



Sonic Expands into USA Pathology Market Acquisition of Interest in CPL

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Agenda

Summary

Sonic's Global Expansion

US Industry Overview

Clinical Pathology Laboratories, Inc.

Acquisition Structure and Funding

Summary

- Sonic Healthcare has signed an agreement to initially acquire an 80-85% interest in Clinical Pathology Laboratories, Inc. (CPL)
- CPL is the one of the largest independent laboratories in the United States
 - Annual revenues of ~US\$190 million (~A\$250 million)
- CPL enjoys a leadership position in Texas, with significant growth opportunities in contiguous states
 - CPL's core market is the South West of the USA
 - CPL's main lab facilities are based in Austin, Texas
- CPL has a history of strong growth, with recent expansion into Ohio and Virginia



Summary

- CPL is differentiated from major competitors in the independent sector
 - Pathologist / Medical leadership
 - Doctor-focused, personalised service
- Sonic and CPL have similar corporate cultures and values
- CPL provides Sonic with substantial growth opportunity
 - Like-minded partnership
 - Largest market in the world
- Acquisition is EPS accretive
- Funded by a US\$ facility jointly provided by ANZ Bank and JPMorgan
- CPL represents an ideal entry for Sonic into the US market



Agenda

Introduction

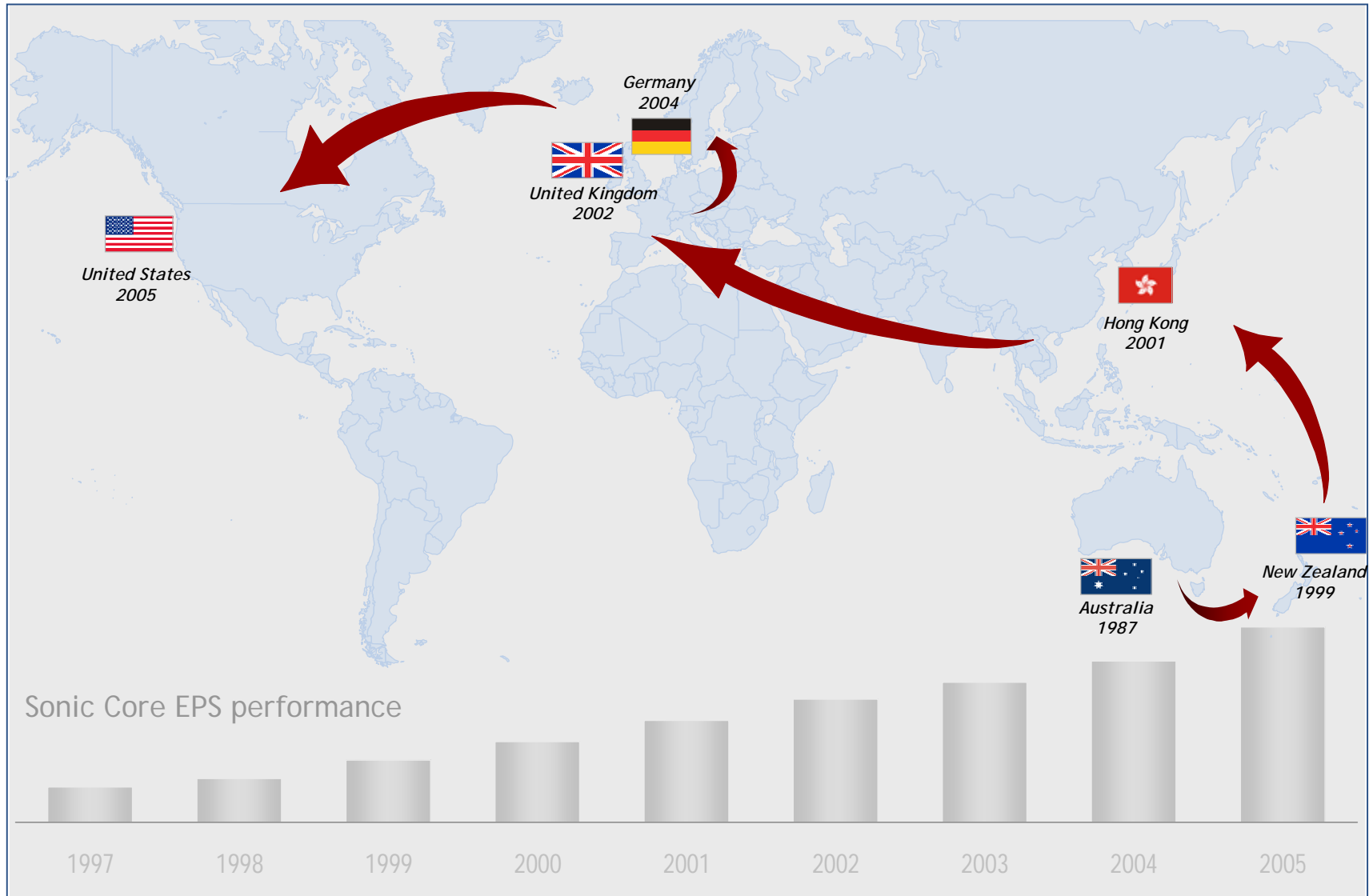
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CPL Acquisition Affords Sonic a Global Footprint



