PGC Report

Harley Grosser - December 2012

Long term investors are forever on the look out for opportunities that exist within areas of the economy that are experiencing strong secular tailwinds. Powerful trends like the increasing power and decreasing size of computers, growing wealth in emerging economies and the aging of the western population create significant opportunities for businesses (and hence investors) that are leveraged to the underlying strength of the tailwinds in these sectors. It is when an investor is able to combine the identification of a small, growing and undervalued company with that company also being exposed to powerful secular tailwinds that amazing opportunities may arise for long term focused investors. While these companies will ride out the business cycle experiencing their ups and downs - just like any other business - the investor who has done their homework can rest assured that the longer term growth rate of the company, provided it is well managed, is likely to continue in a strong uptrend until the driving forces begin to fade, at which point the investor's returns are often more than satisfactory.

Along this line of thinking perhaps the sector that is most at the forefront of the mind of the investment community is the health and aged care sector. Driven by an ongoing shortage of capital investment and the general aging of the population we as investors can be certain that opportunities in health and aged care will present themselves in the years ahead. The issue is that with every investor well aware of the growth to come those healthcare companies that are already fairly large and generating strong profits just aren't as cheap as a value focused investor would ideally like to see. The key then is to find these companies before they grow to become larger and attract the inevitable market attention that comes with such growth. Doing so successfully can create wonderful opportunities for investors to generate outsized returns over the long run. Paragon Care (ASX:PGC) - a distributor and manufacturer supplying the acute and aged care markets - may be one such opportunity.

The Paragon Story

The Paragon story began in 2008 when the company, led by directors Mark Simari, Shane Tanner and Michael Newton identified the wealth of opportunities that would come to rise in the health and aged care sectors. The demographic tailwinds, years of underinvestment in the sector and the fragmented nature of the relatively small businesses that operated in the space meant that there existed an opportunity to build a consolidated entity that could provide a whole of service offering to customers in the acute and aged care markets.

Between 2008 and 2011 the company took advantage of the numerous acquisition opportunities that existed due to a combination of the many small operators in the sector, the desire of the vendors to retire or consolidate their businesses into a larger operation and no doubt the depressed economic environment post-GFC as it weighed on business valuations. These acquisitions were all within the health and aged care markets, but it was the acquisition of Axishealth in 2009 that really began the transformation of Paragon Care into the provider of premium equipment to customers in the acute and aged care markets that exists today. The model of acquisition was representative of the strategy that the company would take for the majority of the acquisitions that followed, with the vendor issued shares in Paragon Care (often becoming substantial holders) and retaining their operating role within the business.

In 2010, in addition to achieving a maiden profit, Paragon added Iona Medical Products, Volker Australia and Rapini, helping to expand the range of products that Paragon care could deliver to their hospital and aged care clients. With the acquisition of GM Medical in mid 2011 and the sale of their aged care services businesses in years prior (which were sold at a profit in order to focus on the core strategy of medical equipment distribution) the five divisions of Paragon Care that exist today were in place and the company could go about becoming "the preferred supplier of a range of products and services for the Health and Aged Care providers and their clients."

The company's strategy was and is to take advantage of the fragmented market of suppliers in this sector and offer clients a veritable 'one stop shop' for health and aged care equipment and supplies. By acquiring complementary businesses, utilising the experience of their management teams by retaining them in key roles and then improving and expanding the product offering and realising synergies by consolidating the operations of the respective divisions into one consolidated entity the company believed it could win significant contracts with large clients that would otherwise not have been possible for each of the Paragon divisions if they were to be operating individually. And it did not take long for this strategy to produce real results when in August 2011, following up on a recent major contract win with the Royal Children's Hospital in Victoria, Paragon won what was no doubt a milestone contract to provide St Vincent's Health (Melbourne) with 400 Volker beds between August 2011 and February 2014 at a value of around $2m. This major contract win, a record profit of $850k in FY11, the positioning of the company at the front of major hospital and aged care facility tenders and the signing of a number of exclusive distribution renewal agreements with Paragon's major suppliers meant that 2011 was a very successful year for the company.

The tendency for share market investor's to latch on to any opportunities in the strongly growing health and aged care market and then attach sky-high price to earnings multiples to company's that show growth potential in this space means that had the strong growth of Paragon Care in 2011 continued through unimpaired to this day you would likely not be now reading about how Paragon Care may be trading at a price that represents an attractive opportunity. And indeed a number of external forces did conspire to make the 2012 financial year one that investors in Paragon Care would rather forget. While the reasons for the hiccup in growth that occurred in FY12 will be explained in detail in this report they can be summarised as being due to reduced government expenditure leading to reductions and delays in spending by the major hospitals, uncertainty in the aged care space as the market awaited finalisation of the government's aged care policy and the fact that Paragon Care, as a company that is yet to fully realise its growth potential, saw the reduced spending and cautious attitude of their customers lead to what was an admirable profit in 2011 turn into a small loss for 2012.

Ironically, despite the admittedly disappointing financial performance of 2012, some of the most important developments in the company's history occurred over this period. The long held vision of the company to become a provider to the major hospitals, delivering sizable contracts both in product volume and in a financial sense, was achieved through a number of important contract wins in 2012. In May, Paragon was selected as an approved supplier of Volker hospital beds and Parkhouse premium mattresses by Hospital Purchasing Victoria - which works in partnership with public hospitals to facilitate large scale tenders - becoming one of five approved suppliers. The significance of this event was realised almost immediately when the company received an order from Alfred Health in Melbourne for 185 Volker beds and Parkhouse mattresses with a value in excess of $800k, with a follow up contract expected to be worth in excess of $2m currently in the works. These events solidified the fact that the company's first major contract wins with the Royal Children's Hospital and St Vincent's a year prior were no fluke and that the company's strategy is beginning to deliver returns for investors.

Which takes us to today, and puts you in a good position to now explore Paragon Care's operating environment as well as its opportunities and risks going forward. But first we need to take a closer look at the Paragon Care business model and the markets in which it operates.

The Paragon Business Model

Paragon Care is a distributor/manufacturer of equipment and supplies to the acute and aged care markets. The Paragon advantage is the result of their broad suite of premium products which allows the company to package the range to the architectural, development or procurement teams and benefits the client by allowing them to deal with just one provider, in addition to the improved pricing due to the size of the potential procurement. Similarly, there is an emphasis placed on delivering a high quality of service throughout the sales process and beyond as the company views "each transaction or purchase being an element of establishing and nurturing a relationship that will last indefinitely with all of our customers to ensure each time they need to buy a new piece of equipment, Paragon Care is their first port of call."

