

WEGO 威高

CONSCIENCE | INTEGRITY | LOYALTY

The Leading Total Solutions Provider in the PRC Medical Devices Sector

Investor Presentation

2018 Annual Results

March 2019

Highlights

Revenue growth: For the year ended 31 December 2018, we continued to record positive top-line growth, with revenues increasing 40.0% y-o-y to RMB8,809m

- Excluding Argon, our revenues increased 19.9% y-o-y to RMB7,547m due to strong performances in both the orthopaedics and pharma packaging segments
- Following the acquisition of Argon, we have managed to increase our diversification in both product and geography
 - Interventional products increased from 2.4% in 2017 to 16.4% in 2018
 - Non-China revenues increased from 5.3% in 2017 to 18.8% in 2018
- In addition to top-line growth, our gross profit (excluding extraordinary items)¹, EBITDA and net profit attributable to owners of the Company (excluding extraordinary items)¹ recorded significant gains in 2018 at RMB5,475m (+37.1% y-o-y), RMB2,773m (+46.4% y-o-y) and RMB1,587m (+18.6% y-o-y) respectively

Margin evolution: While our gross margins (excluding extraordinary items) decreased slightly from 63.5% in 2017 to 62.2% for the year ended 31 December 2018, our EBITDA and net income (attributable to owners of the Company and excluding extraordinary items) margins expanded from 30.1% and 17.4% to 31.5% and 18.0%, respectively

Significant increase in cash generated from operating activities: For the year ended 31 December 2018, we generated RMB2,219m net cash from operating activities, representing a 75% y-o-y increase compared to 2017, fully reflecting the strength of Weigao's business

Highlights (cont'd)

Dividend payout: For the year ended 31 December 2018, we are proposing a total dividend of 10.1 cents per share, representing 30% of our net operating profit and a 1.2 cents per share increase compared to 2017. Since our listing in 2004, we have continued to fulfill our commitment to a dividend payout ratio of c.30%

Deploying leverage: As a result of our acquisition of Argon in January 2018, our gearing ratio increased to 36.8%¹ as of 31 December 2018. Despite this, we remain in a very healthy financial position and will continue to adhere to our stringent financial management policies

Argon updates: Through Argon China, Argon has made significant strides in establishing its own China operations

- Recruited an experienced GM, regional sales managers and operation/quality assurance/finance managers
- Successfully transferred 15 product registrations to be registered under Argon China

Selected as one of the Best Managed Companies (BMC) in China: In March 2019, Weigao was selected by the BMC panel, comprised of more than 40 experts from Deloitte, Bank of Singapore, the Business School of Hong Kong University of Science and Technology and Harvard Business Review, as one of its Best Managed Companies in China for its advanced management ideas and excellent business performance in its inaugural awards program



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Section 1

2018 Financial Results



Results Summary

Key financial performance

In 2018, we have continued to solidify Weigao's market leading position as the largest manufacturer of medical consumables in China

RMB million	2018	2017	YoY change (%)
Revenue	8,809	6,293	40.0%
Weigao (ex-Argon)	7,547	6,293	19.9%
Argon	1,262	-	-
Gross profit (excluding extraordinary items)¹	5,475	3,993	37.1%
<i>% margin</i>	<i>62.2%</i>	<i>63.5%</i>	<i>(1.3ppts)</i>
Weigao (ex-Argon)	4,708	3,993	17.9%
Argon	767	-	-
EBITDA	2,773	1,894	46.4%
<i>% margin</i>	<i>31.5%</i>	<i>30.1%</i>	<i>+1.4ppts</i>
Weigao (ex-Argon)	2,307	1,894	21.8%
Argon	466	-	-
Net profit (excluding extraordinary items)^{1,2}	1,587	1,338	18.6%
<i>% margin</i>	<i>18.0%</i>	<i>17.4%</i>	<i>+0.6ppts</i>
Weigao (ex-Argon)	1,549	1,338	15.8%
Argon	38	-	-

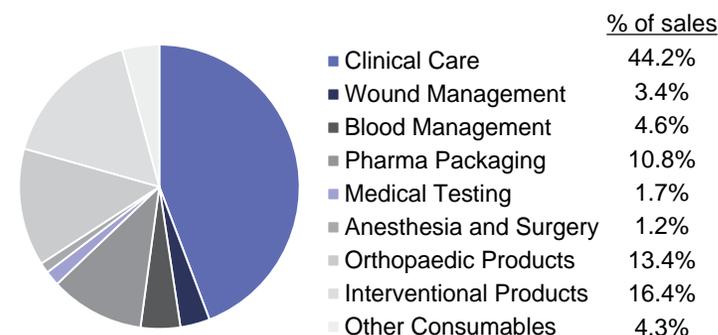
Note:

1. Extraordinary items include fair value appreciation of Argon's inventory and an one-off transaction expense associated with the acquisition of Argon
2. Represents net profit attributable to owners of the Company

