



SONIC  
HEALTHCARE

# Annual General Meeting

15 November 2006

Dr Colin Goldschmidt  
CEO and Managing Director  
Sonic Healthcare

# Agenda

- Review of FY 2006
  - Summary of financial performance
  - Sonic's operations through FY 2006
- Update and future outlook
- Inside view of laboratory operations

# FY 2006 Highlights

- Sonic delivers record earnings result
- Sonic full-year guidance achieved
- Australian Pathology performing strongly
- Northern hemisphere entities tracking well
- Result held back slightly by Imaging and NZ Pathology
- Sonic in advanced negotiations with several acquisition targets in Europe and the USA

# 2006 Financial Highlights

	<b>Growth 2006 vs 2005</b>
Revenue	20%
EBITA	21%
NPAT	27%
Operating Cashflow	15%
EPS	20%
Dividend (full-year)	14%

# 2006 Guidance Delivered

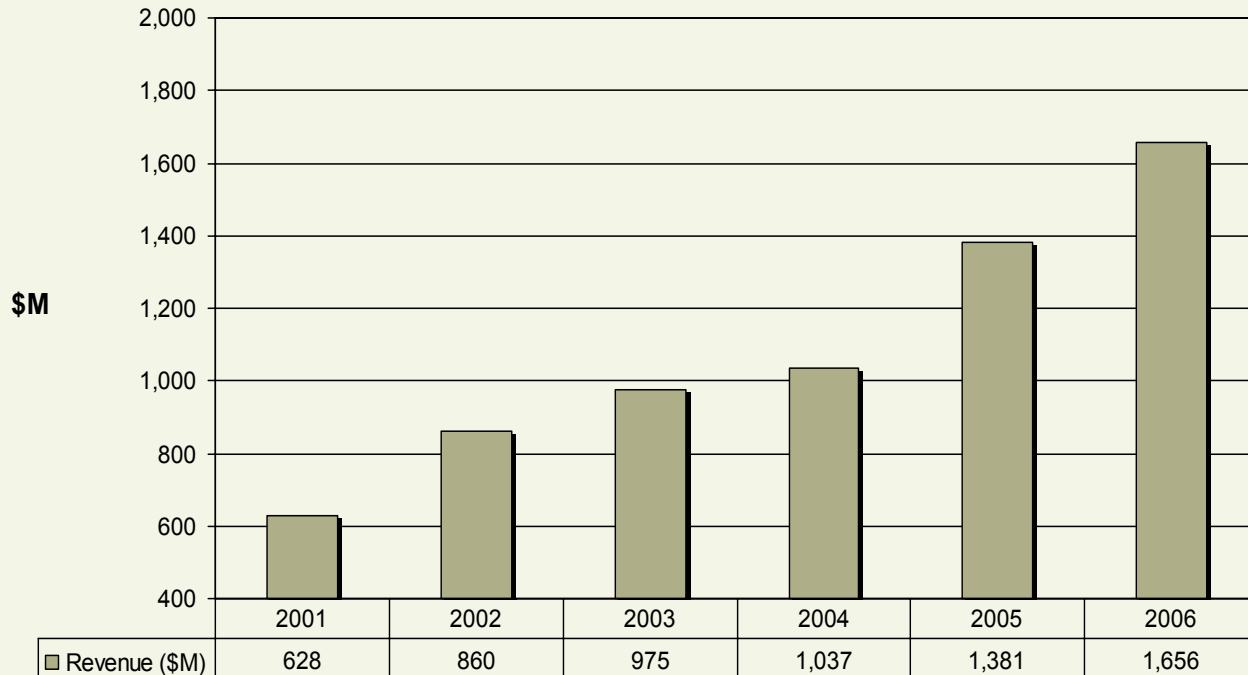
<b>Full Year 2006</b>	<b>Sonic Guidance</b> \$M	<b>Actuals</b> \$M
Revenue	1,600 - 1,670	1,656
EBITA	300 - 320	306

