



SONIC  
HEALTHCARE

# Financial and Operational Review

## Year to 30 June 2007

Dr Colin Goldschmidt  
CEO and Managing Director  
23 August 2007

# FY 2007 Highlights

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- ▶ Sonic delivers record earnings result – guidance achieved
- ▶ Net profit up 15%
- ▶ Earnings per share up 12%
- ▶ Full-year dividend up 12%
- ▶ Australian Pathology performing strongly
- ▶ US and UK entities deliver strong results
- ▶ Result held back by Imaging and NZ Pathology
- ▶ Sonic secures landmark acquisitions in Europe and the US
- ▶ Strong growth set to continue



# 2007 Financial Highlights

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	Growth 2007 vs 2006
Revenue	14%
EBITA	12%
NPAT	15%
EPS	12%
Dividend (full-year)	12%



# FY 2007 Guidance Delivered

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FY 2007	Sonic Guidance		Actuals	
Revenue	~9% growth on FY '06	A\$1,805M	A\$1,886M	14%
Earnings per Share	~10% EPS growth on FY '06	64.5¢	65.5¢	12%

# FY 2008 Guidance

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- ▶ Revenue growth 20 – 25%
- ▶ Earnings per share growth >12%

## Variables:

- ▶ Acquisition settlement timing
- ▶ Assumes capital raising
- ▶ Foreign exchange rates
- ▶ Interest rates
- ▶ No German synergies assumed in 2008



# Revenue FY 2007

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	2007 (A\$M)	2006 (A\$M)	Growth (%)
Total Revenue	1,886	1,656	14%

- ▶ Organic revenue growth (excluding acquisitions) ~7%
- ▶ Australian pathology revenue growth ~9%
  - ▶ Strong revenue growth Sullivan Nicolaides Pathology, Melbourne Pathology, Douglass Hanly Moir Pathology, Clinipath
- ▶ US organic revenue growth well above market at ~14%
- ▶ UK laboratory revenue growth strong
- ▶ Negative influences on revenue growth:
  - ▶ Low growth rate of New Zealand pathology
  - ▶ Schottdorf laboratory revenue growth rates lower than average
  - ▶ Radiology growth rate of ~4%
  - ▶ Foreign exchange rate movements reduced revenue by ~A\$16 million

# Revenue Growth FY 2008

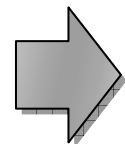
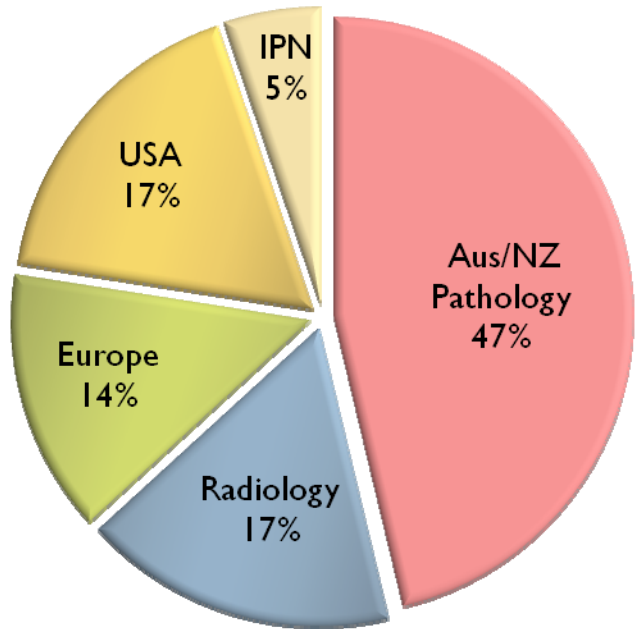
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- ▶ **Acquisitions impacting 2008 revenue**
  - ▶ AEL – acquired 8 January 2007
  - ▶ Medica – acquired 30 May 2007
  - ▶ Sunrise – acquired 31 July 2007
  - ▶ Bioscientia – signed 13 August 2007
  - ▶ New acquisitions
- ▶ **Australia/NZ pathology**
  - ▶ Australia – anticipate 6-8% revenue growth
  - ▶ New Zealand growth rates low
- ▶ **Sonic labs in Europe and USA**
  - ▶ Ongoing strong growth in USA
  - ▶ European growth rates ~5% average
- ▶ **Radiology**
  - ▶ Forecast growth rate of ~5%

