

6 August 2015

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**Our reference:**  
2828489

Dear Sir/Madam

**Off-market takeover bid by Pulse Health Limited – Fourth Supplementary Bidder's Statement**

We refer to the original bidder's statement issued by Pulse Health Limited ABN 69 104 113 760 (**Pulse**) on 6 July 2015, as replaced by the bidder's statement dated 17 July 2015, supplemented by the first and second supplementary bidder's statement both dated 17 July 2015, and supplemented by the third supplementary bidder's statement dated 20 July 2015 (**Bidder's Statement**), in relation to Pulse's off-market takeover bid for all of the ordinary voting shares in Vision Eye Institute Limited ABN 21 098 890 816 (**Vision**).

On behalf of Pulse and in accordance with section 647(3)(b) of the *Corporations Act 2001* (Cth), we **enclose** a copy of a fourth supplementary bidder's statement dated 6 August 2015 (**Fourth Supplementary Bidder's Statement**), which supplements Pulse's Bidder's Statement.

The Fourth Supplementary Bidder's Statement was lodged with ASIC and provided to Vision today.

Yours faithfully



James Stewart  
Partner  
Norton Rose Fulbright Australia

Encl.

APAC-#27681756-v1

# Pulse Health Limited

## Fourth Supplementary Bidder's Statement

### 1 Introduction

This document is the fourth supplementary bidder's statement (**Fourth Supplementary Bidder's Statement**) to the Bidder's Statement dated 6 July 2015, as replaced by the Replacement Bidder's Statement dated 17 July 2015, (**Original Bidder's Statement**) issued by Pulse Health Limited ABN 69 104 113 760 (**Pulse**) in relation to its off-market takeover bid for all of the ordinary voting shares in Vision Eye Institute Limited ABN 21 098 890 816 (**Vision**) (**Takeover Bid**).

This Fourth Supplementary Bidder's Statement is given pursuant to Division 4 of Part 6.5 of the *Corporations Act* 2001 (Cth) (**Corporations Act**) in compliance with the requirements of section 643 of the *Corporations Act*.

This Fourth Supplementary Bidder's Statement supplements and is to be read together with the Original Bidder's Statement, the first supplementary bidder's statement dated 17 July 2015, the second supplementary bidder's statement dated 17 July 2015 and the third supplementary bidder's statement dated 20 July 2015. This document prevails in the event of any inconsistency with those documents.

#### 1.1 Important notices

A copy of this Fourth Supplementary Bidder's Statement was lodged with the Australian Securities and Investments Commission (**ASIC**) on 6 August 2015. Neither ASIC nor any of its officers take any responsibility for the contents of this Fourth Supplementary Bidder's Statement.

#### 1.2 Defined terms and interpretation

Unless the context otherwise requires, capitalised terms in this Fourth Supplementary Bidder's Statement have the same meaning given to them in section 16 of the Original Bidder's Statement. The rules of interpretation set out in section 16.2 of the Original Bidder's Statement also apply to this Fourth Supplementary Bidder's Statement, unless the context otherwise requires.

### 2 Announcement by Pulse in response to Vision's Target's Statement

On 4 August 2015, Vision issued its *Target's Statement* in response to the Takeover Bid.

Attached to this Fourth Supplementary Bidder's Statement as Annexure A is an announcement made by Pulse on the ASX Market Announcements Platform on 6 August 2015 responding to Vision's *Target Statement* (**Target's Statement Response**).

The Target's Statement Response forms part of this Fourth Supplementary Bidder's Statement.

A copy of the Target's Statement Response is also available at [www.asx.com.au](http://www.asx.com.au) (Pulse ASX Code: PHG).

