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Full Year Results Presentation FY19



Paragon is at a value inflection point

The continuing business remains strong

- **Strong top line growth:** Headline revenue growth rate 5% on a pro-forma basis (excluding Total Communications only a half year contribution)
- **Seasonality reduced:** Improvement in half year seasonality evidences strong build of recurring revenue streams, with H1 FY19 revenues lifting from 45% to 50% of sales vs. H1 FY18
- **Portfolio rationalised:** Removal of low margin products from the portfolio expected to lead to improved gross margins going forward
- **Strong EBITDA performance:** EBITDA of ~\$28m achieved in continuing business, in line with guidance

Clear growth strategy showing results

- **Focusing on growing our business:** Targeting attractive therapeutic areas that have the potential for PGC to achieve category leadership for growth
- **Transitioning our product portfolio:** Continuing to move towards differentiated, novel and higher margin products where we can add more value to our customers
- **Investing to build a world class sales organisation:** Growing share of practitioner spend through leveraging key competitive advantages in scale and agility

Group-wide transformation on track to deliver bottom line benefits in FY20

- **Legacy business divested:** Successful sale of legacy business in June 2019 enables PGC to now focus solely on more attractive continuing business
- **Single IT platform progressing well:** Migrated ~70% of business onto single platform at year end, and on track to complete 100% migration by end of Q2 FY20
- **Benefits to be delivered in H2 FY20 and beyond:** Cost out of \$6.5m identified and expected to be realised in FY20 and FY21

Acquisitions are starting to demonstrate significant organic growth

Devices

Eye care **\$46.7m**
*Revenue up 12%
pcp*



Eye care is comprised of 3 businesses strategically acquired between FY15 - FY18

Capital & Consumables

REM systems NZ **\$41.9m**
*Revenue up 6%
pcp*



The acquisition of REM Systems in July FY19 represented a significant step in Paragon's New Zealand expansion

1 Financial performance

2 Strategy

3 Transformation update and outlook

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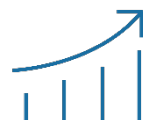


Strong continuing business performance in 2019

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Revenue



EBITDA



NPAT



EPS

Continuing
Operations**\$236.1m**

+101%

\$28.2m

+28%

\$8.8m¹

-37%

2.7c

down from 8.9c

Statutory

\$256.7m

+88%

\$24.7m

+36%

\$(14.4)m

down from \$10.9m

(4.5)c

down from 5.4c

Notes:

1. The drop in NPAT is driven by an \$8m increase in D&A; which includes \$3.7m driven by modifications to lease accounting, contract amortisation of \$0.7m, and also a once-off impact of \$2.4m from SAP implementation

Continuing business of each Paragon vertical performed strongly

ParagonCare
Health. Covered.

Revenue of each vertical
continues to grow



Devices

~\$76m

↑ 9.0%



Diagnostics

~\$23m

↑ 4.4%



**Capital &
Consumables**

~\$120m

↑ 2.8%



Services

~\$17m

↑ 4.7%¹



Notes:

1. Excluding Total Communications, if included growth rate for Services was -6.6%.

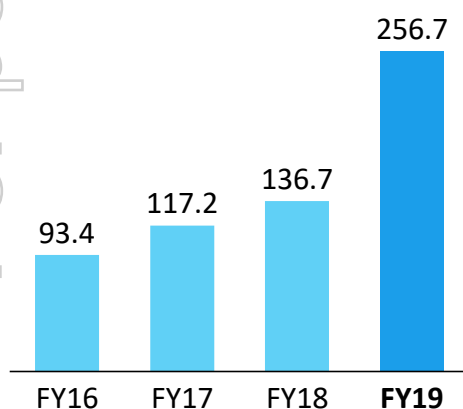
FY19 results reflect a strong, underlying business in transition

