



Full Year Results Presentation FY18

27 August 2018 | [ASX:PGC](#)

1. Executive Summary
2. Paragon Strategy and Vision
3. FY18 Financial Results
4. FY19 Focus Areas

Executive summary

FY18 highlights – a transformational year

- Successful completion of 9 acquisitions, resulting in a stronger, more diversified business
- Now a \$238m revenue and \$30m EBITDA business (FY18 pro forma)
- New senior team in place
- FY18 revenue of \$136.7m and underlying EBITDA of \$19.7m¹

Executing on a tightened strategy and vision

- Focused on a \$9bn revenue opportunity
- Strong organic growth drivers, targeting ~10% organic growth per annum (2x market)
- Investing for the future, with \$2m capex programme expected to deliver \$3m annualised cost savings
- Focus on recurring revenue streams as the business evolves from cyclical capital equipment sales

Strong outlook and guidance

- Strong start to FY19 with a record revenue performance in July 2018
- Strong outlook for growth as recent acquisitions are successfully integrated
- **Targeting FY19 revenue of approximately \$260m and EBITDA of approximately \$36m**

Notes:

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

FY18 was a transformational year for Paragon



Significant step change in revenue and EBITDA

- Successful completion of 9 acquisitions
- \$238m pro forma revenue in FY18, up approximately 100% from FY17
- \$30m pro forma EBITDA in FY18, up approximately 75% from FY17



Paragon is building a people and infrastructure platform to support a \$1bn revenue business

During FY18 PGC invested in:

- Sales team growth
- IT infrastructure
- Driving cross selling opportunities and cost efficiencies

These initiatives are expected to accelerate in FY19 and beyond



Executing on a tightened strategy and vision

- New CEO in place with multiple Board changes
- Key organic growth drivers include improved sales capabilities and product expansion
- Potential M&A opportunities to accelerate growth in customer base and geographies, in line with strategy












Clear plan to continue Paragon's strong growth trajectory

FY18 acquisitions create a more balanced business

Pre FY18

	Devices	Diagnostics	Capital & Consumables	Services & Technology
Australia (national)				
VIC				
NSW				
NSW				
QLD				
WA				
SA				
NZ				

Post FY18

	Devices	Diagnostics	Capital & Consumables	Services & Technology
Australia (national)	 			
VIC				
NSW				
QLD				
WA				
SA				
NZ				

Purchasing complementary geographic and product category leaders to build out platform for future growth

Notes:

1. Inclusive of acquisitions since FY15

FY18 results highlights

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Revenue

\$136.7m

2017: \$117.2m *up 17%*

Net profit after tax

\$10.9m

2017: \$10.2m *up 7%*

Operating cash flow

\$7.6m

2017: \$12.0m

Gross profit

\$54.9m

2017: \$46.1m *up 19%*

Earnings per share

5.4c

2017: 6.2c *FY18pf: 6.6c*

Cash balance

\$40.4m

2017: \$18.6m

EBITDA

\$19.7m¹

2017: \$17.1m *up 15%*

Dividend per share

2.0c ff

2017: 1.9c *up 5%*

Net Debt/EBITDA

2.1 x

2017: 1.1 x

Notes:

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

FY19 guidance

Clear plan supporting FY19 guidance

- Restructure of sales team and enhanced IT infrastructure to strengthen organic growth
- Optimisation of capital and consumables mix
- Momentum building with a record revenue performance in July 2018