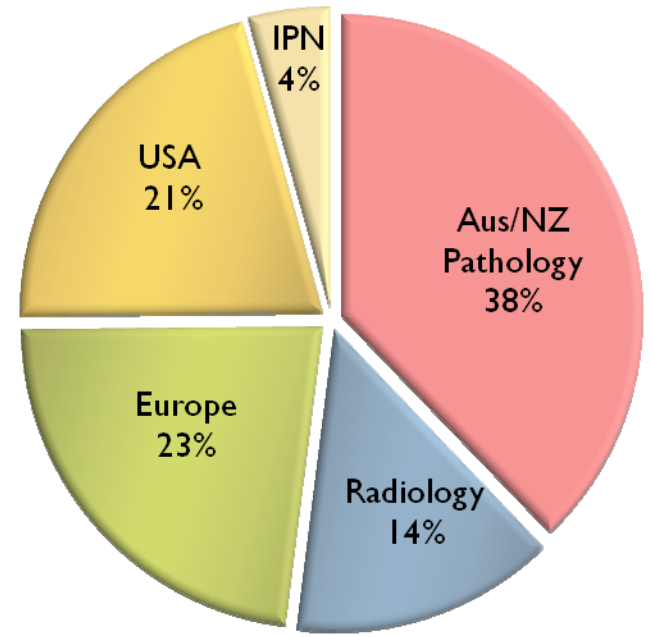


# Sonic Revenue Mix

FY 2007  
(Actuals)



FY 2007  
(Acquisitions normalised\*)



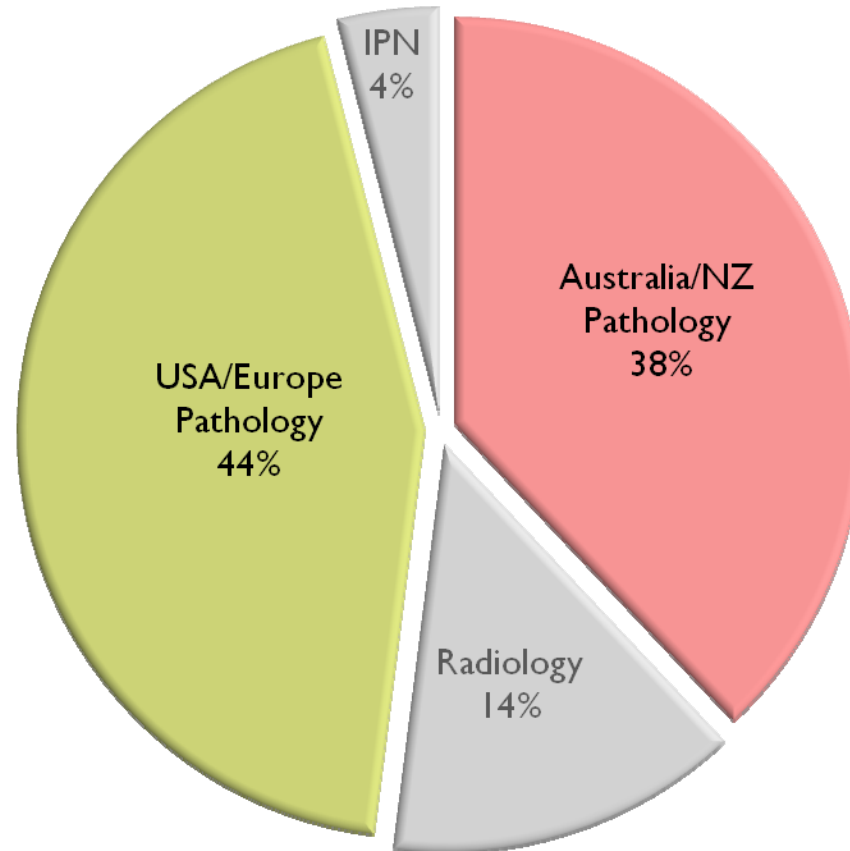
\* Includes full year revenue of acquisitions completed or announced to 23 August 2007