### 3 Statements in this Fourth Supplementary Bidder's Statement

This Fourth Supplementary Bidder's Statement contains statements made or based on statements made in documents lodged with ASIC or ASX, namely the following announcement made by Vision to ASX:

ASX Announcement	Date of Announcement
Target's Statement	4 August 2015
2015 Trading Update and 2016 Trading Outlook	28 July 2015
Vision announces sale of Gold Coast clinic assets	25 May 2015
Chief Executive Officer and Managing Director	13 May 2015
2014 Annual Report	20 October 2014
\$10 million Placement	17 October 2014
2013 Annual Report	23 September 2013

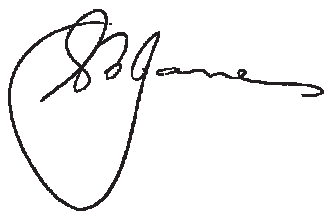
Under the terms of ASIC Class Order 13/521, the persons making those statements are not required to consent, and have not consented, to the inclusion of those statements or of statements based on those statements, in this Fourth Supplementary Bidder's Statement. Any Vision Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Pulse Offer Information Line on 1300 387 045 (callers in Australia) or +61 3 9415 4617 (callers outside Australia).

As permitted by ASIC Class Order 07/429, this Fourth Supplementary Bidder's Statement contains share price trading data sourced from Capital IQ without its consent.

### 4 Approval of Fourth Supplementary Bidder's Statement

This Fourth Supplementary Bidder's Statement has been approved by a unanimous resolution passed by the Directors of Pulse.

This Fourth Supplementary Bidder's Statement is dated 6 August 2015, which is the date it was lodged with ASIC.

A handwritten signature in black ink, appearing to read 'Stuart James'. The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail.

Stuart James  
Chairman, Pulse Health Limited

## **Annexure A – Target’s Statement Response**

6 August 2015

Company Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
Sydney NSW 2000

## ASX Announcement

### Pulse Response to Vision Target's Statement

**Pulse Health Limited** (ASX Code: PHG) (**Pulse**) refers to the Target's Statement issued by Vision Eye Institute Limited (ASX Code: VEI) (**Vision**) in response to Pulse's offer under the takeover bid announced on 6 July 2015 (**Offer**).

In general terms, the Target's Statement misrepresents Pulse's strategy, operations and financial position. Pulse encourages Vision shareholders to read Pulse's Bidder's Statement in relation to its Offer and would also welcome constructive engagement with the Vision board.

In specific terms, Pulse is of the opinion that the Vision board's analysis of the Offer is fundamentally flawed and believes that the Target's Statement is misleading and deficient as it:

- 1) contains factual inaccuracies regarding Pulse
- 2) is incomplete regarding Vision's history and current positioning
- 3) makes a number of unsubstantiated claims
- 4) makes unsupported valuation statements

Pulse holds this opinion for the reasons outlined below:

#### 1. Factual Inaccuracies:

Vision has incorrectly adopted underlying FY15 EBITDA for Pulse of \$5.7m which ignores the substantial earnings contribution from Pulse's recent acquisition of The Hills Clinic and is therefore substantially different from the pro-forma FY15 EBITDA of \$10.2m provided by Pulse in its Bidder's Statement.

Visions' analysis is inconsistent with its own independent expert, Lonergan Edwards & Associates (**Independent Expert**), who arrived at the correct conclusions with respect to Pulse Normalised EBITDA and net debt for valuation purposes by adopting Pulse's Normalised FY15 EBITDA of \$10.2m.

The incorrect use by Vision of Pulse's EBITDA results in a fundamentally flawed analysis of the Offer and misleading information in relation to Pulse's valuation multiples and its valuation relative to Vision and healthcare peers. In particular, it gives the false impression that the underlying Pulse EV/EBITDA is 91% higher than in reality.

In addition to the EBITDA error, Vision has chosen to ignore the \$6m in proceeds from the sale of the Gympie property to arrive at Pulse net debt of \$21.9m (vs \$15.9m pro-forma net debt published by Pulse) simply because the proceeds are likely to occur in FY16, which is also inconsistent with the Independent Expert's net debt calculation of \$15.9m.

Together with the incorrect EBITDA number, this gives the false impression that underlying Pulse net debt/EBITDA level is 149% higher than it is in reality.



