Name of Entity:	**PARAGON CARE LIMITED**
ABN:	**76 064 551 426**
Reporting Period:	Financial Year ended 30 June 2020
Previous Corresponding Period:	Financial Year ended 30 June 2019

Results for Announcement to the Market

	FY20 $'000	FY19 $'000	Change from FY19 %
Revenue	**231,773**	**256,698**	**(10)%**
Profit/(loss) after tax	**(77,269)**	**(14,386)**	**(437)%**
Basic earnings per share	(22.87)	(4.49)	**(409)%**
Diluted earnings per share	(22.87)	(4.49)	**(409)%**
Net tangible assets per share	(11.06)	(3.55)	**(212)%**

Dividends

There were no dividends paid, recommended, or declared during the current financial year.

Comments

	FY20 $'000	FY19 $'000	Change from FY19 %
Revenue from continuing operations	**231,689**	**236,009**	**(2%)**
Cost of sales	(144,874)	(140,981)	3%
Gross profit	**86,815**	**95,028**	**(9%)**
Gross profit margin %	37.5%	40.3%	
Other income	320	1,737	
Operating expenses	(64,232)	(68,492)	
Normalised earnings before interest, tax, depreciation and amortisation from continuing operations before Abnormal expenses ('Normalised EBITDA')	**22,903**	**28,273**	**(19%)**
Abnormal expenses **	(84,989)	-	
Earnings before interest, tax, depreciation from continuing operations	(62,086)	28,273	
Depreciation and amortisation	(8,053)	(10,009)	
Interest expense	(7,064)	(5,949)	
Profit/(loss) before tax	(77,203)	12,315	
Tax (expense)/benefit	5,603	(3,453)	
Profit/(loss) after tax from continuing operations	(71,600)	8,862	
Loss after tax from discontinued operations	(5,669)	(23,248)	
Loss after tax for the year attributable to owners	**(77,269)**	**(14,386)**	

** Abnormal expenses above include once-off, largely non-cash, write-offs described in detail in this release.

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Revenue from continuing operations rebounds from initial COVID-19

Revenue for the year reached $231.7m (2019 $236.0m) which, given the impact of COVID-19 and suspension of elective surgery during much of the last quarter, was well ahead of the Company's internal forecasts when COVID-19 first impacted.

Gross margin lower due to COVID-19 and foreign currency movements

Whilst management was able to replace much of the elective surgery lost revenue with new income streams (e.g. PPE sales), the gross margins on the new revenue were at a lower level than the lost revenue during the final quarter of the FY20 year. Despite this, the Company's gross margin for FY20 was still a respectable 37.5%.

Normalised EBITDA

Following changes to the Senior Leadership Team in January 2020, the company finally experienced significant restructure of its operations and cost base. Paragon's 14 individual businesses were restructured into 4 Pillars – Devices, Diagnostics, Capital & Consumables and Service & Technology. This restructure is now driving real efficiency gains in both the Company's cost base and its improved offering of products to the market. These cost and efficiency improvements and savings will continue well into the FY21 year. Similarly to revenue, the final normalised EBITDA result of $22.9m (2019 $28.3m) was significantly ahead of where the Company's internal forecasts were when COVID-19 impacted in March 2020.

Reductions in continuing operations overhead expenses

Management has continued to deliver significant long-term savings through the cost out program initiated last year. The savings programs being implemented now target a much greater scope of savings than originally envisaged, and as a consequence, they have incurred significant implementation costs and lead to the write-off of significant assets discussed in detail in the following paragraphs.

COVID-19 impact and cost management

The company initiated several cost management strategies in the early stages of the COVID-19 pandemic. This includes salary and fees reductions between 20% for staff and 30% for board and leadership team across the last quarter of FY20 as well as rent reductions negotiated with landlords and travel bans put in place before border closures were initiated by governments. The company also qualified and received $2.98 million in government assistance to ensure eligible staff received JobKeeper support.

Abnormal expenses

During the year the company's new leadership team reviewed many parts of the corporate strategy, and this when combined with the impact of COVID-19 has seen the company simplify its strategy by closing down many non-strategic projects initiated over the last 18 months. The company is modifying its intended restructure to focus on its core products, operations, and markets. This refocus and the impact of COVID-19 has resulted in a write down or write-off of significant amounts of assets this financial year.

- The simplification of corporate strategy has necessitated the closure of a number of non-strategic projects started in the last 18 months to focus resources and management efforts at our core products and customer segments to rebuild the business. These strategic decisions, which the company believes will drive business growth in financial year 2021 and beyond, have seen asset write-offs of $8.5 million of historical costs capitalised or investments in relation to business or project now being closed.

