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Sonic Healthcare's DML wins new Auckland community laboratory contract

Sonic Healthcare Limited ("Sonic") (SHL.AX) advises that following the 6 September 2009 transfer of the Auckland, New Zealand, community laboratory contract from Sonic's Diagnostic Medlab ("DML") to Healthscope's Labtests, DML has been invited to return to provide specific services under a new 4 year contract.

The new contract value is NZ\$10.6 million per annum, representing 15.8% of the annual NZ\$67 million contract originally awarded to Labtests. The DML contract covers approximately 10% of the total community laboratory volume and represents the more complex range of services such as specialist referrals and histopathology. Whilst the contract is expected to break even initially, DML's contracted value is to be renegotiated prior to 30 June 2010 such that a suitable price is agreed between the parties for the remainder of the term. Sonic is hopeful of retaining services beyond the 4 year term.

The newly announced shared arrangement has been triggered by the need to relieve pressure on the new laboratory provider, Labtests. The Chairman of the Auckland District Health Board, Mr Pat Snedden, said today that "Labtests found themselves under stress with regard to managing volumes, getting results to clinicians at the right time and place, managing the very customised service aspects of service such as home visits, having the right ratio of fully trained to trainee phlebotomists and turnaround times on urgent results. As a result, concerns arose about their ability to consistently operate within the expected contract expectations".

Commenting on the Auckland developments, Sonic's CEO Dr Colin Goldschmidt said: "We have agreed to return to service provision in Auckland under defined conditions. DML will be restructured in order to provide the limited, yet more complex services to the doctors and patients of Auckland. The past 3 years have been traumatic for DML and costly for all parties involved. The majority of DML staff have remained loyal to DML and Sonic over this period and despite the positive aspects of DML's return to service, the reduced scale of the laboratory operation will represent a pyrrhic victory for most of our people. Nevertheless, Sonic and DML look forward to working positively with Auckland's doctors and patients to deliver outstanding laboratory services into the future".

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