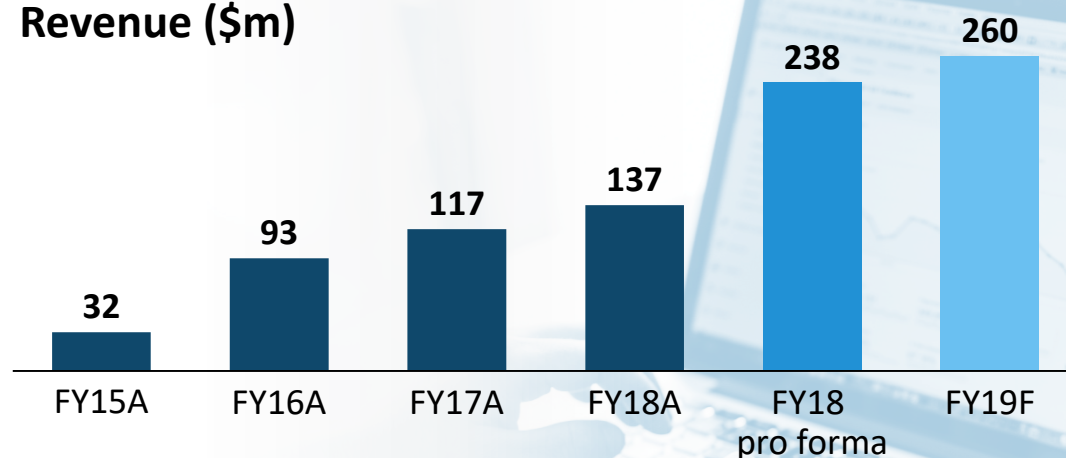
Revenue targeting ~\$260m

- Assumes full contribution from FY18 acquisitions
- Targeting organic growth of ~10% (2x market)
- Further upside possible from potential M&A

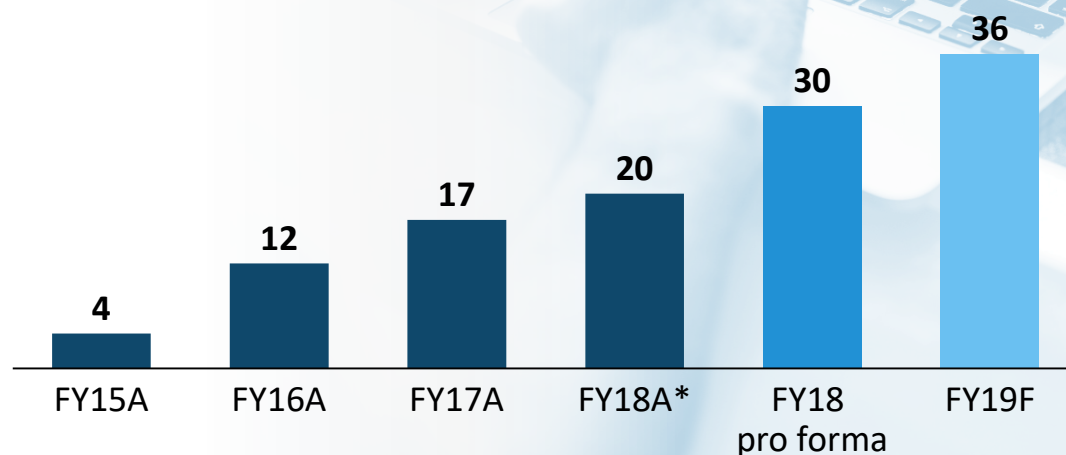
EBITDA targeting ~\$36m

- Expected cost savings of \$3m in FY19 from business transformation

Revenue (\$m)



EBITDA (\$m)



