,000	60,000
Less: one-off cost to realise synergies	8.4.2	(6,000)	(6,000)
Enterprise value of synergies (B)		42,000	54,000
Enterprise value of Merged PGC (control basis) (A+B)		964,000	1,068,200
Debt	8.4.3	(312,240)	(312,240)
Cash and cash equivalents	8.4.3	29,544	29,544
Investment property	7.4.2	2,147	2,147
Restructure provision	7.4.3	(2,528)	(2,528)
Vendor conditional payables	7.4.4	(2,667)	(2,667)
Balance payment to acquire Osborne	8.4.4	-	-
Proposed dividend to be paid by CH2 in May 2024	8.4.5	(8,000)	(8,000)
Transaction costs	8.4.6	(1,500)	(1,500)
Equity value of Merged PGC (control basis)		668,756	772,956
Ordinary shares after the Merger- diluted ('000)	8.4.7	1,655,305	1,655,305
Value per PGC share after the Merger (\$) (control basis) - diluted		0.40	0.47
Minority discount	8.4.8	28.6%	16.7%
Value per PGC share after the Merger (\$) (minority basis) - diluted		0.29	0.39

Source: SW Securities analysis

8.4.1. Synergies

PGC has identified potential synergies arising from the Merger including cost savings relating to headcount, site closures, interest savings and corporate overheads.

With the expectation that certain cost synergies may not be achieved immediately, PGC has identified pre-tax synergies of approximately \$5 million in FY25 and then approximately \$12 million per annum on a fully implemented basis from FY26 after the Merger.

PGC has estimated the cost synergies on a fully implemented basis to be as follows:

	\$' million
Network optimisation and shared services, headcount and site closures	6.2
Interest cost savings	1.8
Oborne headcount reduction, IT integration and insurance cost reductions	4.0
Total cost synergies	12.0

Source: PGC Management

We have discussed the identified synergies with PGC Management and the costs to achieve the synergies. The identified synergies such as savings relating to headcount, site closure, insurance, audit and tax fees are based on historical cost and as such, we do not believe is unreasonable to take into account.

Most of the identified synergies comprise of headcount and site closures which we understand are not too burdensome to achieve as PGC has already been undertaking a rationalisation exercise in the last few years and since the acquisition of Quantum. The labour synergies are expected to be derived from savings following redundancies of duplicate roles as well as the elimination of management roles and board positions. A number of PGC's warehouse leases are due to expire soon. Synergies from site closures are expected to be derived from the relocation of PGC distribution centres in NSW, Queensland, South Australia and Western Australia to CH2's existing distribution centres in the respective states.

We consider that the pool of potential purchasers will include participants in a similar industry to Merged PGC. We expect the quantum of synergies to be similar or greater for some of the other market participants, however, the composition of such synergies may vary. For example, some of the listed market participants will be able to achieve synergies on listing compliance and governance costs which the Merged PGC won't be able to.

Whilst we note PGC Management expects to achieve synergies of approximately \$12 million per annum on a fully implemented basis from FY26 after the Merger, we note there remains a risk regarding the level and timing of the anticipated synergies that may be achieved, whether due to factors which are within or beyond the control of Merged PGC.

Considering the above, we have included cost synergies of \$12.0 million (gross) in our analysis. As a sensitivity analysis, we note that our opinion does not change even if we consider only 50% of the synergies in our analysis above (along with a similar reduction in costs to realise synergies).

In estimating the value of the synergies, we have adopted a multiple ranging from 4.0 times and 5.0 times, based on our judgement and experience. The lower multiple compared to the EBITDA multiple range adopted reflects the risks associated with the timing and achievement of the cost synergies.

8.4.2. Cost to realise synergies

PGC Management has identified a total of approximately \$6.0 million in one-off costs to be incurred over two years to realise the identified synergies of around \$12.0 million (gross). The one-off costs relate mainly to redundancy costs and relocation expenses.

8.4.3. Net debt

Merged PGC has the following net debt:

\$'000	Merged PGC
Bank loans	85,291
Trade finance facility	19,440
Other loans	6,995
Hire purchase	2,710
Lease liabilities	35,550
Interest rate swap liabilities	849
Total PGC debt¹	150,835
Bank loans	105,885
Lease liabilities	30,534
Additional bank loans to acquire Osborne	24,987
Total Pro Forma CH2 debt²	161,405
Pro Forma Merged PGC debt	312,240
Cash and cash equivalents	
Cash and cash equivalents - PGC ¹	(28,354)
Cash and cash equivalents - CH2 ²	(1,190)
Total cash and cash equivalents	(29,544)
Net debt	282,696

Source: 1. PGC's Interim Report for 1H24 2. CH2's balance sheet as at 31 December 2023, adjusted to include additional bank loans of \$25 million to fund the acquisition of Osborne in March 2024.

8.4.4. Balance payment to acquire Osborne

CH2 has deferred consideration (plus working capital adjustment) owing to the vendor of Osborne totalling \$2.9 million, which are expected to be paid in April 2024.

As we have made an adjustment to include this liability as additional borrowings of CH2 in Section 8.4.3, we have not included it as a surplus liability.

8.4.5. Proposed dividend to be paid in May 2024

CH2 Management has advised CH2 intends to pay dividends of \$8.0 million in May 2024 prior to completion of the Merger. As the dividends have not been deducted in CH2's statement of financial position as at 31 December 2023, we have deducted the dividends as a surplus liability.

8.4.6. Transaction costs

PGC Management indicated that the total transaction cost of the Merged PGC is estimated to be \$1.5 million.

8.4.7. Shares on issue

For the purpose of assessing the value per Merged PGC share, we have assumed 1,655,305,389²⁵ ordinary shares on issue.

8.4.8. Minority interest discount

It is observed that takeovers involving the acquisition of a majority interest generally take place at significant premiums to portfolio or minority interests. This premium is generally in the range of 20% to 40%.