Executive Summary

Paragon Care aims to be the preferred supplier of a range of products and services for the Health and Aged Care providers and their clients

The one stop provider advantage and the company's focus on quality service is a significant competitive advantage in the highly fragmented market in which Paragon operates, characterised by many smaller but profitable suppliers (majority with revenue <$20m) with a less diverse product range than what Paragon offers its clients; although a number of very large companies, such as Hills Healthcare and EBOS Industries also operate in the sector (which in the event of Paragon's ongoing success would not preclude the company from becoming a takeover target itself). It is the characteristics of this market that allowed Paragon to build the company into what it is today, as well as the reason why the potential acquisition targets remain plentiful, although acquisitions are not currently a focus for the company.

Across the five businesses of Paragon Care - Axishealth, Iona Medical Products, Volker Australia, Rapini and GM Medical - the product range that the company offers covers a broad spectrum of what clients in the acute and aged care markets require. These businesses, their operations and their respective distribution channels have since been consolidated, namely through the relocation of Iona, Volker and Rapini to the Axishealth site at Nunawading in eastern Melbourne allowing the company to deliver operating synergies in warehousing, logistics and accounts management as well as improving the effectiveness of the combined marketing and sales team. With consolidation achieved the company is now focused on growth and is looking to expand into the Queensland and New South Wales markets while maintaining a focus on their primary source of revenues in Victoria.

In order to understand how Paragon Care can benefit from the plentiful opportunities that will arise in the health and aged care markets it is important to take the time to learn more about each of Paragon's operating divisions. The table below provides a summary of these businesses, though further research should be carried out.

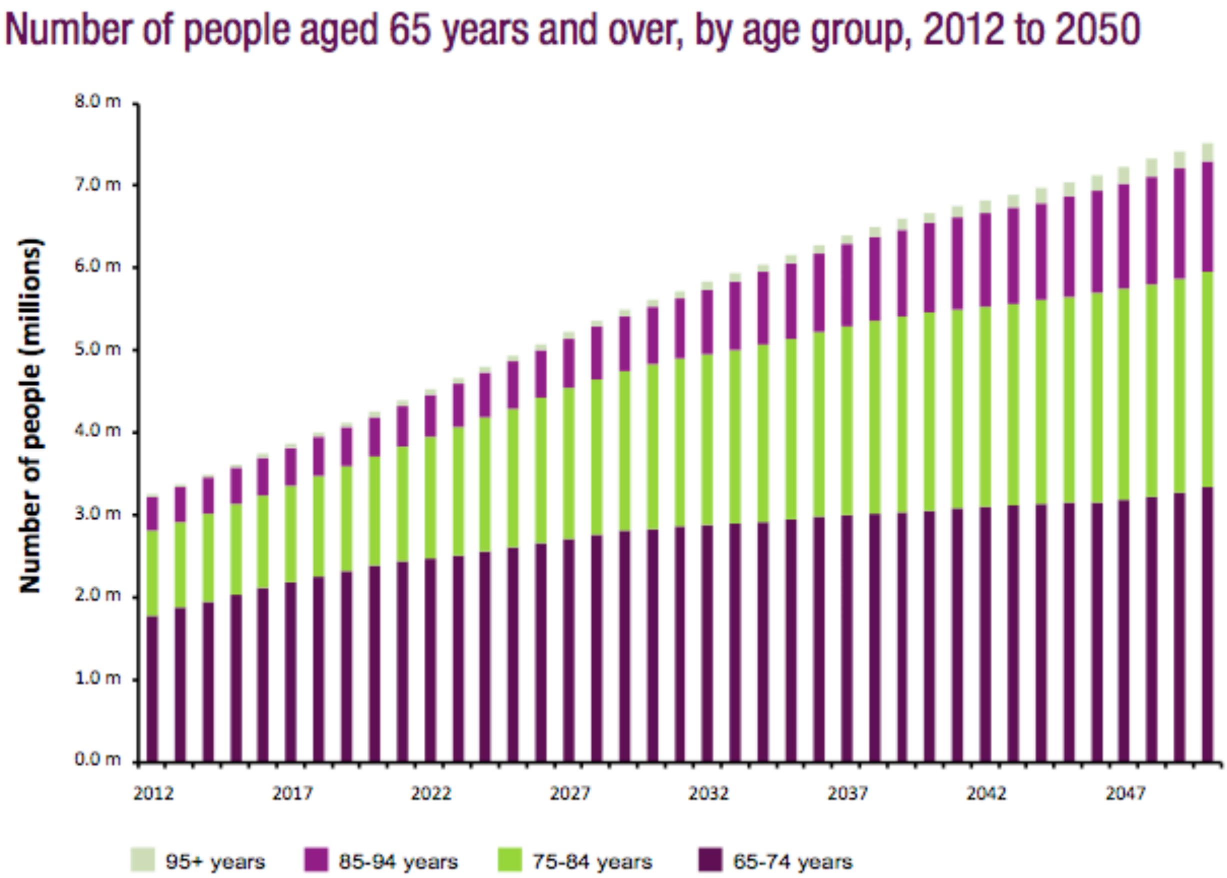
Business	Description	Product Examples
axishealth	Axishealth is a specialist provider of healthcare equipment originally based in Nunawading (where the consolidated entity now operates) having been established in 2002 by Brett Cheong (now owns 8.7% of PGC). Axishealth supplies a range of locally manufactured and internationally sourced durable medical equipment across a broad spectrum targeted mainly to the acute care market. Acquired in June 2009 for \$3.2m in the form of \$2.56m in cash and the balance in shares at an effective issue price of 22c.	 
iona	Iona Medical Products was established in 1997 and supplies bedding, furniture, lifting systems and related products to the aged care market. Iona Medical Products and Volker Australia are combined businesses and were acquired by Paragon in June 2010 for \$2.6m. The vendor retired after the sale of the business.	 

Business	Description	Product Examples
VOLKER Australia	Volker Australia was established in 2006 to distribute the range of beds manufactured in Germany to the acute and aged care markets. The product range has proved particularly popular in recent times with a number of major contract wins related to this suite of products. A quick search on YouTube for 'Volker Beds' will bring up a number of video demonstrations of some of the beds in the Volker range.	
rapini	Founded in 1990 Rapini is a nationwide supplier of chrome, stainless steel, and cool room wire shelving storage systems & accessories. Noted for its patented in-line storage system which provides increased efficiency and use of space of storerooms and available area. Acquired in November 2010 for $2.75m. The founder John Turner owns 9.6% of PGC.	 
gmmedical	GM Medical was founded in 2002 and specialises in the design, manufacture and supply of quality healthcare products to the acute and aged care markets. Acquired in July 2011 for $1.85m. The company manufactures product in Lilydale, Melbourne and has distributors across Australia, including Axishealth and Iona Medical Products. The original founders remain in the business.	 