# Sonic Revenue Mix

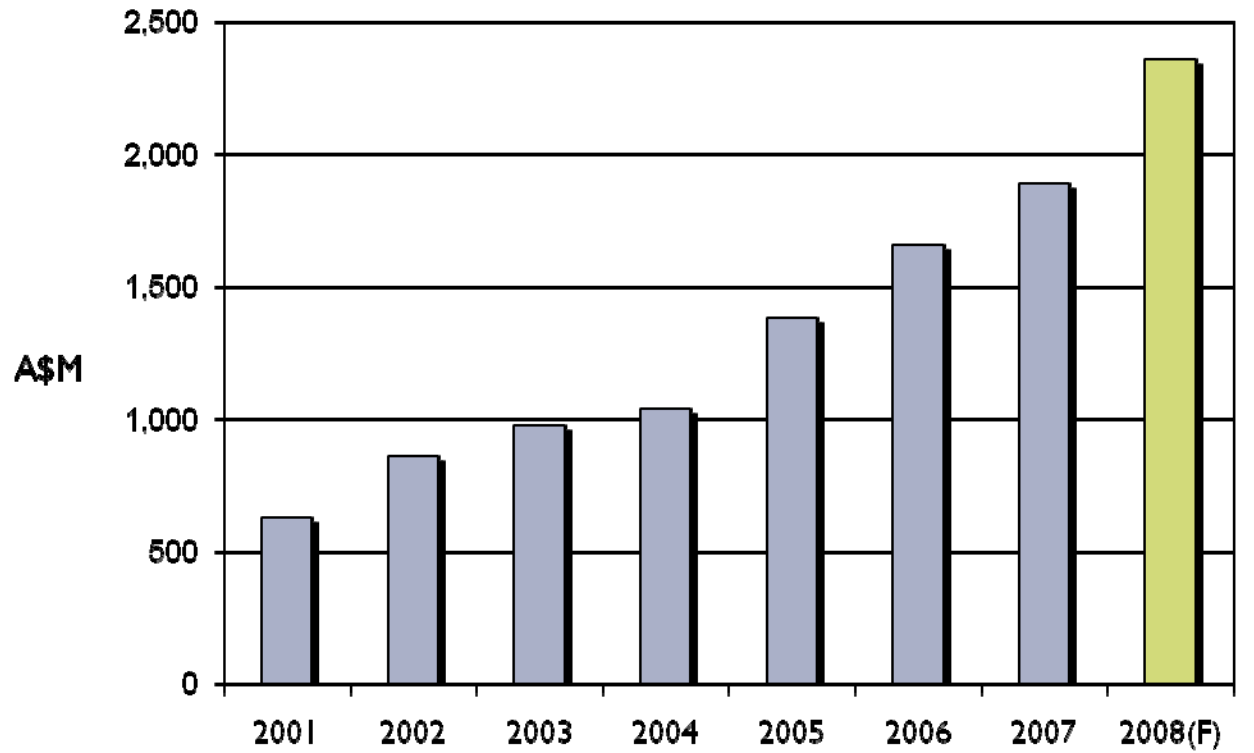
2007 with acquisitions normalised\*

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\* Includes full year revenue of acquisitions completed or announced to 23 August 2007