Revenue breakdown

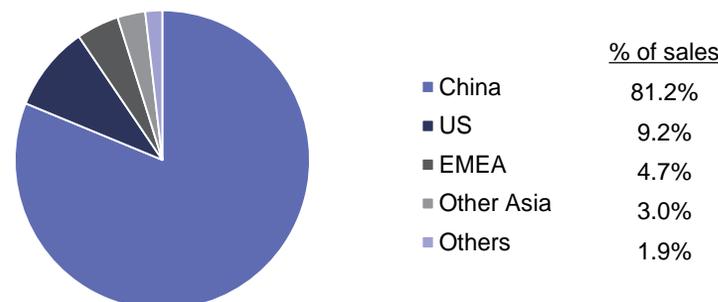
Breakdown by product

The acquisition of Argon has increased our proportion of revenues from interventional products to 16.4% in 2018 from 2.4% in 2017



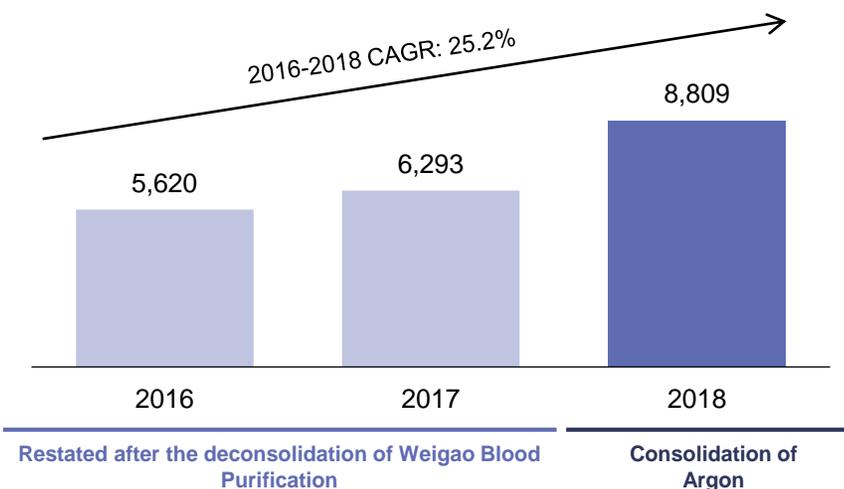
Breakdown by geography

As a result of our acquisition of Argon, the proportion of our non-China revenues have increased to 18.8% in 2018 from 5.3% in 2017

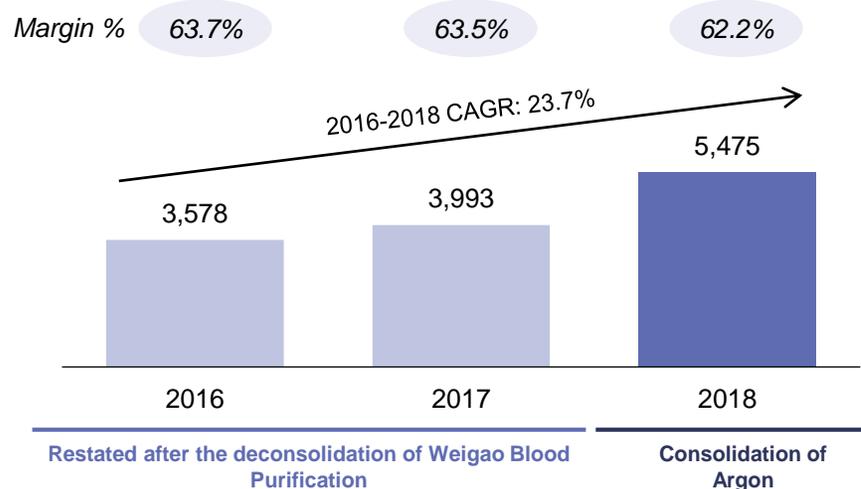


Revenue and Profit

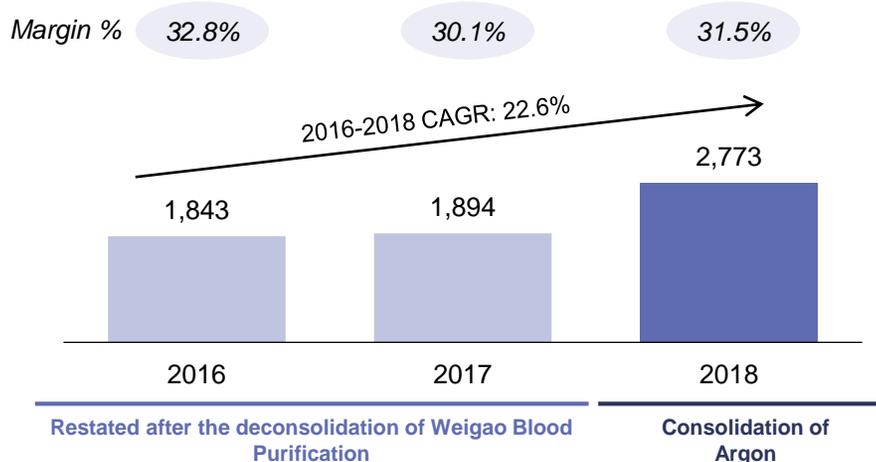
Revenue (RMB million)



