

Half Year FY 2016 Results Presentation

8 February 2016

PGC.ASX



A unique exposure to a rapidly emerging health care company

- Paragon is one of the **premier medical equipment and consumables suppliers** on the ASX
- **Platform economics** and a **customer-centric business model** differentiate Paragon's service offering and provide a **valuable first mover advantage**
- 11 successful acquisitions since June 2009 have supported **strong organic and inorganic growth in a highly fragmented industry**
 - **Value accretive acquisitions** have resulted in an **immediate valuation uplift for shareholders**
- Capitalising on the **compelling macro tailwinds** given the ageing population and increasing government and private investment in health care equipment and services
- **Strong balance sheet** to pursue growth opportunities, with a conservative approach to debt financing
- Supportive **institutional shareholder base** and **highly aligned Board and management team**, with extensive health care experience
- Shareholder returns will continue to be driven by **strong growth in earnings**, which supports **increasing dividend payments to shareholders**
 - **Total shareholder return of 61% over the last 12 months**

Paragon is transforming the health care procurement sector

Corporate overview

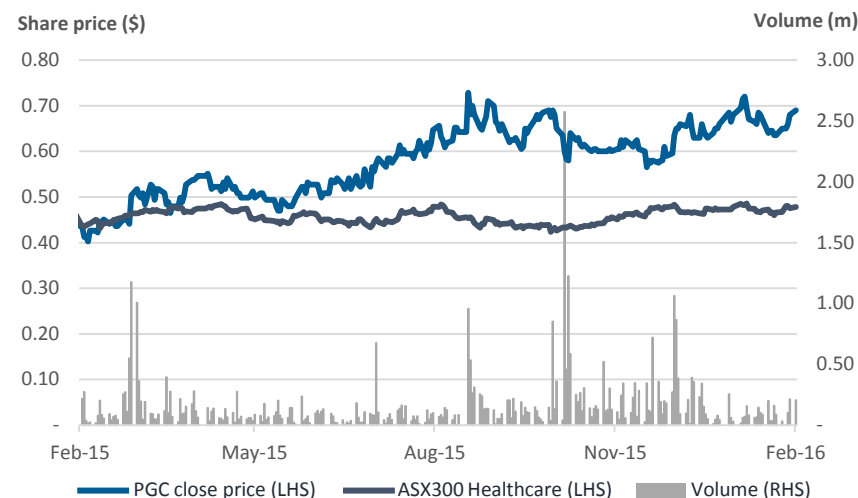
- A **premium provider of medical equipment and consumables** throughout Australia and New Zealand
- Pro-forma revenues of A\$100m from the **acute, aged care and primary care** markets
- **Only non-global provider** with a full suite of medical equipment, products, consumables and devices
- Broad suite of premium products forming a **‘one stop shop’** for clients
- Board and associates’ interests are **aligned with shareholders** through their 12% shareholding
- **Increasing shareholder returns as synergies are being realised** via strategy to consolidate a fragmented industry

Financial information

Share price (1-Feb-16)	\$0.69
Number of shares (m)	159.7
Market Capitalisation	\$110.2m
Cash (31-Dec-15)	\$12.3m
Debt (31-Dec-15)	\$46.2m
Enterprise value	\$144.1m

Source: IRESS

Share price performance



Top shareholders

	Shares	%
JMT Investment Group	9.7m	6.0%
First Samuel	9.2m	5.7%
Board, management and associates	9.2m	5.7%
Australian Foundation Investment Company	7.5m	4.7%
Australian Ethical Investment	7.2m	4.5%

Note:

Blue shading represents institutional fund managers. Grey shading represents Board and associate holdings, which includes the founders and directors of businesses acquired.

