

Market Announcements Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

14 February 2018

### ASX ANNOUNCEMENT

#### TAKEOVER OFFER FOR BULLETPROOF – SUPPLEMENTARY BIDDER'S STATEMENT

Enclosed, pursuant to section 647(3)(b) of the *Corporations Act 2001*(Cth), is a copy of the Supplementary Bidder's Statement for Macquarie Cloud Services Pty Limited (**Bidder**), a wholly owned subsidiary of Macquarie Telecom Group Limited, which has today been lodged with the Australian Securities and Investments Commission and sent to Bulletproof Group Limited (**Bulletproof**), in relation to the Bidder's off-market takeover bid for all of the issued share capital in Bulletproof.

The Supplementary Bidder's Statement will be sent to Bulletproof shareholders in due course.

Yours faithfully



Nathan Shepherd  
Company Secretary

#### About Macquarie Telecom Group

We're Australia's data centre, cloud, cyber security and telecom company for mid to large business and government customers. The way we do this is completely different from our competitors... we provide the best customer service in Australia.

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[macquarietelecomgroup.com](http://macquarietelecomgroup.com)

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## *Supplementary Bidder's Statement*

# ACCEPT

the Offer by

**Macquarie Cloud Services Pty Limited (Bidder)**

ABN 57 093 640 450

a wholly owned subsidiary of

**Macquarie Telecom Group Limited**

to acquire all of your shares in

**Bulletproof Group Limited (Bulletproof)**

ABN 84 148 162 092

**For A\$0.11**

In cash for each share you hold.

This document should be read together with the Bidder's Statement dated 23 November 2017.

**THIS IS AN IMPORTANT DOCUMENT  
AND REQUIRES YOUR IMMEDIATE ATTENTION**

It contains an offer by the Bidder to purchase all of the Shares in Bulletproof. You should consult your financial or other professional adviser as soon as possible.

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## 1. Introduction

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This document is a Supplementary Bidder's Statement issued by Macquarie Cloud Services Pty Limited (**Bidder**), which is a wholly owned subsidiary of Macquarie Telecom Group Limited (**Macquarie Telecom**).

This Supplementary Bidder's Statement is dated 14 February 2018 and issued under section 643 of the Corporations Act. It relates to the offer by the Bidder to acquire all of the shares in Bulletproof Group Limited (**Bulletproof**) as set out in the Bidder's Statement dated and lodged with the Australian Securities and Investments Commission (**ASIC**) on 23 November 2017 (**Original Bidder's Statement**).

**The Bidder reasonably believes that Bulletproof's Target's Statement (Target's Statement) and accompanying Independent Expert's Report (IER) dated 22 December 2017 are misleading and/or deceptive in the following material respects:**

- (a) the Bulletproof board has not unanimously rejected the Offer – the Executive Director and CEO has agreed to accept the Offer under a pre-bid agreement;
- (b) the Offer is not opportunistic and does not reflect a historical low price;
- (c) Bulletproof's financial position is fundamentally weak;
- (d) there is no evidence of a successful "turnaround" of the business having already occurred;
- (e) Bulletproof continues to rely on "underlying" or "normalised" EBITDA without also providing (or providing scant details of) actual EBITDA, EBIT and/or Net Loss After Tax numbers;
- (f) there is inadequate disclosure of the need for additional working capital;
- (g) the Independent Expert fails to disclose that their valuation implies a premium for control over the market price of around 150% which is 6 times the Independent Expert's assessment of normal control premiums of 25%; and
- (h) there is an overstatement of the value of Bulletproof Shares in the analysis of whether the Offer is "fair" and an inappropriate test has been applied to whether the Offer is "reasonable".

While the Target should address these deficiencies, it has refused to do so. Accordingly, the Bidder has prepared this Supplementary Bidder's Statement to highlight the more material deficiencies and, to the extent it is able, address them.

A copy of this Supplementary Bidder's Statement was lodged with ASIC on 14 February 2018. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the contents of this Supplementary Bidder's Statement.

This Supplementary Bidder's Statement supplements, and must be read together with, the Original Bidder's Statement.

Unless the context otherwise requires, terms defined in the Original Bidder's Statement have the same meaning in this Supplementary Bidder's Statement. This Supplementary Bidder's Statement will prevail to the extent of any inconsistency with the Original Bidder's Statement.