Considering the above, we have adopted a control premium of 20% to 40%. This is equivalent to a minority interest discount of 16.7% to 28.6%²⁶.

8.5. Valuation cross-check

The trading prices of PGC shares following the announcement of the Merger provide guidance on the fair market value of PGC after the Merger, as PGC shares reflect the expected impact of the terms of the Merger.

Since the announcement of the Merger on 1 March 2024, PGC shares have been relatively liquid with 13.9% of the issued free float shares traded in March 2024, compared to monthly volume traded of between 0.3% and 2.6% in the 12 months prior to the announcement of the Merger. In the few days in April, trading liquidity fell to 0.8% of the issued shares from 1 April 2024 to 3 April 2024 as set out below:

Month end	Volume traded ('000)	Total value of shares traded (\$'000)	Monthly VWAP (\$)	Volume traded as % of total shares	Volume traded as % of total free float shares
Apr-24	3,437	1,079	0.314	0.5%	0.8%
Mar-24	57,090	15,448	0.271	8.5%	13.9%

Source: S&P Global, SW Securities analysis

Note: April 2024 data in the table above is for 1 April 2024 to 3 April 2024.

As a high-level cross-check to our valuation of Merged PGC, we have considered the trading prices of PGC after the announcement of the Merger up to 3 April 2024 compared to our assessed value range of Merged PGC on a minority basis.

Date	Low (\$)	High (\$)	VWAP (\$)
1 March 2024 to 3 April 2024	0.25	0.32	0.27

Source: S&P Global, SW Securities analysis

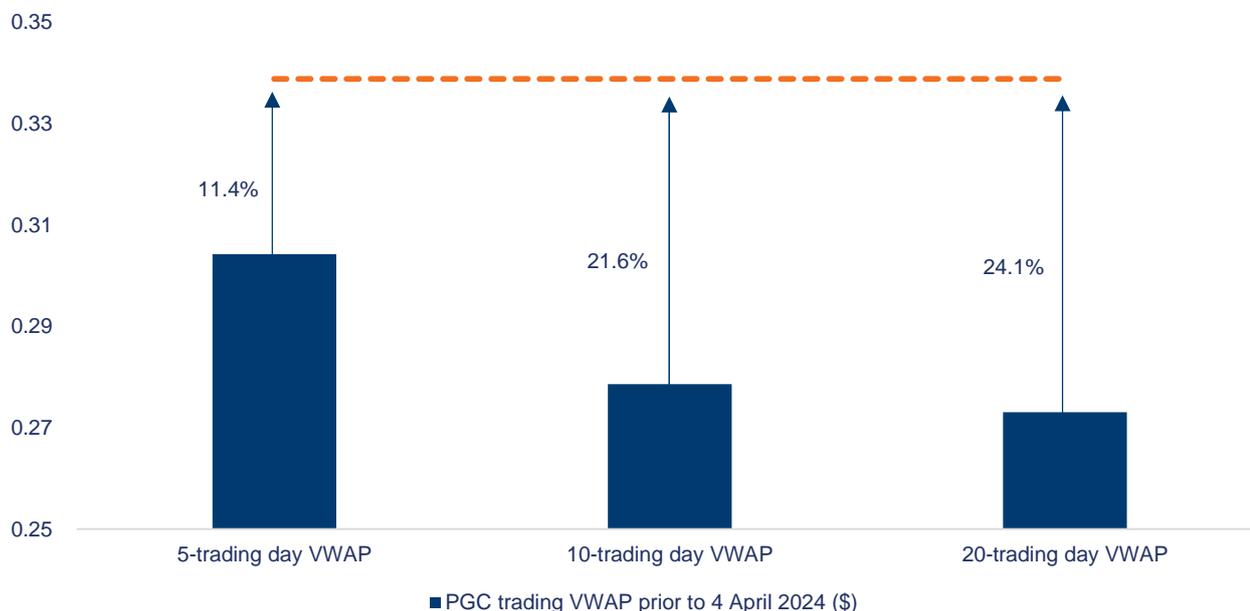
Note: Low and high are intraday prices

We have also compared the midpoint of our assessed value of a share in Merged PGC on a minority basis to the VWAP of a PGC share after announcement of the Merger up to 3 April 2024 as follows:

²⁵ The 1,655,305,389 ordinary shares assume the issue of 26,000,000 performance rights to John Walstab, and the vesting and conversion of 43,913,138 performance rights into PGC shares in accordance with Merger Resolutions 2 and 3 in the Explanatory Memorandum.

²⁶ The minority discount is the inverse of the premium for control, calculated as $1 - 1 / (1 + \text{control premium})$

Implied premium (discount) to PGC VWAP before announcement of the Merger



Source: S&P Global, SW Securities analysis

In relation to the above, we note the following:

- PGC shares traded lower between \$0.25 and \$0.32 (intraday prices) after the announcement of the Merger up to 3 April 2024 compared to the midpoint of our assessed value of a share in Merged PGC on a minority basis of \$0.34 per PGC share.
- The midpoint of our assessed value of a share in Merged PGC on a minority basis represents a premium of 11% to 24% of the 5-trading day, 10-trading day and 20-trading day VWAP of a PGC share after announcement of the Merger up to 3 April 2024. This premium may be attributed to a range of factors, including market uncertainty related to the completion of the Merger.

Considering there was limited liquidity in PGC shares prior to the announcement of the Merger and liquidity has since dropped in April 2024, we consider our assessment of the value of Merged PGC on a minority basis using the capitalisation of maintainable earnings approach is not inconsistent with the trading prices.

Appendix A: Qualifications, limitations and consent

Qualifications

ShineWing Australia Securities Pty Ltd ABN 98 614 606 389 holds Australian Financial Services Licence 509026.

ShineWing Australia Securities provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures.

The individuals responsible for preparing this report on behalf of ShineWing Australia Securities are Phillip Rundle and Vikas Nahar.