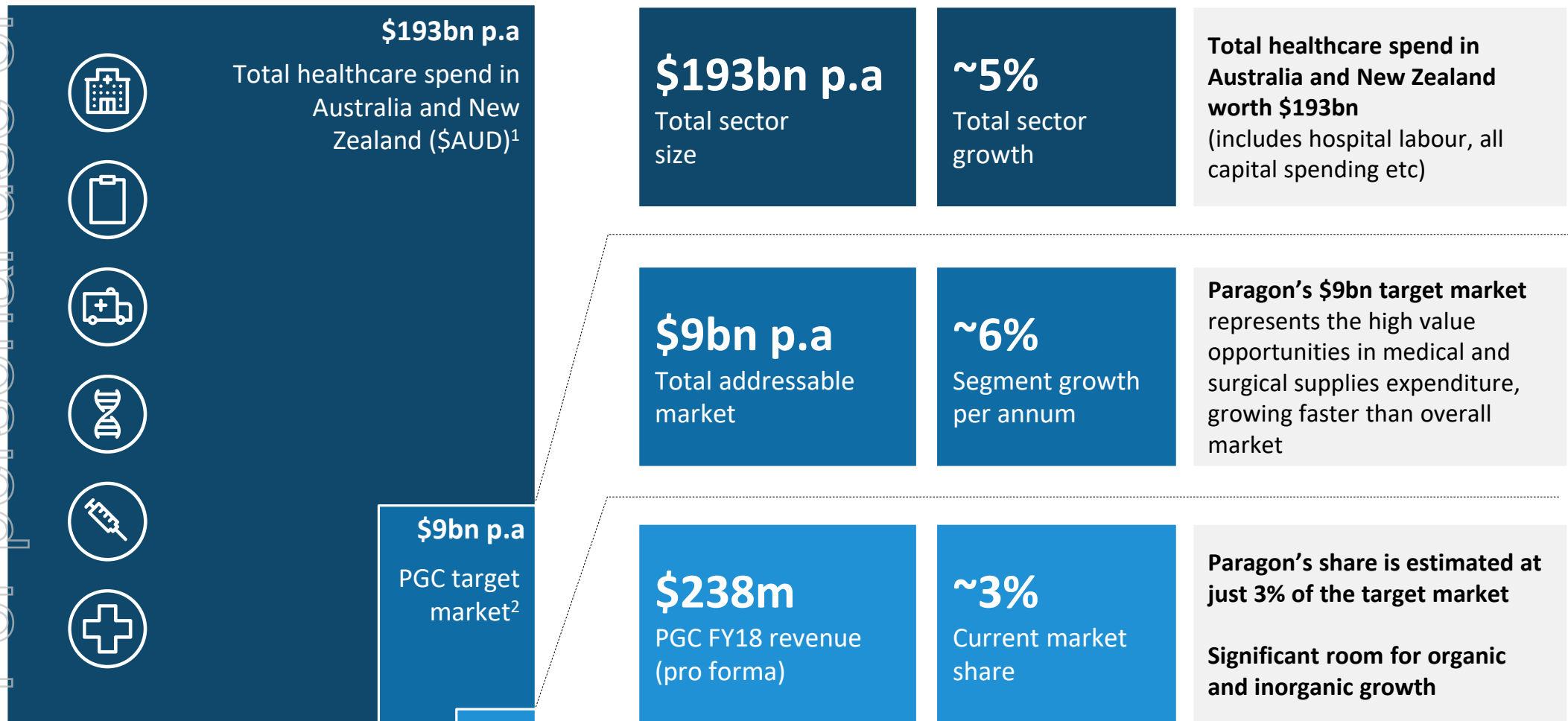
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Market opportunity in Australia and NZ is \$9bn p.a. and growing

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



Notes:

1. Total healthcare expenditure includes hospitals, medical and surgical supplies, primary health care, referred medical services, other services, research and capital expenditure

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

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

Executing on a tightened strategy and vision

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

Platform economics create a virtuous cycle

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More products and services...

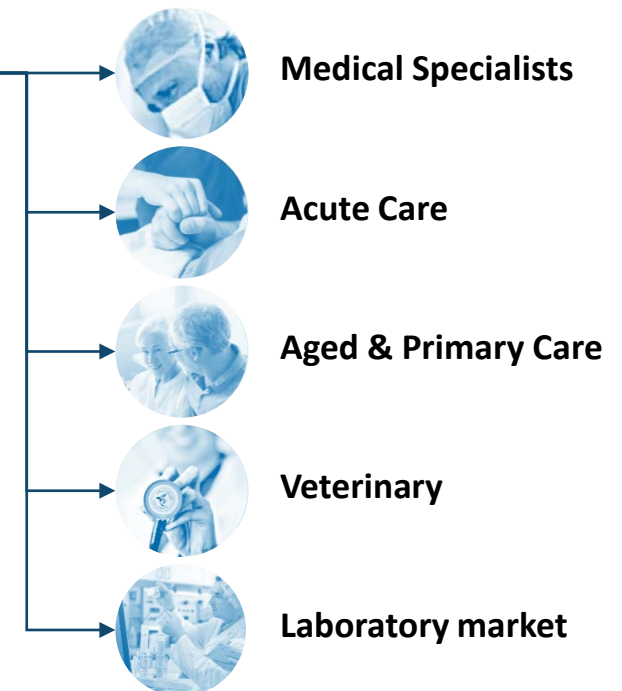


- ✓ **Common warehousing and distribution logistics** lowers costs
- ✓ **National reach** offers upside benefits to product/service providers who sell their business to Paragon

...sold via one platform...