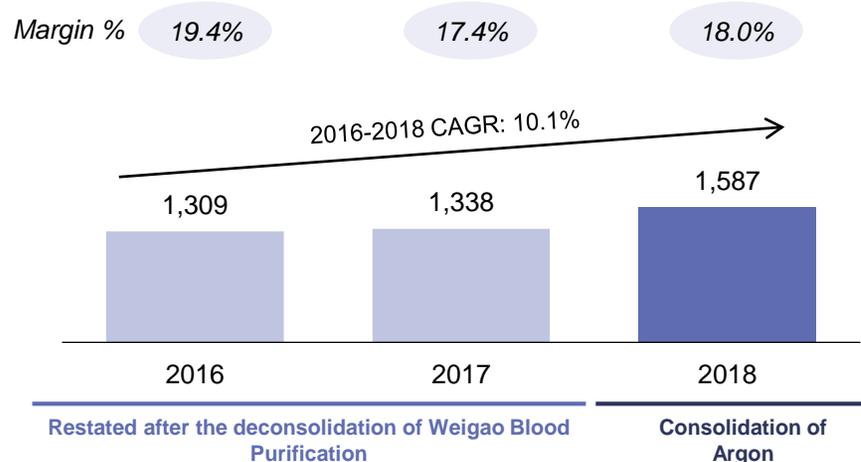
Gross profit excluding extraordinary items¹ (RMB million)



EBITDA (RMB million)



Net profit excluding extraordinary items^{1,2} (RMB million)

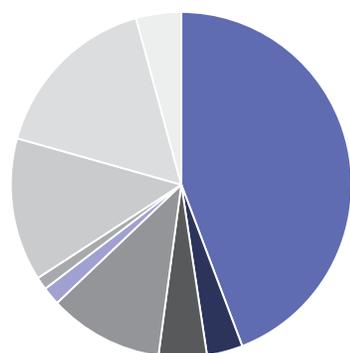


Revenue Breakdown By Products

Revenue Breakdown

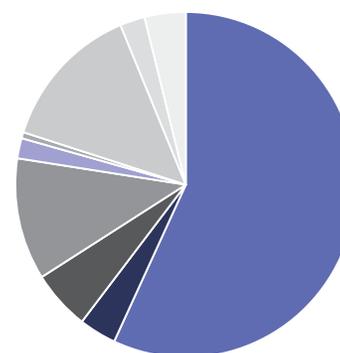
The acquisition of Argon has allowed us to further diversify our product categories, with interventional products increasing from 2.4% to 16.4%

2018



	% of sales
Clinical Care	44.2%
Wound Management	3.4%
Blood Management	4.6%
Pharma Packaging	10.8%
Medical Testing	1.7%
Anesthesia and Surgery	1.2%
Orthopaedic Products	13.4%
Interventional Products	16.4%
Other Consumables	4.3%

2017



	% of sales
Clinical Care	56.9%
Wound Management	3.5%
Blood Management	5.6%
Pharma Packaging	11.4%
Medical Testing	1.9%
Anesthesia and Surgery	0.6%
Orthopaedic Products	13.8%
Interventional Products	2.4%
Other Consumables	3.9%

	Segmental revenues (RMBm)			% of revenues	
	2018	2017	% Change	2018	2017
Clinical Care	3,892	3,581	8.7%	44.2%	56.9%
Wound Management	300	222	35.5%	3.4%	3.5%
Blood Management	402	352	14.1%	4.6%	5.6%
Pharma Packaging	956	719	32.9%	10.8%	11.4%
Medical Testing	151	119	26.7%	1.7%	1.9%
Anesthesia and Surgery	106	36	192.4%	1.2%	0.6%
Orthopaedic Products	1,181	870	35.6%	13.4%	13.8%
Interventional Products	1,444	149	868.6%	16.4%	2.4%
Other Consumables	377	245	54.9%	4.3%	3.9%
Total	8,809	6,293	40.0%	100.0%	100.0%