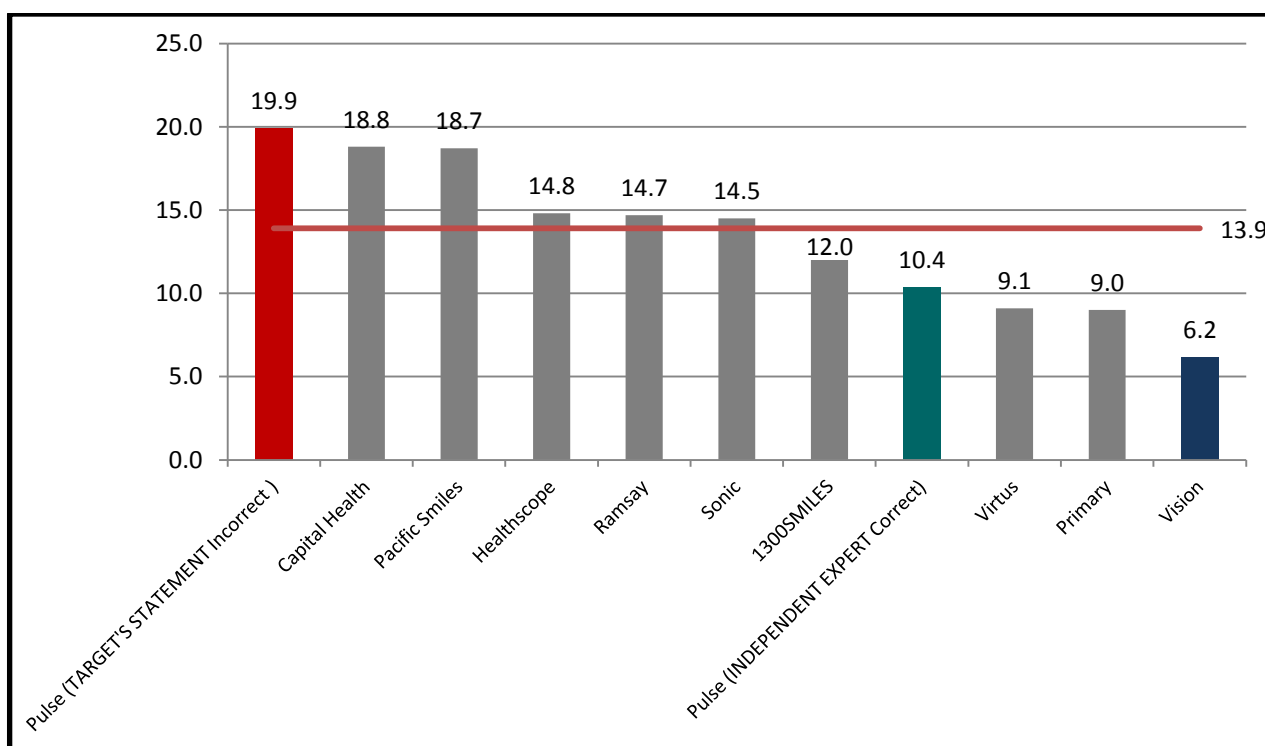
The contrast between the Target's Statement and the correct financial analysis is presented below:

Pulse	Target's Statement (Incorrect)	Independent Expert (Correct)
net debt/FY15 EBITDA x	3.9	1.6
net debt/Mkt Cap %	24.2%	17.6%
EV/FY15 EBITDA x	19.9	10.4

Pulse	Target's Statement (Incorrect)	Independent Expert (Correct)
Normalised FY15 EBITDA \$m	5.7	10.2
Pro Forma net debt \$m	21.9	15.9

#### EV/EBITDA:



## 2. Incomplete Disclosure

### Vision's history

The Target's Statement fails to properly explain Vision's complete operational and financial history including the period when it was over-gearred, its operations deteriorated and the company was placed into "bad bank".