# Revenue 2006

	<b>2006</b> (\$M)	<b>2005</b> (\$M)	<b>Growth</b> (%)
<b>Total Revenue</b>	1,656	1,381	20%

- CPL acquisition in October 2005 had positive impact on revenue growth
- Organic revenue growth (excluding CPL) ~7%
- Australian pathology revenue growth 8.6%
  - Strong revenue growth Melbourne Pathology, Douglass Hanly Moir, Sullivan Nicolaides
- Imaging (Australia and New Zealand) revenue growth 7.0%
- Off-shore laboratory revenue growth
  - TDL (UK) revenue growth over 10%
  - New Zealand pathology reported lower growth rates

# Annual Revenue



# Revenue Growth 2007

- Revenue growth will be enhanced by
  - Full year of CPL (acquisition in October 2005)
  - Possible acquisitions in Europe and the USA through FY '07
- Australian pathology and radiology
  - Anticipated organic growth ~5%
- New Zealand pathology
  - Growth rates are low
  - Impact of potential loss of DML only from FY 2008
- Sonic labs in UK, Germany, USA
  - Anticipated organic growth ~5%
- IPN (Independent Practitioner Network)
  - Anticipated strong growth in FY 2007

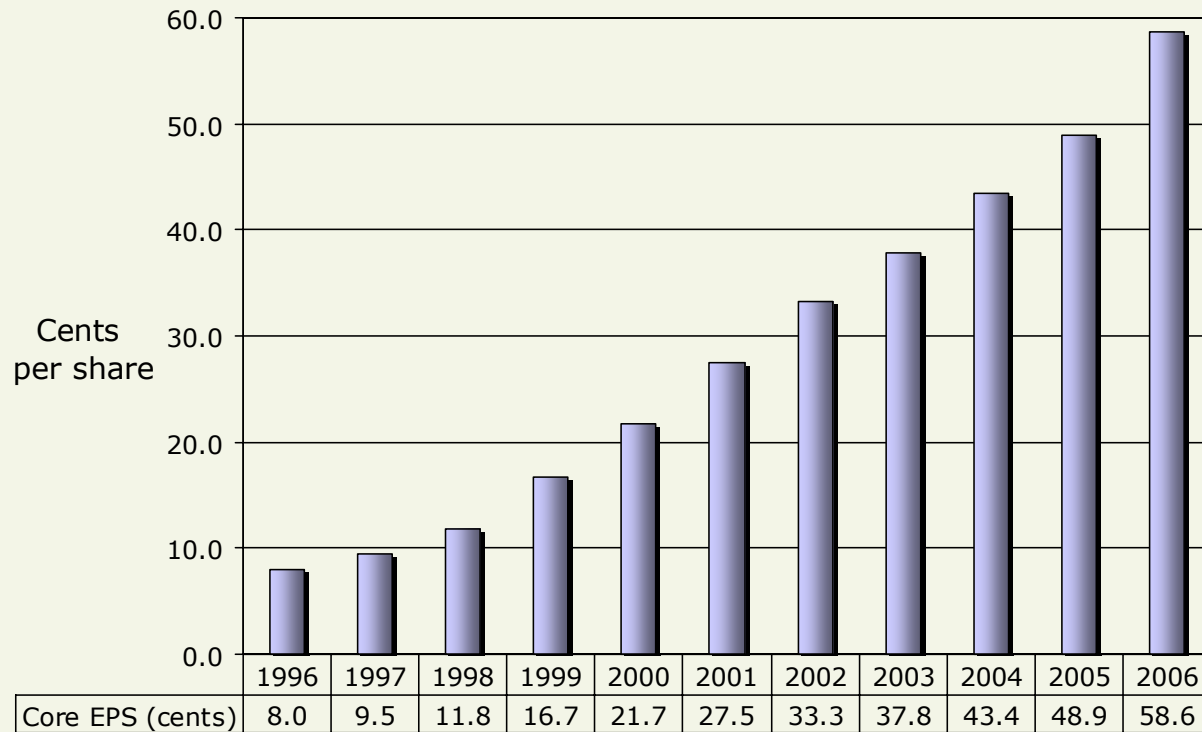


# Earnings Growth

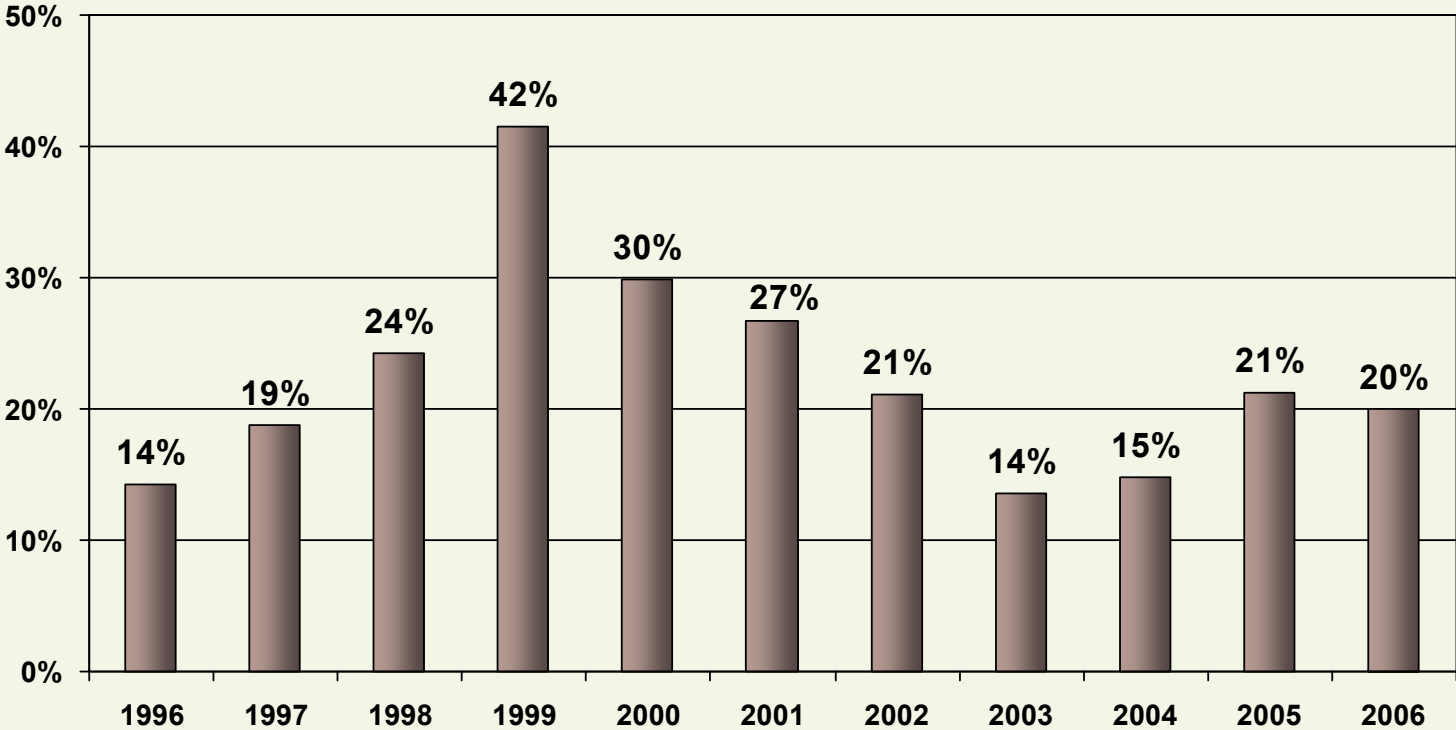
		<b>FY 2006</b>	<b>FY 2005</b>	<b>Movement %</b>
EBITA	(\$M)	306.0	253.0	21%
NPAT	(\$M)	172.0	135.4	27%
EPS	(cents)	58.6	48.9	20%
Cash Generation	(\$M)	247.2	214.1	15%

