

ASX ANNOUNCEMENT

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Australian Securities Exchange
Company Announcements Office

SOLID OPERATING PERFORMANCE WITH STRONG PATHWAY TO GROWTH POST MERGER WITH QUANTUM HEALTH CARE

Paragon Care Limited (ASX: PGC) (“**Paragon Care**” 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 half year ended 31 December 2021 (“**1H FY22**”). Key highlights from the results include:

- **Significant improvement in underlying EBITDA:** In 1H FY22, Paragon Care delivered a 20% improvement in underlying EBITDA (excluding the \$3m contribution from JobKeeper in 1H FY21).
- **Improved gross profit margins and NPAT:** Revenue stabilised in 1H FY22 at \$111.3m, down by 3% on 1H FY21, which was a solid result in a business environment which continued to be challenging due to COVID-19 related lockdowns and business disruptions. However, profitability increased in 1H FY22 due to an increase in gross profit margins to 42% (up from 38.7% in 1H FY21) and NPAT increased to \$5.4m in 1H FY22, up 4% on 1H FY21.
- **Merger with Quantum Health finalised:** Paragon Care and Quantum Health Group officially combined operations on 16th February 2022 to create a leading medical distribution business across Australia, New Zealand and South-East Asia. Pro-forma results in 1H FY22 for the combined entity show revenue of \$137.7m and EBITDA of \$19.4m¹ and a materially strengthened balance sheet.
- **New CEO and Group Managing Director:** In December 2021, Paragon Care announced the appointment of Mark Hooper as Chief Executive Officer and Group Managing Director. Mark Hooper ended his former role as CEO of Sigma Healthcare (ASX:SIG) on 31 December 2021 and will commence his role with Paragon Care on 5 April 2022.
- **Two new Directors appointed:** John Walstab (Executive Director) and Alan McCarthy (Non-Executive Director) joined the Board of Paragon Care, effective 16th February 2022.
- **Interim dividend declared:** A fully franked interim dividend of 0.6 cps has been declared, with a record date of 22 March 2022, to be paid on 26 April 2022. Whilst this represents a 70% payout of Paragon Care 1H NPAT, it represents only a 41% payout of the merger pro-forma 1H NPAT.

Merger with Quantum Health Care to create leading medical distribution business

In November 2021, Paragon Care announced that it entered into a scheme implementation deed to merge with ASX-listed healthcare distributor, Quantum Health Group Limited (ASX: QTM) by way of an all scrip Scheme of Arrangement between Quantum and its shareholders. This merger was approved by the courts on 2 February 2022 and the businesses will officially combine operations during this month.

¹ Note that the pro-forma numbers are unaudited and reflect the simple addition of both companies for the Profit & Loss, based on Quantum Health management accounts.

Quantum is a leading independent high-end distributor of medical equipment across Australia and New Zealand, as well as key Asian markets including Korea, Thailand, the Philippines, China and Vietnam. Quantum specialises in the sales and service of diagnostic equipment for radiology, oncology, molecular imaging and aesthetics, and represents leading multi-national manufacturers across Asia with long-standing relationships.

Paragon Care and Quantum are highly complementary businesses. The merged entity will have an opportunity to cross-sell the combined product portfolio into the higher growth Asian markets and attract new suppliers over time based on its larger distribution footprint and commitment to high levels of corporate governance in Asian markets.

The merged entity will have a materially strengthened Balance Sheet (Net Debt / EBITDA from 2.6 times to 1.7 times post-merger based on full year FY21 proforma accounts).

Upon implementation of the merger, Paragon Care shareholders will own approximately 56% and Quantum shareholders will own approximately 44% of the merged entity.

Proforma 1H FY22 results for the merged entity

	1H FY22
Revenue	\$137.7m
EBITDA	\$19.4m
NPAT	\$9.1m
Operating cash flow	\$9.4m
Net debt	\$60.3m
Net Debt / EBITDA	<2x

The Directors are pleased to declare the payment of a fully franked interim dividend of 0.6 cps with a record date of 22 March 2022, to be paid on 26 April 2022. This represents a 41% payout of the merged proforma NPAT for the half. Paragon Care operates a dividend reinvestment plan (DRP) that enables shareholders to elect to reinvest all, or up to a portion of, their dividends in additional shares in Paragon Care. All Board members and the CEO will be participating in the DRP.

Upon the successful implementation of the merger on 16th February, John Walstab was appointed to the Paragon Board as an Executive Director and Alan McCarthy joined as a Non-Executive Director.

John Walstab was the Group Managing Director and CEO of Quantum Health Group and he has nearly 40 years' experience in medical equipment distribution across Australia and Asia. Mr Walstab was the founder of InSight Oceania (Quantum Healthcare) and he joined the Board of Quantum Health Group in 2003. Prior to that, Mr Walstab was the Managing Director of ATL Australia (Philips Medical Systems ANZ). Mr Walstab has overseen the growth of Quantum Health Group over the past 18 years.