## 2. **Misleading and deceptive disclosure**

The Bidder considers that the Target's Statement and the IER are misleading and/or deceptive in a number of material respects and as a whole is an unbalanced and one-sided document that fails to provide Bulletproof Shareholders with the information they require to assess the merits of the Offer.

Set out in the following table is what the Bidder considers to be the key deficiencies of the Target's Statement and the IER.

What your Independent Board Committee Directors (IBCD) and the Independent Expert have told you...	What they haven't told you...
<p>2.1 <i>"...your Independent Board Committee Directors <b>unanimously</b> recommend that you <b>REJECT</b> the Offer, and intend to <b>REJECT</b> the Offer in relation to the Bulletproof Shares they respectively hold or control."</i> (Chairman's Letter)</p>	<p><b>NOT A UNANIMOUS REJECTION OF THE OFFER</b> – The Board has not unanimously rejected the Offer. The Target's Statement includes the views of only two of the three Bulletproof directors. The contrary views of the Co-Founder, Executive Director and largest Bulletproof shareholder, Mr Anthony Woodward, have been omitted. The IBCD is comprised of two non-executive directors, Messrs Carr and Farrow. Mr Carr owns no shares and Mr Farrow only owns \$11,000 of shares (at the Offer Price). Mr Woodward has agreed to accept the Offer under a pre-bid agreement but his reasons for doing so were deliberately excluded from the Target's Statement. Bulletproof Shareholders are entitled to this information and they should demand that Bulletproof provide this information to them.</p>
<p>2.2 <i>"the Offer is opportunistic, inadequate"</i> (Chairman's Letter)</p> <p><i>"Opportunistic and reflects a historical low"</i>(section 1.2, Target's Statement)</p>	<p><b>THE OFFER IS NOT OPPORTUNISTIC</b> – The Offer is as a result of the Bulletproof board deciding to put the company up for sale in early 2017 as a result of its deteriorating financial performance. As part of this process, Macquarie Telecom and a number of other companies were invited by Bulletproof's Chairman, Mr Farrow, to conduct due diligence and consider submitting an offer to buy Bulletproof. To date, Macquarie Telecom is the only party to have submitted an Offer capable of acceptance.</p> <p><b>THE OFFER DOES NOT REFLECT A HISTORICAL LOW</b> – Throughout 2017 and until the announcement of the Offer, Bulletproof's share price had been falling. Since 15 September 2017 and until the announcement of the Offer it traded in the 6.5 – 7.9 cents range and from 16 October 2017 to the announcement of the Offer in the 6.5 – 7.3 cents range. It has traded below the 17 November 2017 price (6.7 cents) on at least 4 trading days with a historical low of 6.5 cents.</p>

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	<p>The price at which Bulletproof Shares traded prior to the Offer reflects the severe deterioration in Bulletproof’s financial condition over the last 12 months. See section 2.3 for further information.</p>
<p><b>2.3</b> <i>“Your Independent Board Committee Directors are firm in their belief in the fundamental strength of the Bulletproof business” (Chairman’s Letter)</i></p>	<p><b>BULLETPROOF’S FINANCIAL POSITION IS FUNDAMENTALLY WEAK</b> – The Target’s Statement inaccurately depicts the Bulletproof business as profitable and as having “turned around”. The business continues to incur losses and will require more capital from shareholders to implement the “turnaround” which may or may not be successful.</p> <p>Bulletproof reported a full year loss to 30 June 2017 of \$6.068M. Underlying EBITDA was 53.6% down on the previous year. Bulletproof issued re-forecast guidance twice during 2017 and missed each time.</p> <p>The Q1 FY18 results show that while Bulletproof’s profitability has improved from the prior year, revenue is down and the actual achieved profit is from one-off re-seller based sales (i.e. not annuity based sales). Further evidence of Bulletproof’s weak financial position is the lack of conversion of earnings to actual cash, resulting in negative cash from operating activities in the first half of FY18. Bulletproof’s FY18 budget targets and outlook depends on a significant improvement in business performance up to 30 June 2018. It is not evident how the improved performance will be achieved and whether it will be sufficient to avoid a capital raising.</p>
<p><b>2.4</b> <i>“The Offer does not reflect the potential profitability of Bulletproof following its recent restructuring and turnaround” (Chairman’s Letter and section 1.3, Target’s Statement)</i></p> <p><i>“...the Company has undergone restructuring to reduce and streamline its cost structure.” (section 6.2, IER)</i></p>	<p><b>NO EVIDENCE OF A SUCCESSFUL “TURNAROUND” HAVING ALREADY OCCURRED</b> – The depiction of the business as profitable and as having “turned around”, is misleading and deceptive given the business continues to incur losses, requires more capital to implement the “turnaround” and the “turnaround” may or may not be successful.</p> <p>There is no reasonable basis to suggest that the Bulletproof business has already or will imminently become profitable following a series of losses. To suggest that the business has been restructured and turned around is also misleading given that recruitment of new key personnel is still to be completed and there is no evidence that the changes so far have resulted in an increase in revenue. The turnaround depends on recruiting new management, identifying new business, securing that business and preventing existing customers from leaving. There is a considerable risk that some or all of this will not be achieved. You have not been provided with any guidance as to what the potential profit of the business is and when that is likely</p>