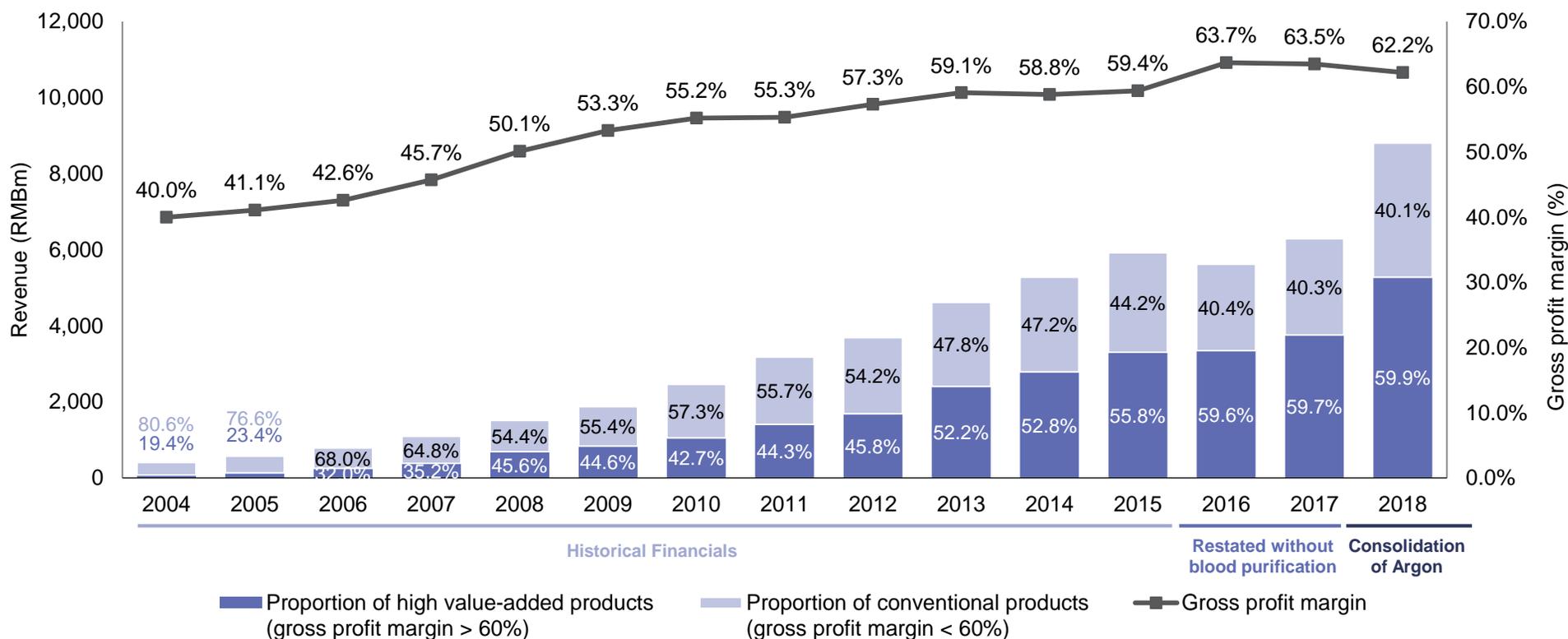
A Track Record of Sustainable and Steady Growth

Turnover and margin evolution since IPO

Since our IPO in 2004, we have continued to optimize our product mix and develop higher value-add products, which has allowed us to consistently expand our margin profile while growing our business over the years

- In 2018, we have continued to optimize our product mix by introducing higher-margin products into our portfolio
- In addition to continuous evolution of our product portfolio through R&D, we expect initiatives such as import-substitution initiatives to provide us with further opportunities to upgrade our product mix and deliver higher margins to our shareholders

Proportion of high-value added products and gross profit margins

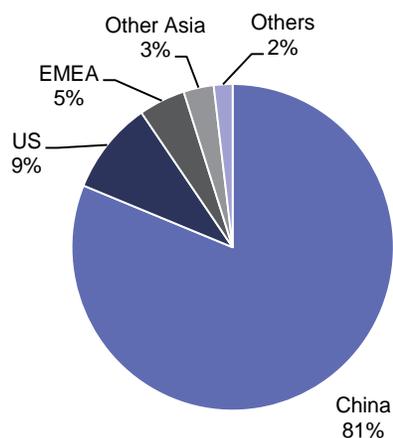


Geographic Information

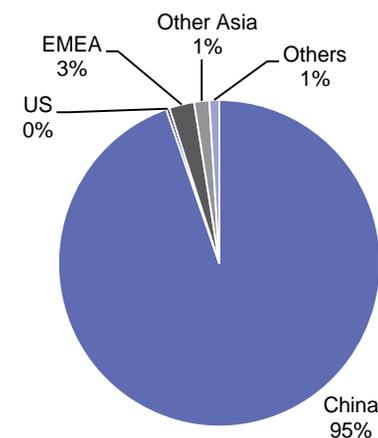
Geographic breakdown

The acquisition and subsequent consolidation of Argon have allowed us to diversify our geographic reach, particularly in the US

2018



2017



Segmental revenues (RMBm)

% of revenues

		Segmental revenues (RMBm)			% of revenues	
		2018	2017	% Change	2018	2017
China	East and Central China	3,429	2,698	27.1%	38.9%	42.9%
	North China	1,639	1,408	16.4%	18.6%	22.4%
	Northeast	752	676	11.2%	8.6%	10.7%
	South China	562	471	19.3%	6.4%	7.5%
	Southwest	564	502	12.2%	6.4%	8.0%
	Northwest	204	201	1.6%	2.3%	3.2%
	China Subtotal	7,150	5,956	20.0%	81.2%	94.7%
Overseas	US	815	21	3,707.7%	9.2%	0.3%
	EMEA	411	158	159.6%	4.7%	2.5%
	Other Asia	267	95	183.3%	3.0%	1.5%
	Others	166	63	165.9%	1.9%	1.0%
	Overseas Subtotal	1,659	337	393.0%	18.8%	5.3%
Total	8,809	6,293	40.0%	100.0%	100.0%	

Other Financial Figures

Other financial figures

Our leverage increased in 2018 due to the acquisition of Argon. Despite the increase in debt, we remain in a very healthy financial position going into 2019