Phillip Rundle is an Authorised Representative of and a Director in ShineWing Australia Securities Pty Ltd. Phillip is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australasia, an Accredited Business Valuation Specialist by Chartered Accountants Australia and New Zealand and holds a Bachelor of Commerce and Graduate Diploma in Applied Finance & Investment.

Vikas Nahar is a Director in ShineWing Australia Securities Pty Ltd. Vikas is a CFA Charterholder and holds a Master of Business Administration with majors in Finance. Vikas has significant experience in valuation of businesses, financial instruments and intangible assets for financial reporting, taxation, strategy, and merger and acquisition purposes. He also has extensive experience in preparation of independent expert reports under Corporations Act and ASX Listing Rules.

Independence

Prior to accepting this engagement, ShineWing Australia Securities considered its independence with respect to PGC and all other parties involved in the Merger with reference to the ASIC Regulatory Guide 112 Independence of expert (**RG 112**) and APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to PGC, its shareholders and all other parties involved in the Merger.

ShineWing Australia Securities and its related entities do not have at the date of this Report, and have not had within the previous two years, any shareholding in or other relationship with PGC or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Merger.

ShineWing Australia Securities has no involvement with, or interest in the outcome of the transaction, other than the preparation of this Report.

ShineWing Australia Securities will receive a fee based on commercial rates for the preparation of this Report. This fee is not contingent on the outcome of the transaction. ShineWing Australia Securities' out-of-pocket expenses in relation to the preparation of this Report will be reimbursed. ShineWing Australia Securities will receive no other benefit for the preparation of this Report.

ShineWing Australia Securities considers itself to be independent in terms of RG 112.

Draft reports

An advance draft of this Report was provided to the management of PGC Australia for their comments as to its factual accuracy. No alterations were made to the methodology or valuations as a result of these factual reviews.

Indemnity

Recognising that ShineWing Australia Securities may rely on information prepared by PGC and its officers, PGC has agreed to make no claim against ShineWing Australia Securities to recover any loss or damage which PGC may suffer as a result of reasonable reliance by ShineWing Australia Securities on the information provided by PGC, and to indemnify ShineWing Australia Securities and its officers and employees, who may be involved in or in any way associated with the preparation of this Report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of services by ShineWing Australia Securities in connection with our assessment and occasioned by reliance by ShineWing Australia Securities on information provided by PGC or its representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to have been provided, which at the time of completing our Report, should have been available to ShineWing Australia Securities and would reasonably have been expected to have been made available to ShineWing Australia Securities to enable us to form our opinion.

Consents

ShineWing Australia Securities consents to the inclusion of this Report in the form and context in which it accompanies the Notice of Meeting and Explanatory Memorandum to be issued to the shareholders of PGC. Neither the whole nor any part of this Report or any reference thereto may be included in any other document without the prior written consent of ShineWing Australia Securities as to the form or context in which it appears.

Professional standards

Our Report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

Appendix B: Sources of information

In preparing this Report, we have considered the following key sources of information:

- Draft Notice of Meeting and Explanatory Memorandum in relation to the Merger
- Share Sale Agreement in relation to the Merger
- Annual Report of PGC for FY21, FY22 and FY23 (with comparatives)
- Interim Report of PGC for the 6 months ended 31 December 2023
- Management accounts of PGC for the 7 months ended 31 January 2024
- Proforma financial performance of Merged PGC for FY23 and 1H24
- Proforma balance sheet of Merged PGC as at 31 December 2023
- Audited financial statements of CH2 for FY21, FY22 and FY23 (with comparatives)
- Management accounts of CH2 for the 7 months ended 31 January 2024
- Various ASX announcements
- Various broker and analyst reports
- S&P Global
- Mergermarket
- Various press and media articles
- Company websites
- Various reports published by IBISWorld
- Other publicly available information
- Other confidential documents, presentations and workpapers
- Discussions and correspondences with PGC Management and CH2 Management.

Appendix C: Industry overview

Medical and scientific equipment wholesaling industry in Australia

Overview

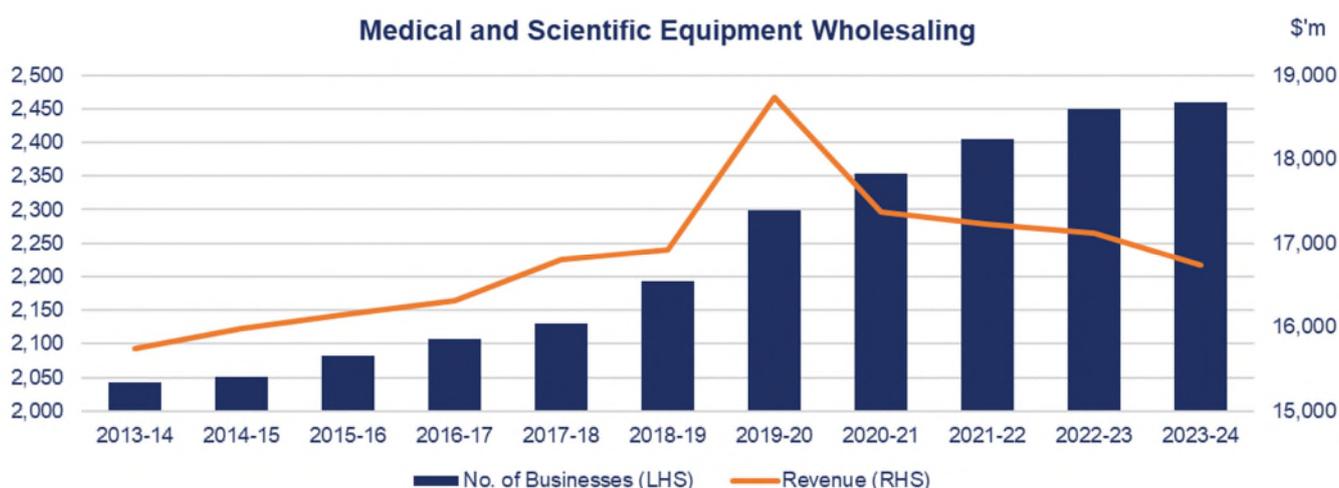
Market participants in the industry distribute scientific, medical and other professional equipment. Most wholesalers will sell, market, store and transport the products, and establish relationships with manufacturers and retailers to ensure a reliable supply of, and demand for, industry products.