### Vision's earnings decline

The steep fall in Vision's earnings between FY08 and FY10 has been omitted from Vision's financial track-record. Also omitted was the \$26.3m goodwill impairment in FY13 and cumulative goodwill impairments of \$120m since FY10.

Vision's claim that its earnings history is stable and consistent is also misleading.

Vision is itself forecasting a decline in EBITDA for FY16.



### **No basis provided for FY16 guidance**

Vision has provided EBITDA guidance of \$26m for FY16 but provided no basis for this guidance. Vision should provide comprehensive disclosure around the basis and its assumptions for FY16 forecast EBITDA. This is particularly important given the substantial imminent loss in earnings from its Gold Coast and Southport businesses and the potential trade up losses associated with PANCH. Vision has notably chosen not to comment on the assumption adopted by Pulse in its Bidder's Statement that the Gold Coast and Southport exits will lead to a \$3.4m loss in EBITDA.

### **No information on which to assess Vision's claim of future growth**

The Target's Statement refers to a proposed major acquisition but does not provide any details about the acquisition or how it will create value for Vision shareholders. If there is genuinely a material transaction that is likely to be implemented, Vision should provide full details of the transaction, including the effect it will have on Vision, in order for Vision shareholders to assess the prospects of Vision as a stand alone entity as compared to the benefits of Pulse's Offer. If Vision is not in a position to do this, then it should concede that the prospects of the acquisition being implemented are too uncertain or unlikely for it to have been raised for consideration.

If the transaction will breach a defeating condition of the Offer, Vision should seek shareholder approval prior to completing the transaction to ensure its shareholders have the ability to choose between Pulse's Offer and the acquisition.

### **No alternative proposal has emerged**

The Target's Statement implies a potential superior proposal may be made by mentioning that Vision has had "preliminary discussions" with Jangho Group Co., Ltd (**Jangho**). However, Vision does not actually disclose what the subject of those discussions has been about. If there has been any realistic discussion about an alternative proposal, the key terms of that proposal should be disclosed. Vision must keep shareholders informed of the progress (or lack of) of discussions about any alternative proposal (if there is any) so that shareholders can make an informed decision in relation to Pulse's Offer.

Pulse notes with interest that Jangho has effectively reserved the right to accept a revised Offer from Pulse. Pulse would welcome the opportunity to engage with Jangho on the benefits of the Offer.

## **3. Unsubstantiated Claims:**

Vision's claims in relation to its growth prospects are unsubstantiated. In particular, the statement that Vision's future growth is significantly superior to Pulse's has no basis. Vision has failed to provide any evidence of earnings growth to backup its claim that its growth prospects are superior to Pulse. Vision has provided no detail on which an assessment of its growth strategy can be made, and has no managing director in place to execute a growth plan.

The Vision growth strategy also appears reliant on acquisitions. Vision's poor track record with respect to capital allocation and past acquisitions undermines the credibility of this claim. In particular, Vision has written off \$120m in goodwill since FY10 which equates to more than half of its goodwill at cost.

Vision's guidance for FY16 is also inconsistent with claims in relation to its growth prospects given it is forecasting a decline in EBITDA in FY16. The discussion on page 15 of the Target's Statement of organic growth drivers appears to reference revenue growth rather than earnings growth. Vision should clarify whether other references to growth prospects relate to revenue or earnings. Vision should also provide quantification of its growth prospects (including additional funding or investment required) and its effect on the company so shareholders can make a proper assessment of the prospects of Vision as a stand-alone entity as compared to the benefits of Pulse's Offer.





Vision stated there is no strategic value and minimal synergistic benefits in a merger with Pulse. The Vision board has not given due consideration to the likely strategic and synergistic benefits of a combination. Indeed, this claim is made without having held any discussions with Pulse and highlights a lack of understanding of how its business can be better managed.

