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ASX Market Announcements Office
ASX Limited
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ASX Announcement
Pulse Health Limited enters Australian
mental health market with acquisition of leading Sydney clinic

Pulse Health Limited (ASX Code: PHG) today announced that it has entered into an agreement to acquire The Hills Clinic Pty Limited, the operator of The Hills Clinic in Sydney, its third major transaction in 10 months.

The acquisition brings to nine the number of hospitals in Pulse Health's portfolio, as the group executes its strategy to grow via acquisition or development of niche, specialist private hospitals or day surgeries.

The transaction is a beachhead acquisition in the attractive mental health market. The Australian mental health market was worth an estimated \$6.9bn in 2010-11ⁱ, with demand for and use of mental health services anticipated to grow by as much as 6% to 7% per year over the next 15 yearsⁱⁱ. Initial market analysis conducted by Pulse Health has indicated high levels of unmet demand.

Founded and purpose built in 2011, The Hills Clinic is located in Kellyville, in the fast growing north-west of Sydney. The surrounding catchment boasts a population of approximately 731,000 people, with an average income in excess of the national averageⁱⁱⁱ. With 59 beds, The Hills Clinic incorporates a recently opened specialised young adult ward for 16-25 year olds, known as YA@theloft. The Hills Clinic has highly regarded clinicians (13 admitting psychiatrists, 5 of whom were previous shareholders in The Hills Clinic Pty Limited). Key clinicians remain committed to have ongoing relationships with The Hills Clinic and Pulse Health post transaction.

The initial payment of \$27.7m cash represents 8.5x EBITDA for the trailing 12 months to 31 March 2015. The vendors are eligible to receive additional capped earn-out payments, subject to achievement of FY15 and FY16 revenue targets. This includes a first payment of up to \$2.3m for FY15 and a second payment of up to \$3.6m for FY16, if revenue targets are met. If the FY15 and FY16 targets are met, maximum consideration of \$33.6m would reflect an EBITDA multiple below 8.5x at FY16. The earn-out payments are subject to a roll-forward mechanism such that any unpaid portion of the aggregate of the first earn-out payment and second earn-out payment remain payable through to FY17 (then subject to achievement of the FY17 revenue target).

The transaction will be funded by a new debt facility and existing cash reserves. Pulse Health has established a new debt facility with National Australia Bank for a \$42m finance facility. Agreed debt facility terms are a significant improvement on previously agreed terms, and include acquisition, asset finance and general working capital lines.

Strategic Rationale

- ▶ The Hills Clinic is a beachhead acquisition in the attractive mental health market.
- ▶ Established and purpose built facility located in a growth area (North-West Sydney) with potential for further brownfield development.



- ▶ Key clinicians contracted to facilitate The Hills Clinic's ongoing growth and performance and to assist Pulse Health with further mental health opportunities.
- ▶ Leverages Pulse Health's shared services platform to drive cost synergies and efficiencies.

Key Purchase and Lease Agreement Terms:

- ▶ Upfront payment of \$27.7m cash.
- ▶ Additional capped earn-out payments of \$5.9m in aggregate subject to achievement of FY15 and FY16 revenue targets.
- ▶ Maximum consideration of \$33.6m.
- ▶ Long-term lease options for the hospital property of up to 30 years.

Key Financial Implications:

- ▶ EBITDA for 12-month period to 31 March 2015 of \$3.2m.
- ▶ Strong earnings momentum from 27 bed expansion completed in January 2015 expected to drive revenue growth of above 10% to FY16.
- ▶ Accretive on the purchase terms with further earnings potential underwritten by capturing the full year benefit of the recent 27 bed expansion and operating synergies.
- ▶ Based on 1H15 Pulse Health results, the transaction increases consolidated assets by 42%, increases revenue by 20% and increases profit before tax and extraordinary items by 44%.

The transaction is subject to change of control consent from relevant health funds.

Acquisition pipeline update

Pulse Health continues to review a range of other acquisition and development opportunities consistent with the strategy of growth via acquisition or development of high quality niche specialist private hospitals or day surgeries.

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For more information on **Pulse Health** please visit www.pulsehealth.net.au

ⁱ Australian Institute of Health and Welfare 2013. Mental health services—in brief 2013. Cat. no. HSE 141. Canberra: AIHW

ⁱⁱ Crossroads: Rethinking the Australian Mental Health System 2014

ⁱⁱⁱ Australian Bureau of Statistics: Data by Region