		2018	2017
Working capital	Inventory turnover (days) ¹	115 days	119 days
	Accounts receivable (days) ¹	132 days	157 days
	Accounts payable (days) ¹	64 days	70 days
	Capex	RMB651m	RMB1,359m
Leverage	Debt / EBITDA (x)	1.9x	0.5x
	Net debt / EBITDA (x)	0.6x	Net cash
	Interest coverage ratio (x)	9.7x	79.3x
	Gearing ratio ² (%)	36.8%	7.5%
Ratio and returns analysis	Current ratio	3.2x	3.9x
	Return on equity	11.4%	10.7%
	Return on assets	7.8%	7.2%
Dividend	Final dividend (RMB/share)	5.2 cents	4.6 cents
	Interim dividend (RMB/share)	4.9 cents	4.3 cents
	Total dividend (RMB/share)	10.1 cents	8.9 cents

Note:

1. Represents average working capital days in 2017 and 2018
2. Gearing ratio is calculated as total debt as a percentage of total capital

Section 2

Operational Highlights



Argon Integration Updates

Establishing Weigao's first core overseas platform

The acquisition of Argon in January 2018 was a landmark event for Weigao, as it marked our first major step into the international market. Through Argon, we aim to become one of the leading medtech players globally in addition to our dominant market position within China



Cooperative Vision with Argon

- Since the acquisition, Weigao has provided support to Argon in establishing the Argon China team and during the product registration process, and will continue to provide Argon with the ability to run its operations independently
- Under this framework, Argon has successfully maintained continuity with its strategic plan following the acquisition and has recorded strong growth in both revenue and EBITDA in 2018
- Within the larger Weigao Group, Argon will act as Weigao's core overseas expansion platform, and Weigao and Argon will collaborate in areas such as R&D, sales and distribution



Ongoing Initiatives

- To strengthen Argon's management team:
 - Long-term service agreements have been signed with Argon's management team
 - Share options have been granted to Argon's management team
 - A new CFO, VP of human resources and VP of R&D have been hired to further strengthen the Argon management team



Future Opportunities

- In addition to the roll-out of Argon products into China, Argon will be a key platform for Weigao's expansion overseas
- Argon's product portfolio mainly consists of high-end interventional devices that provide significant complementary value to Weigao's existing portfolio (prior to the acquisition, interventional products only consisted 2.4% of Weigao's revenues)
 - Ongoing collaboration with Argon will not only expand Weigao's product portfolio, but provide Weigao with an array of high entry barrier, high margin products to further solidify Weigao's market leading position

Nationwide Sales Network

Distribution Network in China

We have established an extensive sales network comprising of 36 sales offices, 28 customer service centers and 2,507 sales representatives across 238 cities in China



- Headquarter
- 36 sales offices
- 2,507 sales representatives in 238 cities

Number of existing clients in China and corresponding coverage ratios (as of 31 Dec 2018)

	# covered	Total # in China	Coverage ratio
Grade III hospitals	1,199	2,498	48.0%
Grade II hospitals	1,203	8,806	13.7%
Distributors	1,754	–	–

Distribution network abroad

Our distribution network was significantly boosted with the acquisition of Argon, and has expanded to over 75 countries globally

- Weigo exports its products overseas to 75 countries and regions including the US, EU, Russia, South Africa and Brazil
- Argon, acquired in 2018, has a highly professional sales team based in US

Key Manufacturing Bases

Weihai, China

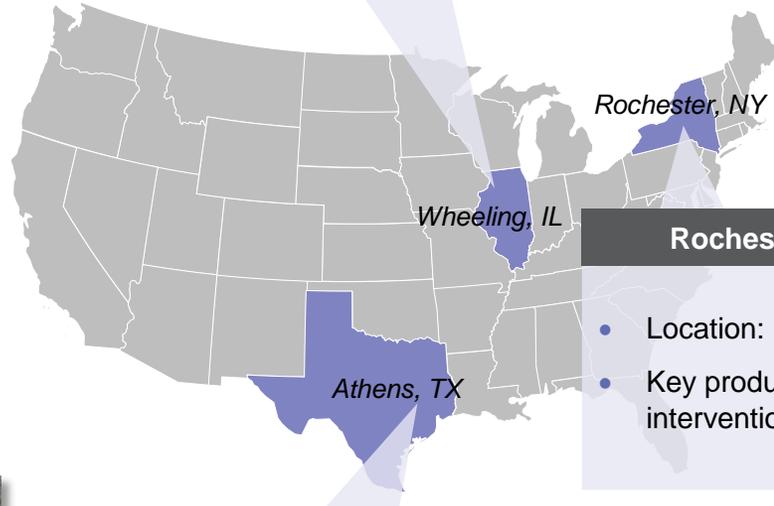
- Location: Weihai, Shandong
- Key products: consumables and orthopedic products



Shandong

Wheeling, USA

- Location: Wheeling, IL
- Key products: interventional products



Rochester, NY

Wheeling, IL

Athens, TX

Rochester, USA

- Location: Rochester, NY
- Key products: interventional products



Athens, USA

- Location: Athens, TX
- Key products: interventional products



Product Portfolio

Product Development

For the twelve months ended 31 December 2018, Weigao obtained 34 new patents and currently has an additional 136 patents under application in the PRC

	Number of products as of 31 Dec 2018	
	China	Overseas
With product registration certificates	434	584
Under application for product registration certificates	23	47
Patented products	471	161
Under patented application	136	19