Statutory

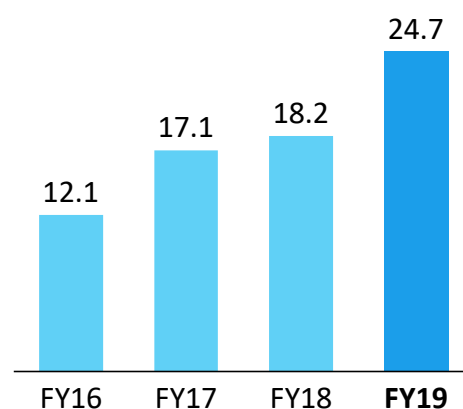
- Group total revenue and EBITDA up reflecting acquisitions and continuing business performance
- Group total net loss after tax of \$14.4m, reflecting performance of discontinued and divested businesses
- Earnings per share of -4.5c
- In line with Paragon's stated dividend payment policy (40% to 60% of NPAT), no final dividend will be paid in addition to the 1.1c fully franked interim dividend

Reported financials displayed below; includes business unit divested in June 2019

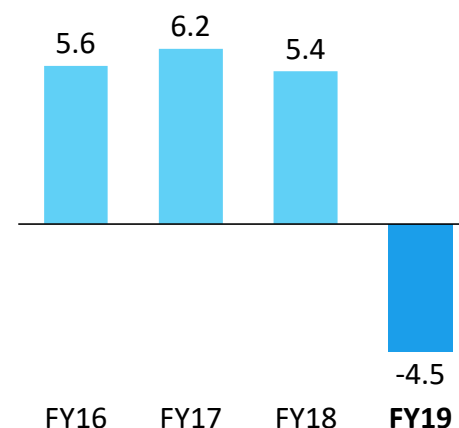
Revenue (\$m)



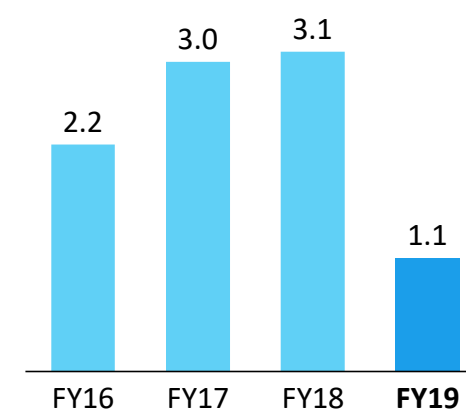
EBITDA (\$m)



EPS (c)



Dividends per share (c)