...to more customers



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

Virtuous cycle

Multiple drivers of organic growth

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



Sales

Developing capabilities

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

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



A sophisticated and effective sales team



IT

Best-in-class IT architecture and infrastructure

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

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



Easy and intuitive information flows from CRM



Integration

Ability to accelerate synergies and integration

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

Accelerating path to leveraging customer relationships across integrated businesses for growth



Leverage synergies across business lines



Supply Chain

Competency in sourcing products fulfilling unmet needs

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

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



Effective delivery of valued products and services

FY18 acquisitions significantly strengthen Paragon's platform

9 acquisitions successfully completed, strengthening and transforming Paragon's platform of products and services

1

Current platform additions



Leading independent ophthalmic product supplier



Medical engineering company to be merged with Paragon Service & Technology

2

Expansion into new areas of demand



Leading immuno-haematology business, highly targeted addition to portfolio



Established provider of advanced pathology equipment and supplies

3

Geographical expansion



South Australian medical distributor, expands SA presence



Leading medical device distributor with strong Aus and NZ presence



Biomedical engineering and maintenance services with strong QLD presence



Supplier of laboratory equipment, based in QLD



NZ based healthcare and medical distribution business

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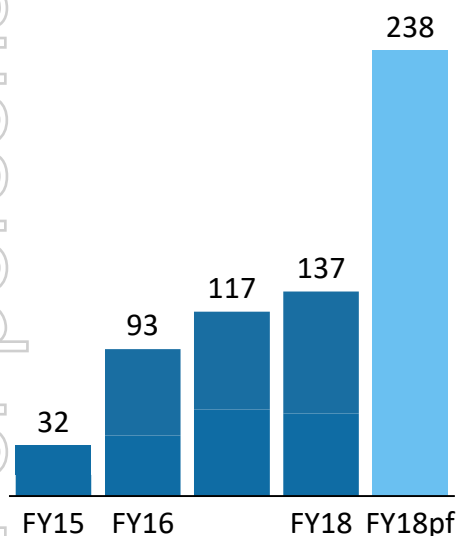
FY18 results summary

FY18 results reflect a transformational year

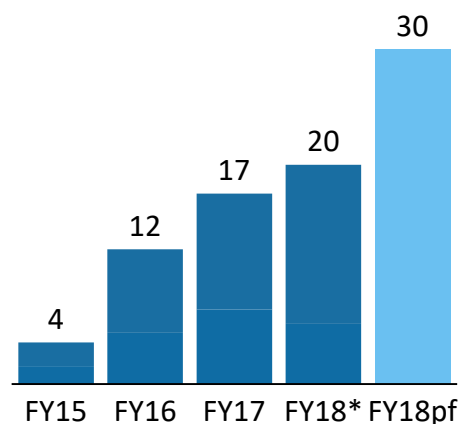
Financial highlights

- Transformational year as evidenced by the step change in both revenue and EBITDA in FY18
- FY18 NPAT of \$10.9m and pro forma FY18 NPAT of \$18.7m
- FY18 EPS of 5.4cps reflects the acquisitions and recent capital raising timing in the second half of the financial year
- FY18 final dividend of 2.0c (fully franked) reflects an increase over the full year of 5.0%

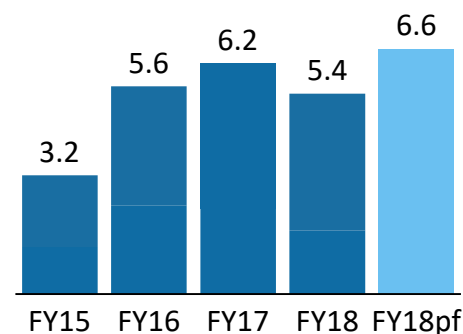
Revenue (\$m)



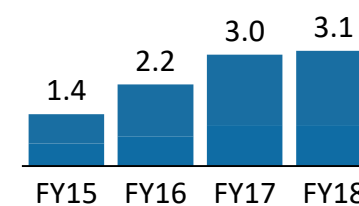
EBITDA (\$m)



Earnings per share (cps)



Dividends per share (cps)



Notes:

1. Pro forma metrics incorporate full-year earnings from Paragon's FY18 acquisitions

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

FY18 trading commentary

Capital sales

Capital sales for FY18 primarily impacted by fewer hospital completions

- Capital sales in 1H18 were impacted due to undertaking FY17 projects in Bendigo and Sunshine Coast, resulting in lower hospital completions relative to the previous corresponding period
- Strong capital sales result in 2H18, however the growth was somewhat offset by 1H18 seasonality
- Paragon has focused on restructuring the capital sales team, with improvement expected from FY19 onwards from building out the pipeline and boosting sales execution
- Tightened sales strategy to focus on developing recurring revenues in FY19 and beyond

Strong performance in speciality devices

Strong performance in eye care speciality devices

- In FY18, Paragon acquired Insight Surgical to complement its existing Designs For Vision business
- Accelerated expansion and increased depth of the lucrative ophthalmic surgeon customer base, and speciality device product offering
- Strengthened ophthalmic product portfolio through combination of businesses, with successful integration of sales team to optimise customer relationships
- Increase in recurring revenue expected from strengthened portfolio from FY19 onwards

Expansion into SA

Strong performance in South Australia

- In FY18, Paragon acquired Anaequip Medical to enhance our footprint in SA
- Investment and warehouse facility build has already attracted key customers, with further growth expected in this region from FY19 onwards

Cash flow

Operating cashflow

- Working capital impacted by the completion of 9 acquisitions
- Consequential higher receivables and inventory balances
- Improvement of \$10.5m in operating cash flow relative to 1H18 (negative \$3m balance as at 31 December 2017)

Investing cash outflows related to acquisitions of \$107m

- Paragon conducted 9 acquisitions in FY18, totalling \$107m – including various earn-outs from prior-year acquisitions
- Paragon invested an additional \$3.8m into IT projects and infrastructure to support business growth strategy

Financing cash outflows

- Net proceeds of \$64m from capital raising and \$68m of new debt to fund acquisitions

Cash Flow Statement Extract

	FY18	FY17
Operating activities	7.6	12.0
Investing activities	(112.9)	(7.9)
Financing activities	127.2	(4.6)
<i>Net increase (decrease) in cash</i>	<i>21.9</i>	<i>(0.5)</i>
Closing balance	40.4	18.6

Balance sheet

Larger balance sheet supports future growth

Balance sheet

- Increased total asset base reflective of 9 acquisitions
- Significant investments in IT infrastructure to support continued revenue growth
- Net Debt/EBITDA ratio of 2.1x as a result of the highly strategic acquisition of REM Systems
- Paragon retains significant flexibility to grow while continuing to pay a high share of profits as dividends

Financial Position Extract	FY18	FY17
Cash	40.4	18.6
Inventories	55.3	21.7
Receivables	45.3	20.8
Other current assets	1.3	
Total Current Assets	142.3	61.1
PP&E	12.2	3.4
Other non-current assets	5.1	3.1
Intangibles	190.1	98.4
Total Non-Current Assets	207.4	105.0
TOTAL ASSETS	349.7	166.1
Trade and other payables	63.8	28.2
Vendor conditional payables	1.2	9.6
Interest bearing liabilities	10.7	8.5
Total Current Liabilities	75.7	46.3
Other payables	1.8	1.2
Vendor conditional payables	8.1	7.3
Interest bearing liabilities	94.1	28.6
Total Non-Current Liabilities	104.0	37.1
TOTAL LIABILITIES	179.6	83.4
NET ASSETS	170.1	82.7

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Paragon will invest for growth in FY19



**Key focus on
upskilling sales team and
sales management**

- Investment in coverage (more feet on the street)
- Higher quality sales management
- Systems to enable activity focus (improved company wide CRM)
- Cross sell program driven by general managers
- Stronger focus on capital equipment sales team



**\$2m capex programme
focused on sales tools**

- **Investment in IT infrastructure to move away from decentralised footprint towards unified support platform**
 - Improved CRM to enable sales teams and support “cross sell”
 - Business Intelligence reports for transparency
 - Enterprise resource planning (ERP) migration projects
 - SAP integrations with new systems