Another record half year for Paragon

Half Year FY16 highlights

- **Revenue of \$38.4m**, up 185% over the prior corresponding period
 - Driven by strong organic growth from existing businesses with a full half year of earnings from Scanmedics
 - Strong contribution from the newly acquired Meditron, Designs for Vision and Western Biomedical businesses, which settled in mid-October 2015
 - Revenues from 1H typically lower than 2H due to the seasonal nature of capital equipment sales
- **Strong earnings growth** on prior corresponding period
 - EBITDA of \$4.6m and NPAT of \$2.6m
 - Fully franked dividend declared of 0.8 cents per share which is a 48% payout of NPAT
- Successful \$42.2m equity raising and new finance facilities with National Australia Bank to support ongoing growth

Half Year FY16 financials

	<i>HY16</i>	<i>HY15</i>	<i>Δ</i>
Revenue	\$38.4m	\$13.5m	↑ 185%
EBITDA	\$4.6m	\$1.6m	↑ 186%
NPAT	\$2.6m	\$0.8m	↑ 215%
EPS	2.38	1.27	↑ 87%

Note:

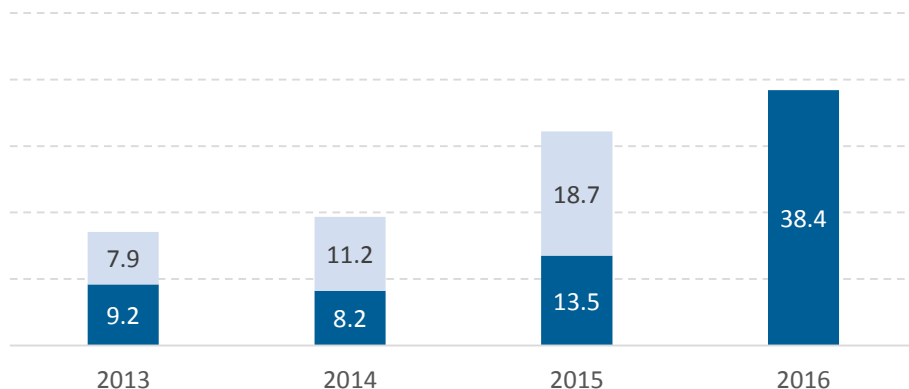
Table includes the contribution of the three newly acquired businesses from mid-October 2015 to 31 December 2015



Solid interim results provide foundation for strong full year earnings

Revenue (\$m)

■ 1H ■ 2H

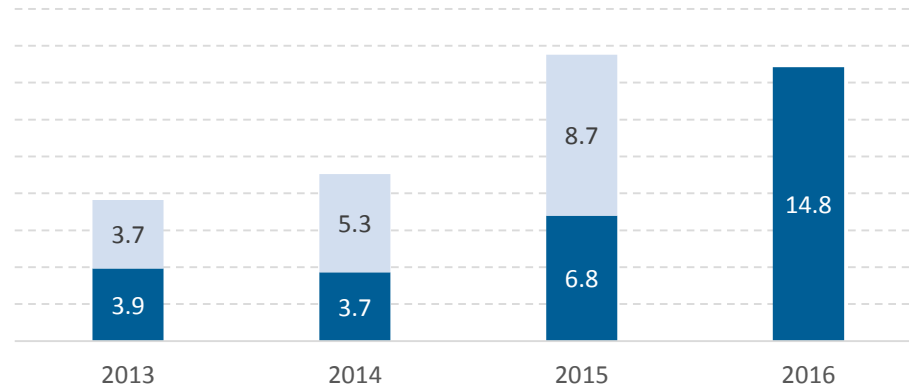


- **Sales revenue for the first half was up 185% to \$38.4m**

- Growth from strong sales in capital equipment and consumables
- Increased proportion of consumables provided more stable revenues with less variability in sales volume
- 1H typically lower than 2H due to seasonal nature of capital equipment sales

Gross profit (\$m)

■ 1H ■ 2H



- **Gross profit of \$14.8m, up 118% on the prior corresponding period**

- Gross margin changed from 50% to 39% due to a higher proportion of consumables
- Product mix expected to settle towards 70% consumable and 30% capital and devices by FY17

Paragon maintains a strong balance sheet with conservative gearing levels

- Strong cash position of \$12.3m to fund ongoing growth opportunities
- Newly acquired businesses funded by a combination of enhanced banking facilities and \$42.2m capital raising
- Partnership with National Australia Bank to deliver more efficient transactional interfaces through our unified Enterprise Resource Planning platform (SAP)
- Positive operating cash flow of \$0.25m
 - Decrease over prior period due to slower conversion to cash timelines than some liabilities for the recently acquired businesses
 - Increase in inventory for anticipated sales
 - Imbalance not recurring and will be progressively re-dressed
- Tighter working capital management for new businesses is a strong focus for integrations