Australian medical and scientific equipment wholesale is a mature industry that links local and international manufacturers and Australian healthcare. Demand for industry products has been supported in recent years, due to rising demand from the health sector. Australia’s aging population and the Covid-19 pandemic have also led to increases in government funding for healthcare, whilst growing admission rates in private and public hospitals has compounded the demand for medical and surgical equipment, enhancing wholesaling activity.

Despite growing demand, the industry has also endured several setbacks, with pandemic related supply chain issues decreasing demand for process control equipment. An appreciation of the Australian dollar, which is favourable for importers, has mostly been offset by a wholesale bypass trend and persistent supply chain challenges, leading to a 2.3% revenue fall across the industry in 2023-24 to a total of \$16.7 billion. Revenue is expected to fall at an annualised 0.2% for the five years ending 2023-24.

Demand for medical products is expected to remain high as the economy expands, Australia’s median age rises and increased spending on medical equipment continues in the wake of the pandemic. An appreciation of the Australian dollar and increasing investment in research and development is also projected to grow the industry’s size, and boost revenue and profitability in the coming years. According to IBISWorld (December 2023), industry revenue is expected to rise at an annualised 1.8% over the next five years to reach \$18.3 billion in 2028-29.

The following diagram shows the growth in industry revenue and number of market participants from 2013-14 to 2023-24.



Source: IBISWorld (December 2023)

Products

The medical and scientific equipment wholesaling industry covers the following categories, with the corresponding share of industry revenue in 2023-24:

- **Surgical and medical appliances and apparatus** includes first aid equipment, needles, bandages and consumables and contributed 36.0% of industry revenue.
- **Surgical medical instruments and supplies** includes irradiation apparatus, ultrasound machines, diagnostic products, ventilators, and medical monitors equipment. In 2023-24, sales of surgical medical instruments and supplies contributed 20.3% of total industry revenue.
- **Measuring equipment** includes instruments and handheld tools to check compliance with specifications or analyse samples. It was responsible for 18.0% of industry revenue in 2023-24.
- **Dental equipment and supplies** include dental instruments, X-ray machinery, lights, dental chairs, drills, needles swabs and pastes. In 2023-24 this segment contributed 11.0% of total industry revenue.
- **Laboratory apparatus and other equipment** includes sinks, beakers, test tubes, scales and stands and was responsible for 7.5% of industry revenue in 2023-24.
- **Process control instruments** includes pressure and temperature sensors and control valves and are mostly used in various manufacturing processes. 7.2% of industry revenue in 2023-24 was derived from this segment.

Industry performance

The Australian medical and scientific wholesaling industry has experienced a steady decline in recent years of 0.2% per year since 2019. Fluctuations in the Australian dollar have been a large reason for this, as the majority of industry products are imported. Intense competition in the industry has meant that wholesalers have needed to maintain or decrease their prices to attract customers, keeping margins low. To attain a competitive advantage without sacrificing profit, some wholesalers have been purchasing equipment from international markets with lower overhead costs, such as China and Thailand.

The Australian population demographics, as well as health trends and advances in medical technology all dictate public and private health spending. An ageing population and the Covid-19 pandemic have increased health expenditure, which has increased demand for medical equipment. However, most benefits from the increased government spending due to the pandemic have been offset by the global supply chain challenges.

Wholesale bypass trends have also hampered industry growth, with many buyers purchasing directly from manufacturers in recent years.

Industry drivers

Total Health Expenditure: Federal and state governments subsidise a significant portion of the health sector. When government funding for the sector increases, the medical and scientific wholesaling industry experiences growth. According to IBISWorld (December 2023), healthcare expenditure in Australia is forecast to grow to \$248 billion in 2024 and expected to increase to \$301 billion by 2029.

Ageing population: Demand for health services increases as the average age of the population rises. As elderly patients are more susceptible to serious illness, a rise in the number of people aged 70 and older can boost demand for medical equipment in hospitals and medical centres. The demographic aged 70 and older is expected to grow, ensuring ongoing and growing demand for industry products.

Trade-weighted index: The trade weighted index measures the value of the Australian dollar against the currencies of Australia's major trading partners. As the Australian dollar appreciates, the costs decrease for wholesalers to purchase imported products, which are responsible for a large portion of total industry products.

Demand from scientific research services: As government and private research organisations use scientific equipment for research and development activities, increased research improves demand for industry products used in research laboratories.

Increase in the number of medical procedures: The total number of procedures influences the demand for medical products, specifically for medical appliances and corresponding consumables. The number of surgeries decreased during pandemic affected periods due to restrictions on elective surgery, however the number has since recovered to pre-pandemic levels.

Competition

The medical and scientific wholesaling industry has a low market share concentration with the top four players (Medtronic, Baxter Healthcare (Aus), Baxter Healthcare (NZ) and Thales Australia Holdings) having a combined market share of 18.8%. Medtronic is the largest in the industry with a market share of 5.9%.

Market participants compete on price, product quality and quality of goods sold. Recently, many buyers have been opting to bypass wholesalers and purchase direct from suppliers. In response to wholesale bypass trends, wholesalers have been trying to stay competitive by emphasising low process and high-quality services, offering unique value propositions and seeking advantages beyond cost savings for direct suppliers. Trends in wholesaling bypassing have stifled growth in the number of enterprises, with many smaller scale market participants exiting the industry.

Barriers to entry to the industry are moderate but steady, as the industry is regulated by the Therapeutic Goods Administration for medical equipment trades. New entrants may find the regulations too costly for the operations in addition to the initial startup costs in establishing an integrated warehouse and distribution network.