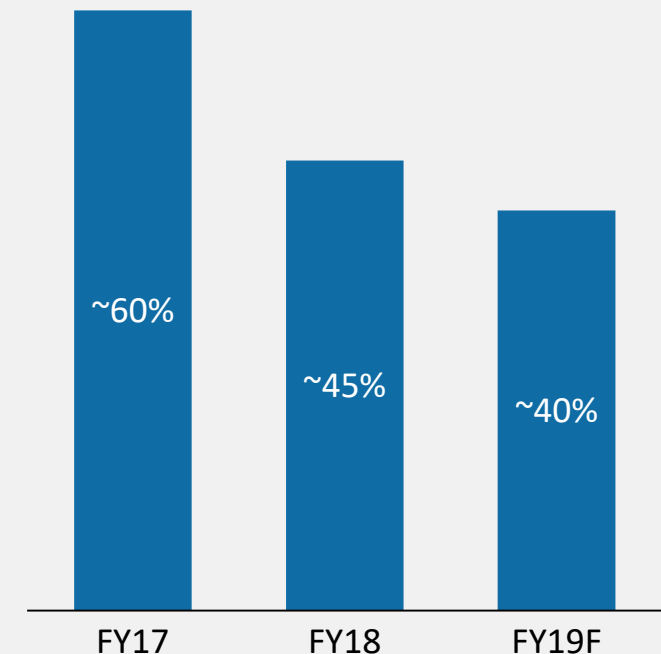
Paragon’s FY19 investments build the platform for a \$1bn business

Capital equipment sales remains a key growth driver

Strategic focus on capital sales to drive growth in consumables

- Less dependence on capital sales over time
- Capital sales generate complementary services and consumable sales
- Paragon is focussed on establishing the virtuous customer cycle of:
 - Installing equipment
 - Generating recurring sales of complementary single use consumables
 - Equipment servicing, maintenance and upgrades
 - Cross selling wider product and service portfolio
 - *Examples: Ultrasound machines, laser machines*
- Strategic focus on capital equipment leading to ongoing consumable sales is expected to continue to drive a mix shift towards increased revenue from consumables

Forecast change in revenue mix – shift towards consumables



Capital sales expected to decrease from ~60% to ~40% by FY19

Targeting \$3m of ongoing cost saving initiatives in FY19

Integration synergies

ERP platform migration

Acquisitions to be moved onto Group ERP (SAP Hana) in FY19

Centralisation of support services

Creation of single group-wide functions for Finance, IT, HR and Logistics

Centralised procurement

Utilities (telecommunications, insurance, travel) currently fragmented across the group – to be centralised and standardised

Co-location of staff

Longer term yield as current leases expire

Improved business efficiency

Fully allocated sales and expense management

To drive business unit accountability and margins

Sales and profit per FTE targets set and actively managed



Summary of FY19 focus and initiatives

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Synergies

Platform economics

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

Growth initiatives

New revenue streams

- Continue the evolution of the Company's product portfolio through new innovative products joining the platform
- Expand geographical footprint and sales penetration into Queensland, South Australia and New Zealand

M&A initiatives

Value accretive

- Paragon has a demonstrated track record of buying sensibly and integrating successfully, which should continue to provide significant earnings upside
- Focus on EPS accretive acquisitions to develop customer base, and create recurring revenue streams

Corporate

Positioned for growth

- Significant investment into scalable business platform to drive organic growth
- Investment into sales capabilities, IP infrastructure, integration and supply chain

Corporate overview

Highly experienced Board of Directors

Financial overview

Financial Information	
Share price (24-Aug-18)	\$0.80
Number of shares (m)	283.6
Market capitalisation	\$226.9m
Cash (30-Jun-18)	\$40.4m
Interest bearing debt (30-Jun-18)	\$104.8m
Enterprise value	\$291.3m

Board of Directors

Shane Tanner

Non-Executive Chairman

- Chairman of Zenitas Healthcare, Rhythm Biosciences Limited and Funtastic
- Co-founder of Paragon Care
- Extensive commercial and financial experience

Andrew Just *(appointed 31 May 2018)*

Managing Director

- 25 years' experience across Fortune 500 and ASX-listed healthcare companies
- Senior management roles at leading companies General Electric, Cochlear, Stryker and Danaher

Michael Newton

Non-Executive Director

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

Geoff Sam OAM

Non-Executive Director

- Over 35 years' experience in the health sector
- Board positions with ASX-listed companies and for profit and not-for-profit hospital groups including Healthe Care, CML Group, Money3 Corporation and Nova Health

Brent Stewart *(appointed 31 May 2018)*

Non-Executive Director

- 25 years' experience in a number of senior executive and board roles
- Professional background includes a wide range of experience in marketing, technology and strategic planning at both domestic and international levels

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