to be realised. Indeed, according to the Target's Statement you may need to wait to until FY19 to see whether the turnaround has been successful or not.

The risks of the turnaround not being achieved have not been clearly disclosed to you, nor have you been told that Mr Woodward, who is responsible for designing, implementing and delivering that same turnaround, supports the Offer and his reasons why.

The Target's Statement also does not disclose the costs it has agreed to pay its bid advisors. Given Bulletproof's current financial predicament and cash flow problems, it is clearly material to Bulletproof Shareholders to know the Offer expenses, particularly if the Offer is unsuccessful.

2.5 "...we have selected a normalised level of EBITDA of \$4.6 million for the purposes of our FME valuation." (section 6.2, IER)

**RELYING ON "UNDERLYING" OR "NORMALISED" EBITDA –**

Despite Bulletproof's weak financial position and ongoing losses, no balance sheet or cash-flow information has been provided to you. Rather Bulletproof continues to rely on "underlying" or "normalised" EBITDA without also providing (or providing scant details of) actual EBITDA, EBIT and/or Net Loss After Tax numbers. Bulletproof has chosen not to provide you with a proper profit and loss and cash flow forecast alongside the adjusted EBITDA forecast which would disclose the statutory earnings and losses.

Bulletproof has adopted such non-standard measures of profitability to exclude, year on year, key items impacting the financial position of the Bulletproof business on the basis that these costs are "abnormal" or "once off". These costs are essentially "simon-says", unaudited and undefined. For example, Bulletproof's restructuring costs, legal costs in relation to the Cloud House acquisition and costs in relation to the Cloud House legal case are all excluded.

The costs of responding to the Offer, in the context of Bulletproof's financial and cash position, are not disclosed. The high level of interest payments associated with the Moneytech facility is also material, but again excluded under EBITDA.

Bulletproof is forecasting a material increase in "underlying" EBITDA with no articulation as to why the performance in the second half of FY18 will be twice as good as the first half and even when they also state that *"Bulletproof Shareholders are cautioned not to place undue reliance on the forecast financial*