Financial position extract

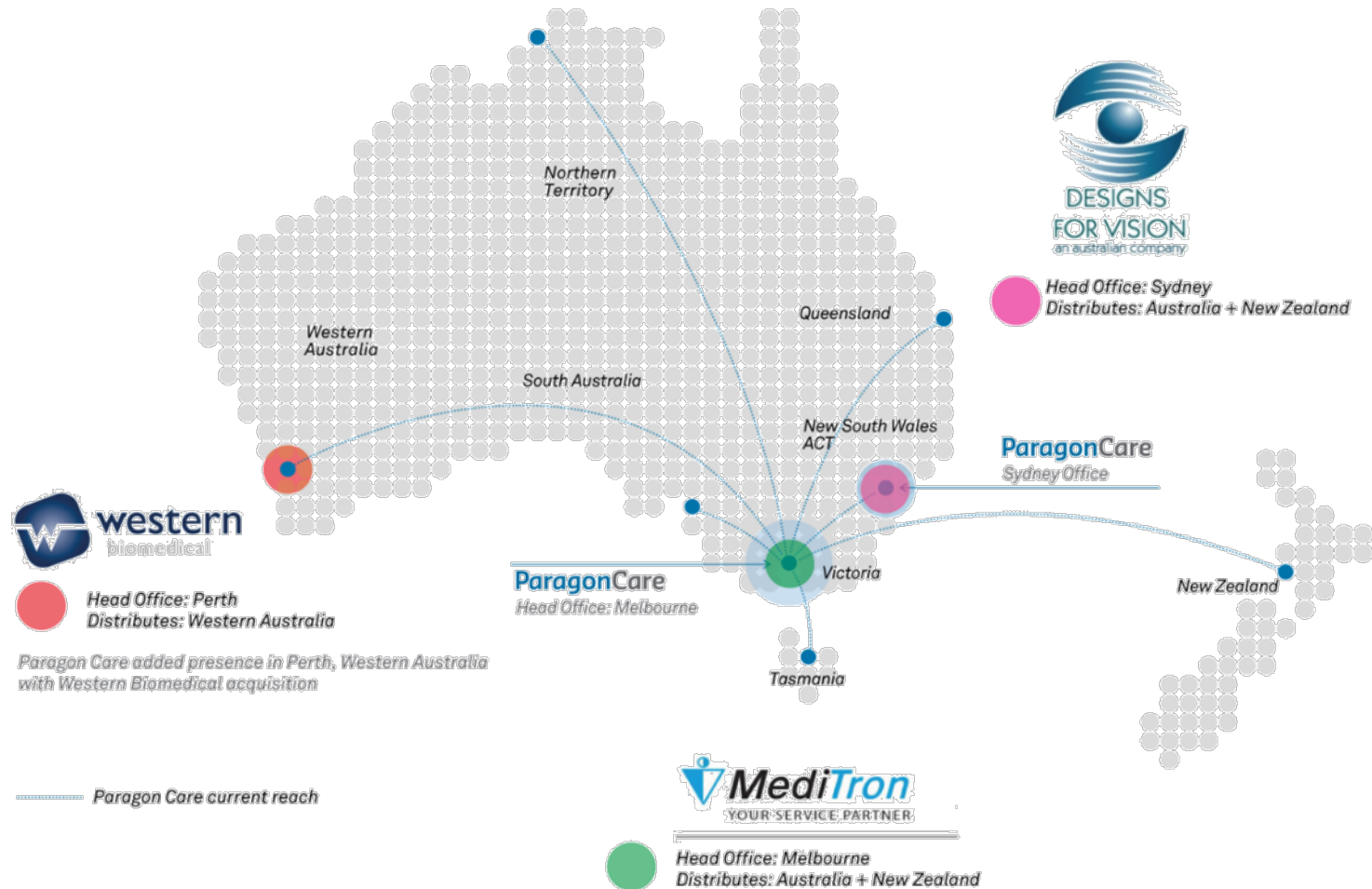
	HY16	HY15
Cash	12.3	3.8
Receivables	18.0	7.1
Inventories	22.7	8.4
Total Current Assets	53.0	19.6
PP&E	3.0	1.2
Intangibles/Other	80.8	19.0
Total Non-Current	83.8	21.0
Total Assets	136.8	40.6
Payables	22.3	6.3
Borrowings	5.1	5.5
Total Current Liabilities	27.4	13.2
Borrowings/Other	40.1	6.7
Total Non-Current Liabilities	40.1	6.8
Total Liabilities	67.5	20.0
Net Assets	69.3	20.6