H-Share Full Circulation

H Share Full Circulation

On 10 July 2018, the China Securities Regulatory Commission ("CSRC") granted us with the formal approval to participate in the pilot H share full circulation project

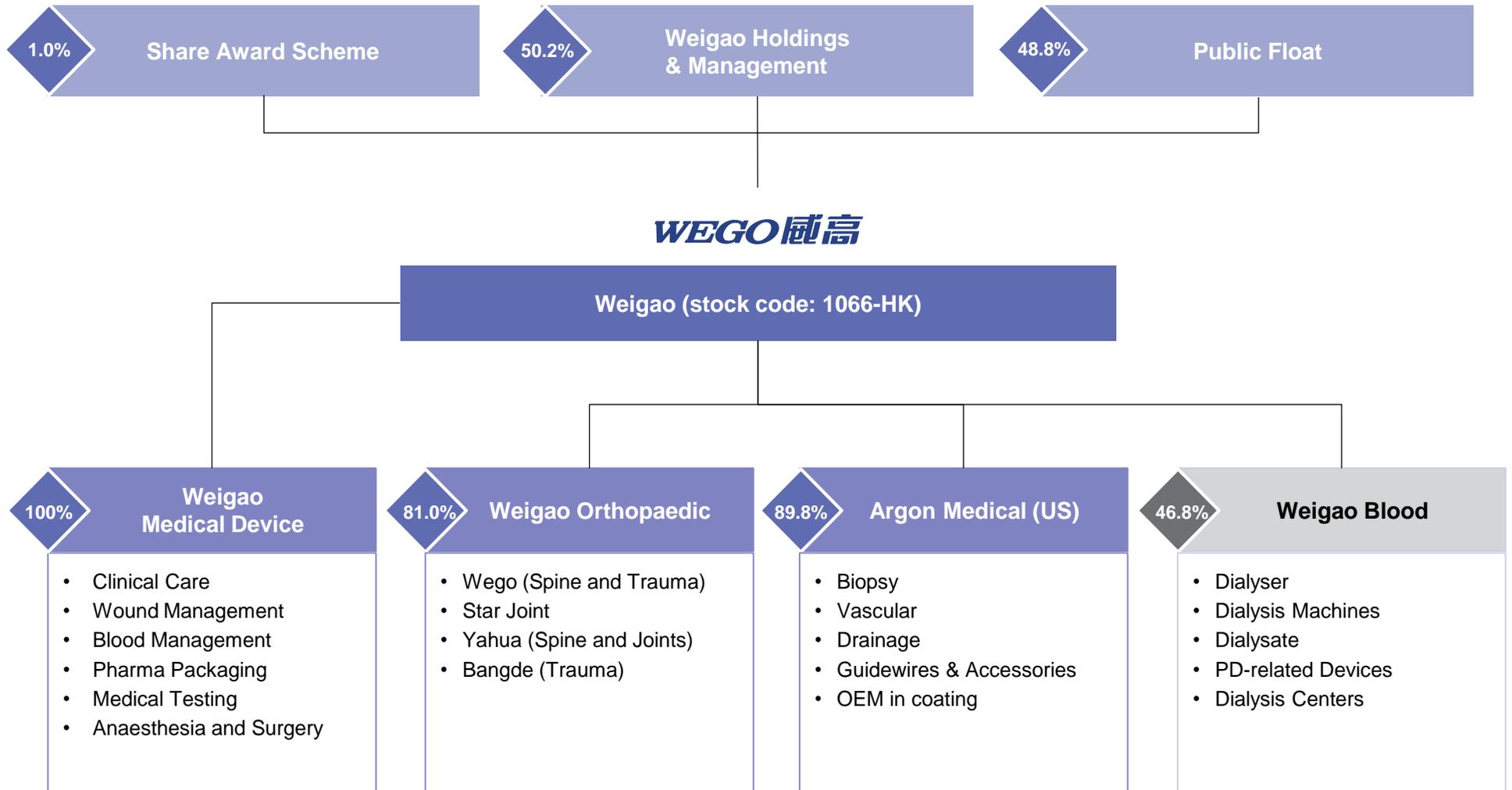


Jan 2018	<ul style="list-style-type: none">CSRC announced the launch of a pilot program for the full circulation of H-shares
Jul 2018	<ul style="list-style-type: none">Weigao announced that it had been granted formal from CSRC to participate in the H-share full circulation project, representing 1 of 3 companies (after Legend Holdings and AviChina) and the only non-SOE company to partake in the pilot programPursuant to the approval, Weigao is allowed to convert and list up to 2,638,600,000 shares (58.4% of total shares) into H shares
Impact	<ul style="list-style-type: none">To align the interest of the controlling shareholder, the management and public shareholdersWeigao's average daily trading volume increased 36.1% after completion of the H-share full conversion after market close on 7 August 2018¹

Note:

1. Represents the % increase in average shares traded between 1 January 2018 to 10 July 2018 (date in which Weigao announced we had been granted formal approval to participated in the pilot H-share full circulation project and 8 August 2018 (first trading day after the completion of the H-share full conversion) to 31 December 2018

