



23 August 2005
Sydney

SONIC HEALTHCARE EXPANDS INTO THE US PATHOLOGY MARKET

Sonic Healthcare Limited ("Sonic") is pleased to announce that it has signed an agreement to acquire an interest in the largest privately owned routine pathology laboratory in the United States of America ("US"), Clinical Pathology Laboratories, Inc. ("CPL").

CPL has annual revenues in the order of US\$190 million (~A\$250 million) and operates predominantly in Texas (with an estimated 15% state market share) and adjacent states. Texas is one of the fastest population growth states in the US, with a population of over 22 million. In 2003, CPL acquired operations in Toledo, Ohio and Chantilly, Virginia (Washington DC area), both of which represent major new growth opportunities. CPL's newly built headquarters and custom-designed main laboratory facilities are located in Austin, the capital of Texas. In addition, CPL operates two mid-sized, comprehensive service laboratories in Ohio and Virginia, 25 rapid turnaround branch laboratories and 150 patient service centres.

Sonic Healthcare will acquire between 80% and 85% of CPL's equity in the first instance, with management and pathologists retaining the balance. CPL's private equity investor since 2001, Summit Partners, is the main exiting party. At an 80% initial equity level, the purchase consideration will be ~US\$300 million, which includes an earnout of up to US\$20 million that will be paid upon achievement of pre-defined earnings targets. The exact purchase price and earnout will depend on the final percentage sold by management and reflects a prospective EBITDA multiple of approximately 9.5 times.

The acquisition will be funded by a six-month US dollar-denominated debt facility provided by ANZ Bank and JPMorgan. Sonic will consider a number of alternatives to refinance this facility over the coming months.

The acquisition will be immediately EPS accretive. Settlement is expected on 30 September 2005 and is conditional upon CPL shareholder approval, finalisation of documentation for the debt facility and US anti-trust approval.

Sonic will progressively acquire the balance of CPL's equity over the years 2009 to 2012, based on a pre-defined formula which values the CPL business at the appropriate point in time. Sonic believes that this arrangement presents a significant opportunity for management and pathologists to participate in the future growth and value creation of CPL. Management and pathologists will have the option to take up to 40% of the subsequent purchase consideration in the form of Sonic shares (subject to a cap of 3 million shares), at a 5% discount to the prevailing market price at the time of sale.

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The CPL management team and structure will remain unchanged following the transaction. CPL senior management and pathologists have extensive industry experience and have demonstrated an exceptional ability to grow the CPL business, both organically and through synergistic acquisitions. Dr Robert Connor (Chairman, CEO, Pathologist and Medical Director), Mr David Schultz (President & COO), senior management personnel and CPL's more than 150 associated pathologists have been responsible for the development and implementation of CPL's successful business model and growth strategy over the last 16 years. CPL has differentiated itself from the national consolidators in the US pathology market through the application of a medical leadership model, supported by outstanding, personalised service to doctors and patients.

Sonic's CEO and Managing Director, Dr Colin Goldschmidt, said: "CPL and Sonic Healthcare have remarkably similar cultures and management philosophies. Like Sonic, CPL has adhered stringently to a philosophy of medical leadership, whereby pathologists and other experienced healthcare professionals are an integral part of management and service delivery. We are excited to join with such a high quality organisation and we believe that the substantial underlying synergies between us will add significant shareholder value. The CPL business model is unique amongst the larger US pathology players and we are confident that, with Sonic's support, CPL will continue to advance strongly in the dynamic and growing US laboratory market."

Dr Robert Connor, Chairman and CEO of CPL, commented: "We are delighted with the opportunity to partner with a company like Sonic Healthcare. Much like Sonic, CPL's medically focused values and commitment to personalised service have been the key factors which have driven our growth and delivered our successes to date. As part of the Sonic Healthcare group, we will be able to maintain and enhance our existing model and strategy. We look forward to working with the Sonic team to exchange ideas, to explore areas of synergy and to grow our business in the US market."

Dr Goldschmidt added: "The merger with CPL is a major strategic step for Sonic Healthcare, providing an ideal entry into the world's largest pathology market, supported by experienced and like-minded partners with a proven track record. I look forward to working with CPL management and pathologists to grow the CPL business and to propagate the practice of excellent pathology using our unique medical model."

For further information regarding this announcement, please contact:

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