<u>Demographic Forces + Underinvestment = Supply Constraints</u>

If there is one thing we can all agree on it is that there is money to be made in following the financial decisions of the baby boomer generation. It is difficult to overstate the impact that the baby boomers have on the economy. Their dominance is represented on a demographic chart like a large meal moving slowly through a snake's belly. Their spending habits, investment decisions and lifestyle choices are the primary drivers of economics, politics and business decisions in our country. Having entered what is an incredibly predictable aging transition the Western world is set to see health and aged care become a critical issue and continue to garner more and more attention in the media, politics and every day life.

In 2020 the first of the baby boomers will enter very old age and from there on until 2050 the proportion of the population occupied by the elderly will continue to climb rapidly, driven by increased life expectancy, lower rates of fertility and, of course, the inevitable demographic outcome.



The issue here is not the aging population itself but the fact that even without this strong forecast rise in the number of elderly Australians our health and aged care system is already under significant strain. One only need talk to a worker in the industry - or perhaps be forced to spend time in a hospital yourself - in order to witness the constraints being placed on the system by stagnating supply confronted by rising demand for acute and aged care services. At first glance the issues are distinct from one another; one aspect being the issues of long waiting lists and backlogged emergency rooms in public hospitals, the other being the shortage of beds in residential aged care facilities. But what some observers fail to realise is that the two issues are strongly intertwined, with the rising demand for aged care beds set to only further worsen hospital waiting lists and backed-up emergency rooms.

Take for example a real-life situation that is all too common for many elderly citizens. A frail older adult has a fall and breaks a bone requiring them to spend time in a hospital bed and perhaps undergo surgery. However, upon there initial recovery they are in no position to return to their home, where they are often either living alone or with their partner, but without a carer. In this situation they would ideally be allocated a bed in an aged care facility but due to the shortage of beds this is often not possible. Instead the hospital bed they are occupying now becomes classified as a 'blocked bed' putting further strain on the public hospital system and demonstrating just how intertwined the issues of our aging population and those of the health care system truly are. And if action is not taken to solve the supply constraints the issues are only likely to get worse as the number of real life occurrences of the above example become more prevalent. Ironically, it is the details of this issue that remains key to resolving our problems through smart government policy, which will be reviewed in detail later on in this report.

The positive aspect to the above is that government and industry are more than aware of the issues at hand. There is general acknowledgement that significant investment is required both from government and business to solve the issues that we are already experiencing, as well as to provide the highest quality of care for the aging population. Without doubt a higher proportion of the country's resources will need to be allocated towards the health and aged care sector with Treasury estimating that Australian Government spending on residential aged care alone will rise from 0.6% of GDP in 2010 to 1.4% by 2050.

While there are certainly issues within the current system it is also true that the combination of supply constraints, growing demand, increased government funding and rising investment is highly conducive to creating significant opportunities for businesses that can service the growing market. It is here where the Paragon investment opportunity becomes interesting.

Two Markets, Two Opportunities

As you will have gathered Paragon operates in the acute and aged care markets. There is of course significant overlap between these markets as well as the factors that influence them. However, in order to explore the details of both as comprehensively as possible we need to address them separately. What you will find is that the opportunities in both markets are incredibly enticing.

Acute Care

The major source of opportunity that exists in the acute care market for Paragon Care revolves around the many planned and in-process hospital development and refurbishment projects across Australia. The pipeline for these projects stretches over the next five to six years and provides ample opportunity for Paragon to position itself so as to secure a significant proportion of the investment allocated to fitting out these hospitals with equipment and supplies.

From the perspective of a potential investor it is certainly worth researching as many of these projects as possible, as well as following their progress from planning through to development and completion. The developments that are set to be completed in Victoria alone are enough to provide Paragon with ample opportunity for revenue growth, but as the company furthers its push into the New South Wales and Queensland markets the potential for growth will become significantly larger.

The table below provides information on the total number and size of the health care projects, each at different stages of development, that are going ahead in Victoria, New South Wales and Queensland. Paragon Care are involved in all of them and will be positioning themselves to either secure their portion of the project expenditures as revenue, develop relationships with the relevant clients so as to be in a strong position to win those contracts when the time comes and/or be prepared to step in when competitors fail to deliver to the client's requirements and an opportunity exists for Paragon to pounce.

Size of Project	Victoria	New South Wales	Queensland
<$1m	65	82	65
$1-$5m	59	48	74
$5-$20m	44	30	26
$20-$100m	28	26	26
$100m+	7	13	10

(Information in this table is relevant as of December 2012)

The opportunities in this space are obvious which means it is worth spending comparatively more time on the risks that exist in the acute care market and how they impact on Paragon's performance. Early in FY12 the entire sector began to feel the impact of reduced government spending flowing through to delayed orders by the major public hospitals. Paragon, unsurprisingly, was not spared in the damage. The slowdown took the company by surprise and put an end to the steady growth trajectory that Paragon and its investors had experienced up until that point. If media reports are anything to go by the slow spending in the sector is not over just yet.

The latest set of arguments in the media is over the 'alleged' reductions in allocated funding from the federal government towards the states' public hospitals. The origins of these debates date back to 2010 when former PM Kevin Rudd announced his reform plans for the public hospital system wherein the federal government would assume greater control. At the time he promised no increase in federal government bureaucracy, something the state's felt unlikely and hence fought against.

Tanya Plibersek, Federal Minister for Health, claims that on her figures a number of state's are experiencing slower than expected population growth and hence warrant a slower rate of growth in funding, while ministers in Victoria and SA have come out and accused her of using 'dodgy' statistics. As an investor, this is an example of why you really need to ensure you separate the cut and dry funding decisions from the political back and forth.

To do this let's first look at the size of these proposed cuts. Victorian Health Minister David Davis came out with a range of figures showing the impact that the $107m cut to federal funding will have on a number of the larger Victorian hospitals. And indeed, for the sake of a few paragraphs in a newspaper column or a short grab on the nightly news these cuts certainly sound substantial. For example, both Alfred Health and Austin Health will lose $7.9m in federal funding, while Eastern Health and the Peter MacCullum Cancer Institute will lose $6.8m and $1.2m respectively. But when the cuts to these hospitals are put in to context with their total funding from government grants the relative size of the cuts can be better understood. In relation to the $713.2m in funding that Alfred Health received last year - more than 93% of which came from the Victorian state government - the $7.9m cut does not seem quite as substantial as when it is stated alone without context. The relative size of the cuts to other hospitals are similar (as a percentage of total government funding) as is the case for Alfred Health. Consider further that from 2014 the residential aged care subsidy to many of these hospitals funded by the federal government will actually jump substantially meaning federal funding for these hospitals is likely to increase year after year from 2014, something Tanya Plibersek has made note of in media reports. Clearly, there is an underlying story here - what we are beginning to see is not so much an overall cut in spending allocated to the health care sector, but rather a reallocation of funding away from some services towards other areas that are beginning to be recognised as national priorities, notably aged care.