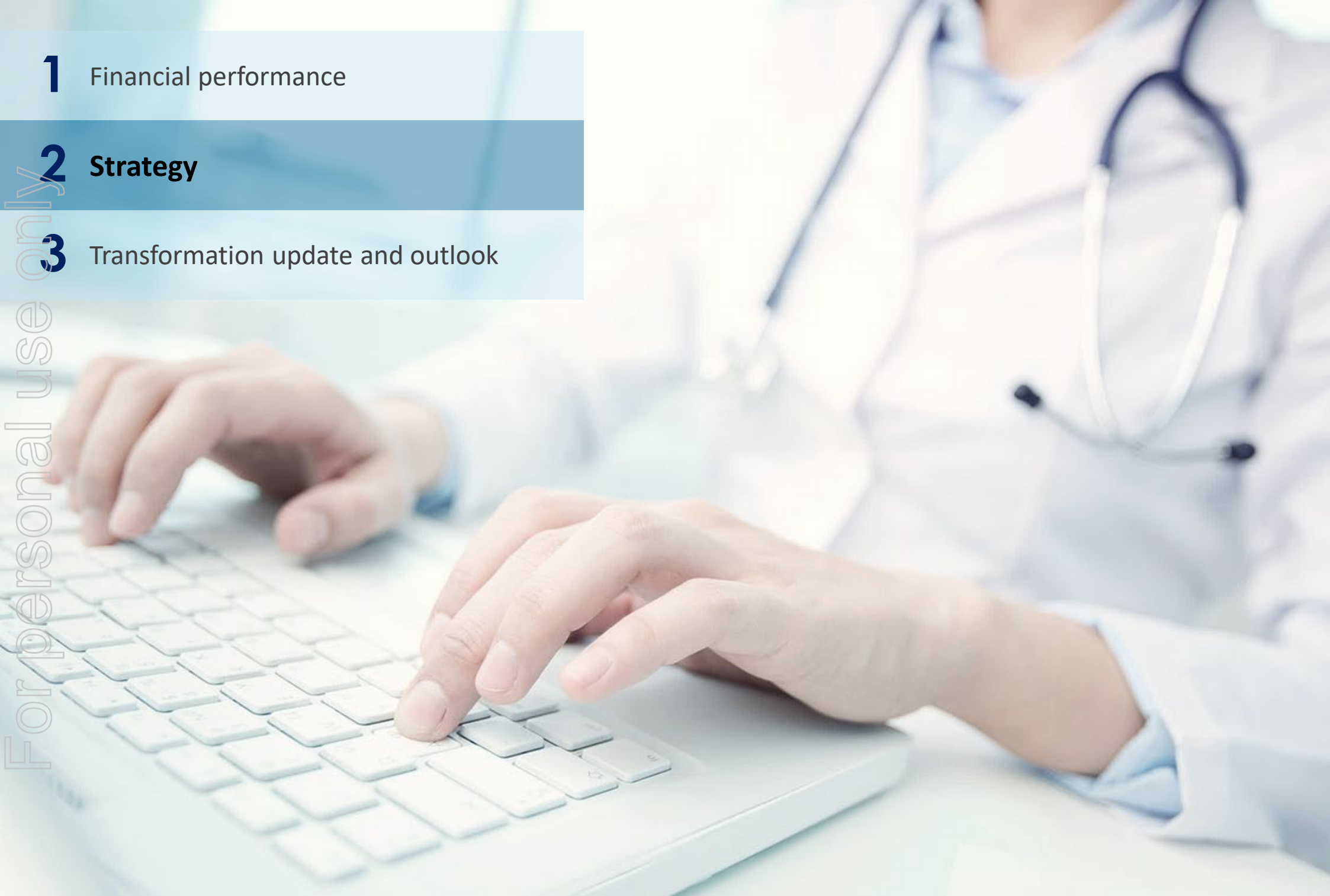


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Growing our share in a ~A\$9bn industry

Australia and New Zealand

~\$9bn

Total market opportunity^{1,2}

>4%³
per year

Industry continues to grow, driven by strong tailwinds

~\$4.5bn

Paragon's current core target segment comprises roughly 50% of total market opportunity

+3%⁴

Increasing proportion of total population over 64

+4%⁵

Increasing proportion of chronic disease as a percentage of total

+5%⁶

Increasing total number of procedures in Australia

Notes:

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

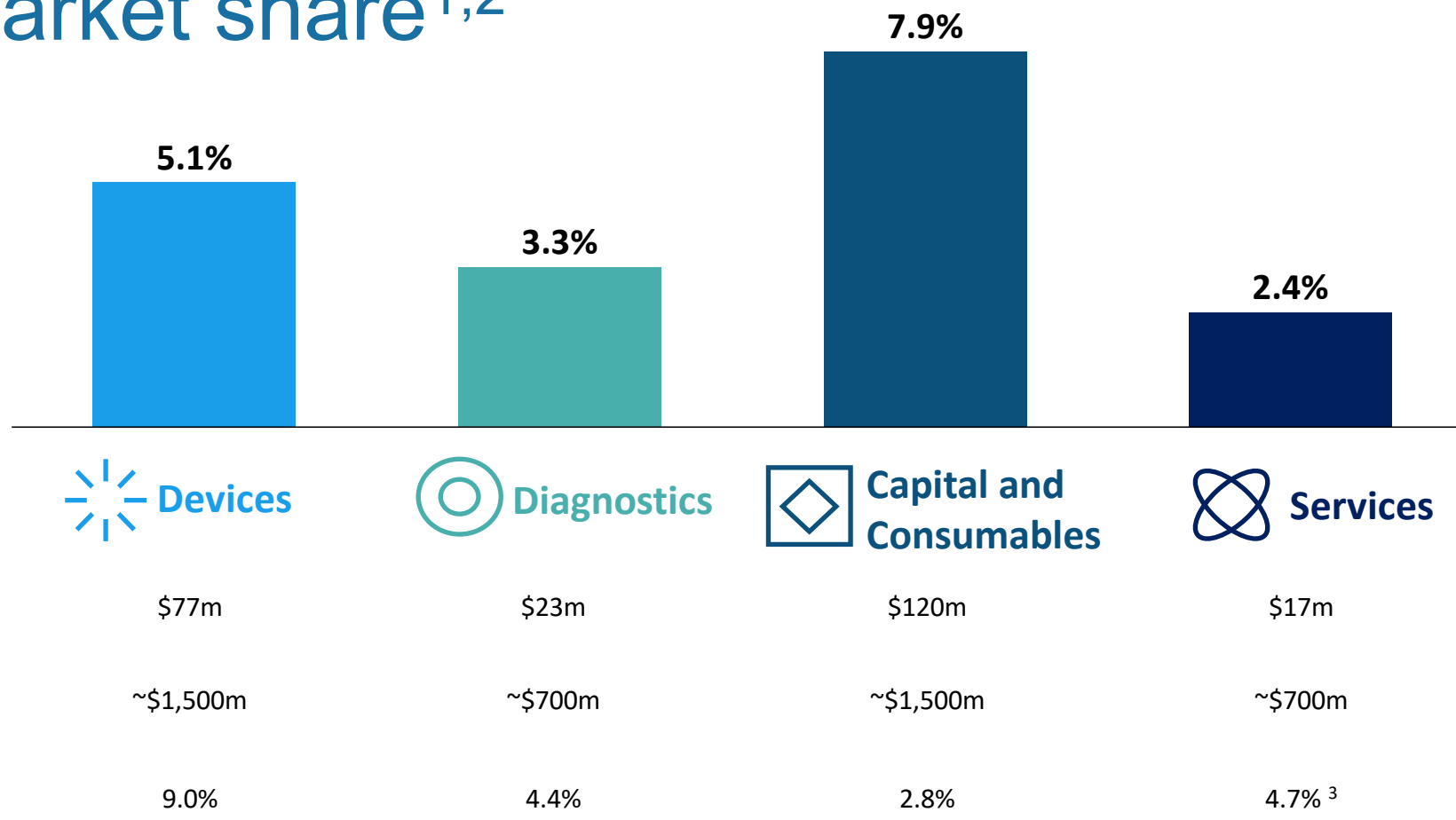
2. Paragon's target market is roughly 70% the size of the total medical and surgical supplies segment

3. CAGR 2014 – 2019; 4. CAGR 1997 – 2037; 5. CAGR 2015 – 2020; 6. CAGR 2016 - 2018

Source: Australian Institute of Health and Welfare; Health Expenditure 2015-16; Fitch Solutions Macro research report – IP owned by Fitch Solutions Group; ACCC reports 2016 and 2018; ABS; OECD; NSW Health

Broadly winning share in key Paragon verticals

2019 market share^{1,2}



Notes:

1. CY19 market sizes shown. Assumed US market is 40% of global market and AU market is 4% of US market to calculate services, lab equipment (part of capital and consumables) and IVD (part of diagnostics) market sizes
2. Market share calculated by comparing FY19 PGC revenue to CY19 addressable market sizes
3. Excluding Total Communications, if included growth rate for Services was -6.6%

Source: Fitch Solutions Macro research report – IP owned by Fitch Solutions Group; Company financials; Grandview Research medical device outsourcing market size 2018; MarketWatch 2019 and NCBI research 2016

Paragon's strategy on a page

Mission & vision

To achieve category leadership in focus areas to be ANZ's leading supplier of healthcare equipment and integrated services