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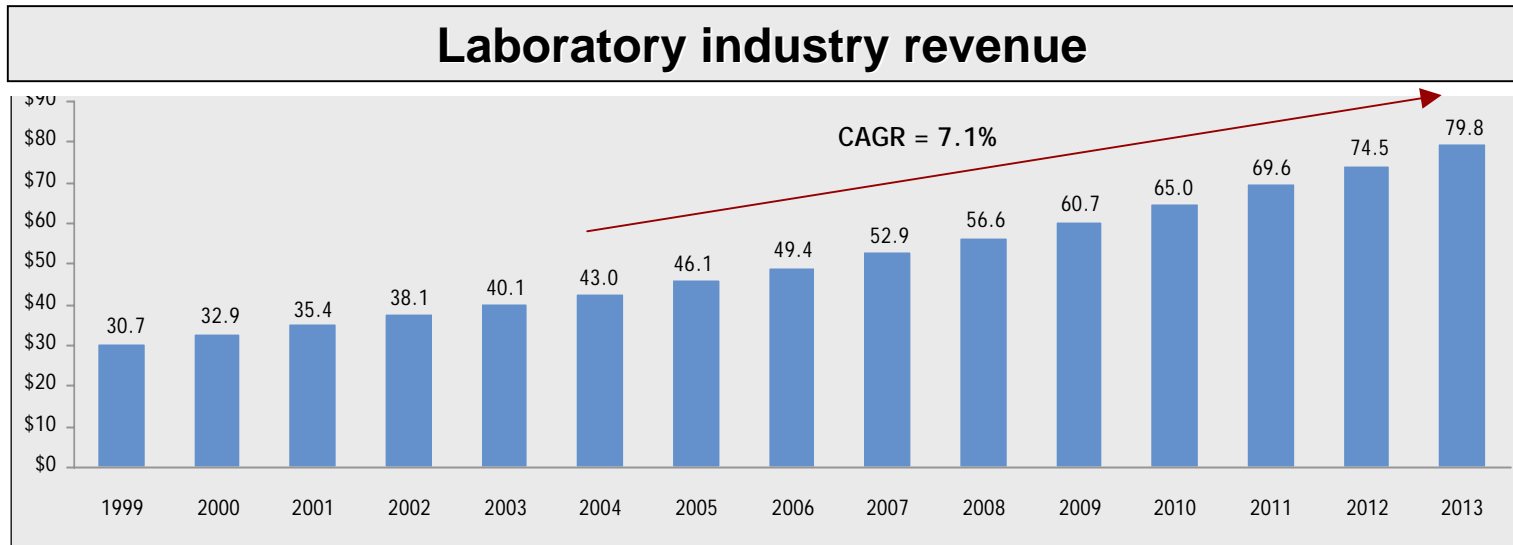
US Industry Overview

Clinical Pathology Laboratories, Inc.