Whenever any cuts are made to health care it is an easy target for a Liberal state government or federal opposition to publicly call out the federal Labour government. But eye-catching headlines and short, sharp comments to the media from politicians fail to identify the ugly truth: the current funding of government, both federal and state, as it currently stands will not be sufficient to finance the demands that will continue to be placed on the health and aged care systems as the population ages, and to resolve this issue a significant reallocation of resources within the health care system is necessary. Remember that one of the underlying issues causing the subpar performance of many public hospitals across Australia is due to the shortage of beds, at least in part the result of elderly patients who should rightfully be allocated a place in a residential aged care facility. Thus by reallocating funding away from various areas within the health care system towards such things as aged care reform and encouraging significant investment by industry in the development of more aged care facilities the government will be able to indirectly resolve some of the issues that may not appear at first glance to be the direct result of the aging population. Of course, opposing political forces won’t identify this for us, instead we will need to look at the financial statements of hospitals and comments from hospital executives, industry participants and suppliers to the industry to truly understand where the funding is being allocated within this sector.

Now don’t get me wrong, I am not attempting to claim that the cuts to hospitals like Alfred Health and Eastern Health are insignificant or even justifiable. It is never nice to see that cuts are being made to any service that is intended to improve or support the health of Australians. I acknowledge that these spending cuts will likely result in job losses and, perhaps in some cases and largely depending on which hospital and which executive you listen to, some services will be negatively impacted by these decisions. But that is not the primary focus of this report. Instead I am trying to demonstrate a realistic perspective to what is occurring in this space, and in particular, how it is likely to impact the investment opportunity that is Paragon Care. Importantly for Paragon, these very same hospitals that are experiencing unexpected cutbacks to their federal funding (but will experience increases in their residential aged care subsidies provided they undergo significant refurbishment and ongoing investment) are still very much focused on delivering their substantial project development plans. Eastern Health, to provide an example from the hospitals mentioned above, is proceeding with the $447.5m Box Hill redevelopment project, the largest in suburban Melbourne’s history, including the new critical care unit at Maroondah Hospital, expansion of sub-acute services at Angliss Hospital and an upgrade of Healesville & District Hospital. This is but one example of the many planned hospital development/refurbishment projects planned throughout Australia, many of which Paragon will benefit from provided they can continue their current success in securing major contracts with the larger hospitals in Victoria and in time, New South Wales and Queensland.

Aged Care

The wonderful opportunities available to Paragon in the acute care market are well known, with both the timing and size of the contracts in the pipeline at least reasonably foreseeable and therefore, one would assume, expected by the market. But it is the aged care sector where a number of equally significant opportunities exist and based on a number of recent policy developments it looks likely that the wave of investment that is required in this space may soon get underway.

Based on comments from workers in the public-funded aged care services space, as well reading through relevant media in industry publications, there are already serious supply constraints not just in residential aged care facilities but across the board in aged care services. Government have long been aware of these issues and the impending crisis that would occur if an effective plan is not outlined and implemented. For those in the industry, including Paragon Care, a finalised aged care reform policy has been something they have been waiting to see for years. And on July 1st 2012 the Federal Government put in place such a policy.

It is worth your time as a potential investor in Paragon Care to read through the government's *Living Longer Living Better* report. This policy implementation is incredibly important both to Paragon Care, other companies in the sector and our ability as a country to deal with the issues and opportunities that will arise as the population ages and demand for associated services ramps up. For the sake of this report we will focus on the specific details related to and impacting on the performance of Paragon Care.

Firstly, it is important to be aware that from July 1st 2012 the Federal Government assumed operational responsibility for the Home and Community Care (HACC) Program, except in Victoria and WA, where in these states HACC will continue to be a joint Federal-State funded program until otherwise agreed. HACC is a program that involves the funding and operations of a number of services designed to provide for the frail, disabled and their carers. While you may not have heard of HACC, you have probably heard of some the services included in the program such as Meals on Wheels, Community Transport and nursing requirements provided in the client's home. It is an incredibly important program and the demands placed on it are only likely to increase. One of the primary reasons for the federal government assuming responsibility for HACC (outside of Victoria and WA) is to free up funds by consolidating services and delivering synergies in order to redeploy those funds in what the Federal government believes will be a more efficient manner.

This initiative in itself is generally quite positive and is reflective of the government's intentions to focus heavily on reallocation of costs as a means to fund the services and investment required. But in the short term it creates the potential for disagreement and uncertainty in the sector, the kind that is inevitable when a large number of organisations and government employees are told their services are under review until 2015 when the government will decide who to fund and how they should operate. While Paragon is not directly impacted by these developments there is the possibility that uncertainty in related services could flow on to Paragon's customers, however it is encouraging to hear that Paragon have not seen any negative impact from the transition of responsibility for HACC and by all reports it has been business as usual since the transition was made.

The impact on Paragon from the policy initiatives outlined in *Living Longer Living Better* will be far more significant. Practically every initiative outlined in this report is incredibly encouraging for Paragon both for the certainty it creates for the sector (which has been long awaited) and for the impact the policies are likely to have on investment and spending activity by Paragon's customers.

Under *Living Longer Living Better* the aged care reform package provides $3.7bn over five years. The largest allocation of funds - $955.4m - is to encourage and support people to be able to stay in their homes for longer. This is entirely understandable for a number of reasons. Demographically speaking the majority of baby boomers will reach a stage where they require low level care, which can be provided in the comfort of their own home, before they are in a position to require a bed in a residential aged care facility. Similarly, the government is well aware of the shortage of beds that already exists hence any initiative that reduces the strain on the system is to be encouraged. At some stage the wave of older individuals requiring residential care will exceed the potential supply (unless significant investment is carried out, more on that in a moment) and the government will be forced to fund initiatives such as this to allow these people to be cared for at home. It is in fact quite easy to argue that the point in time where demand exceeds supply has already arrived and that the opportunities that will arise for suppliers like Paragon Care to provide to clients living at home can be expected to occur in the immediate future. The products that Paragon would sell to clients living in their own home are the exact same range of products that would be sold to a residential aged care provider. As an investor it is both encouraging and exciting to know that the management team of Paragon Care are well aware of this quickly approaching opportunity and have intentions to adopt a strategy to position themselves to benefit from this government-supported rush of demand when the time comes.

While as many people as possible are supported to be able to stay in their homes the government intends to encourage - through the allocation of $660.3m - the development of more residential aged care facilities as well as to improve the quality of the existing providers by encouraging significant refurbishment. The primary means of achieving this is through increasing the subsidy available to providers in respect of residents who cannot meet the entire cost from $32.58 to an estimated $52.84 ($486.9m total). According to the report: "This recognises the true cost of providing aged care accommodation and will secure further building of facilities and provide a greater level of certainty for the industry."

