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ASX ANNOUNCEMENT

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Australian Securities Exchange
Company Announcements Office

COMPANY UPDATE – BUSINESS IMPACTS OF COVID-19

Paragon Care Limited (ASX: PGC) ("**PGC**" or the "**Company**"), a leading provider of medical equipment, devices, and consumables to the healthcare markets in Australia and New Zealand, would like to update the market on its performance for the first quarter of FY21.

Execution of our Strategy is Driving Improved Profitability

The operating performance was strong in Q1 with relatively stable revenue and improved profitability, which was very pleasing given the ongoing challenges in the external operating environment such as the cancellation of non-essential elective surgery in Victoria and restrictions around access to aged care and healthcare facilities.

Over the past year, the new management team has effectively implemented a comprehensive cost rationalisation strategy to streamline operations, effectively integrate previous acquisitions and improve profitability. This cost out program is well underway and has so far delivered $6m of the $8m in targeted annualised savings.

We have now completed the rationalisation of 14 different business units into 4 pillars (Capital & Consumables, Devices, Diagnostics and Service & Technology) and we are now transitioning into the growth phase of our turnaround strategy to capitalise on our key strengths including a diversified product portfolio, well-established distribution relationships and a focus on high growth sectors including eyecare, orthopaedics, diagnostics and aged care.

Q1 Financial Results

Revenue in Q1 FY21 was relatively stable at $57m, down only 4.7% on $59.8m in Q1 FY20 in a disrupted and distracted health industry.

Gross profit margins declined marginally to 37.5% in Q1 FY20, down from 39.9% in Q1 FY20, due to a temporary change in the sales mix to lower margin product sales such as personal protective equipment. As elective surgery ramps up in Q2 and beyond, we expect to revert back to higher margin sales with increased gross profit margins. Our cost out program is well underway with real costs being taken out of the business, and we continue to make excellent progress on our facilities consolidation, inventory rationalisation and freight management initiatives. The underlying operating expenses were down $1.5m in Q1 FY21 on the previous corresponding period and we expect that the resulting savings will continue to grow throughout the year.

Solid progress has also been made on improving the Company's ERP systems. All 4 pillars will be operating on stable ERP platforms by the third quarter of FY21. Future ERP enhancements or consolidations will be completed in a manner so as not to detract from management's focus on improving business performance.

EBITDA increased by 12% to $7.5m in Q1 FY21, due to the improved operating performance and the $3m contribution of JobKeeper which has helped offset the loss of revenues due to shutdowns in elective surgery and aged care. Although we expect increased savings from our continued cost out program throughout FY21, there will be a parallel offset with the reduction in JobKeeper payments over the same period. The loss of JobKeeper support will be more than offset through increased sales as elective surgery returns to new COVID19 normal levels and access to aged care facilities open up.

It is anticipated that our operating performance in Q2 will continue to be adversely affected by the measured return of elective surgery and the delayed opening to the aged care sector and at this stage, it is possible that our Q2 performance could be slightly weaker than Q1.

Operating cashflow was positive at $1m in Q1 FY21, a significant improvement on the operating cashflow loss of $13m in Q1 FY20. The cash balance was $13.4m as at 30 September 2020. The repayment of our borrowings with NAB is on hold which is in line with the NAB moratorium on principles repayment, however we did repay net $1.8m in CBA Hire Purchase Agreements.

Paragon Care CEO, Phil Nicholl said, *"We are very pleased with the performance of the business in Q1 through the COVID-19 related business disruption. We were able to switch our product mix to maintain revenue and our underlying profitability improved due to the effective implementation of our cost savings initiatives. Although the operating conditions remain challenging, we remain confident in our strategy to capitalise on the significant growth potential in this market when conditions return to some form of normality post COVID-19 impact."*

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

About Paragon Care Limited

Paragon Care (ASX:PGC) is an Australian based listed company in the healthcare sector. It is a leading provider of medical equipment, devices, and consumables for the Australian and New Zealand healthcare markets. These are high growth markets driven by the ageing of the population, continuously rising consumer expectations and increasing government spending. By combining a series of strategic acquisitions of class leading companies, Paragon Care has positioned itself to provide advanced technology solutions including equipment, consumables, and services for acute and ancillary care environments.

Forward-Looking Statements

Certain statements in this announcement are forward looking statements. Forward looking statements can generally be identified by the use of words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe", "target", "may", "assume" and words of similar import. These forward-looking statements speak only as at the date of this announcement. These statements are based on current expectations and beliefs and, by their nature, are subject to a number of known and unknown risks and uncertainties that could cause the actual results, performances and achievements to differ materially from any expected future results, performance or achievements expressed or implied by such forward looking statements.

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