<i>performance of Bulletproof”.</i>	
<p><b>2.6</b> <i>“Bulletproof appears to be in need of additional working capital funding and is currently exploring options with existing providers of debt funding.” (sections 4.2.1 and 9.1.1, IER)</i></p> <p><i>“Bulletproof may need to consider raising additional equity capital in the short to medium term if other funding solutions cannot be secured.” (sections 4.2.1 and 9.1.1, IER)</i></p> <p><i>“We estimate that Bulletproof requires c. \$0.5 million to \$1.0 million additional funding for short to medium term working capital requirements.” (section 3.6.1, IER)</i></p>	<p><b>INADEQUATE ALLOWANCE FOR ADDITIONAL WORKING CAPITAL</b> – The estimate of \$0.5 million to \$1.0 million required in additional funding is insufficient to resolve Bulletproof’s working capital deficiency, with at least \$4 million in additional working capital being required to fund the business turnaround.</p> <p>The amount allowed for by the Independent Expert will not fully discharge the debtor financing position, let alone provide Bulletproof with a sufficient capital buffer to prevent Bulletproof from having to resort to expensive, “last resort” type funding that debtor financing provides.</p> <p>In the absence of disclosure of the cash flow forecasts to which the IER refers, there is no evidence advanced by the Independent Expert to support the assertion that \$0.5 million to \$1.0 million would be sufficient, rather the required capital appears to be no less than \$4.0 million.</p> <p>In deciding whether or not to accept the Offer, you should be told that if the Offer is unsuccessful (and no other offer eventuates) you are likely going to have to inject more money into Bulletproof or be diluted. You are entitled to know how much equity is needed, the price at which shares will be sold and the dilution of existing shareholders if they can’t afford to participate.</p>
<p><b>2.7</b> <i>“...we have assessed the fair market value of a Bulletproof share on a controlling interest basis prior to the Offer in the range of \$0.167 to \$0.184 primarily reflecting our FME valuation.” (section 8.1.1, IER)</i></p>	<p><b>IMPLIED PREMIUM FOR CONTROL</b> – The Independent Expert fails to disclose that their valuation implies a premium for control over the market price of around 150%. This is six times the Independent Expert’s assessment of normal control premiums of 25%.</p> <p>In conducting its valuation, the Independent Expert adopted an EBITDA multiple range of 6.5 to 7.0 times EBITDA, which has led to an unrealistic valuation.</p> <p>The IER makes reference to five “guideline transactions” (set out at Table 19 of the IER) with enterprise values of less than \$100 million, to derive a median EBITDA multiple of 7.3 times. Based on public information, for four out of the five transactions to which the IER refers, the EV / EBITDA multiples included earn-out amounts – i.e. post completion payments dependent on future performance. This results in a higher multiple being applied to Bulletproof. By contrast the Offer consideration is cash up front and does not have any deferred consideration. Accordingly, a lower multiple of 5 applied to actual EBITDA performance would be</p>

more in line with the trading performance of Bulletproof.

Given the risk and uncertainty of Bulletproof's turnaround being successful and that Bulletproof incurred significant losses in FY17 and continued to incur losses in the four months to October 2017, a much lower multiple than those guideline transactions should have been used.

The IER does not directly and sufficiently justify this difference, and effectively ignores the listed price of Bulletproof shares in forming its view as to the value of Bulletproof shares.

**2.8** *"The Offer is NEITHER FAIR NOR REASONABLE to Shareholders"* (page iv, IER)

**OVERSTATEMENT OF THE VALUE OF BULLETPROOF SHARES IN THE ANALYSIS OF WHETHER THE OFFER IS "FAIR"** – The overstated capitalisation multiple and a premium for control of around 150% adopted within the IER have led to an incorrect valuation of the Bulletproof Shares upon which the Independent Expert has relied in forming its view as to whether the Offer is "fair".

See section 2.7 for further information.

**APPLIES AN INAPPROPRIATE TEST TO WHETHER THE OFFER IS "REASONABLE"** – In assessing whether the Offer is "reasonable", ASIC's relevant published guide on expert's reports requires an independent expert to form a view on whether, notwithstanding an expert's view on fairness, the offer is reasonable in the circumstances. The Independent Expert has failed to undertake this separate analysis but rather apparently formed the view that because the Offer, in its view, is not "fair", it is also "not reasonable".

The Independent Expert should have concluded that the Offer is reasonable, and that Bulletproof Shareholders should accept the Offer in the absence of a higher bid, given:

- The significant capital deficiency of Bulletproof (see section 2.6), which renders it questionable whether Bulletproof can sustainably execute its turnaround strategy (see section 2.4) and therefore realise a share value that is comparable to the Independent Expert's valuation of \$0.167 to \$0.184 (upon which the IER bases its analysis of whether the Offer is "fair");
- The extent to which the Offer Price exceeded the trading price of Bulletproof Shares prior to the

announced Offer; and

- The absence of any real disadvantages of the Offer.

### ***3. Approval of this Supplementary Bidder's Statement***

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This Supplementary Bidder's Statement is dated 14 February 2018 and was approved by a resolution of the Directors of the Bidder on that date.

Signed by David Tudehope for and on behalf of the Bidder.



Title: Director  
Macquarie Cloud Services Pty Limited  
Date: 14 February 2018

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