# Annual Revenue



Forecast FY 2008 revenue  
at 25% increase on FY 2007

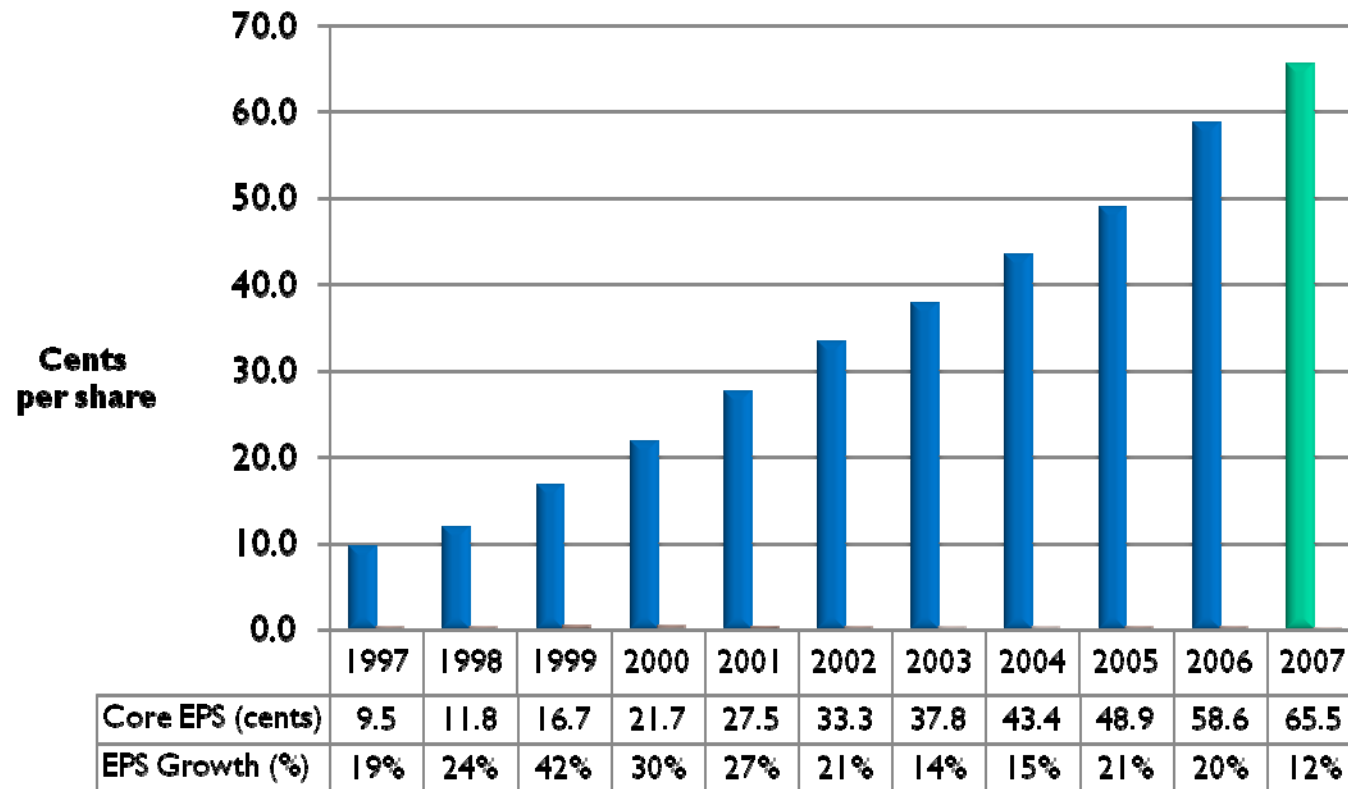
# Earnings Growth

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		FY 2007	FY 2006	Movement
EBITDA		405.7	360.3	13%
EBITA	(A\$M)	343.6	306.0	12%
NPAT	(A\$M)	198.1	172.0	15%
EPS	(cents)	65.5	58.6	12%
Cash Generation	(A\$M)	267.9	247.2	8%

# Earnings per Share

## EPS and EPS Growth



# Earnings Margins

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	FY 2007	FY 2006	Movement
EBITDA Margin	21.5%	21.8%	(30) bps*
EBITA Margin	18.2%	18.5%	(30) bps*

- ▶ **Margin dilution**
  - ▶ Radiology margins – Low revenue growth and cost pressures associated with radiologists' remuneration restructuring
  - ▶ Margin dilution from USA acquisitions – Lower margins than average of Sonic's other businesses
- ▶ Australian pathology delivered margin expansion of 50 bps
- ▶ UK and USA delivered strong margin expansion
- ▶ Radiology division showed margin improvement over the year
  - ▶ H2 margins up 40 bps over H1