FY21 goals

Organic growth rate
7%+

EBITDA margin
12%+

Customer NPS
+5 y.o.y

Employee NPS
+5 y.o.y



Devices



Diagnostics



Capital and Consumables



Services

Where to play & how to win

Grow with leading product set

- **Ophthalmic:** Invest in leading products and to deepen practitioner relationships
- **Orthopaedics:** Investment to win new customers and agencies with more efficient sales model

Expand into Asia, refine range

- **IVD:** Enter Asia, broaden product offering
- **Lab equipment:** Refine product offering and sales model to improve profitability

Focus on novel tech, improve profitability

- **Consumables:** Optimise product mix, sourcing and digital delivery; focus on novel, differentiated products
- **Electro-diagnostics:** Deepen relationships and broaden range for key call points

Redefine and grow

- **Services:** Refined product offering focused on high margin service; codified sales approach to improve sales and delivery efficiency, and cross-sell

Strategic initiatives

Senior team focus on **acquiring attractive new customers**

Deepen practitioner relationships to increase **share of wallet**

Acquire differentiated, **proprietary products**

Substitute low margin products to **higher margin products**

Reduce sourcing costs through better terms and growing private label offering

Increase leverage for reps to win with practitioners

Leverage Ecommerce and ERP to reduce costs to serve

Zero-based redesign of shared services cost base

Strategic enablers

Commercial Excellence

Product innovation

Technology platforms

Operating model

Where to play: Achieve category leadership with attractive portfolio

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Look for category leadership...

Key thematic:

Industry profitability driven by category leadership

Paragon focus

Focus on key therapeutic areas and practitioner call points where PGC have the potential to achieve category leadership

...In large & growing therapeutic areas...

Key thematic:

Growth and underlying demand for different products varies significantly by therapeutic area and procedure

Paragon focus:

Investment in attractive therapeutic areas and products for procedures where there is a large market need and a strong growth outlook

...With high road product suite

Key thematic:

Practitioner led, differentiated products command higher margins and deeper practitioner relationships

Paragon focus:

Growing portfolio of novel, differentiated technologies and investing in deeper practitioner relationships to win share of wallet

Where to play: Transitioning to higher margin, high road products

PGC portfolio evolution towards high road products

Low road

- Commodity products
- Procurement led spend
- Low prices under further pressure from private label/cheaper alternatives
- Tight margins under pressure

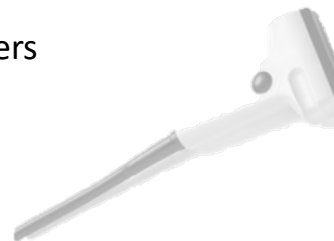
Example:
Lab aprons



Middle road

- 'Middle ground' products – historically generating favourable margins and volume
- Historically practitioner led, potentially shifting to procurement led
- Prices and margins under pressure from increased focus by procurement

Example:
Transducers



High road

- Proprietary technology products with limited true substitutes
- High price per use
- High margin products sold at premium to value/private label offerings
- Have strong ability to hold/grow margins
- Practitioner driven

Example:
Intraocular lens



How to play: Repeatable growth model enabled by agility and scale



Paragon's strategic growth initiatives

Initiative





- 1 **Add new customers in priority therapeutic areas**
- 2 **Grow depth of wallet with key existing practitioners**
- 3 **Add new differentiated and innovative products**
- 4 **Optimise product mix to simplify and grow margin**
- 5 **Reduce sourcing costs**
- 6 **Improve sophistication of sales model**
- 7 **E-commerce & ERP to reduce cost to serve**
- 8 **Reduce inefficiencies through shared services**