Outlook

Market participants are likely to face more favourable conditions going forward compared to recent years. The Australian dollar is forecast to appreciate, which will lower the prices for imported goods and widen profit margins for wholesalers.

Australia's median age is expected to continue to rise, driving industry growth as older people tend to require more intense, specialised medical care which supports demand for medical equipment. An opportunity exists for market participants to lean into this segment, tailoring medical and scientific to older patients, growing revenues through expanded sales and services.

Increased investment in research and development is also expected to support growth in the industry, with a greater focus on health following the Covid-19 pandemic likely leading to expanded sales to research organisations. As research institutions and medical facilities expand and modernise in response to growing health demands, their requirements for state of the art scientific and medical equipment will also increase.

The increasing threat of wholesale bypass will likely stifle demand, as consumers look to deal directly with manufacturers to control costs. This will in turn cause higher competition amongst wholesalers, competing on price to attract and retain customers.

Pharmaceuticals wholesaling industry in Australia

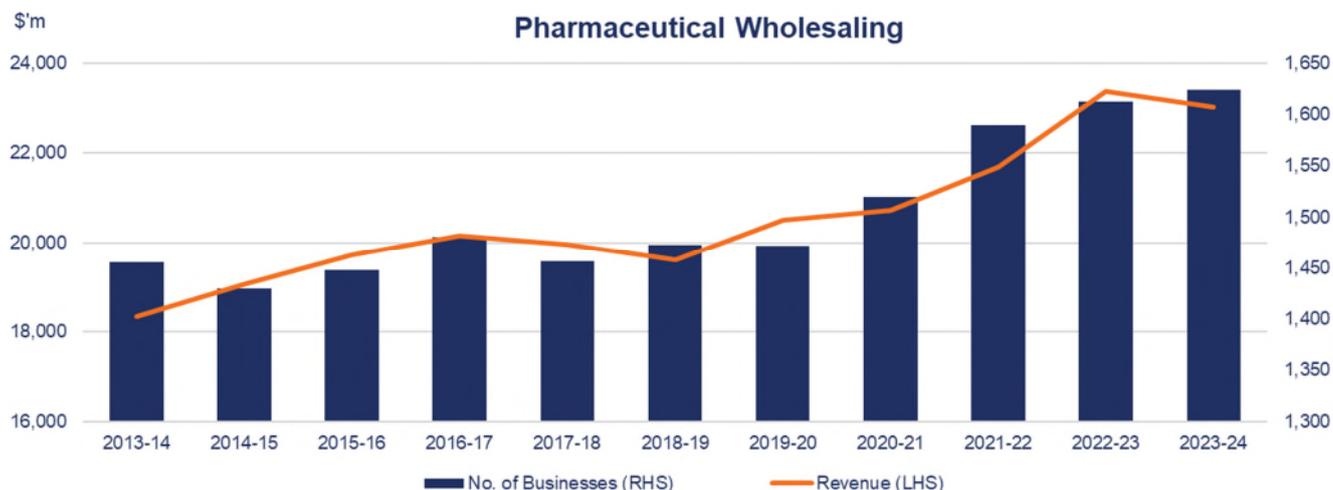
Overview

Industry firms wholesale pharmaceutical products, including prescription drugs, over-the-counter (OTC) medicines and complementary or alternative medicines, and veterinary drugs and medicines. The pharmaceuticals are sourced from upstream manufacturers and distributed to hospitals, veterinarians, and retail outlets such as pharmacies and supermarkets.

Pharmaceutical wholesalers are an essential link between local and international pharmaceutical manufacturers and community pharmacies in Australia. Changes to the operating environment and ongoing reforms to the Pharmaceutical Benefits Scheme (PBS) have restrained the industry’s performance in recent years. PBS price cuts have driven the falling unit prices and narrowing per-unit profit margins which has constrained the main revenue stream in the industry. In response to this, market participants are adopting new business models and growing non-PBS revenue streams, largely through higher markups on OTC products, to subsidise the PBS products. Some pharmaceutical wholesalers have also diversified into new markets and products, such as medical consumables and hospital pharmacies to support margins lost on PBS products. Industry revenues are expected to contract 1.5% in 2023-24 as the industry contends with the new Medicines Supply Security Guarantee and the staged introduction of 60-day dispensing in the downstream community pharmacy segment from 1 September 2023.

Industry players are expected to increasingly focus on unregulated revenue streams alongside retail and professional services, as they look to reduce their reliance on PBS related income. The operating environment in the industry is also expected to change with new challenges facing pharmaceutical wholesalers, including the government’s proposed national traceability framework. According to IBISWorld (December 2023), revenue is forecast to grow at an annualised 1.4% over the five years through to 2028-29, to reach \$24.7 billion.

The following diagram shows the growth in industry revenue and number of market participants from 2013-14 to 2023-24.



Source: IBISWorld (December 2023)

Products and Markets

The pharmaceutical wholesale industry comprises the following major product segments:

- **PBS Pharmaceuticals:** 48.2% of industry revenue in 2024.
- **Other human-use medicine:** 43.9% of 2024 industry revenue.
- **Veterinary pharmaceuticals:** 7.9% of industry revenue in 2024.

The industry revenue for 2024 can be broken down into the following key markets:

- **Community pharmacies:** 66% of revenue.
- **Hospital pharmacies:** 19.2% of revenue.
- **Pet stores and veterinarians:** 7.9% of revenue.
- **Supermarkets and health food stores:** 6.9% of revenue.

Regulation

The Australian pharmaceutical wholesale industry is heavily regulated. State and federal legislation restricts the distribution of a range of medicines and pharmaceutical products to certain licensed companies, with strict limitations on the permissible customers and the conduct of these companies.