Acquisition Structure & Funding

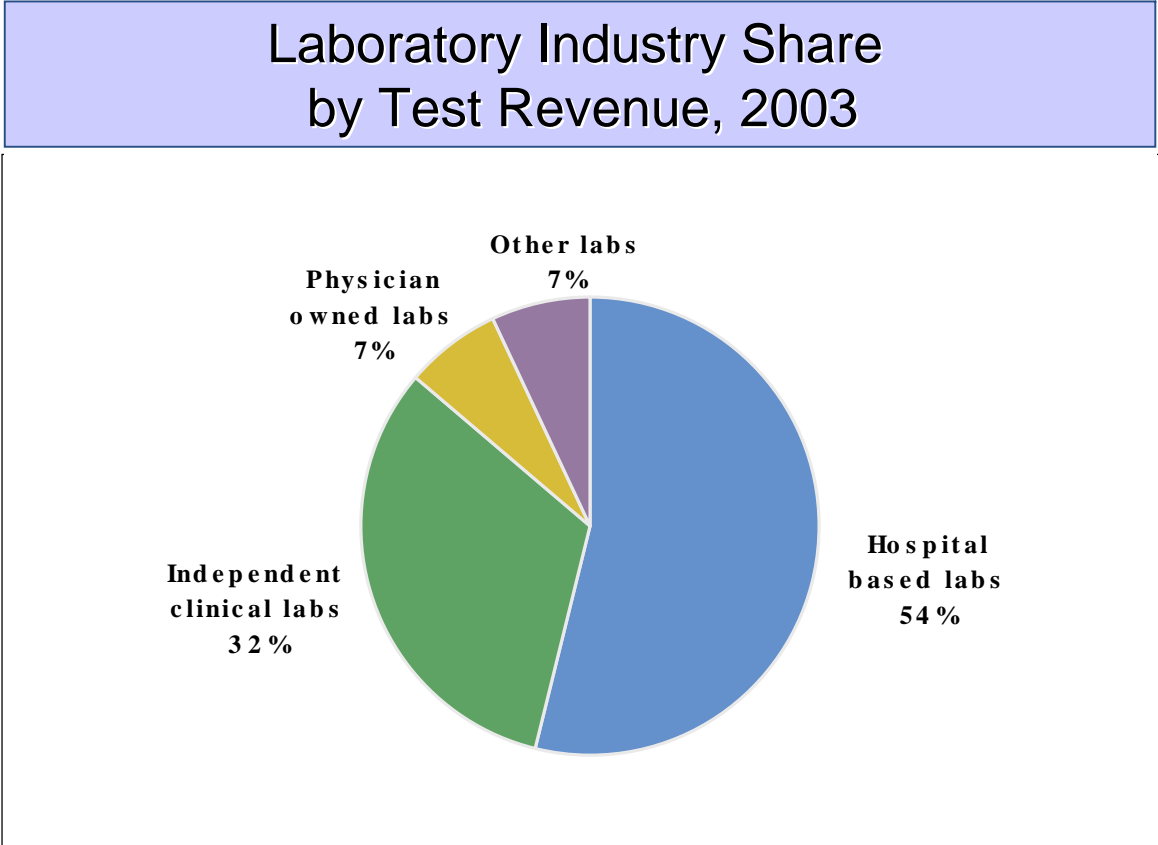
The United States Pathology Market

- The US is the largest pathology market in the world
 - US\$40 billion revenue in 2003
- Laboratory testing is linked to the entire US healthcare system
 - Hospital care, GP and specialist services, nursing homes, home healthcare etc
- Pathology expenditure in the US
 - ~3.0% of overall US health services expenditure
 - Estimated future growth rates of approximately 7% p.a. through to 2013



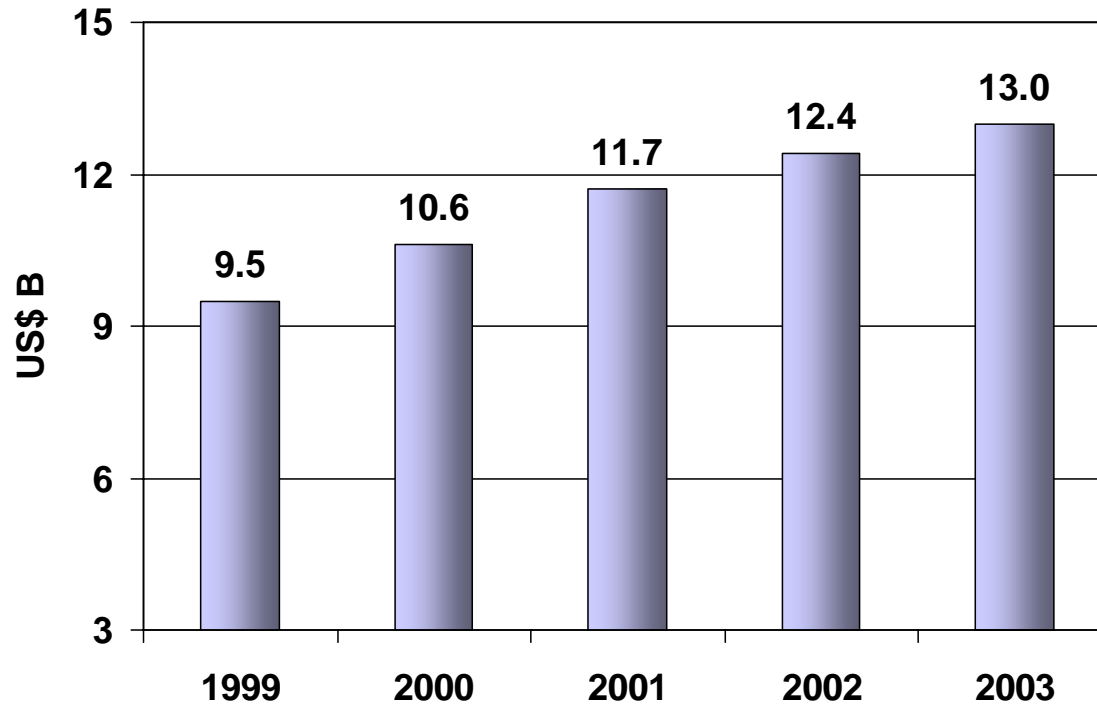
Total public and private laboratory revenue. Washington G2 Reports

US Laboratory Market Segments



Hospital Labs.....~8,500
Independent Labs.....~5,000
Physician Office Labs.....~110,000
Other Labs.....~ 58,000

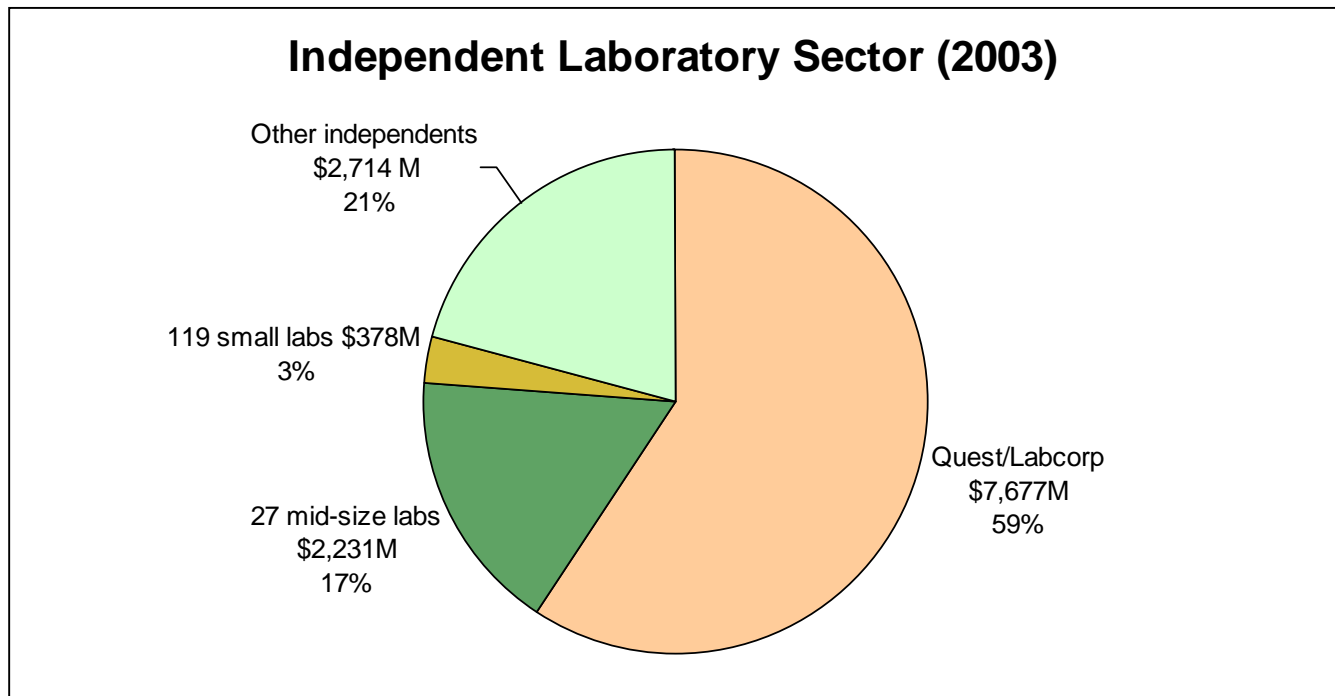
Independent Laboratory Sector – Revenue Trend