Vision and Pulse both rely on a common core competency of facilities management which aims to attract both doctors and patients to facilities while optimising utilisation and efficiency. Pulse already runs ophthalmology services within 3 of its facilities. The combined business would benefit from a shared services platform to drive quality, cost and efficiency through each facility. There is a common growth strategy of investing in healthcare facilities with a particular focus on day surgeries. The Pulse management and board have the ability to add further value to this growth strategy. The recent appointment of Mr David Manning to the board of Pulse should also be noted in this regard. Mr Manning is the co-founder and previous Executive Vice President and Chief Development Officer at Amsurg Corp. Amsurg is a US\$3.4bn NASDAQ listed company and the largest eye surgery operator in the US.

#### **4. Unsupported Valuation Statements:**

The Target's Statement refers to the value range of Vision shares of \$1.04 to \$1.18 determined by the Independent Expert. Despite the value range being approximately 54% to 75% higher than the Vision closing share price before announcement of the Offer, Vision has not given proper weight to the risks attached to this valuation. The Independent Expert provides numerous reasons why peers may not be comparable. Pulse believes these are plausible reasons. The steep and sustained discount that Vision has traded at relative to its healthcare sector peers may also suggest a peer based multiple is not appropriate.

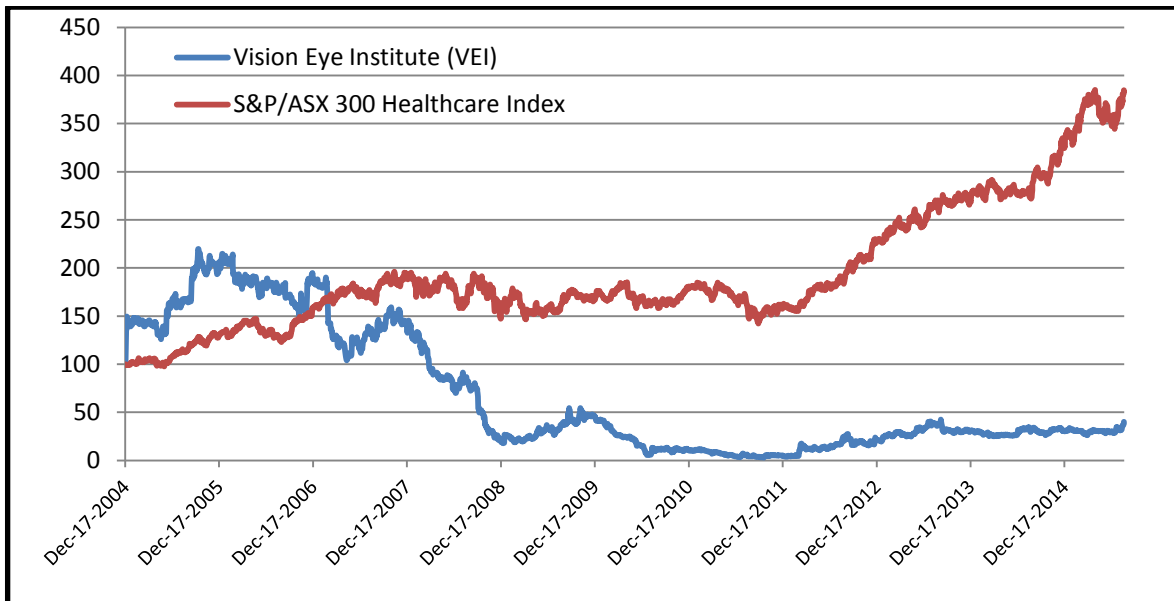
The Independent Expert also notes that in the recent period prior to the Offer, share market investors have placed a lower value on Vision than the Vision board considers appropriate. Vision has chosen not to highlight or address the factors the Vision board appears to attribute to this value difference. Some notable reasons disclosed in the Independent Expert's report include:

- 1) Market perception of limited opportunities for growth
- 2) Failure to adequately explain the acquisition growth strategy being pursued, together with the inability, until recently, to bring acquisition opportunities to a successful close,
- 3) Failure to explain the composition of sustainable earnings, in particular the extent to which these are derived from higher margin facility usage fees.