Beginning in 1948 as a limited scheme, the PBS offered free medicines for pensioners and a list of 139 'life-saving and disease preventing' medicines free of charge for others in the community. Today, the PBS provides timely, reliable and affordable access to necessary medicines for Australians as part of the Australian Government's broader National Medicines Policy. Under the PBS, the government subsidises the cost of medicine for most medical conditions, with the majority of listed medicines dispensed by pharmacists and used by patients at home.

The PBS is an important regulatory feature of the industry's operating environment as the PBS controls the price or profit margin wholesalers receive for their services, making it crucial to the industry's performance. A wholesale mark-up floor for the supply of low-cost PBS medicines came into effect on 1 January 2021 under a new tiered wholesale mark-up arrangement.

Market participants operate as the link between the PBS and pharmacies to ensure the PBS can function efficiently and Australians can receive medications within 24 hours of placing a script with a pharmacist.

Competitive landscape

The pharmaceutical wholesaling industry in Australia is highly concentrated, with the largest four players (EBOS Healthcare, Wesfarmers, Sigma Healthcare and CH2) having a combined market share of 63.2%. The largest market participant, EBOS Healthcare, has a market share of 27.8%. CH2 is the fourth largest company in the industry with a market share of 4.5% (IBISWorld, December 2023).

Whilst there is a high concentration in the prescription pharmaceutical product segment, the wholesaling of OTC pharmaceuticals is less concentrated, reflecting the more relaxed regulatory restrictions and highlighting the segment as an opportunity. However, concentration may rise as market participants expand into the segment in pursuit of higher margins.

Barriers to the entry in the industry are moderate and increasing. The industry is heavily regulated with state and federal legislations restricting the distribution of certain pharmaceuticals to licensed companies. In addition, the startup costs in establishing an integrated warehouse and distribution network can be substantial as they are obliged meet the requirements of the Code of Good Wholesaling Practice. As the industry has a high skill base reflecting the nature of the products sold and the associated security issues, the industry also has high labour expenses, limiting the ease of access for new participants to enter the industry.

Industry drivers

Federal funding for PBS: Pharmaceutical wholesalers distribute approximately 5,180 PBS listed brands, among other products, and ongoing government efforts to reduce PBS costs have already adversely affected wholesaler revenue streams and margins. Any reduction in PBS expenditure or volume growth would impact the revenue and profit margins of market participants. Falling PBS pricing would also negatively impact industry revenues given the corresponding decrease for pharmaceutical wholesalers.

Demand from pharmacies: Pharmacies are the main customer base of the industry: Rising demand from pharmacies benefits the industry, with falling demand from pharmacies a threat to market participants. Any pharmacy related changes, such as government regulation on pharmacy ownership and positioning, could impact the pharmaceutical wholesaling industry. Previously, market participants have benefited from regulations that excluded supermarkets and other retailers from pharmacy activities.

Population aged 50 and older: The demand for pharmaceutical products largely correlates with the age breakdown of the population in Australia. As individuals aged 50 and over have a higher risk of illness and injury, Australia's ageing population supports demand for pharmaceuticals. Over half of all PBS medicines are consumed by people aged 65 and over and growth in the population aged 50 and over represents potential opportunity for the industry.

Health consciousness: Health consciousness indirectly influences the demand for pharmaceuticals and medicines as when this rises, consumers are more willing to spend more on preventative health products and other medical supplies that market participants supply. In the wake of the Covid-19 pandemic, many Australians have adopted a more proactive approach to maintaining their health and wellbeing.

Industry performance

The Australian pharmaceutical industry has experienced steady growth in recent years, driven by a range of factors. Nonetheless, regulated price reductions in PBS pharmaceuticals have largely offset any volume gains from this segment. The industry is also still recovering from supply chain disruptions caused by the Covid-19 pandemic.

An increase in consumption of both human use and veterinary pharmaceutical and medicinal products has been seen in the Australian market in recent years. This is largely due to higher life expectancies, an ageing population, increasing healthcare standards, greater emphasis on healthy lifestyles and changes in practitioner prescribing habits. Pet humanisation trends have also caused a spike in households owning pets and contributed to the growth in veterinary pharmaceutical consumption.

In addition to the PBS regulated price deflation, a greater reliance on generic pharmaceuticals has added to downward pricing pressures. Trends to bypass wholesalers, and exclusive distribution arrangements have also constrained industry growth, with several large manufacturers experimenting with direct to pharmacy supply models.

Ongoing reforms to the PBS as part of the Federal government's ongoing attempts to generate PBS savings through price cuts have threatened the industry in recent years. The latest change to the PBS, the move to a 60-day dispensing model for 325 PBS medicines, has had pushback from market participants. However, the government has asserted the staged introduction over 12 months will ensure supply chains are able to adapt to the new changes.

Outlook

As the PBS margins tighten, the pharmaceutical industry is shifting towards new business models that rely less on PBS medicines, concentrating on value added products and professional services. Market participants are also looking to target new unregulated markets including medical consumables and dose administrations to bolster profits. Major players in the industry have already undertaken multiple acquisitions in recent years to invest in growth areas. This trend is expected to continue as larger players look for bolt-on acquisition in pursuit of higher margin segments.

A growing reliance on technology is likely to create challenges and opportunities in the industry, with increasing reliance placed on technological developments to expand the range of professional services offered and the reduction in cost bases. Significant investment in technology and digital infrastructure is expected, whilst new complex supply chains are also expected with the introduction of more advanced products such as mRNA vaccines.

Profit margins across the industry are dependent on the cost cutting measures, efficiency improvements and the development of new markets and value-added products and services. Large market participants are expected to boost profit margins through improved inventory and logistics management systems, with several industry players constructing automated distribution centres already.

According to the Australian Government's Health Budget from 2023-24, PBS expenditure is expected to remain relatively unchanged over the four years through 2026-27. Ongoing regulatory reforms are also forecast to pressure wholesalers into restructuring over the short-term, further hindering near-term growth prospects.