Levers for execution

- Laser-like focus on targeting large and attractive deals, leveraging appropriate senior capacity to close
- Target lucrative profiles and serve with excellence through strong in field support
- Invest in practitioners (training, service) to sustain and extend Ophthalmic and Electro-diagnostics and develop deep practitioner affinity
- Better understand practitioner needs, spend and selectively expand offering to grow share of wallet
- Develop partnerships with OEMs and an "innovation committee" to bring new products to market through multiple product launches each year
- Secure leading agencies' exclusive distribution rights with differentiated category leaders
- Conduct range reviews to reduce portfolio complexity, favouring higher contribution margins products and products synergistic with high contribution margin products
- Work with hospital procurement to drive agenda on cost and sharing savings as true partner
- Systematically leverage range reviews to consolidate spend in key 'low road' consumable categories and negotiate better terms with suppliers
- Be selective on 'low road' consumable products to assist category leadership drive
- Break the link between growth & OpEx in 'high road' by better leveraging reps through more products to sell into call points as well as efficient sales and technology support
- Improve sophistication of key account management (share of wallet, pipeline, CRM, pricing, true profitability)
- Electronic self-service & ERP integration to increase sales and account management efficiency
- Build e-commerce & digital fulfilment capabilities to reduce supply chain costs
- Zero-based redesign of the cost-base to fit future model and increase synergies across pillars
- Single source of truth for data to provide greater visibility into performance across the portfolio
- Stronger, more systematic cost and capital disciplines

Strategic initiatives mapped for each of Paragon's business units

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		 Devices	 Diagnostics		 Capital and Consumables	 Services		
		Ophthalmic	Orthopaedics	IVD	Lab equipment	Consumables	Electro-diagnostic	Services
Top-line growth	Add new customers		✓	<i>International</i> ✓			✓	
	Depth of wallet	✓					✓	✓
	Add new leading products	✓	✓	✓	✓	✓	✓	
Margin expansion	Pricing optimisation							
	Optimise product mix	✓		✓	✓	✓		✓
	Reduce sourcing costs					✓		
Reduce cost to serve	Improve sales model		✓		✓			✓
	E-commerce & ERP integration					✓		
	Shared service efficiency gains	Corporate led transformation programme						

Using our agility and scale to win share and add new products

STRATEGY IN ACTION

Newly formed product committee focused on customer needs



Redefined customer call points



Extensive customer and market insights gained



Identified gaps and opportunities in each pillar

High margin and high demand products identified



Sourcing capability in full swing



Numerous suppliers available



Strong presence in ANZ market



31

new products added in FY19

Devices

9

Diagnostics

3

Capital & Consumables

17

Services

2

Devices business vertical – transition towards premium products

STRATEGY IN ACTION

Having mapped the strategic initiatives....

Strategic initiatives for the group

How to win:

- Customer lifecycle

Where to play:

- Category leadership
- higher margin products

Strategic initiatives for Devices

- Increase depth of wallet
- Add new leading products
- Optimise product mix

...PGC is already seeing benefits from implementing these initiatives

Building a world-class sales culture

- Sales management courses throughout the year
- Consistent pipeline rolled out across the group
- Created single salesforce for Eye care business

Increased focus on higher margin products

- Deepened relationships with ophthalmic surgeons
- Tailored, effective approach in selling:

1. Intraocular lenses

- high end prosthetic product

2. Surgical packs

- complimentary, adjacent packs

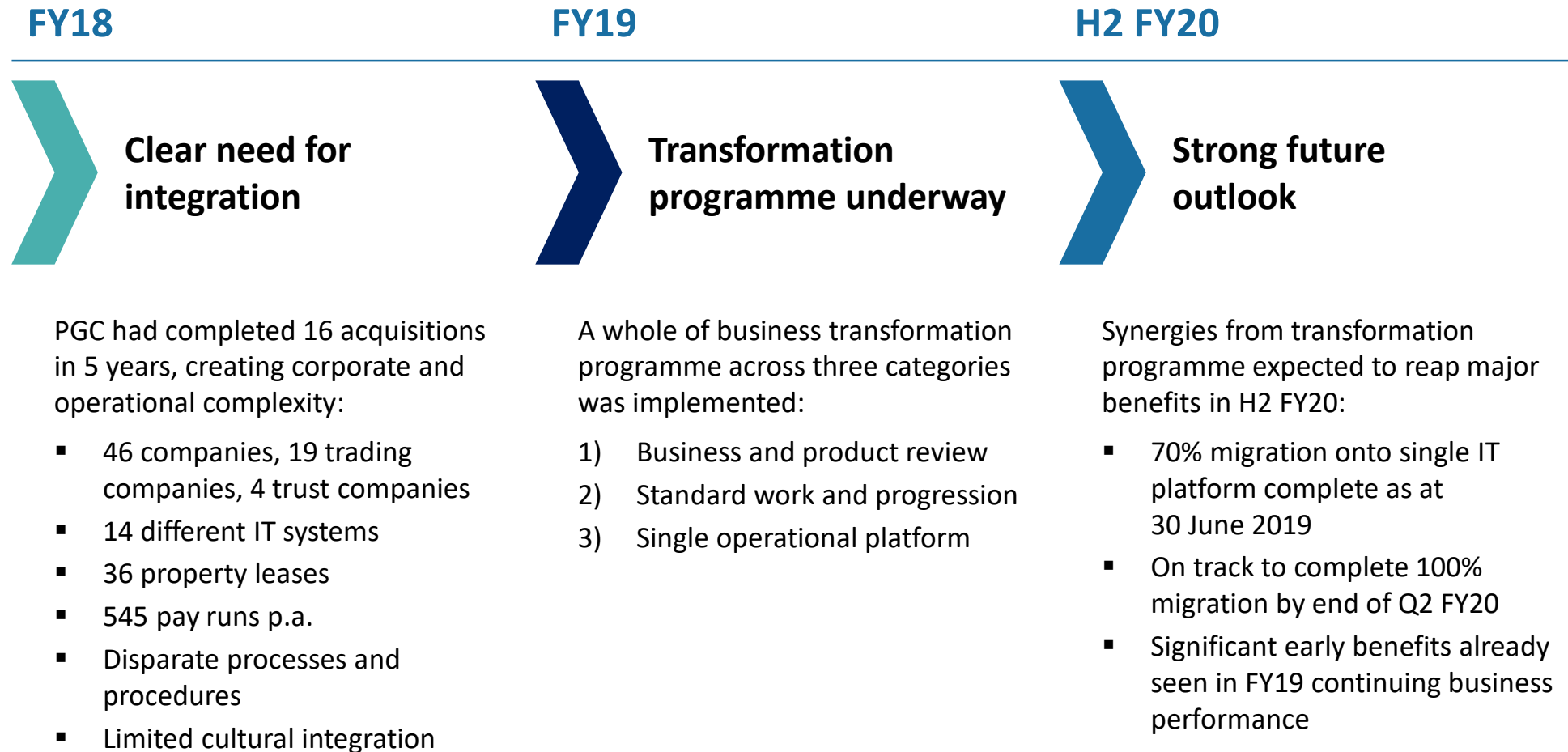
+30%
*Intraocular
lenses sales
growth in FY19*



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Paragon is nearing the end of a significant transformation period

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The transformation programme is made up of three key categories

Paragon's transformation pillars



Business and product review

Streamlined portfolio focused on high end technology and services



Standard work, and progression

Consistent best-in-class culture, processes and practice across business



Single operational platform

Cost out – from 14 to 1 IT playform for efficiencies

Why?