While the size of the funding and the 60% increase in subsidy is very encouraging it is the details regarding timing of these implementations that are most important to investors in Paragon. The aged care providers who are deemed eligible to receive the increased subsidy will be able to do so from 1 July 2014. To be eligible a provider must develop a new facility or undergo 'significant refurbishment' to their current facility after 20 April 2012, meaning it is likely that the investment activity encouraged by this policy initiative will get underway well before the actual funds start flowing as doing so would mean the provider can receive the subsidy as soon as the funds are made available.

The Aged Care Financing Authority (ACFA) established as part of the aged care reform package will provide independent advice on pricing and financing issues and represent taxpayers, aged care providers, consumers and aged care workers. This body, which consists of independent experts from industry and consumer groups, as well as government representatives, was tasked with issuing the government their recommendation on the definition of ‘significant refurbishment’ and handed over their recommendation in October. The recommendation is as depicted in the image below:

‘A refurbishment is a ‘significant refurbishment’ if it meets the following criteria:

a. the refurbishment includes alterations, updates, upgrades or other improvement that mean that the aged care home after refurbishment is significantly different either in form, quality or functionality than before refurbishment, the refurbishment predominantly provides benefit to residents and provides significant benefits to supported residents;
b. the costs of the refurbishment would be capitalised consistent with Australian Accounting Standards– that is, they are either capitalised as structural improvements where they are integral to the structure or depreciated if they relate to fixtures, fittings or anything removable intact[1];
c. the refurbishment involves a significant refurbishment to a minimum of 40% of the beds in the facility;
d. the percentage of beds available for supported residents as a proportion of the total beds in the facility is not reduced as a result of the refurbishment; and
e. the refurbishment is of (or greater than) a prescribed minimum monetary value.

We are now awaiting confirmation on this definition from government, which we can reasonably assume will simply confirm that recommended by the ACFA. But more important than the finer details of the definition is the fact that very soon it will be in place which will remove the uncertainty that has hovered over the sector for some time. Up to this point the attitude of many of the aged care providers, and indeed Paragon’s customers, has been a ‘wait and see’ approach. Now that the policy is being finalised and the investment environment can be accurately and confidently forecast into the future we may be about to see the beginnings of the significant levels of investment that the aged care sector is in desperate need of conducting.

The final important development that is likely to occur as a result of aged care reform relates to the beginning of what could turn out to be a powerful trend amongst residential aged care providers. This trend is a move from a focus on low cost, lower quality equipment to premium, high quality and more durable products. In the past - due likely to the position that the aged care providers found themselves in with the weak purchasing power and low consumer awareness levels of their clients, as well as the cost of capital constraints - there have been many reports of subpar levels of service and accommodation within some aged care facilities. One of the side effects of this has been the emphasis by many of Paragon’s potential customers on lowest cost product, rather than the more expensive but significantly higher quality range that Paragon can provide. Evidence of this has been seen by the Paragon team, who regularly ask their customers if they highlight the equipment that their facility is fitted out with on the tours they run for prospective clients and, on almost every occasion in the past, the answer has been ‘no’.

But if the observations of the Paragon team are anything to go by this is beginning to change and the impact could be incredibly beneficial to Paragon’s future performance. According to the Paragon MD and CEO, Mark Simari, there has been an observable shift “whereby facilities are now questioning the quality of the products they buy, assessing the long term value by investing more upfront as compared to investing less upfront but having to replace that equipment item much sooner.”

And the intentions of the government's aged care reform package will only provide further momentum to the shift from low cost to high quality that is now underway. As has been mentioned *Living Longer Living Better* will encourage significant refurbishment of the facilities in order to improve the quality of service for the residents. Further, the policy aims to encourage competition in the sector by increasing consumer awareness and providing a platform for accurate and fair comparisons of providers through the eventual roll out of a ranking website similar to 'My School' where the providers will have their relative performance clearly laid out side by side with their competitors. The residential aged care providers are well aware that they will have to differentiate themselves as the rush of new prospective residents come into the market which bodes well for Paragon's competitive position as a provider of premium quality equipment.

The table below displays the currently planned projects, all at various stages, that represent opportunities for Paragon Care in the aged care sector. If the information provided above proves correct we can reasonably expect the number of projects to increase, perhaps substantially, in the short to medium term.

Size of Project	Victoria	New South Wales	Queensland
<$1m	10	25	6
$1-$5m	13	33	16
$5-$20m	21	25	10
$20-$100m	5	20	8
$100m+	1	5	-

(Information in this table is relevant as of December 2012)

<u>On The Issue Of Government Funding and Policy Implementation</u>

Like any company operating in the healthcare sector Paragon Care is directly and indirectly influenced by the funding and policy choices of Federal and State governments. It is therefore warranted to take a closer look at the issue of funding and policy implementation.

The issue of government finances has hit the mainstream in recent years and Australia has generally managed to only garner attention in a positive light, with reports often outlining the shining example that Australia is in comparison to its peers thanks primarily to the mining boom. That said the views of investors on the future of government finances in Australia ranges from largely positive to decidedly bearish. The issues here impact not only Paragon but virtually every company in the healthcare sector. Everyone will have an opinion and the forces at hand are far too complex to outline in detail here. Instead, you will need to form your own opinion through independent research. But I will encourage you to look solely at facts and approach the issue without prejudice to prevent reaching a conclusion driven primarily by confirmation bias. This topic is far too often plagued by baseless comments from politicians, fear provoking noise in the media and a failure to really look at the numbers at hand. Instead, during the course of your research, consider such factors as the impact of a slowdown in the mining sector, whether ongoing increases in Chinese infrastructure spending will stretch out the mining boom, how Australian government revenue will be impacted by ongoing growth in emerging economies and if this growth is sustainable, the future of interest rates, the political vs economic imperative of achieving a surplus and the areas of the economy considered priorities by government that will be the first to receive funding and which areas will experience cuts.

The focus for this report will be on how the government is likely to approach the issues that exist in health and aged care funding. If you happen to keep a close eye on developments in this sector you will have noticed a number of listed companies being significantly impacted by dramatic changes to government policy. If you take a closer look you may be able to identify a trend that will continue for years to come as government is forced to deal with the aging of the population.

As it stands today we have a serious dilemma. The health and aged care system does not have the capacity to handle the gradually approaching increase in demand, but government is not exactly flush with money and the political environment is not at all conducive to an across the board increase in spending in the healthcare sector. As was discussed earlier in such a situation the only solution is dramatic reallocation of funds and resources away from areas deemed lower priority towards areas of higher priority, one of which is undoubtedly aged care, with Prime Minister Gillard's aged care reform package a primary example of this.

Government on both sides are aware of the issues that the aging population brings with it and decisions will be made to best position Australia to deal with those issues. But in doing so, and as unfortunate as it is, other areas of the economy that receive government funding will likely receive less funding. At times, and as we have seen, these cuts will occur in the healthcare sector. Any politician worth his weight will jump on the opportunity that an opposing government cutting health spending represents and as such developments like these will continue to make headlines and we are unlikely to be spared from public arguments such as those ongoing between David Davis and Tanya Plibersek*. But we need to recognise that this reallocation of spending is vital to positioning our economy to deal with the changes that are occurring and we will never agree on where the cuts need to be made.