The independent laboratory sector grew at an average of 6.9% per annum (1999 – 2003)

Independent Laboratory Sector

- Independent pathology sector is highly fragmented
- In 2003, the sector had revenues of ~US\$13 billion
- 5,000 independent laboratories falling into three categories
 - National consolidators - Quest and LabCorp
 - Mid-sized independents with revenue of US\$10-500 million p.a.
 - Small independents with revenue of <US\$10 million



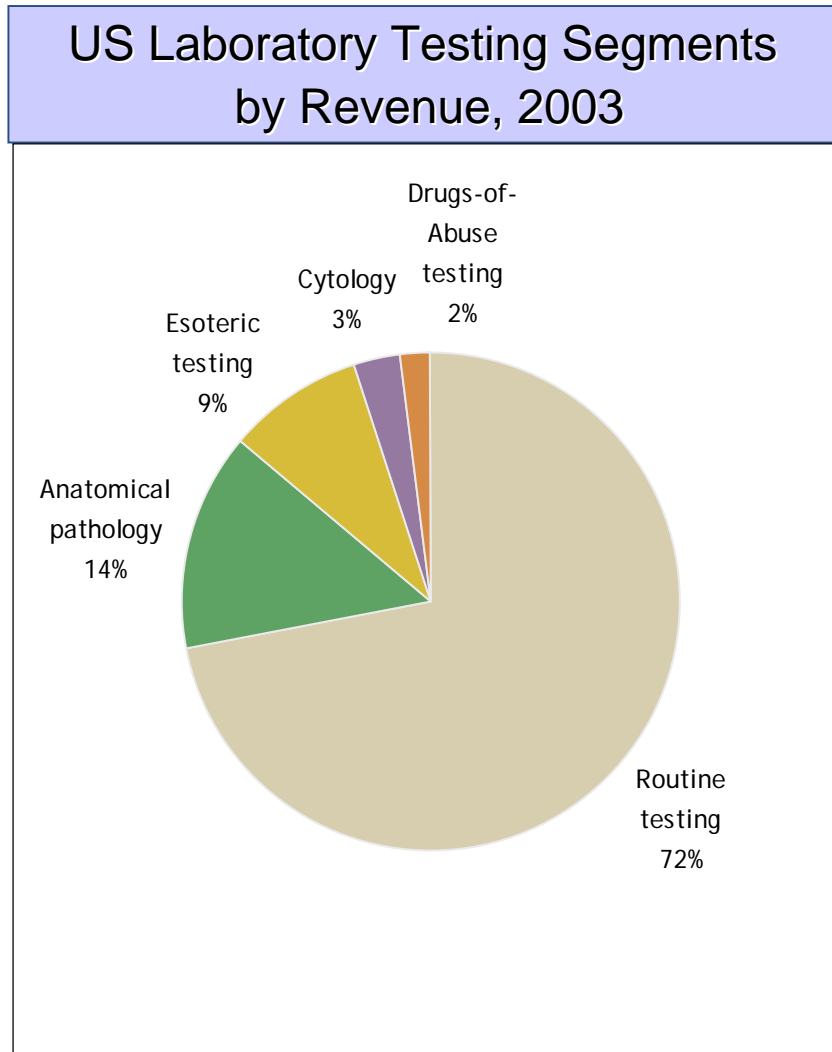
Independent Laboratories (by revenue, 2003)

- **Quest**
- **Labcorp**
- Ameripath – Specialist Anatomical Pathology
- LabOne – purchased by Quest in 2005
- Mayo Medical Labs – Hospital owned, esoteric lab
- ARUP Laboratories – Hospital owned, esoteric lab
- Spectra Renal Labs – Specialist renal dialysis
- **CPL**
- Impath – purchased by Genzyme in 2004
- **Specialty Labs**

