ParagonCare

1300 369 559
info@paragoncare.com.au
paragoncare.com.au

ASX ANNOUNCEMENT

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Australian Securities Exchange
Company Announcements Office

STREAMLINED OPERATIONS DRIVING IMPROVED PROFITABILITY AND CASHFLOW

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, is pleased to report its financial results for the first half of FY21. Key highlights from the results include:

- **Streamlined operations driving improved profitability:** Delivered over $7m in annualised savings with EBITDA up 63% on pcp to $14.7m.
- **Improved working capital cycle increased operating cashflow:** Operating cashflow during the period increased by $24.1m due to significant reduction in working capital cycle and improved operating performance.
- **Vendor earnout payments substantially completed during the first half:** $14.3 million vendor earnout payments were made during the period, the remaining $1 million will be paid before March 2021.
- **Diversified portfolio generated revenue stability:** Revenue down by only 5% on pcp to $115m despite COVID disrupted healthcare market due to diversified product and geographic offering.
- **Decreased net debt:** Over the past year, net debt decreased by 4% from $79.4m in 1H FY20 to $76.3m in 1H FY21, due to increased cash balance and deferment of repayments.
- **Growth strategy to leverage cross-sell capabilities:** Customer demand for best-in-breed solutions across a range of healthcare products is driving opportunities for growth through internal cross-selling and expanded market share.

1H FY21 Financial Results – Highlights

	1H FY21	1H FY20	Δ
Revenue	$115m	$120.6m	↓ 5%
EBITDA	$14.7m	$9.1m	↑ 63%
NPAT	$5.2m	$1.4m	↑ 271%
Working Capital Cycle	133 days	161 days	↓ 28 days
Operating Cashflow	$15.5m	$(8.6)m	↑ $24.1m
Net debt	$76.3m	$79.4m	↓ 4%
EPS	1.54 cps	0.41 cps	↑ 276%

1H FY21 Financial Results – Commentary

Revenue in 1H FY21 was $115m, down only 5% from $120m in 1H FY20, which was a solid result in a COVID disrupted healthcare market. Our Q1 FY21 revenue was down 4.7% on the previous corresponding period (pcp) and stabilised in Q2 to be in line with pcp.

Gross profit margins improved to 38.7% in 1H FY21, up from 37.7% on pcp. In Q1 FY21, gross profit margins declined to 37.5% due to a temporary change in the sales mix to lower margin product sales such as personal protective equipment. However, our gross margins improved in Q2, in line with our expectations, as elective surgery ramped up with the associated increase in higher margin sales.

Over the past year, we have effectively implemented a cost rationalisation strategy relating to facilities consolidation, inventory rationalisation and freight management initiatives. These initiatives, in combination with the structural change in operating costs in the COVID-disrupted operating environment, have generated ~$7m in annualised cost savings. These operational savings are in addition to the $3m contribution from JobKeeper in 1H FY21. The JobKeeper payment of $3m was only received in Q1 FY21 as the business improvement in Q2 rendered the Company ineligible for ongoing payments.

Our operating performance improved significantly in 1H FY21, with EBITDA increasing by 63% in 1H FY21 to $14.7m, up from $9.1m in 1H FY20. This reflects operational savings of around $2m in employee expenses (excluding the impact of JobKeeper), $700K on marketing and $1.3m in other expenses including travel costs and consulting fees. These savings were partially offset by a $600K increase in ITC (Information, Technology & Computers) costs.

We expect most of these savings to be sustainable on an ongoing basis as we transition back to a new 'COVID-normal' operating environment. We expect to benefit from lower underlying employee expenses moving forward and we expect further improvement in distribution costs over time. However, we expect travel expenses to increase as the economy re-opens.

Operating cashflow of $15.5m in 1H FY21 was driven by stronger business performance and an improved working capital cycle, down from 161 days in 1H FY20 to 133 days in 1H FY21.

In 1H FY21, $14.3m in cash was paid in earn-outs relating to the prior acquisitions. As at 31 December 2020, there remains only $1m in vendor conditional payables, thus further improving cashflow from 2H FY21 onwards. Most of these earn-outs were paid in Q1 and therefore the cash balance increased substantially in Q2 to $26.6m as at 31 December 2020, up from $13.4m as at 30 September 2020. Over the past year, net debt has decreased by 4% from $79.4m in 1H FY20 to $76.3m in 1H FY21.

In August 2020, we received approval from our bankers to amend the banking facilities to relax our obligations to comply with existing facility covenants through to September 2021. This amendment resulted in the deferment of our quarterly facility payments until December 2021, totalling $4.5m.

The company has created a Dividend Reserve to transfer profits generated during this half year and in future periods to ensure profits are available for distribution to shareholders in future years rather than being offset against accumulated losses.

The creation of this reserve is consistent with the Board's stated intention of returning to distributing dividends as quickly as possible.

Paragon Care CEO, Phil Nicholl said, "Our operating performance continued to improve in Q2 as the adverse impact of COVID disruptions diminished towards the end of the year. We continued to make good progress on our pillar consolidation and the streamlining of our facilities and freight operations. These cost rationalization initiatives are now delivering reduced working capital cycles and improved cash management. We have a diversified product portfolio and strong relationships with stakeholders and our focus is now on transitioning to growth through cross-selling and growing our market share."

For further information please contact:

Phil Nicholl
CEO
Phil.nicholl@paragoncare.com.au

Shane Tanner
Chairman
shane.tanner@paragoncare.com.au

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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