Relieving the strains in the health care system by increasing investment in the aged care space will remain a national priority because of the way in which these issues are interrelated. Low levels of capacity in the residential aged care sector mean that those who should rightfully be allocated a bed are either forced to live at home with inadequate care, with a family member or carer who unselfishly sacrifices so much to support their loved one, or in a hospital, creating a 'blocked bed' as was explained earlier. If we can encourage investment in the residential aged care sector then more beds will be available and the strains evident in too many public hospitals across Australia can be reduced. This does not solve all of the problems but it is certainly part of the solution and as long as government works with industry to devise a suitable plan to deal with the issues that face us then a satisfactory result for the economy is entirely within our reach. Regardless of your political persuasion the implementation of *Living Longer Living Better* is evidence that the current government is equipped to handle this issue effectively, which is encouraging for investors in companies that operate in the sector as well as to Australians in general.

While a combination of common sense, industry knowledge and clever planning is likely to ensure that the issues of health and aged care will remain a national priority and thus attract the required funding there is, perhaps unfortunately, a more powerful force at hand here - political motivation. As the population ages the elderly, or soon to be elderly, will become a greater proportion of the total voting population. While it is unlikely to resemble the culturally relevant movie *The Hunger Games* where the older generations exercised an inordinate amount of power over the younger population, it is undeniable that policy decisions in Australia will increasingly be influenced by the wants and needs of the aging baby boomers. And where the votes go, so too do the politicians.

*This argument between Davis and Plibersek is a good example of what we are likely to see in the years ahead as cuts and reallocation of costs are made within the healthcare sector. Opposing parties will use these cuts as an opportunity to point out how cruel and barbaric their opponents are. This particular argument involves accusation of the use of 'dodgy' figures and attempts to cover up their own spending cuts by blaming someone else. For the record the most likely explanation is that the population growth of Victoria is below what was predicted by the ABS, and hence the funding from the Commonwealth that is tied to this growth has been reduced in proportion. Tanya Plibersek is correct in stating that Federal funding will increase for many Victorian hospitals year on year as a result of the increase in the residential aged care subsidy from mid 2014. The question over whether or not David Davis had money available to him and simply chose not to use it is perhaps not really worth following up, but what it does highlight is the importance for investors in this sector looking through the political debates and media driven noise at the actual facts and figures relevant to the situation.

The New Paragon

2012 was an incredibly important year for Paragon Care and the events that transpired over the period have resulted in a number of significant changes occurring at the company. There have been positive developments across a number of areas including capital structure, competitive position, cost base and sales activity, all of which result in the company sitting in a strong position for the future.

In early 2012 the Paragon share price was being weighed down by the impact of potential dilution from the exercise of a significant number of options and conversion of a $3m convertible note. These issues have since been resolved and investors can now look forward with greater certainty over the capital structure. A close look at the FY12 annual report will reveal that Paragon actually committed a minor breach of their debt covenants. Pleasingly for investors the events subsequent to that breach have been largely beneficial for Paragon. Since that time Paragon has been granted a friendlier covenant test, consolidated their bank bills resulting in a slightly lower interest rate - the extent of which offsets the increase in the facility fee that the initial breach was going to deliver - and received an automatic rollover of one of their loans that was going to expire in 2013 to now expire in 2015.

The company is focused on furthering its competitive position by continuing to win significant contracts with some of the largest hospitals and providers in the industry as well as expanding into New South Wales and Queensland. While spending in Paragon's key markets remains below normal levels the company has spent this time developing important relationships with clients and increasing the profile and awareness of the Paragon brand so as to benefit when spending in the sector inevitably picks up. It is testament to the Paragon team that even in the current environment the company looks likely to roughly equal or surpass their previous record profit in FY13 based on recently provided guidance.

Before the dramatic slowdown that occurred primarily in the second half of FY12 Paragon had experienced relatively unimpeded growth. The slowdown came as a surprise for many, but management should be commended for the manner in which they responded. Going forward Paragon Care is operating on a reduced cost base that is much better suited to the weak spending environment currently occurring in the sector. Guidance given at the recent AGM for FY13 is an example of this, and demonstrates the ability of management to react quickly to a change in the environment to ensure a favourable outcome for shareholders.

As a distributor/manufacturer the exclusive distribution agreements that Paragon maintain for the product range they market to clients are incredibly important. It is this range sourced from premium international brands that have been the backbone of the most recent major contract wins. Encouragingly for investors Paragon's relationships with its suppliers are extremely strong with all agreements ranging from 3-5 years at the current time. The brands distributed by Paragon are an integral part of the company's competitive advantage as customers are able to receive high quality equipment that not only provides their own clients with a high level of service but also complies with tight occupational health and safety requirements which have become of greater importance to customers in recent years due to regulatory changes in this area. By all reports the suppliers are very satisfied with the relationship with Paragon and management intends to keep it that way with the company policy being to monitor these relationships closely and to act to secure these agreements long before they approach expiry in order to prevent competitors from potentially gaining access. Just as maintaining these relationships is integral to the company's ongoing success so too is the ability to secure new distribution agreements for additional premium products to increase the attractiveness of the Paragon offering.

Around two years ago Paragon began offering their clients in the acute and aged care sectors a full service and maintenance offering which has since grown to be a small but relevant contributor to the business. Management believe this division has significant upside from current levels and are extremely pleased with the penetration they have achieved to date. Importantly, Paragon offer their clients preventative maintenance programs not only for their own products but for the client's entire product range. This enables Paragon to not only secure an additional source of revenue but it positions the company close to their clients meaning they are in a prime position when there is a need for capital equipment to be upgraded or changed. Continued growth in this division, in which margins are strong, will contribute to improving margins across the company.

As it stands today Paragon's back order position is significantly higher than this time last year and in a strong position going forward. Quoting activity is also significantly higher and the project pipeline gives confidence that the company can achieve growth both in FY13 and beyond. It is also worth noting that the most recent major contract wins have been for beds, which are typically the first order in the cycle from which other products then follow. The real potential for Paragon Care remains to be in the years ahead although deliverance of FY13 guidance means the current price calls for a closer look into this company and for investors to form their own opinions. Management are expecting significant sales and earnings growth in future years and as the hospital development projects and investment by the aged care providers begins to ramp up the company will have numerous opportunities to deliver substantial growth for its investors. Like any business there are many factors that are integral to the success of Paragon Care, but as a shareholder there is one development in particular to keep an eye on.

The Key To Success

The key to the success of Paragon Care for shareholders is the ability of the company to continue to win major contracts with the large healthcare providers. While this of course seems obvious there are numerous reasons why this is incredibly important for the ability of Paragon to grows it sales and revenues as well as to generate returns for shareholders via share price appreciation and, in time, dividend payments.