Corporate Structure



Section 3

Strategic Outlook



Corporate Milestones

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- Weigao was founded, with its business focusing on manufacturing disposable medical consumables

- Established its orthopaedic business

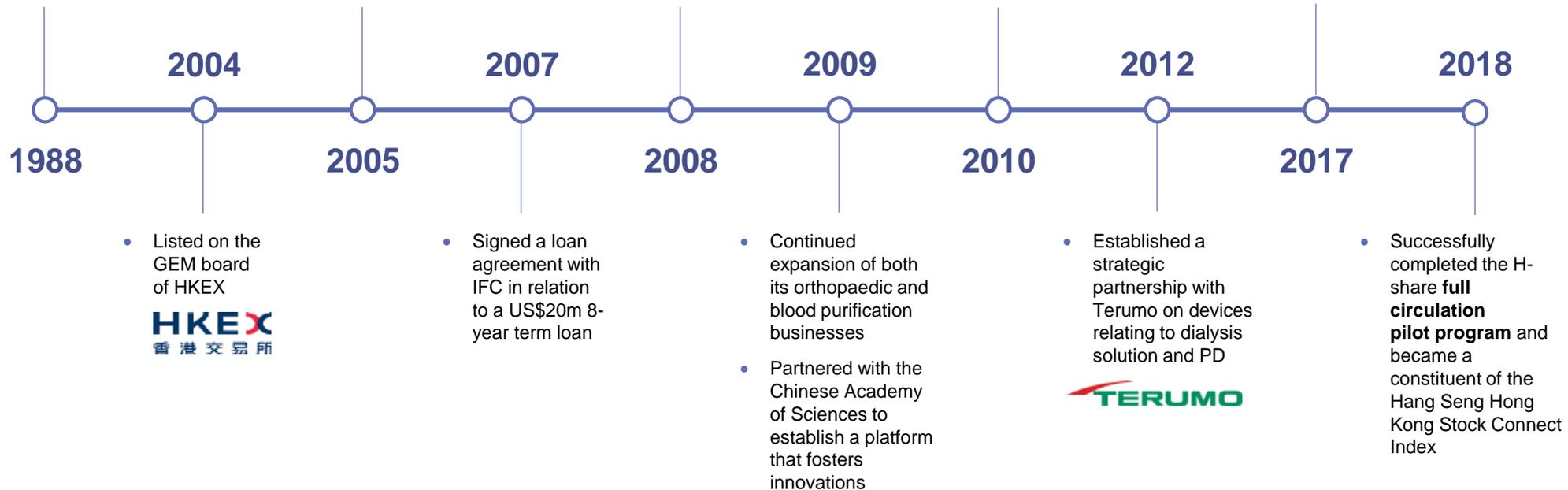
- Entered the hemodialysis industry by introducing dialyser products

NIKKISO

- Weigao transferred from the GEM to the main board of HKEX
- Established a JV with Nikkiso to produce hemodialysis devices

ARGON
MEDICAL DEVICES

- Announced the acquisition of Argon, a leading intervention device manufacturer in the US



Source: Public information

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Management Vision

Market Positioning

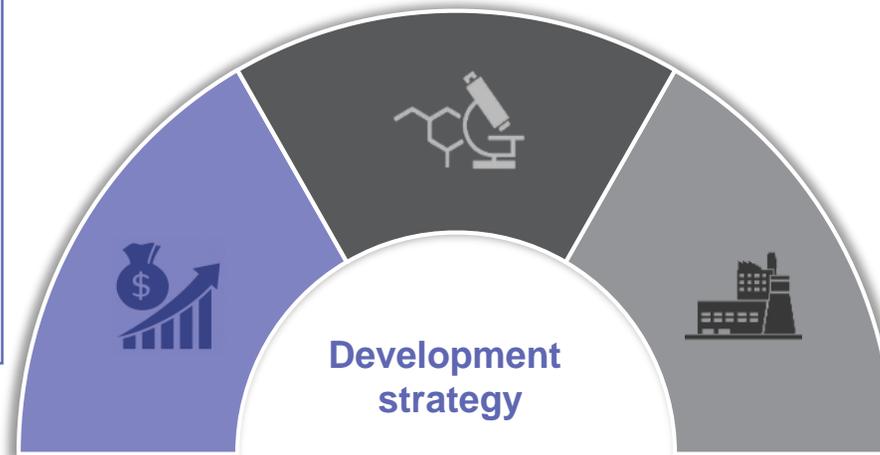
- To continue maintaining our position as the **pre-eminent player in the Chinese medical devices industry** with a view to grow into one of the world's leading medtech players
- **To continue to be the solutions provider and innovator of choice** for customers within our 3 core segments (consumables, orthopaedics and interventional products)

Innovation Strategy

- Continuous **optimization of product mix** through product upgrades, development of new products and import substitution
- Continuous upgrades in manufacturing facilities, automation and engineering technologies to ensure we produce the **best-in-class products** for our customers
- Keeping our pulse on the latest cutting-edge technology worldwide through our **global R&D hubs**