\*bps = basis points of margin

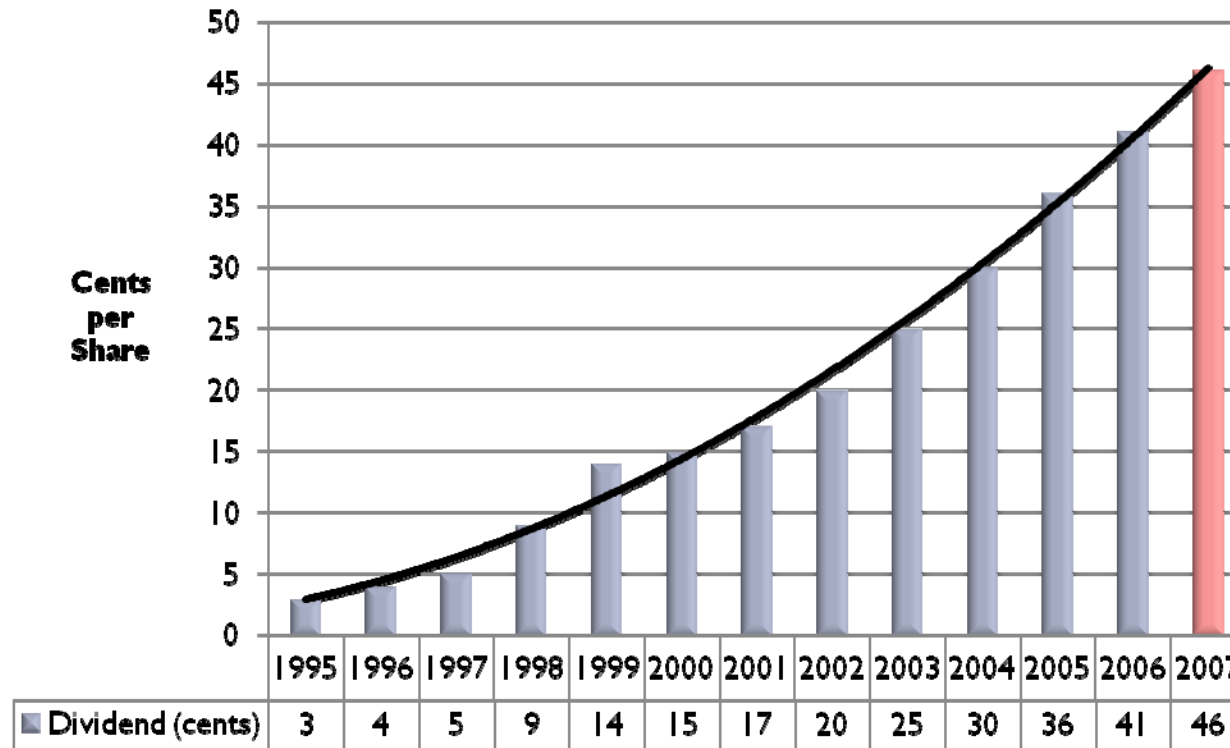
# Dividend

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	2007	2006	Change
Interim Dividend	\$0.17	\$0.15	13%
Final Dividend	\$0.29	\$0.26	12%
Full Year Dividend	\$0.46	\$0.41	12%

- ▶ Dividend fully franked at 30%
- ▶ Record Date 5 September 2007
- ▶ Payment Date 20 September 2007
- ▶ Dividend Reinvestment Plan remains suspended

# Full-year dividend 13 Year History



# Balance Sheet Summary

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		30.6.07	30.6.06
Receivables (current)	\$M	247.6	188.4
Intangibles (net)	\$M	2,149.4	1,690.2
Total Interest-bearing Debt	\$M	1,175.3	810.7
Equity	\$M	1,438.4	1,302.3
Gearing (Net IB Debt / Equity)	%	79	57
Net Interest-bearing debt / EBITDA	X	2.81	2.06
Interest Cover (EBITDA / Net Interest)	X	8.04	8.91



# Debt / Capital Structure

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- ▶ **Current interest bearing debt ~A\$1.4 billion**
  - ▶ Debt at 30 June 2007 – A\$1,175 million
  - ▶ Plus acquisitions of Sunrise, Schottdorf minorities, forex movements
  - ▶ Bioscientia not yet included
- ▶ **Current headroom ~A\$480 million including bridge facilities (pre-Bioscientia)**
  - ▶ A\$500 million bridge facility expires November 2007
  - ▶ A\$400 million bridge facility expires March 2008
- ▶ **Over A\$50 million equity “raised” in CPL minorities transaction (January 2007)**
- ▶ **Capital raising to reset balance sheet for future growth**
  - ▶ A\$400 million underwritten institutional placement