The first reason is due to the winning of major contracts acting as confirmation that the Paragon Care business model is successful. Winning these contracts means that management's vision is being realised and that Paragon's clients find value in what Paragon offers over and above what Paragon's competitors can provide. When major health providers like Alfred Health and St Vincent's choose Paragon it is a very positive sign for both the company and its investors.

Second, the winning of major contracts substantially de-risks the operations of Paragon. The reason for this is that it effectively provides Paragon with a greater certainty of revenue and removes the impact that a surprise drop in revenue outside of the major contracts could negatively impact the performance of the company. For example, in mid 2011 Paragon signed a supply agreement with St Vincent's Health to supply 400 beds between August 2011 and early 2014. Due to major contracts like this one, in addition to others with Alfred Health and Mercy Health, at the beginning of FY13 when management sat down to finalise the budget, out of their total forecast revenue for the year 25% was to come from this confirmed source of revenue. Whenever the proportion of the total forecasted revenue that is covered by certain/agreed upon revenue increases, the overall risk to the company failing to meet its forecasts is substantially reduced. And the only way to do this is to win more and larger major contracts (The relation this has to management's guidance for FY13 is important and will be explored in greater detail in a moment).

Increased major contract wins will also have an indirect positive impact on margins in addition to the direct impact through growing revenues. The more major projects and large tenders that Paragon can secure the more opportunities there will be for Paragon to grow its higher margin service and maintenance division. As previously mentioned strong growth in this division will be highly beneficial to the company's margins and therefore the attractiveness of the business. The larger and more numerous the project wins the more opportunities will exist for growing the service and maintenance division.

As has been emphasised the ability of the company to continue to win major contracts depends on its ability to differentiate itself from competitors as well as to offer an attractive service to the larger operators in the sector. As an investor, in order to form an opinion on the likelihood of this occurring you need to understand what it is exactly that differentiates Paragon and provides the value that would entice customers to choose the Paragon offering when a host of other competitors are also fighting for the same contracts. While this report attempts to explain why this is the case, and confirmation is seen in the winning of major contracts, the best explanation of the value Paragon delivers its larger customers comes from the MD/CEO of Paragon, Mark Simari, who in the example below recounts the delivery of a contract with Royal Children's Hospital in Victoria:

"Through our negotiations with Lend Lease we were able to devise a detailed project plan for them (Royal Children's Hospital), detailing exactly when they needed to place their orders, the dates when products would arrive on site for them as well full bar coding details (supplied by Lend Lease and facilitated by Paragon Care) and product placement program. All in all, we delivered 1600 line items to them which equated to revenue in excess of $1.8mil. We believe this will provide significant opportunities for us as other developments of this size occur throughout Australia."

Key Risks

What follows is a brief explanation of some of the risks involved with an investment in Paragon Care:

- A failure to win major contracts. Having outlined how important it is for Paragon to continue to win major contracts it is only logical that a failure to do so would pose a serious risk to the performance of the business. The winning of major contracts that began in mid 2011 is a very positive sign as it suggests that the company's model is successful but investors need to be be aware of any change to this trend, whatever the underlying reason may be. Keep an eye out for new contract wins as confirmation of ongoing success as well as further de-risking the company's growth profile going forward.
- Further shake up of federal and state control or ongoing slow spending due to friction/political changeover in the sector. As has been explained from July of 2012 the federal government assumed responsibility of HACC in all but two states. While it is unlikely over the short to medium term there is always the possibility that further consolidation/movement in this area occurs. Similarly, now that these changes have been made the ongoing revision of these services and battle for funding may cause spending to remain lower than otherwise due to uncertainty, although the conservative outlook and reduced cost base of Paragon means the company is well prepared for this. Changes in government also cause short term periods of uncertainty and delayed spending but do not impede the longer term outlook.
- Falling AUD. This is another macroeconomic topic that warrants a report of its own. Paragon imports its products from a range of countries and thus is exposed to movements in the currency. The issue can be broken down into two parts: 1) what is the likelihood of a significant fall in the AUD? and 2) if the AUD were to fall, what is the impact on Paragon?
  Firstly, it is debatable whether or not the AUD will experience any dramatic fall over the short to medium term. Commentators have been anticipating a drop since July 2011 but the AUD continues to push higher still sitting near record highs. As central banks across the globe expand their balance sheets and simultaneously see the AUD as a sensible form of diversification the AUD may very well remain high against the expectations of many. Recent developments out of the US suggest the Federal Reserve will keep the printing press running until at least 2015 which weighs on the US dollar and while the RBA has been lowering rates the interest rate differentials between the near 0% rates of the US and Japan and what we have here in Australia means the carry trade is still very much on. Even if the AUD does experience a strong decline in one, two or three years time when the factors currently driving its strength dissipate, from what levels will it be falling? $1.10? 1.20? $1.30 perhaps? From those levels, what would a 20%, 30% or even 40% fall in the value of the dollar look like relative to where it stands today? Of course a crisis out of China, Europe, Japan or even here at home could mean that none of the above will remain applicable, hence the need to form your own view.

But what would the impact on Paragon be if the AUD were to fall? Firstly, the company hedges their exposure over a 12 month period and for the delivery of major contracts known ahead of time. Secondly, around 30% of the company's revenue is derived from Australian made products, acting as a natural hedge for the company. And if we are to consider the potential impact of a falling AUD on Paragon, as an importer of premium products, we must also consider the upside if the AUD were to continue its current uptrend.

- <u>Ongoing cuts to public hospitals.</u> This issue has been in the news lately and certainly poses a risk. Remember though that the FY13 guidance takes this environment into account and the earnings in the current year will be well below the real potential operating profitability for Paragon to achieve in the years ahead. The focus remains on winning the contracts that result from the major re/development projects that are scheduled over the next five or so years.
- <u>Delays to major project developments.</u> The extent of the projects getting underway and the significance that even a few of these contracts could have for the sales growth of Paragon from current levels means that a small number of project delays poses a relatively small risk. Nevertheless it is something to be aware of.
- <u>Ability for management to respond if conditions become markedly worse.</u> After the slowdown that occurred in 2012 management responded by adjusting the cost base of the company, which in conjunction with improving trading conditions and the delivery of a couple of major contracts, means that investors can expect a profitable result to be registered in FY13. Management then used the weak conditions of 2012 as a base when budgeting ahead, which in the face of improving conditions looks presently to be a fairly conservative assumption. The fact remains though that there is no guarantee that conditions will continue to improve, nor that they will not deteriorate, perhaps beyond the levels of what occurred in 2012. It should be stated that management do not believe this to be the case and this report does contain reasons and arguments for why this may be unlikely to occur, but it is a risk nonetheless and one investors need to be aware of. If in the event conditions did deteriorate to such an extent then the ability of management to make adjustments as effectively as they did in FY12 once more in FY13 would come in to question. What this highlights is the importance for an investor to keep a close track on both the company's performance (through quarterly reports and updates) as well as general trading conditions within the sector.