Results in a more profitable business using the same amount of resources

Drives a culture and mindset that outputs continual yet realistic improvement

Being in a position of scalability enables the business to successfully grow

Core initiatives

- ✓ **Divestment of legacy capital** equipment business
- ✓ **Product committee launched**, focused on rationalisation of obsolete products and **addition of innovative products**

- ✓ Add experienced, **highly skilled and motivated staff**
- ✓ Run training programmes to upskill team
- ✓ **Increase accountability** for key metrics / targets
- ✓ Proactive stream-lining of corporate overheads

- ✓ Single, **groupwide IT platform** (ERP system)
- ✓ Single, **groupwide CRM** platform
- ✓ **Cost out of ~\$6.5m in FY20 and FY21**
- ✓ Change in IT management

Paragon successfully delivered against the plan set out for FY19

FY19 progress (completed)



Business and product review

Streamlined portfolio focused on high end technology and services

- ✓ **Divestment of legacy capital equipment business** after strategic review
- ✓ **Formed product committee**
- ✓ Rationalisation of obsolete products
- ✓ Innovation portfolio commenced
- ✓ **31 new products launched**



Standard work, and progression

Best-in-class culture, processes and practice across business

- ✓ Strong, **highly experienced personnel** added
- ✓ Proactive stream-lining of corporate overheads
- ✓ Centralised legal & compliance
- ✓ Increased accountability for key metrics/targets
- ✓ From 34 different employment contracts to 4
- ✓ Reduced 19 trading entities to 2



Single operational platform

Reduce complexity to realise the operational efficiencies of scale

- ✓ **70% of business onto single platform**
- ✓ **Cost out of \$6.5m identified**
- ✓ Reduced from 30 insurance policies to 7
- ✓ Fleet vehicles reduced from 23 to 7
- ✓ Moved from 545 pay runs to 39 (93% reduction)
- ✓ Reduced from 58 bank accounts to 6
- ✓ Migrated from 14 IT systems to 5 as of 1 July

FY20 outlook

- ❑ **Continued focus and addition of high margin products**
- ❑ Ongoing review of obsolete/incumbent products in portfolio
- ❑ Continuing search for new technology

- ❑ Introduction of group-wide, **consistent customer service measurements and KPIs**
- ❑ Aggressive group **focus on cross selling and entire customer journey**

- ❑ **Complete migration** of entire business onto **single IT/ERP platform** by end of CY19
- ❑ Ongoing operational efficiencies targeted
- ❑ **Cost reductions realised expected to be ~\$6.5m runrate - see next slide for details**

\$6.5m cost out over next 18 months on track with clear path forward

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Area for improvement		Improvement opportunity	Approximate cost reduction
FY20 & FY21	Excess management layer	<ul style="list-style-type: none"> Consolidate the 'silo' management structure and rationalise middle management to suit a more focussed and integrated team Integrate acquired business management teams 	~ \$1.2m
	Adopt same systems across the platform	<ul style="list-style-type: none"> Move to a centralised system that is capable of servicing all business units and rationalise manual administration Expand existing system and embed process management framework Implement shared services across all back office functions to increase speed and reduce headcount Streamline finance function across businesses 	~ \$1.4m
	Procurement efficiencies	<ul style="list-style-type: none"> Centralise sourcing and rapid procurement Reduce number of suppliers and supplier cost 	~ \$1.9m
	Other	<ul style="list-style-type: none"> Audit fees, travel, IT support, office misc. 	~ \$0.6m
	Consolidate property holdings	<ul style="list-style-type: none"> Optimise office space and consolidate offices Acquire group warehouse facilities to create uniformity across the operations and delivery of products and services Reduce space required with reduced headcount 	~ \$1.4m

Total cost out = ~ \$6.5m

Corporate overview

Share price performance (A\$)



Financial overview

Financial Information	
Share price (29-Aug-19)	\$0.495
Number of shares	337.9m
Market capitalisation	\$167.3m
Cash & Cash equivalents (30-Jun-19)	\$34.2m
Interest bearing debt (30-Jun-19)	\$99.4m
Enterprise value	\$232.4m

Board of Directors

Shane Tanner

Non-Executive Chairman

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

Michael Newton

Non-Executive Director

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

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

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

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

Bruce Bian (appointed 13 March 2019)

Non-Executive Director

- Over 35 years of diverse industry experience
- Extensive legal experience in Australia and Asia
- Deep understanding of Asian markets
- Demonstrated success in legal compliance and corporate governance

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