# Purpose of Capital Raising

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- ▶ Capital raising to partly refinance existing bridge facilities
- ▶ Acquisitions of >A\$1 billion in past nine months:
  - ▶ Bioscientia
  - ▶ Schottdorf Group minorities
  - ▶ Sunrise Medical Laboratories
  - ▶ Medica Laboratory Group
  - ▶ Clinical Pathology Laboratories minorities
  - ▶ American Esoteric Laboratories
- ▶ Acquisition rationale
  - ▶ Priceless strategic positions in laboratory markets of Europe and USA
  - ▶ Critical mass and momentum in Europe and USA
  - ▶ Substantial growth and synergy potential in both these markets
- ▶ Raising will allow recapitalisation of balance sheet for future growth



# Operational Overview

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## Markets and Opportunities



# Australian Pathology

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- ▶ Revenue growth of Australian pathology division – 9%
- ▶ Strong growth of large Australian laboratories
  - ▶ Douglass Hanly Moir Pathology (NSW)
  - ▶ Sullivan Nicolaides Pathology (Queensland)
  - ▶ Melbourne Pathology (Victoria)
  - ▶ Clinipath (Western Australia)
- ▶ Sonic Australian pathology delivers margin expansion of 50 basis points
  - ▶ Information sharing and synergy capture
  - ▶ Strong revenue growth with marginal profit
  - ▶ Cost control
- ▶ New Sydney laboratory
  - ▶ Scheduled to open within 3 months
  - ▶ World-first work flow systems for efficiency gains
  - ▶ New capacity will allow for further centralisation of esoteric tests



# New Zealand Pathology

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- ▶ **Judicial Review over Auckland laboratory contract**
  - ▶ Landmark victory to Sonic / DML in March 2007
  - ▶ DML awarded interim 18-month contract
  - ▶ Appeal process will be heard in 2008
  - ▶ Overwhelming community and medical support for DML
  - ▶ Unprecedented loyalty and commitment of DML staff
- ▶ **Major restructure of NZ market following contract tendering**
  - ▶ Sonic revenue largely unchanged
  - ▶ Gains in Christchurch and Palmerston North
  - ▶ JV in Wellington



# Sonic Imaging

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## ▶ Revenue Growth

- ▶ FY 2007 revenue of A\$327 million, with growth of 4% over FY 2006
- ▶ NZ radiology revenue growth strong
- ▶ Queensland X-Ray and SKG growth at market; Castlereagh Imaging below market
- ▶ Hong Kong radiology business sold in first half of year

## ▶ Earnings margins

- ▶ Impacted negatively by radiologist incentive-based pay structures
- ▶ EBITDA margin FY 2007 – 22.4% (FY 2006 – 24.4%)
- ▶ EBITDA margin H2 2007 – 22.6% (H1 2007 – 22.2%)

## ▶ Outlook positive

- ▶ Incentive-based remuneration working well
- ▶ Radiologist shortage has eased
- ▶ Castlereagh Imaging restructure complete – new CEO Dr John Fraser
- ▶ Efficiency gains from digital imaging applications in progress
- ▶ Continued improvement in performance expected



# IPN

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- ▶ IPN continues to perform strongly
- ▶ Financial highlights (based on continuing operations)
  - ▶ Revenue up 13% to A\$95 million
  - ▶ EBITDA up 23% to A\$15 million
  - ▶ Net profit up 44% to A\$8 million
- ▶ General Practitioners working in IPN centres
  - ▶ GPs have increased by >100 to 711 through FY 2007
- ▶ IPN Medical Centres
  - ▶ Increased by 12 through FY 2007
  - ▶ Total of 90 centres at present

# UK

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- ▶ **TDL financial performance FY 2007**
  - ▶ Strong revenue and earnings growth
  - ▶ Ongoing margin expansion
- ▶ **Ealing contract**
  - ▶ Sonic/TDL won contract in early 2007, commenced 1 July 2007
  - ▶ A multi-million pound contract over 5 years
  - ▶ Synergies between Ealing and TDL labs in London
- ▶ **NHS Outsourcing**
  - ▶ Activity in this market is high
  - ▶ Sonic has a dedicated and experienced NHS project team in place in London
  - ▶ Sonic/TDL well placed to play lead role in this market
  - ▶ Sonic/TDL has active pipeline of potential opportunities