Appendix D: Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or discounted cash flows (**DCF**) is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital (**WACC**). The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Appendix E: Sharemarket evidence

A brief description of the selected comparable companies is set out below:

Ansell Limited

Ansell Limited develops, manufactures, distribute and sell industrial and medical protection solutions, such as surgical gloves, single use and examination gloves as well as medical consumables in the Asia Pacific, Europe, the Middle East, Africa, Latin America, the Caribbean, and North America.

SDI Limited

SDI Limited engages in the research and development, manufacture, and marketing of dental restorative materials, whitening systems, and other dental materials in Australia.

EBOS Group Limited

EBOS Group Limited engages in the marketing, wholesale, and distribution of healthcare, medical, pharmaceutical, and animal care products in Australia, New Zealand, and Southeast Asia.

Sigma Healthcare Limited

Sigma Healthcare Limited engages in the wholesale distribution of pharmaceutical goods and medical consumables to community pharmacies primarily in Australia.

Henry Schein, Inc.

Henry Schein, Inc. provides dental and medical products and services primarily to office-based dental and medical practitioners, as well as alternate sites of care. The company also provides technology and value-added services.

Patterson Companies, Inc.

Patterson Companies, Inc. engages in the distribution of dental and animal health products in the United States, the United Kingdom, and Canada.

Owens & Minor, Inc.

Owens & Minor, Inc. is a global healthcare solutions company that incorporates product manufacturing, distribution support and innovative technology services. In addition to offering a comprehensive portfolio of products and services to healthcare providers and manufacturers, it provides delivery of disposable medical supplies sold directly to patients and home health agencies and is a leading provider of integrated home healthcare equipment and related services in the U.S.

Agiliti, Inc.

Agiliti, Inc., engages in the manufacturing, management, maintenance, and mobilisation of medical devices. It offers healthcare providers a comprehensive suite of medical equipment management and service solutions.

AdaptHealth Corp.

AdaptHealth Corp offers patient-centered, healthcare-at-home solutions including home medical equipment, medical supplies, and related services directly to a patient's home upon discharge from a hospital and/or receipt of a physician/medical referral.

InfuSystem Holdings, Inc.

InfuSystem Holdings, Inc. is a leading national health care service provider, facilitating outpatient care for Durable Medical Equipment manufacturers and healthcare providers. It primarily provides infusion pumps, and related products and services in the United States and Canada.

Appendix F: Transaction evidence

A brief description of the selected comparable transactions is set out below:

Specialist Medical Supplies Pty Ltd

Specialist Medical Supplies Pty Ltd is the leading supplier in Australia of biopsy and skin lesion instrumentation and other related products as well as a urethral bulking agent used in the treatment of female stress urinary incontinence. Operating since 1993, Specialist Medical Supplies Pty Ltd has headquarters and a distribution centre located at Macquarie Park, NSW and supplies the pathology market, local specialist distributors and hospitals, predominantly in NSW and Queensland.

LifeHealthcare

LifeHealthcare is one of the largest independent distributors of third-party medical devices, consumables, capital equipment and in-house manufactured allograft material in Australia, New Zealand and South East Asia. The Company was founded in 2006 and is based in North Ryde, Australia.

In 2018, Pacific Equity Partners acquired LifeHealthcare. LifeHealthcare subsequently expanded its business into Asia through the acquisition of Transmedic in 2021. In 2022, EBOS acquired 100% of LifeHealthcare's Australian and New Zealand subsidiaries and 51% of LifeHealthcare's Asian subsidiary, Transmedic.

Quantum Health Group Limited

Quantum is a leading independent high-end distributor of medical equipment across Australia and New Zealand, as well as key Asian markets. Quantum specialises in the sale and service of diagnostic equipment for radiology, oncology, molecular imaging and aesthetics, and represents leading multi-national manufacturers across Asia with long-standing relationships.

Ellex Medical Lasers Limited

Ellex Medical Lasers Limited designs, develops, manufactures and sells medical equipment. Ellex Medical Lasers Limited provides ophthalmic lasers and devices that treat glaucoma, retina disease primarily caused by diabetes, secondary cataract and vitreous opacities, as well as age-related macular degeneration. Manufacturing is carried out in Adelaide, Australia and Fremont, California. Sale and service directly to eye surgeons is conducted via subsidiary offices in Minneapolis, Lyon, Berlin and Tokyo. A network of more than 50 distribution partners around the world services other markets.

The Lumibird Group acquired the laser and ultrasound business of Ellex Medical Lasers Limited through its subsidiary Quantel Medical in 2020. The acquisition of the lasers and ultrasound business includes the Ellex brand name and its R&D and production site in Adelaide.

REM SYSTEMS Limited

Established in 1981, REM SYSTEMS Limited is a specialised medical distribution company supplying acute care hospitals, day surgeries, allied health clinics, medical practices and veterinary clinics throughout New Zealand and Australia.

Surgical Specialties Group

Established in 2006, Surgical Specialties Group is an independent distributor of innovative surgical medical devices to the Australian and New Zealand medical community, currently headquartered in Sydney.



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Probiotec Limited

Probiotec Limited is a manufacturer, packer and distributor of a range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines, consumer health products, and fast-moving consumer goods. Probiotec Limited owns 6 manufacturing facilities in Australia and distributes its products both domestically and internationally. Products are manufactured by Probiotec Limited on behalf of a range of clients, including major international pharmaceutical companies.

Australian Pharmaceutical Industries Limited

Australian Pharmaceutical Industries Limited is involved in the wholesale distribution of pharmaceutical products, medical, health and beauty goods and in the sale of health and beauty retail products and services through its owned and franchise network of stores and clinics. It also manufactures pharmaceutical and toiletry products in New Zealand. Australian Pharmaceutical Industries Limited owns and operates brands such as Priceline, Priceline Pharmacy, Clear Skincare Clinics, Soul Pattinson Chemist and Pharmacist Advice.