The equity market, the most objective determinant of value, has placed a valuation on both businesses in an open and transparent manner. The equity market is the best guide to value and Vision shares have not traded within the Independent Expert's value range since 2008. In this context it is worth reflecting on Vision's track record with respect to shareholder returns since its IPO in 2004 and under the stewardship of the same Chairman, Mr Shane Tanner. From the IPO in 2004 to the announcement of the Offer, Vision has generated a total shareholder return of -49% and an investment IRR equivalent to -8% per annum. Over the same period the S&P/ ASX 300 Health Care Accumulation Index has generated a total shareholder return of 342%.



#### Vision Share Price (since IPO) vs S&P/ASX 300 Health Care Index (rebased to 100):

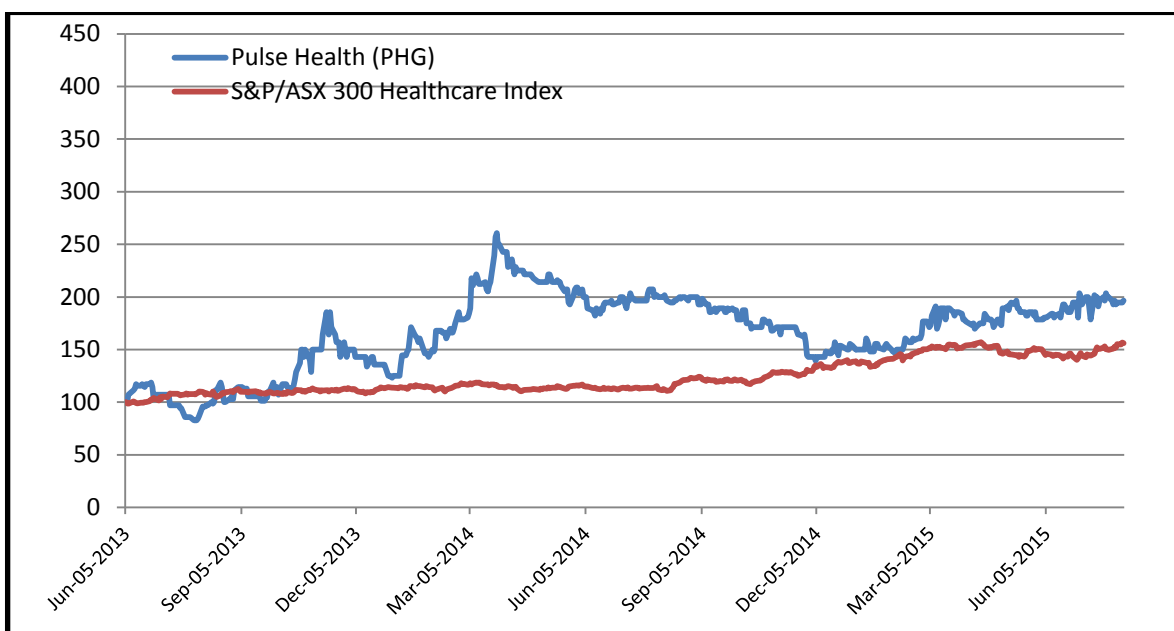


The Vision board view of fair value is also inconsistent with their actions. Why did the Vision board choose to raise equity at 60c a share in October 2014 when their presumed view on fair value was substantially higher?

Vision has stated that Pulse Shares are overvalued versus Vision Shares. However, Vision has relied on inaccurate assumptions on both earnings and net debt to arrive at that conclusion. These assumptions are also inconsistent with those used by the Independent Expert. The Independent Expert has adopted a value range of 50c to 55c per share for Pulse shares, but has failed to reference any consideration of analyst reports that target a significantly higher price for Pulse shares.

The market is the most objective determinant of value and the Pulse Share price, which has held up to the scrutiny of the Offer.

#### Pulse Share Price (since appointment of Phillipa Blakey as CEO) vs S&P/ASX 300 Health Care Index (rebased to 100):





**Stuart James**

Chairman of Pulse Health

**For further enquiries, please contact:**

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