# USA

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- ▶ **Sonic entered US lab market in late 2005**
- ▶ **Acquisitions**
  - ▶ CPL – 82% in October 2005
  - ▶ AEL – January 2007
  - ▶ CPL minorities – January 2007
  - ▶ Sunrise Medical Laboratories – July 2007
  - ▶ Other small acquisitions in 2006/7 (Cognoscenti, Mullins)
- ▶ **Sonic annualised revenue now >A\$500 million**
- ▶ **Sonic Healthcare USA, Inc.**
  - ▶ Management team located in Austin, Texas
  - ▶ Divisional structure of operations established
  - ▶ Synergy activity in full swing
- ▶ **Growth**
  - ▶ Active pipeline of acquisition opportunities
  - ▶ Strong organic growth in all divisions
  - ▶ Sonic model and culture provide differentiation



# USA – Sunrise Medical Laboratories

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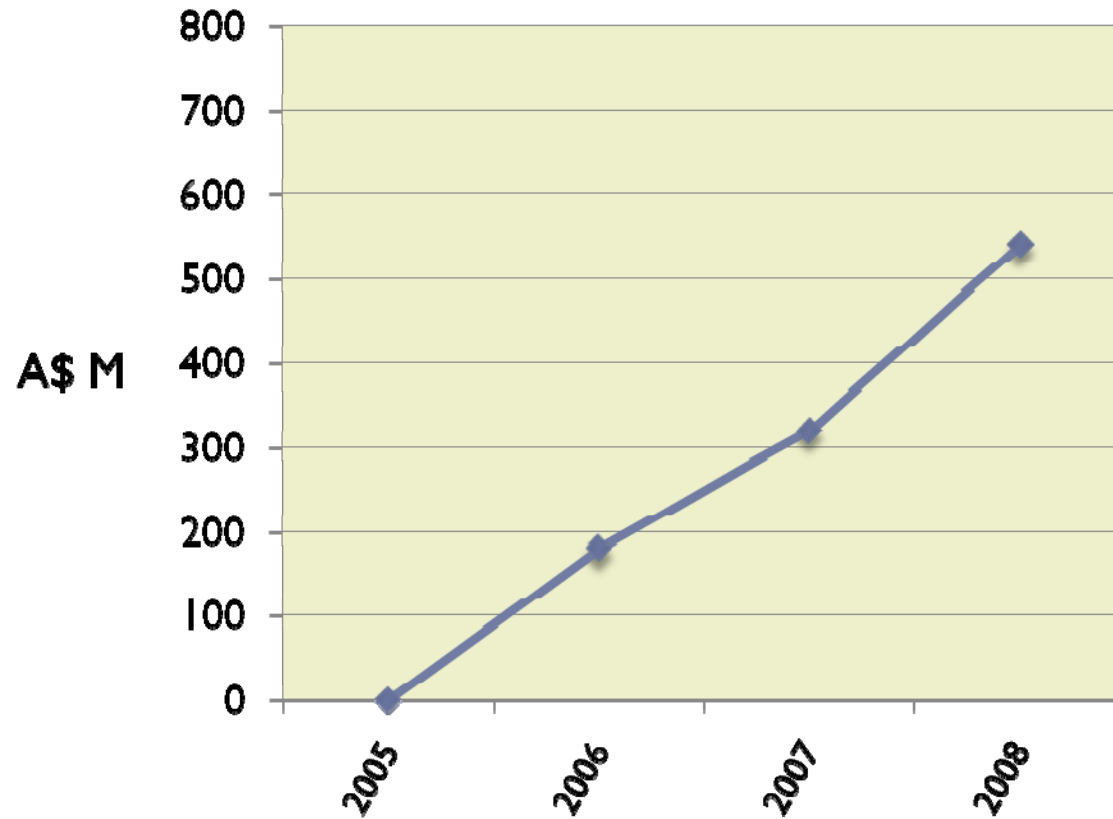
- ▶ **Sonic acquired Sunrise in July 2007**
  - ▶ Full service laboratory based on Long Island, New York
  - ▶ Annual revenues US\$75 million
  - ▶ 16 patient service centres
  - ▶ Employs ~360 staff
  - ▶ Contracts with all major insurance companies
- ▶ **Strong growth potential**
  - ▶ History of strong organic growth in highly populated market
  - ▶ Currently experiencing very robust growth
- ▶ **Management**
  - ▶ Founders Larry Siedlick (CEO) and Pat Lanza (President) will continue in top management roles
  - ▶ Strong, experienced management team
- ▶ **Sonic and Sunrise**
  - ▶ Sunrise will serve as hub lab for Sonic's US North-Eastern division