CPL is the 3rd largest comprehensive lab
in the independent sector



US Laboratory Testing Segments



Source: Washington G2 Reports

- Routine tests include blood counts, routine chemistry analysis, urinalysis, blood cholesterol tests, pregnancy and prenatal testing, glucose monitoring etc
- Anatomical pathology testing analyses disease by examining changes in human tissues and cells, such as biopsies
- Cytology testing involves Pap smear testing and fine needle aspiration biopsies
- Esoteric testing typically includes rarer tests such as endocrine tests, allergy testing, chromosome and gene analyses, molecular testing etc
- Drugs-of-abuse testing involves screening for illegal drugs

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Acquisition Structure & Funding

Clinical Pathology Laboratories (CPL)

- CPL is the largest regional independent laboratory in the USA
- CPL's core market is Texas, with newly established markets in Ohio and Virginia (Washington DC area)
- Annual revenue of ~US\$190 M (~A\$250 M) per annum
- CPL has a proven, experienced and committed management team
- Diverse and loyal customer base
- 15 year history of strong growth
- CPL has a unique doctor-focused operating model
- Sonic and CPL have very similar cultures and values

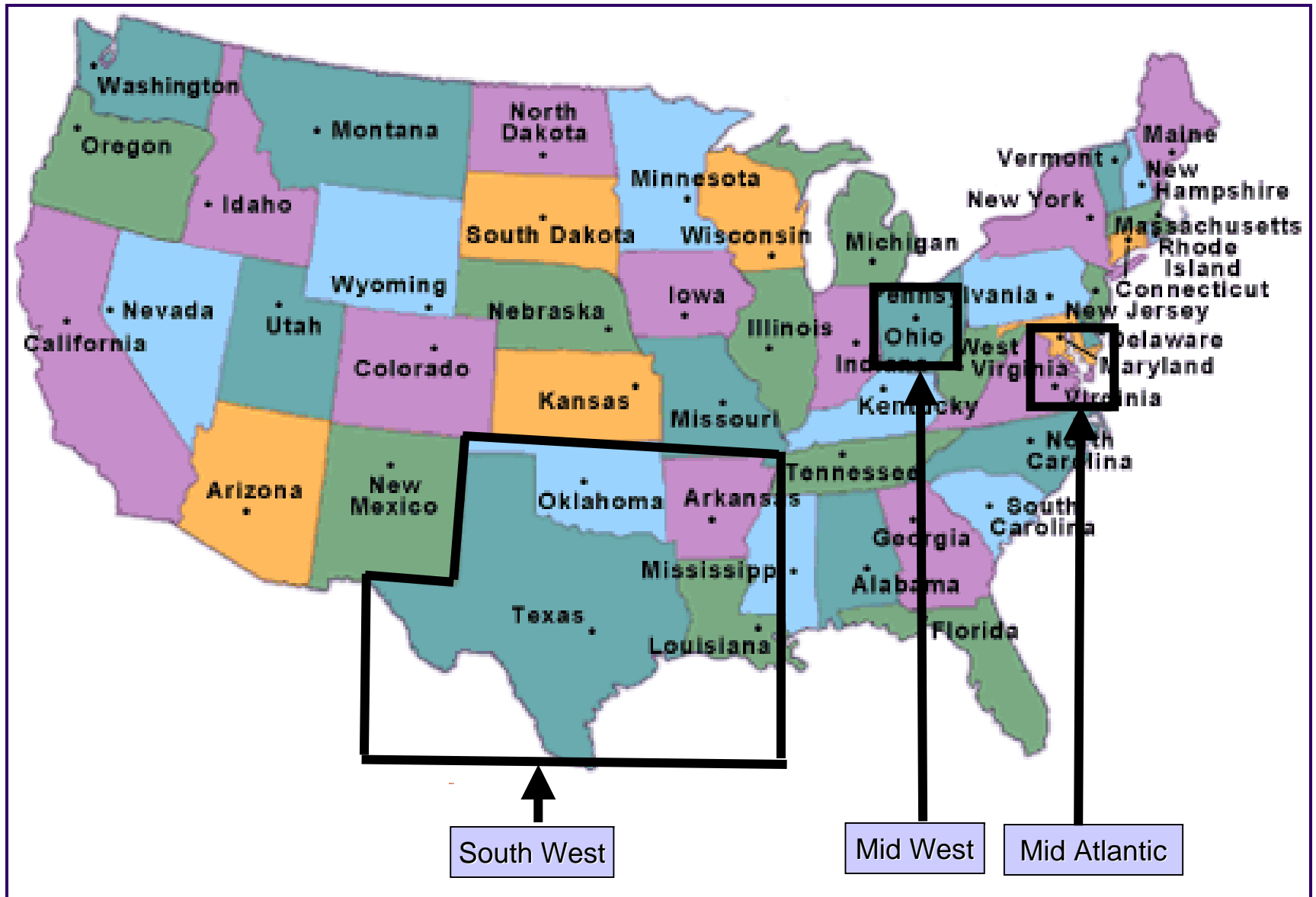
CPL offers a unique and compelling platform for Sonic in the US

CPL History

- 1948 – 1989 Forerunner of CPL, part of pathologist group
- 1990 – 1997 Expansion into San Antonio, Dallas
- 1999 Acquisitions of Seguin Labs and Waco Medical Group Lab
- 2000 Acquisitions of labs in Houston, Dallas, Denton, Victoria
- 2001 CPL recapitalises with entry of private equity fund
- 2002 Expansion into Oklahoma, Arkansas, Louisiana
- 2003 Acquisition of labs in Ohio and Virginia
- 2004/5 Further small acquisitions in South West and Ohio

