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

ASX Release

Managing Director's Address, 2014 Annual General Meeting

Good Morning Ladies and Gentlemen,

I have pleasure in providing the 2014 financial year annual report to the shareholders of Pulse Health, at the end of a year of substantial change and achievement for your company. With the new executive team in place from the beginning of this financial year, it has been a year of positioning for growth, establishing the right growth strategy, and commencing its execution.

The year ended June 2014 (FY14) saw revenue growth of 9% to \$52.4m and underlying EBITDA at \$4.7m.

There is no uplift in FY14 EBITDA. Underlying this is the market rent now payable at Westmead Rehabilitation Hospital (WRH) as a consequence of the FY13 change in the WRH ownership structure. Lease interest and intangible asset amortisation were removed and replaced with market rent.

Reported EBITDA-R is 8% up at \$8.7m.

Revenue growth was driven by additional capacity at Eden Rehabilitation Hospital, with 12 additional beds and Westmead Rehabilitation Hospital, with 5 additional beds.

Throughout FY14, with these additional beds and our acquisition of North Mackay Private Hospital, we increased our total bed capacity by 22%.

Surgical activity at our key surgical sites grew well, up 11% on last year, but the growing trend to day surgery and shorter length of stay resulted in reduced utilisation of surgical beds.

Shared Services Platform

In order to position the company well for growth, and to improve management efficiency and effectiveness, corporate (or "backroom") services were centralised in a scalable shared services model. Implementation of this model was completed in June, resulting in change:

- from site based accountants to a centralised accounting and accounts payable team



- from individual site based manual payroll systems and people to a fully automated, centrally managed time and attendance system and integrated payroll system
- from site based individuals separately managing quality systems, compliance and implementation of the new national standards to a new centrally developed and managed quality and compliance framework, ensuring compliance with all national standards.
- from site based individually managed HR processes to a centrally developed and managed HR service.

The Shared Services platform now enables more efficient, effective management of our hospitals, with better control of costs, risk and care delivery. It also enables acquisitions to be readily integrated into the Group so that synergies can be quickly delivered, and value effectively gained.

This strategy realised net savings of over \$500k.

The successful integration of North Mackay Private Hospital into the group, with early occupancy and profit exceeding business case assumptions, was the first test of our integration capability with the new shared services platform.

Growth Strategy

As a private hospital operator, we have two key customer groups – the doctors that bring their patients to our hospitals and treat them there; and the patients who receive that care. We have spent time learning about what these customers want and need, ensuring that we position ourselves to deliver this and designing our strategy to capitalise on our strengths. We have found that doctors respond well to our ability to be close to what happens in our hospitals and adapt in accordance with their needs to ensure that their patients get good care. Our size also enables us to pursue a focused strategy, optimising quality of care and responsiveness to doctors by specialising in niche areas.

We intend to grow via acquisition or development of smaller specialised hospitals. We are establishing a pipeline of opportunities for acquisition or greenfield development of specialist rehabilitation, surgical or mental health hospitals, in locations attractive for specialist doctors to live and work. We will develop dedicated centres of excellence in collaboration with local specialists, enabling very high quality patient outcomes and the delivery of very efficient, effective models of care.

We will continue to expand capacity at our existing hospitals via brownfield developments, as demand indicates. And we will continue to drive higher utilisation across all sites, through targeted investment in surgical equipment, strong community engagement and relationships with our referring and visiting doctors, and high quality patient care. Critical to this is an ongoing focus on the development of a strong engaging, respectful and caring culture across all sites.

Overview of Hospitals

Specialist Rehabilitation Hospitals

Mackay Rehabilitation Hospital (North Mackay Private Hospital), in Northern Queensland, with 34 beds and day therapy was acquired in June. It was opened by the previous owners in February this year, following a complete refurbishment to convert it from a surgical hospital to a rehabilitation hospital. We expect it to take 12 months or so to



ramp-up to high occupancy. There is substantial brownfield capacity to exploit once demand indicates.

Westmead Rehabilitation Hospital, located in Western Sydney, with 65 beds, a large day stay program and hydrotherapy, has continued to perform strongly. Five extra rooms (and beds) were added in April, and have seen high occupancy since opening. We are working with the landlord to explore options for additional beds.

Eden Rehabilitation Hospital, located by Noosa on the Sunshine Coast, has 48 beds and a large day therapy program. There is significant brownfield capacity to exploit once demand stabilises at current high levels.

Regional acute hospitals

Forster Private Hospital, with 74 beds, is the largest of our regional acute hospitals. This hospital provides a wide range of services to the local community, with a specialist rehabilitation unit, as well as a surgical unit and other services. The hospital provides medical inpatient care on contract to the Hunter New England Local Health District. Growth here is steady, with additional services such as a dialysis unit (contracting to the Local Health District), developed in accordance with local demand. We are planning to add additional theatre and bed capacity as demand indicates, with substantial brownfield capacity available.

Gympie Private Hospital is a 40 bed hospital with two operating theatres. Twelve of the beds are configured as a day case unit. With high volumes of day case surgery and some demand for overnight surgical care, surgical activity at this hospital has grown well, but bed occupancy remains a challenge. We continue to explore opportunities to add additional services to this site.

South Burnett Private Hospital, our smallest hospital with 22 beds and one operating theatre, has undergone substantial landlord (South Burnett Regional Council) funded refurbishment. These works have impacted on utilisation, but we expect improved utilisation in FY15.

Outlook for FY15

We anticipate EBITDA growth from existing assets in excess of 20% above FY14 as a consequence of:

- Full year effect of 17 additional beds
- Modest occupancy growth
- Cost efficiencies from the new shared services platform
- Procurement savings
- Improved rostering and skill-mix, supported by the new Time and Attendance system.

With the ramp-up of Mackay Rehabilitation Hospital (North Mackay Private) expected to take place steadily across FY15, we assume only break-even occupancy.

We aim to make one or more EBITDA positive acquisition(s) of specialist hospitals in FY15, as opportunities prove to be suitable, while establishing greenfield development opportunities in keeping with our specialist hospital strategy.



At the completion of my first year of Pulse Health, with so many wonderful opportunities to grow and exploit gaps in the market for high quality specialist private health care provision, I am excited about the potential for your company. This excitement is fuelled by the great people I work with, and I would like to sincerely thank my two fellow directors, my two senior executive colleagues, my hospital general managers, and all our wonderful staff, who go above and beyond, every day, for our patients.

AGM Update

Performance update

Earnings guidance of EBITDA growth in excess of 20% from existing assets is reaffirmed. Utilisation is stronger than expected at Eden Rehabilitation Hospital and Westmead Rehabilitation Hospital, netting off weaker utilisation at Forster Private Hospital that was partly related to medical staffing issues that have now been resolved.

Year to date performance at the newly acquired Mackay Rehabilitation Hospital is in-line with business case.

Costs are in accordance with expectation, with the full benefits of the new shared services model now in place.

Health Funds

Negotiations have been completed with all health funds, in accordance with budget expectations.

Acquisition and development pipeline

As announced to the market on November 17, we have entered an agreement to lease a new specialist surgical hospital on Queensland's Gold Coast called Gold Coast Surgical Hospital. Commissioning of this six theatre, 24 bed hospital is expected late in FY15, and it is expected to be profitable within 12 months.

We continue to review a range of other acquisition and development opportunities that meet our strategic criteria. These opportunities are at various stages of review. Due diligence on the next most advanced opportunity is now progressing well.

Phillipa Blakey

Managing Director and Chief Executive Officer
24 November 2014