Alan McCarthy was a Non-Executive Director of Quantum Health Group and he has over 30 years' experience spanning public health and private health services across the Asia Pacific region. Mr McCarthy's prior roles

include the CEO at Alpenglow Australia and New Zealand, Managing Director of Philips (ANZ), Vice-President at CareFusion, Country Manager ANZ at Cardinal Health and General Manager of Diagnostic Imaging at Mayne Health/Health Care of Australia. Mr McCarthy is currently a Non-Executive Director of Q Scan and RHC Group Ltd and the CEO of AdvaHealth Solutions.

Appointment of new CEO and Group Managing Director

In December 2021, Paragon Care announced the appointment of Mark Hooper as Chief Executive Officer and Group Managing Director. Mark Hooper ended his former role as CEO of Sigma Healthcare (ASX:SIG) on 31 December 2021 and will commence his role with Paragon Care on 5 April 2022.

Mr Hooper was appointed Managing Director & CEO of Sigma in August 2010 and over the past decade he has led the Sigma business through a major divestment of the Pharmaceutical division and several acquisitions, as well as a major internal transformation project to generate operating efficiencies of over \$100m, and the renewal of Sigma's national distribution centre network.

New strategic partnership with Centuria Healthcare

In November 2021, Paragon Care entered into a strategic partnership with Centuria Healthcare for the long-term lease of a state-of-the-art clean room facility, laboratories, and office complex in the Monash precinct located in the Eastern suburbs of Melbourne.

Centuria will take possession of the property in April 2022 and will fund the upgrade of the facilities to Paragon specifications with works to be completed by December 2022. This new facility will enable Paragon to expand its laboratories that manufacture Immulab's world-leading blood reagent products to meet future demand in Asia with minimal upfront capital cost.

Centuria Healthcare is part of the wider ASX-200 listed Centuria Capital Group (ASX:CNI), which has more than \$18 billion of funds under management. Centuria Healthcare is a specialist funds manager of healthcare real estate assets across Australia, with a portfolio of 56 high-quality assets worth approximately \$1.3 billion.

1H FY22 Paragon Care Statutory Results

	1H FY22	1H FY21	Δ
Revenue	\$111.3m	\$115.0m	↓ 3%
EBITDA	\$14.1m	\$14.7m	↓ 4%
NPAT	\$5.4m	\$5.2m	↑ 4%
Operating cash flow	\$3.9m	\$15.5m	↓ \$11.6m
Net debt	\$69.3m	\$76.3m	↓ 9%
EPS (Basic earnings per share)	1.56 cps	1.54 cps	↑ 1%
Dividend per share	0.6cps	N/A	

1H FY22 Financial Results – Commentary

Paragon Care delivered a solid financial performance in 1H FY22 with underlying EBITDA (excluding the \$3m contribution from JobKeeper in 1H FY21) up 20%. Revenues stabilized at \$111.3m, down 3% on pcp, and a 4% increase in NPAT to \$5.4m. This was a pleasing result in difficult operating conditions given the ongoing COVID-19 related business disruptions through 1H FY22 including the 'stop start' policy on elective surgery by various State Governments. The diversification of revenues across product lines and geographies has continued to underpin revenue stability.

There was a significant improvement in gross profit margins in 1H FY22 to 42%, up from 38.7% in 1H FY21, due to a higher margin product mix, as well as the positive impact of a well-executed foreign exchange management strategy.

Earnings before interest, tax, depreciation and amortization ("EBITDA") decreased slightly to \$14.1m in 1H FY22, a 4% decrease compared with the prior year. Employment costs increased in 1H FY22, due to the \$2.9m JobKeeper subsidy which reduced employment costs in 1H FY21. The stabilisation of EBITDA in 1H FY22 reflects the business-as-usual disciplined approach to cost control.

The net profit after tax result of \$5.4m, up 4% on pcp, reflects a \$600K interest saving due to the rationalization of banking facilities in 2H FY21. Earnings per share in 1H FY22 was 1.56 cents.

Operating cash flow decreased to \$3.9m in 1H FY22, down from \$15.5m on pcp. In 1H FY21, a \$5m cash receipt from JobKeeper was received and there was a one-off cash boost from an improvement in the working capital cycle. In addition, inventories have increased in 1H FY22 due to supply chain disruptions. In 2H FY22, operating cash flow will be aligned with earnings when trading conditions are normalised post COVID-19.

Net debt decreased by 9% in 1H FY22 to \$69.3m as at 31 December 2021, down from \$76.3m at the same time last year. The Company's net debt to equity ratio improved to 35% at year-end, down from 36% last year, and interest cover has improved materially. The amortisation of debt resumed with \$4.5m repaid in 1H FY22.

Paragon Care Chair, Shane Tanner said, "We are pleased with the underlying performance and improved profitability of the Paragon Care business in the first half, despite the continuation of difficult business conditions. This solid foundation ensures that the combined entity, following the merger with Quantum Health, has a strong pathway to growth across Australia, New Zealand and South-East Asia. We are now focused on integrating the two businesses and identifying growth opportunities to leverage the combined product offering and across the larger customer network."

For further information please contact:

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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 to the healthcare markets in Australian and New Zealand. These are high growth markets driven by the aging of the population, continuously rising consumer expectations and increasing government spending. Paragon has a portfolio of class-leading companies that are positioned 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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