CPL has shown strong organic growth over the past 15 years

CPL Operational Markets



CPL Geographic Markets

➤ CPL South West

- CPL's core market
- Texas, Oklahoma, Arkansas, Louisiana
- South West laboratory market estimated at US\$1.3 billion annually
- CPL has around 15% share of Texas market (population 22 million)
- Major referrals from Austin, Dallas and San Antonio
- Extensive network of local pathologist relationships
- Strong and recognised reputation for excellent customer service

➤ CPL Mid-Atlantic

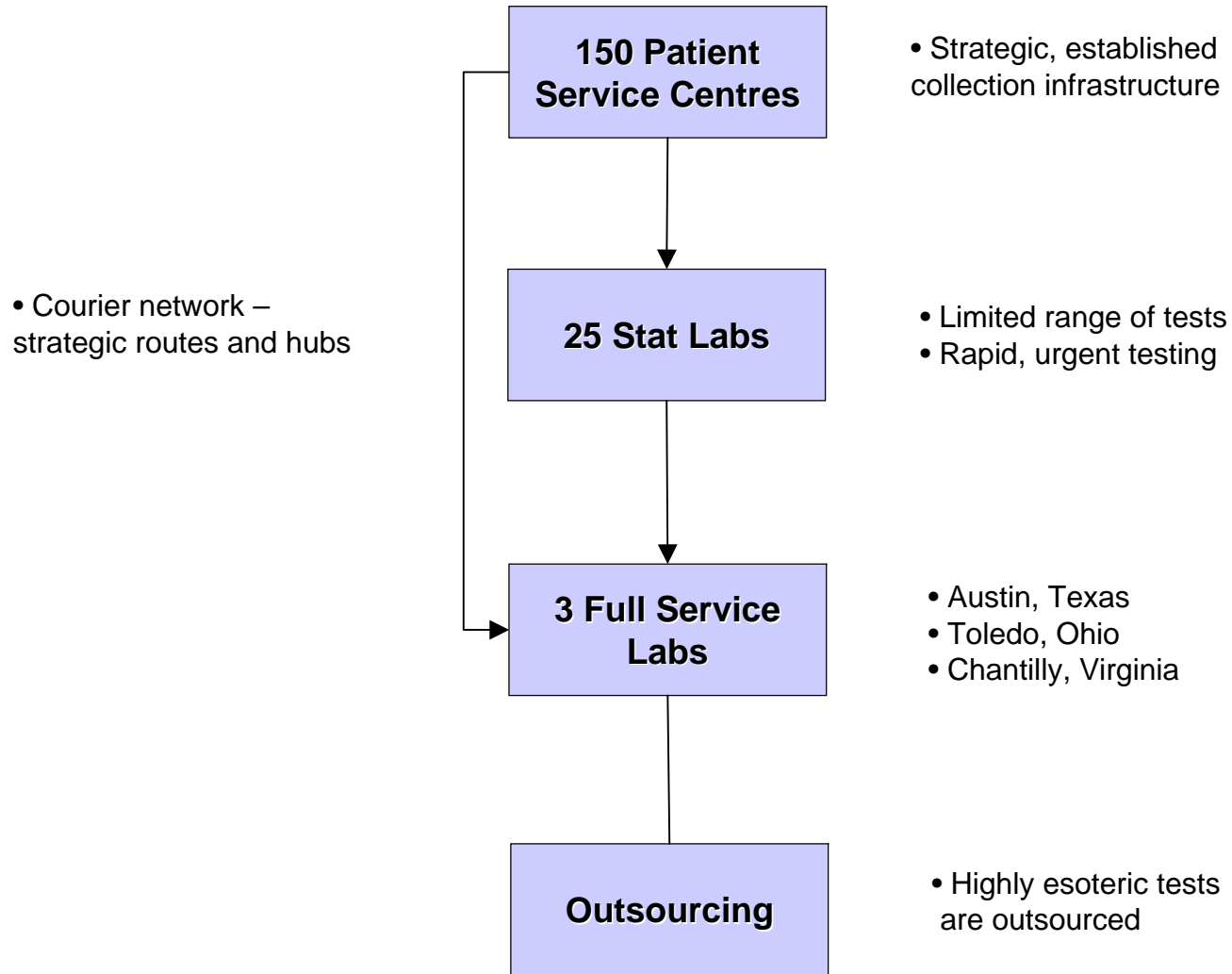
- Acquisition of Fairfax Medical Laboratories, Chantilly, Virginia
- Full service laboratory, medium size
- Services local area, including Washington D.C.
- Expansion opportunities in D.C., Baltimore and other areas