- The significant restructure underway in the business saw $3 million of restructuring and redundancy costs incurred in the first half of this financial year. It has seen further write-offs and provisions for restructure and redundancies relating to the cost reduction process of $6 million booked in the second half as the program picked up pace with significant warehouse closures in Victoria and New South

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Wales. Lastly the refocusing onto core products and customer segments combined with the reduction of warehouse space has seen write-offs of inventory, assets, and customer balances of $7.9 million.

- COVID-19 has also impacted the business. The company has kept the market updated during the course of this pandemic so shareholders will already be aware that the closure of medical facilities to non-essential staff and cancellation of elective surgery hit the company's sales hard initially. Shareholders will also be aware that the leadership team undertook expense management steps to manage through that crisis and that the return of elective surgery in most states has lifted sales in the final months of this financial year. As the pandemic now looks likely to continue in some way through FY21, the leadership team has refocused sales efforts and modified operations to ensure the company continues to grow in market segments not impacted and deliver positive earnings returns overall.

- JobKeeper has not only allowed the company to maintain staff salaries at 80% levels during the initial months of the pandemic (70% for the Board and leadership team) but also to maintain breakeven cash flows across the worst of the initial COVID-19 impacts on the business. Like many companies, we have and continue to renegotiate with our bank to increase our funding limits and reduce covenant testing during the COVID-19 pandemic. However, we have also been adversely impacted from the continued low interest period with an interest rate swap entered into in FY19 becoming significantly above current and expected market interest rates. This has required a derivative liability to be recognised in the balance sheet of $4.6 million. This $4.6 million along with $0.8 million fees and charges capitalized from prior banking arrangements have been recognised in the profit and loss this year.

Goodwill impairment

The company's goodwill on acquisitions impairment testing has been impacted by both the slower cash generation expected as the economy slowly recovers from the pandemic and the increased discount rates which need to be applied to future cash flows because of the uncertainty around the length and depth of the impacts of the pandemic. This has seen a once-off abnormal impairment charge this year of $54 million in the profit and loss. One of the causes of the overall goodwill impairment was the reduction in future expected cash flows due to the loss of business in Western Biomedical which is the subject of ongoing litigation by Paragon Care against the Western Biomedical vendor.

Discontinued operations

In reviewing the operations of the MIDAS software business during the year, the board concluded that with fewer than 10 customers and requiring significantly more development than initially planned at acquisition, the MIDAS software is unlikely to result in sufficient returns to justify continued investment. The closure of MIDAS business has been progressively undertaken since late in the financial year. The total cost of closure will be $6.5 million and has been provided for in this financial year, this and the FY20 operating loss of $0.3 million, less an income tax benefit of $1.1 million has been classified as a loss after tax from discontinued operations this year of $5.7 million.

The company is now totally focused on building capabilities in the product verticals of Devices, Diagnostics, Capital & Consumable, Services and Technology and on focusing these capabilities into profitable market segments. The rationalisation of product lines, focus on customer service and empowerment of our highly dedicated and skilled staff will result in stronger growth and profitability as the company and economy in general recovers from the impacts of the COVID-19 pandemic.

The COVID-19 pandemic has impacted our community in devastating ways; it has been no less devastating financially or economically, as our significant asset write-downs attest to. However, its has also highlighted the need for a strong, well-funded national healthcare system.

Paragon Care is playing its small part in the COVID-19 pandemic response. Our customers continue to rely on our ability to source and deliver products, including at this critical time Personal Protective Equipment. Our Lovell surgical manufacturing facilities are involved in the creation of sterile COVID-19 testing swab packages. Our Immulab manufacturing facilities continue to supply reagent red blood cells, monoclonal blood grouping reagents and ancillary products. Our Total Communications technology solutions are continuing to assist aged

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care facilities with the digital recording and monitoring of their service delivery to that vulnerable segment of our population.

Whilst some of our products and services have been impacted by COVID-19 and whilst we are currently experiencing that impact in the midst of our restructuring, the market segment in which we operate has never been more recognised and important.

The Board is confident that in this nationally critical market, with the renewed strategic focus on core products, customer service and with its highly skilled and dedicated staff, the company will see a solid performance notwithstanding COVID-19 in FY21 and a return to dividend payments in the near term.

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in and should be read in conjunction with the attached audited Financial Report for the year ended 30th of June 2020.

The company's Annual General Meeting is to be held on Wednesday, 18th of November 2020 with details to be communicated to shareholders in due course.

For investor enquiries please contact:

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