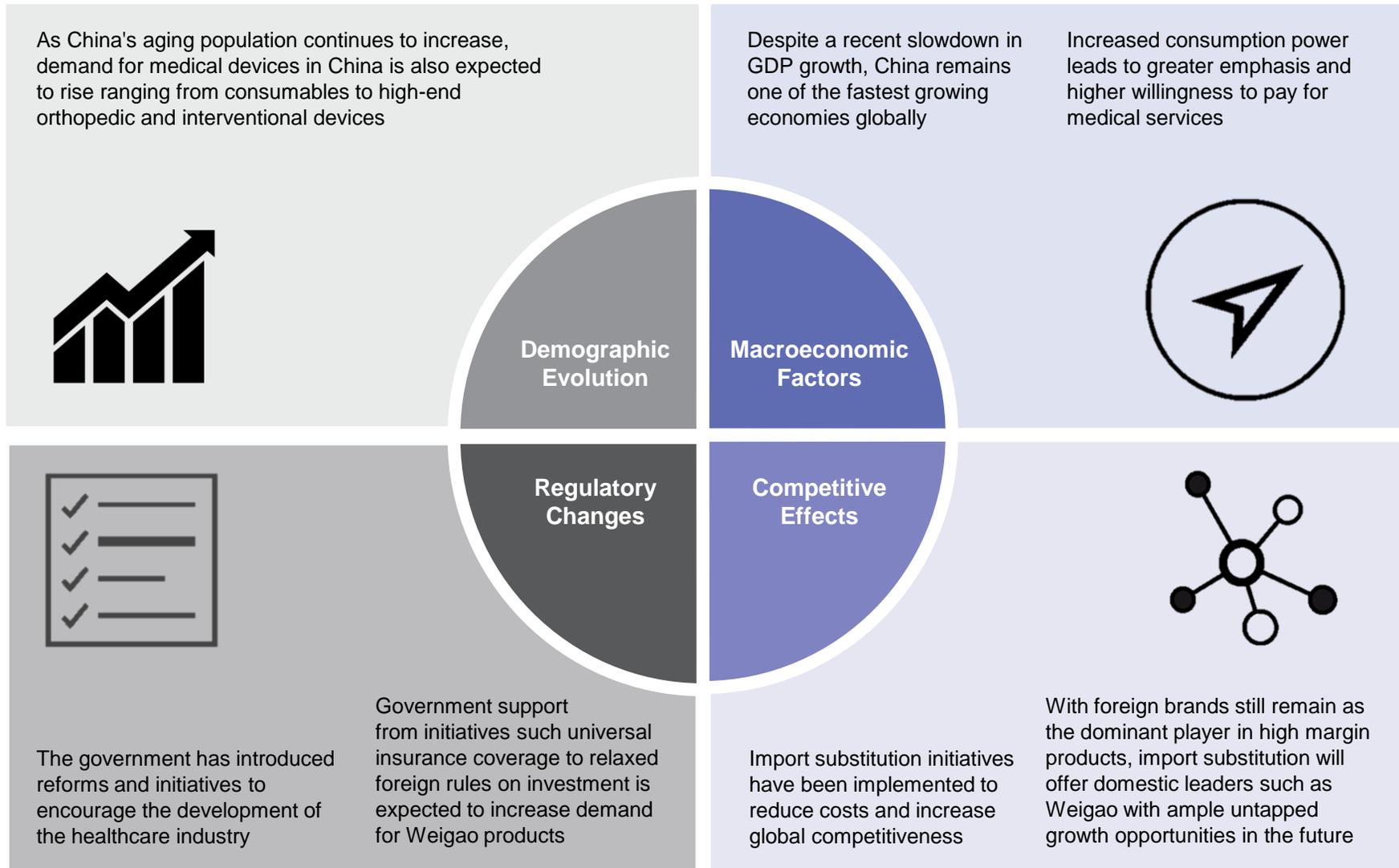
Product Vision

- Focusing on developing products within our 8+3 strategy, (8 product lines + 3 core business segments), where **market size is large** and **untapped potential remains immense**
- Continuous evolution to produce higher-technology products year over year, where margins are more robust and barriers to entry are high
- Maintaining our pristine **operational safety** record and continuing to be our customer's most trusted solutions provider



As the nation's leading medtech company since our founding in 1988, Weigao strives to continue to be the most trusted leading solutions provider in the PRC medical devices industry

Growth Drivers of the Chinese Medical Device Industry



Growth Initiatives

Growth Strategies

In addition to natural growth from the expansion of the Chinese medical industry, Weigao has designs to further accelerate its growth through a variety of initiatives ranging from product upgrades to opportunistic acquisitions



Appendix

Reconciliation of Net Profit



Reconciliation of Net Profit

	12 months ended 31 Dec 2018 RMB'000	12 months ended 31 Dec 2017 RMB'000	Change (%)
Profit for the Year	1,516,784	1,825,333	
Less: Non-controlling interest	43,849	96,673	
Profit for the year attributable to owners of the Company	1,472,935	1,728,660	(14.8%)
Less: Disposal of partial interests in Weigao Blood	-	391,068	
Add: Argon acquisition expenses	36,937	-	
Add: Increase in COGS as a result of Argon inventory revaluation	76,962	-	
Net profit excluding extraordinary items	1,586,834	1,337,592	18.6%

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