➤ CPL Mid-West

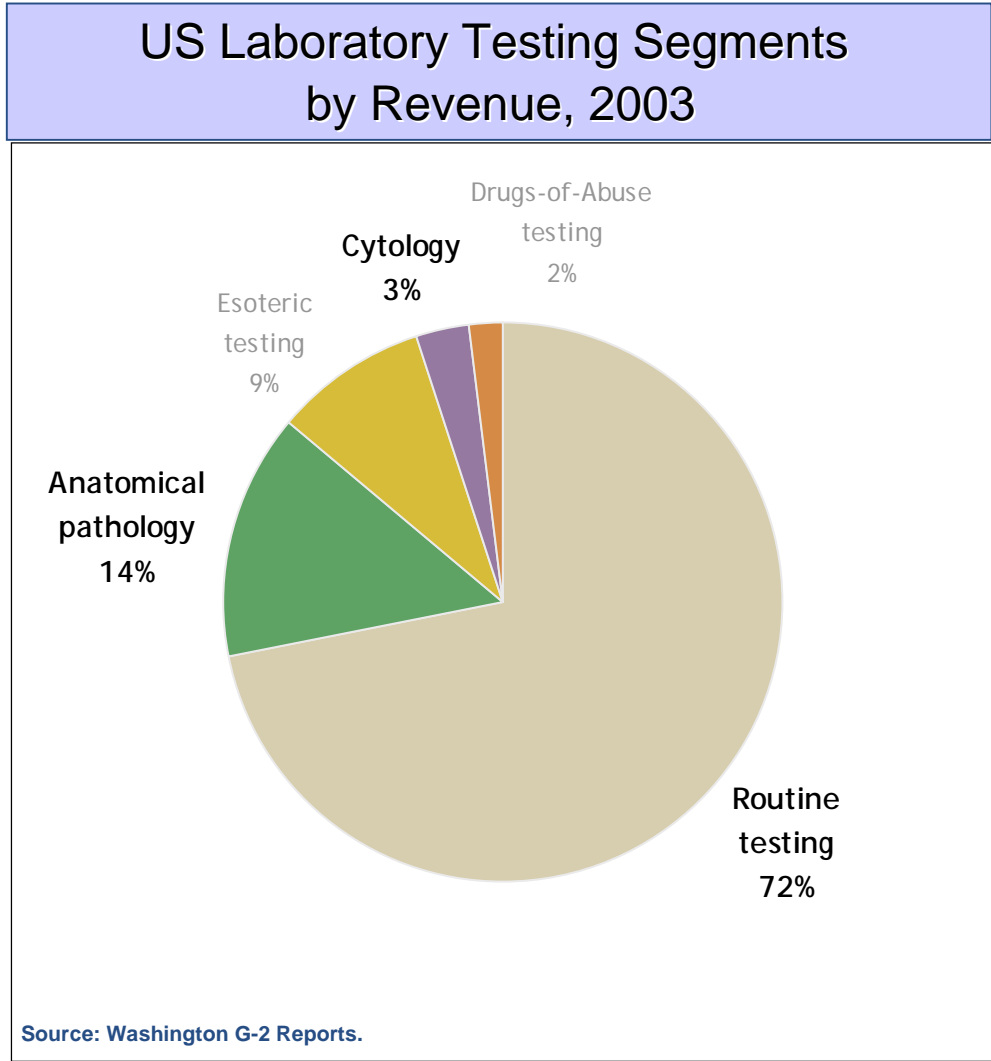
- Acquisition of Pathology Laboratories, Inc (PLI), Toledo, Ohio
- Full service laboratory, medium size
- Potential to service Detroit, Cleveland, Chicago



CPL Operational Infrastructure



Laboratory Testing Segments



CPL focuses testing on:

- Routine Pathology
- Anatomical Pathology
- Cytopathology

Corporate Values and Operating Models

Sonic Healthcare

- Medical practice / Medical leadership
- Respect & honesty
- Responsibility & accountability
- Personalised service for Doctors
- Commit to service excellence
- Federation model

CPL

- Pathologist interaction with clinicians
- Uncompromising integrity
- Accountability
- Focus on the physician
- Service comes first
- “Franchise Model” by region

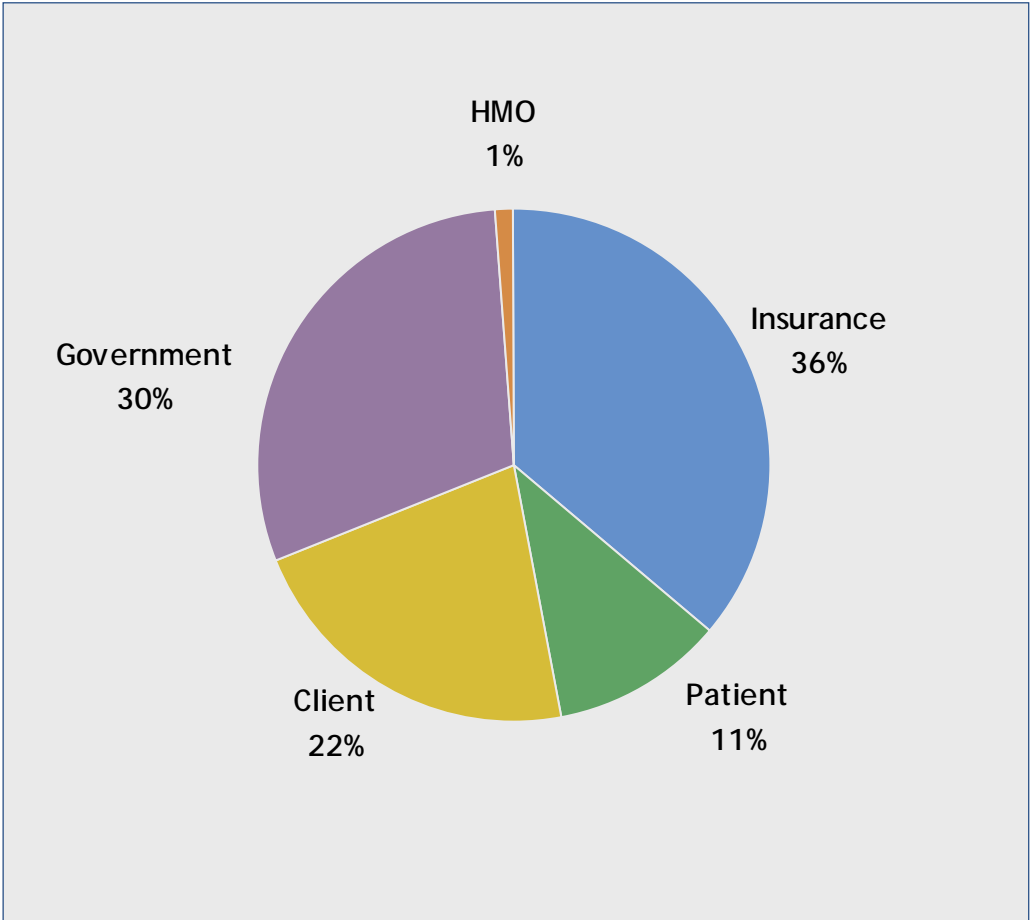
Sonic Healthcare and CPL are “like-minded” organisations