Arrow Pharmaceuticals Pty Ltd

Arrow Pharmaceuticals Pty Ltd markets a broad range of over 200 generic pharmaceutical products and a range of pharmacy only OTC products under the Chemist's Own brand to pharmacies across Australia.

Appendix G: Glossary

\$ or A\$	Australian dollar
\$'000 or k	Thousands of Australian dollars or thousands
\$'m or m	Millions of Australian dollars or millions
1H24	Six months ended 31 December 2023
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Aeronology	Aero Travel Solutions Pty Ltd
CH2	CH2 Holdings Pty Limited
CH2 Management	Management of CH2
CHS Hospital Operation	Certain hospital services of Central Healthcare Services Limited
Consideration Shares	The 943,524,072 new ordinary shares in PGC to be issued to the Sellers pursuant to the Merger
Corporations Act or the Act	Corporations Act 2001
CSO	Community Service Obligation
Collins Millar Family Trust	David Keith Collins and Cherie Maria Millar as trustees for Collins Millar Family Trust
DCF	Discounted cash flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest and tax, depreciation and amortisation
EPS	Earnings per share
EV	Enterprise value
FME	Future maintainable earnings
FSG	Financial Services Guide
FYXX	Financial year ended 30 June
LTM	Last twelve months
Lacaze Family Trust	Peter Andre Lacaze and Dianne Lacaze as trustees for the Lacaze Family Trust
Management	Management of PGC
Merged PGC	PGC after the Merger
Merger	Proposed acquisition of 100% of the issued share capital in CH2
NPAT	Net profit after tax
PBS	Pharmaceutical Benefits Scheme
Oborne	Oborne Health Supplies



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PGC or the Company	Paragon Care Limited
PGC Management	Management of PGC
PGC Shareholders	Shareholders of PGC
Quantum	Quantum Health Group Limited
RG 111 Report	ASIC Regulatory Guide 111 – Content of expert reports Independent expert’s report
ROU	Right-of-use
TGA	Therapeutic Goods Administration
SMS	Specialist Medical Supplies Pty Ltd
SSA	Share sale agreement in relation to the Merger dated 29 February 2024
Scotpac	Scottish Pacific Business Finance Pty Ltd
ShineWing Australia Securities or SW Securities	ShineWing Australia Securities Pty Ltd
Sellers	Collectively, Peter Andre Lacaze and Dianne Lacaze as trustees for the Lacaze Family Trust and David Keith Collins and Cherie Maria Millar as trustees for Collins Millar Family Trust
Unissued Performance Rights	The 26,000,000 performance rights to be granted to John Walstab in accordance with his employment agreement
VWAP	Volume weighted average price

Corporate directory

Paragon Care Limited

Level 4, 100 Albert Road
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Legal adviser

Herbert Smith Freehills
Level 22, 80 Collins Street
Melbourne VIC 3000

Independent Expert

ShineWing Australia Securities Pty Ltd
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Melbourne VIC 3000

ParagonCare Share Registry

Link Market Services Limited
Tower 4, 727 Collins Street
Docklands VIC 3008

LODGE YOUR VOTE

ONLINE
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ALL ENQUIRIES TO
 Telephone: 1300 554 474 Overseas: +61 1300 554 474



X999999999999

PROXY FORM

This proxy form is an important document and should be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated 2 May 2024 issued by Paragon Care Limited. Capitalised terms used in this proxy form have the same meaning given to them in the Notice of Meeting and Explanatory Memorandum, unless the context requires otherwise.

I/We being a member(s) of Paragon Care Limited (the **Company**) and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held virtually at **12:00pm (Melbourne time) on Monday, 3 June 2024 via video-conferencing facility (the Meeting)** and at any postponement or adjournment of the Meeting.

The Meeting will be conducted virtually via video-conferencing facility and you can participate by registering your attendance online at https://vistra.zoom.us/webinar/register/WN_k5IYQBldRAiNrkeC15D2Tg, following which you will receive the dial-in details of the Meeting. You can view and download the **Notice of Meeting and Explanatory Memorandum** at the Company's website at <https://www.paragoncare.com.au/asx-announcements> and on the Australian Stock Exchange Market Announcement Platform.

Important for Merger Resolutions 2 and 3: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Merger Resolutions 2 and 3, even though the Merger Resolutions are connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (KMP).

The Chairman of the Meeting intends to vote undirected proxies in favour of each Merger Resolution.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received by 12:00pm (Melbourne time) Saturday, 1 June 2024.

Please read the voting instructions overleaf before marking any boxes with an

Merger Resolutions

	For	Against	Abstain*		For	Against	Abstain*
1 Proposed issue of the Consideration Shares to the CH2 Sellers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 Proposed appointment of Carmen Riley as a director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Approval of issue of Performance Rights to Mr John Walstab	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 Proposed appointment of Peter Lacaze as a director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval of waiver of vesting conditions for Performance Rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
4 Proposed appointment of David Collins as a director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

i * If you mark the Abstain box for a particular Merger Resolution, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, both shareholders have to sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. If you leave this section blank or your named proxy does not attend and vote at the Meeting, the Chairman of the Meeting will be your proxy by default. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the voting intentions set out in this Proxy Form, including where the Merger Resolutions are connected directly or indirectly with the remuneration of KMP, to the extent permitted by law.

VOTES ON THE MERGER RESOLUTIONS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Merger Resolution. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Merger Resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the Merger Resolutions, your proxy may vote as he or she chooses. If you mark more than one box on a Merger Resolution your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, both shareholders have to sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach the original or a certified copy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be received by the Company prior to the Meeting in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at <https://www.linkmarketservices.com.au/corporate/resources/forms.html>.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **12:00pm (Melbourne time) on Saturday, 1 June 2024**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

<https://investorcentre.linkgroup.com>

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Shareholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MAIL

Paragon Care Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
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or

Level 12
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Sydney NSW 2000

*During business hours Monday to Friday (9:00am - 5:00pm)