# Sonic Healthcare USA

## Annual Revenues (A\$M)

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# Switzerland

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- ▶ **Sonic acquired Medica Laboratory in May 2007**
  - ▶ Medica's main laboratory is based in Zurich
  - ▶ Service provision throughout Switzerland
  - ▶ Excellent cultural fit with Sonic
  - ▶ Reputation for service and scientific excellence
  - ▶ Strong organic growth ongoing
- ▶ **Management**
  - ▶ Founder Dr Franz Kaeppli will continue in the role of CEO
- ▶ **Swiss laboratory market**
  - ▶ Medica is third largest laboratory player
  - ▶ Market is fragmented and provides future acquisition opportunities
- ▶ **Synergies**
  - ▶ Medica referrals to Sonic labs in Germany,
  - ▶ Purchasing
  - ▶ Medica-produced test kit distribution to Sonic labs world-wide

# Germany - Bioscientia

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- ▶ **Sonic announced acquisition of Bioscientia on 13 August, 2007**
  - ▶ Settlement expected by October 2007
- ▶ **Bioscientia**
  - ▶ One of Europe's top laboratories and one of five national labs in Germany
  - ▶ Central laboratory located in Ingelheim, near Frankfurt
  - ▶ 20 branch laboratories throughout Germany
  - ▶ Annual revenues ~€125 million (~A\$200 million)
  - ▶ Founded in 1970 by Boehringer Ingelheim; management buyout in 1995
  - ▶ Extensive referral network from Middle East and Africa
  - ▶ Accredited by College of American Pathologists (CAP) – allows referral from Sonic US labs
- ▶ **Management**
  - ▶ Young and experienced management team: Dr Markus Nauck (CEO), Mr Johannes Brill (CFO) and Dr Lothar Krimmel (Strategy/Marketing/Sales) will continue in their senior executive roles
  - ▶ Prof. Bernd Heicke will continue in role of non-executive Chairman
  - ▶ Bioscientia and Sonic have common cultures and values

# Germany

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- ▶ Sonic has signed agreement to acquire outstanding 44% of Schottdorf Group (12% acquired to date)
- ▶ Collaboration between Bioscientia and Schottdorf
  - ▶ Synergy potential – purchasing , couriers, duplicated laboratories, centralisation of testing, sales, marketing, IT etc
  - ▶ Expect synergy benefits of >€10 million over next 2-5 years
- ▶ Growth prospects
  - ▶ Sonic now largest or second largest player in German lab market
  - ▶ German laboratory market is fragmented
  - ▶ Active pipeline of new acquisition opportunities
  - ▶ Sonic in prime position to tender for hospital contracts
- ▶ Sonic is the largest laboratory company in Europe
  - ▶ Annualised European revenue ~€325 million (~A\$530 million)
  - ▶ Presents significant momentum and growth potential



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# Future Growth



# Future Growth

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- ▶ **European laboratory market**
  - ▶ Entered UK in 2002, Germany in 2004, Switzerland in 2007
  - ▶ Annualised revenue now >A\$500 million
  - ▶ Large market with future synergy and acquisition prospects
- ▶ **USA laboratory market**
  - ▶ Entered market in 2005,
  - ▶ Annualised revenue now >A\$500 million
  - ▶ Large market with future synergy and acquisition prospects
- ▶ **Australian Pathology market**
  - ▶ Annual revenue ~A\$750 million
  - ▶ Ongoing strong organic growth with marginal profit
- ▶ **Australia/NZ Radiology markets**
  - ▶ Annual revenue ~A\$325 million
  - ▶ Mainly organic growth and marginal profit
- ▶ **Pathology and radiology are strong growth markets**





# Thank you

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