Cash flow statement extract

	HY16	HY15
Operating activities	0.3	2.1
Investing activities	(56.5)	(6.5)
Financial activities	64.7	4.7
Cash at beginning of period	3.8	2.8
Cash at end of period	12.3	3.2
Net Increase / (Decrease)	8.5	0.4

Consolidated all business activities into central distribution centres

- As part of our strategy to consolidate a fragmented industry, Paragon is consolidating all business activities into central distribution centres to drive strong product adoption in key sales areas across Australia



Acquisitions are generating strong revenue synergies



- Most advanced business out of the three acquisitions, **minimal integration required**
- Immediate focus has been sales and marketing to **channel full product suite into WA**
- Undertaking process of training sales reps to expand our geographical distribution and **target revenue synergies** with further opportunity to bundle a wider product offering

DESIGNS FOR VISION

- **Main integration focus** given new product market and lack of investment in the finance department
- Provided assistance to finance department and additional sales rep training to **increase exposure for existing products**
- Currently implementing tighter working capital management to **further strengthen Paragon's balance sheet**



- **Seamless integration with Scanmedics** given the product compatibility
- Revenue synergies generated from extended customer base, new industry knowledge and contacts
- Scanmedics and Meditron products are now being offered as a bundled package to customers

Platform is designed to make procurement easier for the customer

- Key point of difference that is analogous to the investment wrap / platform concept which successfully transformed the investment management sector
- Paragon was the first company in Australia to use platform economics to reduce the administrative burden of hospital purchasing

ParagonCare *(sample of product suite on platform)*



One-stop shop

- Typical hospital uses ~30-40,000 suppliers
- Paragon's platform allows consolidation of invoices, tax reports and reduces overheads

Customer focus

- Genesis of platform driven by customer demand to help ease administrative strain
- Alignment of customer and Paragon's interest in securing quality products

Range and expertise

- Improved customer choice and flexibility of decision making
- Extensive knowledge of product range

Economies of scale

- Greater buying power
- Expert management across the value chain
- Potential to develop more competitive pricing structures



High end products provides stable revenue and repeat customers

- Value proposition to customers is based on a platform offering of high quality products and premium customer service around those products
- Key competitive advantage and the point of differentiation that drives repeat purchases despite low-cost competitors



Approach	90% Exclusive distribution products 10% designed and manufactured products	70% Consumables 30% Capital equipment	80% Acute care 10% Aged care 10% Primary care	Includes: Melbourne Health • Alfred Health • Austin Health • NSW Health • Healthscope Private Hospital Group • Ramsay Health Care • Lend Lease
Benefit	✓ High quality products ✓ Minimal capital and R&D expenditure ✓ Ability to adjust product range to suit customer needs ✓ Aggressive hedging keeps COGS low	✓ High consumables provides decreased earnings volatility ✓ Sustainable earnings growth ✗ Lower gross profit margin	✓ Acute and aged care are growing industries ✓ Strong demand ✓ Premium prices ✓ Repeat purchases	✓ Customers include Australia's top hospitals and care providers ✓ Repeat customers driven by standard of service and full partnering solution

Experienced Board and management team with a proven track record

- Paragon's Chairman Shane Tanner is a renowned leader in the health care industry and is involved in three ASX listed health care companies.
- Highly experienced Board and management team with Managing Director Mark Simari appointed in 2008 to lead the company through a corporate turnaround
- Paragon's entrepreneurial team has generated significant shareholder returns to date

Non-Executive Board members**Shane Tanner – Non-Executive Chairman**

- Chairman of Paragon Care, Funtastic and BGD
- Extensive commercial and financial experience in a number of industries including health care
- Orchestrated a number of acquisitions as well as being responsible for establishing a number of successful businesses

Michael Newton – Non-Executive Director

- Experienced operator specialising in the industrial chemical sector with previous executive roles with both Unilever and ICL PLC
- Successfully managed major diversification programs and exceptional business growth during his role at Symex