NOTE: All comparatives have been adjusted to conform with AIFRS, as required

# Earnings per Share



# EPS Growth



# Earnings Margins

	FY 2006	FY 2005
EBITA Margin	18.5%	18.3%

- Australian pathology EBITA margin growth of 60 basis points
- Global pathology EBITA margin growth, excluding CPL, of 50 basis points
- Adverse impacts on Sonic margins in '06 year
  - Radiology margins impacted by wage pressures
  - New Zealand pathology margins impacted by low revenue growth
  - Lower margin acquisitions – IPN, CPL

# 2007 Guidance

- Revenue growth
  - Organic growth ~5%
  - Revenue growth including CPL ~9%
- Earnings growth
  - Earnings per share growth ~10%

Guidance excludes new acquisitions and possible DML outcomes

# Final Dividend

	2006	2005	Change
Interim Dividend	\$0.15	\$0.13	15%
Final Dividend	\$0.26	\$0.23	13%
Full Year Dividend	\$0.41	\$0.36	14%

- Dividend fully franked at 30%
- Record Date 5 September 2006
- Payment Date 19 September 2006
- Dividend Reinvestment Plan remains suspended

# Australian Pathology

- Revenue growth of Australian pathology division strong
- Market share gains in NSW and Victoria
- Outperformance by large Australian labs
- Sonic Australian pathology delivers margin expansion of 60 basis points
  - Information sharing and synergy capture
  - Strong pathologist and management team, committed to success

# New Sonic “Superlab”

## Sydney, Australia

- Building works well underway and ahead of schedule
- Project tracking to budget
- Completion in second half of calendar 2007
- 17,000 square metres of lab and office space
- State-of-the-art design and workflows
- Designed for high volume and high efficiency
- Will enable growth and further centralisation of testing



# Sonic Imaging

- Radiology division revenue growth at market growth level
- Queensland X-Ray continues to outperform
- Margins impacted negatively by wage pressures
  - World-wide shortage of Radiologists and technicians
  - “Head-hunting” of Radiologists
  - Renegotiation of employment contracts
- Apollo RIS – Sonic’s proprietary Radiology Information System
  - Roll-out almost completed in Australian practices
  - Facilitating change in operations and driving efficiencies
  - In-house development by Sonic IT – 6 version updates thus far

# Sonic Imaging - Future

- Demand for radiology services increasing – CT and MRI
- Solutions to wage pressure issues
  - Sonic has an outstanding team of Radiologists and radiology technicians
  - Novel incentive-based productivity model in process
  - New model will drive revenue growth, improve efficiency and enhance fulfilment
- Networked digital solutions
  - Transition to filmless, paperless radiology environment well underway
  - Web-based Sonic Apollo RIS a key to change
  - Teleradiology, PACS, electronic results' transfer - all foster greater efficiency

# Medicare Funding Agreements

## Australian Pathology and Radiology

- Expenditure on pathology and radiology (other than MRI) have exceeded the reimbursement “cap”
- Additional funding is justified where increased outlays are due to changes in government policy
- Fee negotiations (pathology and radiology) completed
- No indication of rebate cuts in the foreseeable future

# IPN

- Strong financial result for FY '06
- Operational rejuvenation
  - Dr Malcolm Parmenter, CEO – energy and great vision for IPN
  - GP numbers growing in existing centres
  - Increasing GP approval of IPN model
- Solid future growth expected
  - Focus on filling existing centres
  - New centres
  - Financial resources in place to fund growth
- Potential for increased referral stream to Sonic labs