<u>Management's 'Skin in the Game'</u>

It is encouraging for investors in Paragon Care to know that management of the company have considerable skin in the game in regards to their own significant holdings of shares in the company. Two of the three original directors, Mark Simari (CEO/MD) and Shane Tanner (Chairman) own 3.8% and 5.2%, respectively, while the two largest shareholders are the vendors of Rapini and Axishealth.

Key Shareholder Statistics:

The Top 20 shareholders represent 59.10% of the issued capital

Board of Directors and associates represent 18.17% of the issued capital

Our substantial shareholders are:

Mr John Turner	(Founder of Rapini Pty Ltd)	9.62%
Mr Brett Cheong	(Executive Director of Paragon Care)	8.77%
Mr Shane Tanner	(Chairman of Paragon Care)	5.27%
Joe Wolfson	(Posse Investment Holdings)	5.60%
Interprac Limited		5.20%

A previous substantial holder, Tim Blanche, recently sold down his 7.7% holding in the company largely through an off market transaction to a private investor. Blanche ceased to be an executive director in June of 2012 and according to his LinkedIn profile had moved on to other ventures, and with a substantial amount of money locked up in Paragon shares it is understandable that he wished to liquidate and move on. Interestingly, what this demonstrates is the built-in incentive for the substantial holders of Paragon shares, as original founders and still integral players through their operational roles within the company, to ensure that Paragon delivers its shareholders with strong growth over the medium to long term.

Consider the position of the original vendors who still have a significant amount of value tied up in shares of Paragon Care. While the flagged initiation of dividend payments in FY14 will provide these individuals with a source of income on their holdings it is reasonable to assume that at some point in time they will wish to exit the business and to perhaps liquidate at least a portion of their holdings. Given the low levels of liquidity in PGC shares at the current time it would be virtually impossible to sell a large holding at anywhere close to fair value without placing significant downwards pressure on the share price. Case in point was the recent off-market sale of Blanche's shares to a private investor. Consider also that from the current market cap of PGC, and thus the current market values of the vendors' holdings, there exists the potential to drive a significant increase in the value attributed to these holdings over the next few years. In this case, the best solution for these individuals is to work towards putting Paragon in a strong position to generate growth over the years ahead so that the share price reflects the fact that value has been created.

From the perspective of a shareholder one must understand that Paragon's future performance is inherently uncertain and that while the outlook may look promising, and earnings may indeed grow, there is no way to predict the performance of the share price. Nevertheless it is enough for investors to know that with strong earnings growth the share price will, in time, react accordingly and that due to the substantial holdings of those in critical positions within the Paragon team that management are well incentivised to drive shareholder friendly returns through the growth and ongoing success of the company.

<u>On Guidance and Management's Conservative Outlook</u>

Investors in Paragon should focus the majority of their research on the potential growth in revenue and earnings in FY14 and beyond as it is here where the most significant potential exists. But because the guidance provided for FY13 earnings appears relatively attractive it is worth exploring this figure, as well as the company's general views on the current climate, to better understand the direction of the company.

Firstly, if Paragon can achieve earnings towards the higher end of the $0.7-$1.2m NPAT forecast given at the 2012 AGM then they will achieve a record profit for the company. This is impressive given the current climate is far from ideal and the majority of the substantial investment projects in both major hospitals and residential aged care providers are yet to truly ramp up as they will in the years to come. It is based on this guidance that the current market cap of around $6.5m may look quite interesting to an investor looking for a satisfactory margin of safety to gain exposure to a company with strong growth potential.

Management have been very conservative in setting guidance for FY13 with the recent slowdown being taken into consideration. The lackluster level of spending in FY12 has been used as a base and the cost structure has been devised to suit such an environment. Furthermore, at the beginning of the year the company split their revenue forecasts into two parts: revenue from secured sources and unknown revenue. Due to their recent success in winning major contracts 25% of total forecast revenue will be derived from secured sources, the majority of which will be delivered in the first half of FY13 resulting in a higher weighting of earnings being recorded in this half. As is evidenced by the total revenue forecast assuming only minimal growth over FY12, management have been quite conservative when it comes to the ‘unknown revenue’ portion of their forecast. What does this mean? It means that given the base case scenario of Paragon’s customers continuing to purchase on an as required basis, that the forecast guidance for FY13 remains highly achievable as this is the environment that was assumed when guidance was set. Encouragingly for investors the company is working on further major contracts for the second half which were not taken into account in FY13 guidance but that management are confident of being successful. This is just further confirmation of the importance of keeping an eye out for additional major contract wins in order to see not only growth in the years ahead but an impressive result registered in the current financial year.

Financials and Investment Thesis
According to guidance provided Paragon will achieve sales of between $16m and $17m in FY13 with earnings coming in at between $0.7-$1.2m for the year. Gross margins should remain strong, a result of both the premium product line and the current environment for Australian importers. In the September quarter Paragon posted a very strong operating cash flow surplus of $318k, driven by the delivery of major contracts and a general improvement in trading conditions. The December quarter should be similarly strong thanks again to major contracts being carried out. New products have also sparked interest from customers which poses well for the second half.

The company is repaying its bank debt at an accelerated rate and provided strong operating cash flows continue this reduction in bank debt will substantially de-risk the company as well as have a beneficial impact on earnings through the reduction of finance costs. The developments regarding bank debt (outlined previously) are encouraging and will reduce the company’s current liabilities with the rollover to 2015 rather than expiry in 2013. The non-current borrowings of the company are owed to a private investor with repayments beginning in June 2014 and extending out to 2016 while the company’s cash balance stood at $1.5m at the end of the September quarter.

As Roger and the team would put it, when considering any investment you need to look for a margin of safety that satisfies your own approach to investing and, at least for me personally, I like that margin of safety to be large enough that its existence is obvious even off a back of the envelope type of calculation. If earnings for the current financial year were to come in around the middle of guidance then at recent prices PGC is trading at a PE multiple of around 7 for FY13, with management expecting to close in on the $20m revenue mark in the short term, “significant” earnings growth expected to occur in the years beyond and the initiation of dividend payments from FY14. In this regard Paragon Care satisfies my own personal requirements as an attractive investment proposition. But as with all investments there are numerous risks and uncertainties surrounding the future performance of Paragon Care, some that have been discussed in this report and others that may have been overlooked or are not entirely apparent at the current point in time. Hopefully this report is helpful in acting as a starting base for your own research should you wish to look further into this company. While a rising tide may lift all boats, and Paragon Care is certainly positioned in a sector that is about to see the tide come in, that is in no way a guarantee of strong performance. However, based on the information provided and the tailwinds set to occur within the acute and aged care markets Paragon Care certainly warrants a closer look and independent research by investors.