Executive Board members**Mark Simari – Managing Director / CEO**

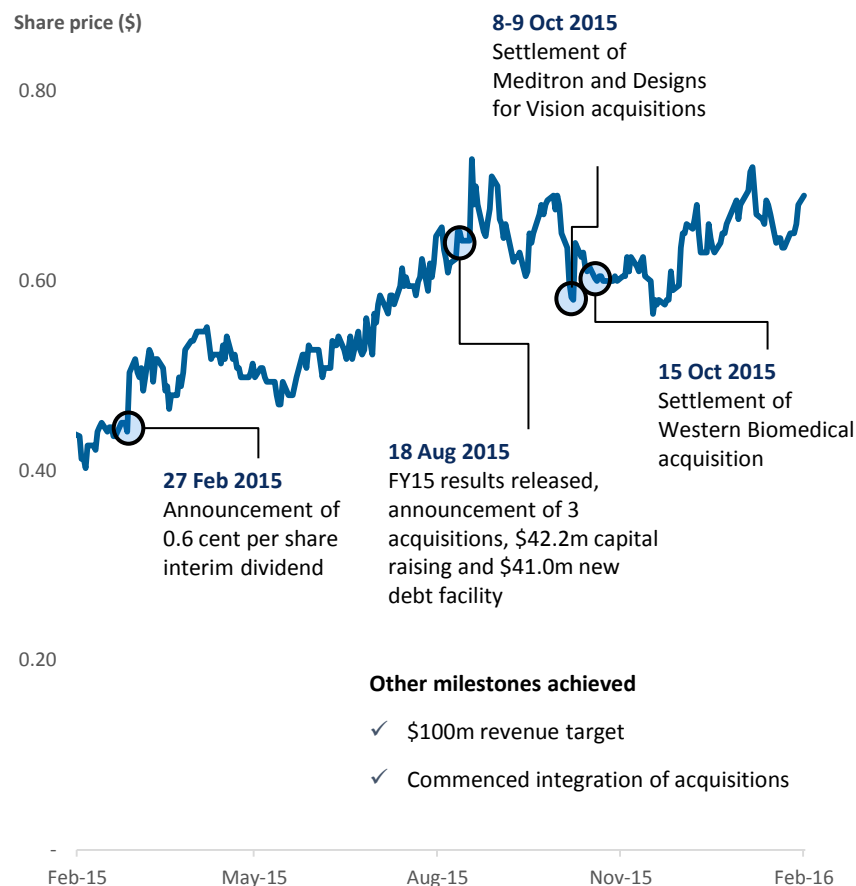
- Extensive corporate and management experience
- Responsible for a number of successful company re-births, including Paragon's, as well as the integration of several acquisitions
- Strong business acumen and hands on management philosophy

Brett Cheong – Executive Director

- Over 30 years' experience in the health care industry
- Previous roles have included owner/founder to sales management

Recent performance driving positive outlook for FY16

Last 12 months share price performance



Full year FY16 outlook

- Reaffirming expectations of **double digit earnings growth**
- Focus on generating **strong organic growth and integrating** the three recent acquisitions
- Full year FY16 result will include a **full 12 month contribution from Scanmedics**
- Full year FY17 result will be the **first full year of earnings capture** from the Meditron, Designs for Vision and Western Biomedical acquisitions
- Further acquisitions may be considered over time to continue to **leverage our integrated platform**

Operational and corporate events to provide ongoing share price catalysts

INTEGRATION

Mitigating risk

- Integrations of newly acquired businesses have all met with or exceeded pre-acquisition expectations
- Continued integration of businesses onto SAP platform

SYNERGIES

Revenue synergies and cost-outs

- Revenue synergies generated including new geographies and market reach, increased cross-selling and bundling opportunities
- Increased scale and product range through the platform attracts and retains customers and supports strong organic growth

M&A ACTIVITY

Value accretive

- Management firmly focused on organic growth and integrations
- Paragon has a demonstrated track record of buying sensibly and integrating successfully, which provides significant earnings upside

AWARENESS

Institutional grade

- Placement in 2015 attracted several high quality institutional investors
- Investor roadshows will enhance awareness of Paragon's story
- Research coverage from Bell Potter and Argonaut – see website

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