# New Zealand

## Laboratory Contract Update

- Sonic operates 4 laboratory companies in N.Z
- **Diagnostic Medlab (DML) - Auckland**
  - Contract awarded to Labtests Auckland from 1 July 2007
  - Sonic/DML in legal challenge over contract decision
- **Medlab South – Christchurch and South Island**
  - Christchurch – no tendering of services, status quo retained
  - Nelson Marlborough – contract won by Sonic (new revenue)
  - Otago Southland – contract lost to NZDG
  - Overall outcome positive for Sonic
- **Medlab Central – Palmerston North and lower North Island**
  - 5 separate tenders currently in progress
  - Likely outcome slightly positive for Sonic
- **Valley Diagnostic Laboratory (VDL) – Hutt Valley**
  - Contract awarded to JV company of VDL (45%) and Medlab Wellington (55%)
  - New JV company name is Aotea Pathology
  - Slight reduction in revenue for Sonic
- Excluding DML, net outcome for Sonic in NZ is slightly positive

# DML

## Auckland Community Laboratory Contract

- DML challenges decision to award contract to new operator
  - Judicial Review postponed to February 2007
- DML's case
  - Process to award contract was flawed
  - Quality of service will be reduced
  - Conflict of interest associated with decision
- Transition risk unprecedented in global pathology
- Overwhelming opposition to the contract decision
  - Auckland Public – 120,000 signatures
  - Auckland GPs – enjoined to Judicial Review
  - Royal College of Pathologists of Australasia
  - NZ Medical Association
  - Laboratory Unions
  - National Party

# Off-shore Pathology

- TDL – The Doctors Laboratory (U.K.)
  - Strong revenue and EBITA growth in FY 2006
  - Margin expansion due to enhanced operational performance
  - TDL-UCLH partnership progressing well
  - Growth anticipated to continue
- Schottdorf Group (Germany)
  - Solid performance through '06 year
  - Growth in FY '06 affected by doctors' strikes, World Cup
  - Processing substantial referrals from TDL
- CPL (USA)
  - Sonic acquired 82% of CPL on 1 October 2005
  - Sonic-CPL integration excellent, active interchange of information
  - CPL performance in line with budget
  - CPL has recently acquired Cognoscenti Medical Institute in Orlando, Florida (~A\$10 million revenue p.a.)

# UK Pathology – NHS Outsourcing

- Public Private Partnership with UCLH operating well
  - Improved efficiencies
  - A showcase for other NHS opportunities
- Lord Carter report on NHS outsourcing
  - Recommends change to current system
  - Encourages private sector involvement
  - Proposes pilot schemes
- Outsourcing projects are available
  - Initiated by management of NHS Trust hospitals
  - Sonic/TDL well placed to lead this market opportunity
  - Currently in discussion with potential partners



# Update FY '07

- After first quarter trading, Sonic expects to achieve its full-year guidance
- Second half expected to be significantly stronger than first half
  - Private fee increases in late first half FY '07
  - DVA fee increase effective 1 November 2006 (increased from 85% to 100% of Schedule Fee)
  - Ongoing earnings improvement strategies
- Sonic advancing discussions with several acquisition targets in Europe and the USA

# Future Growth

## Off-shore acquisitions

- Sonic has completed ~50 acquisitions in its 20 year history
  - All successfully integrated into Sonic structure
  - Measured approach the key to successful acquisition strategy
- 3 major off-shore acquisitions
  - TDL (UK) - 2002
  - Schottdorf (Germany) -2004
  - CPL (USA) – 2005
- Sonic's model, culture and values provide differentiation from international competitors
- M & A activity during FY '06 to date
  - Integration of CPL into Sonic structure completed
  - Presentation of Sonic model to US and European laboratory communities
  - Profiling and engagement of suitable Sonic partners
- Sonic in strong position for long-term off-shore growth

# Sonic Healthcare

## The Future

- Forming partnerships with like-minded diagnostic organisations world-wide
- Expanding presence in Europe and USA
- Fostering staff fulfilment and service excellence
- Maintaining financial strength