Corporate Values of Sonic and CPL

- Corporate values and operating models of Sonic and CPL are very similar
- Like Sonic, CPL has pathologists in leadership positions
- Like Sonic, CPL provides direct personalised service to referring doctors
- CPL is affiliated with over 150 pathologists
- CPL's model is distinctive in the US independent laboratory market
- CPL's values and model are key attractions for Sonic in the US market



CPL Payer Mix



- Government including Medicare (Federal – elderly) and Medicaid (State – disadvantaged)
- Managed care companies – CPL has contracts with many including Blue Cross, Aetna, United, Medical Mutual, Humana etc
- Direct payers such as physicians, hospitals, employers (“Clients”)
- Other laboratories and patients

CPL Management

- CPL has an experienced and dedicated management team, committed to growing the business with Sonic
- Dr Robert Connor, M.D., Chairman, CEO, Medical Director
 - Qualified and practising pathologist
 - Became Chairman and CEO of CPL in 1990
 - Has driven the medical leadership model of CPL – both pathologists and clinicians
- Mr David Schultz, B.S.B.A., President, Chief Operating Officer
 - Long-standing career in laboratory management
 - Highly respected management profile in US laboratory industry
- Dr Connor and Mr Schultz have worked together at CPL for 16 years and are the architects of CPL's unique strategy
- CPL management have a track record of strong growth
- CPL's management culture and operating model are critical differentiators in the independent pathology sector

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Summary of Key Transaction Terms

Key Transaction Terms	Commentary
Sonic will initially acquire 80% - 85% of CPL	<p>Key CPL management and pathologists will initially retain a 15% - 20% interest in CPL</p> <p>Sonic will acquire the minority interests progressively over a 3 year period (2009 – 2012)</p>
Consideration for initial acquisition is ~US\$300M (assuming an 80% initial acquisition)	<p>Purchase price equates to ~9.5 times prospective EBITDA</p> <p>Consideration includes an earnout amount of up to US\$20M which will be paid if EBITDA targets are met in CY2005</p>
ANZ Bank and JPMorgan have provided a US\$ facility to fund the acquisition	Sonic will consider a range of alternatives to refinance the facility

The acquisition will be immediately EPS accretive for Sonic

Ownership Structure

- Initially, Sonic will acquire at least 80% of CPL, and not more than 85%
- Key management and pathologists will retain equity for a period of at least 5 years
- The largest non-Sonic shareholders will continue to be Dr Robert Connor (Chairman and CEO) and Mr David Schultz (President and COO)
- Dr Connor and Mr Schultz will retain ~50% of their current shares and will coordinate the register of ongoing non-Sonic shareholders
- Summit Partners, retired pathologists and non-active shareholders will exit entirely
- Sonic's exact initial percentage shareholding will depend on this process
- Sonic will move progressively to acquire 100% of CPL over 3 years (2009-2012), using a mechanism geared to EBITDA



Purchase Price

- Sonic's consideration for 80% of CPL is US\$300 million, less debt (~US\$10 million)
- Earn-out of up to US\$20 million of the US\$300 million consideration
 - Earn-out is dependent on achievement of pre-defined EBITDA targets in CY2005
- Valuation represents a prospective EV/EBITDA multiple of ~9.5 times
- Purchase price compares favourably to recent transactions
 - Quest acquired LabOne at 12.7x EBITDA (pre-synergies) - August 2005
 - LabCorp acquired Esoterix at 12.7x EBITDA (pre-synergies) - March 2005
- Acquisition is immediately EPS accretive for Sonic

Acquisition Debt Facility

- Sonic was named the exclusive preferred bidder for CPL in early July
- A shared philosophy and Sonic's 'federation' model were critical success factors and certainty of funding was a pre-requisite
- ANZ Bank and JPMorgan have provided a six-month US\$ debt facility
- Sonic is considering a number of alternatives to refinance this facility, including potentially upsizing its senior syndicated debt facility

Transaction Timeline

- Transaction conditions
 - Approval from Sonic's banking syndicate for the US\$ facility
 - CPL shareholder approval (CPL Board approval given)
 - US anti-trust approval
- No problems are envisaged with these conditions
- Completion expected on 30 September 2005



Conclusion

- CPL represents an exceptional entry for Sonic into the world's largest pathology market
- CPL's management and pathologists are experienced and committed and will hold significant equity in the business
- Sonic is attracted to CPL's similar culture and unique doctor-focused operating model
- Sonic-CPL will create a strong partnership for organic and acquisitional growth in the US laboratory market



