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# Sonic Healthcare

## Annual General Meeting

20 November 2014



## **Forward-looking statements**

*This presentation may include forward-looking statements about our financial results, guidance and business prospects that may involve risks and uncertainties, many of which are outside the control of Sonic Healthcare. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the company include, but are not limited to, adverse decisions by governments and healthcare regulators, changes in the competitive environment and billing policies, lawsuits, loss of contracts and unexpected growth in costs and expenses. The statements being made in this presentation do not constitute an offer to sell, or solicitation of an offer to buy, any securities of Sonic Healthcare. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Sonic Healthcare). In particular, no representation, warranty or assurance (express or implied) is given in relation to any underlying assumption or that any forward-looking statement will be achieved. Actual future events may vary materially from the forward-looking statements and the assumptions on which the forward-looking statements are based. Given these uncertainties, readers are cautioned to not place undue reliance on such forward-looking statements.*

*The information provided in this presentation is based on and should be read in conjunction with the Appendix 4E released to the ASX on 19 August 2014 and Sonic's 2014 Annual Report and includes earnings figures restated on a "constant currency" basis.*



# Headlines

- ▶ Double digit revenue and earnings growth in FY '14
- ▶ FY '14 total dividend up by 8.1%
- ▶ Major contracts in UK and Canada

# Summary FY '14

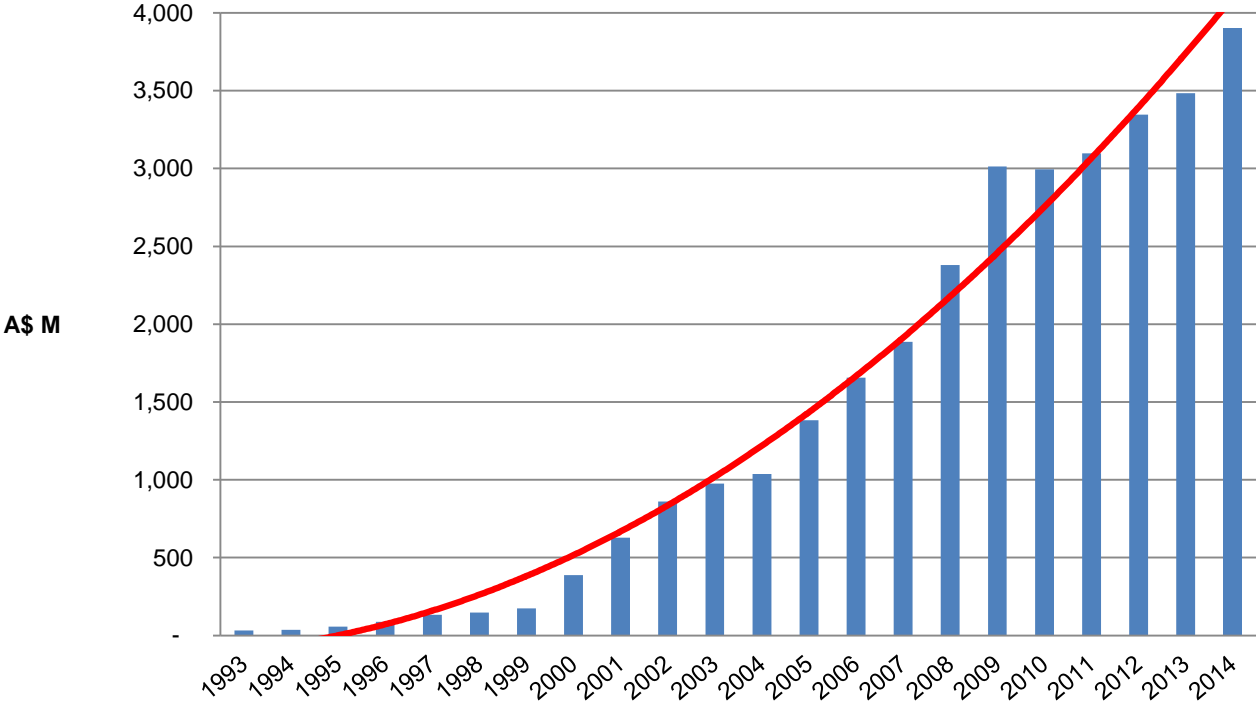
	Growth	
	Statutory	Constant Currency
Revenue	12.3%	4.8%
EBITDA	13.3%	5.4%
Net profit	14.9%	6.5%
Earnings per share	13.3%	5.0%

- ▶ **Financial strength**
  - ▶ Double-digit revenue and earnings growth
  - ▶ Margin accretion in each of Pathology (ex-Labco Germany acquisition), Radiology and IPN
- ▶ **Operational strength**
  - ▶ Stable and expanding global business
  - ▶ Strong positions in growing markets
  - ▶ Entry into Canadian market pending
- ▶ **Medical Leadership culture at the heart of Sonic's ongoing strength as a company**

# Financial Summary FY '14

		<b>FY '14</b>	<b>FY '13</b>	<b>Growth</b>
Revenue	(A\$M)	3,913	3,484	12.3%
EBITDA	(A\$M)	733	647	13.3%
Net profit	(A\$M)	385	335	14.9%
Earnings per share	(cents)	95.5	84.3	13.3%

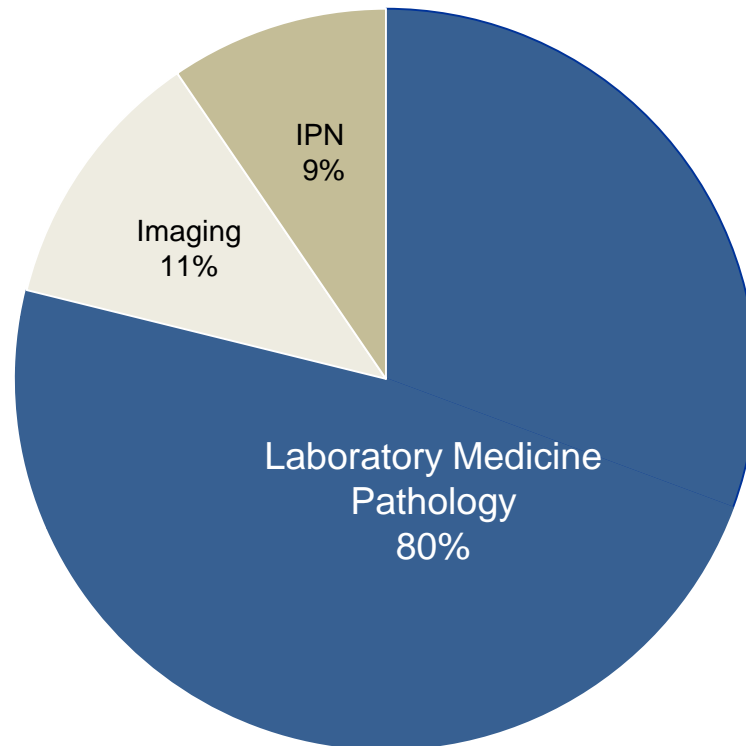
# Annual Revenue



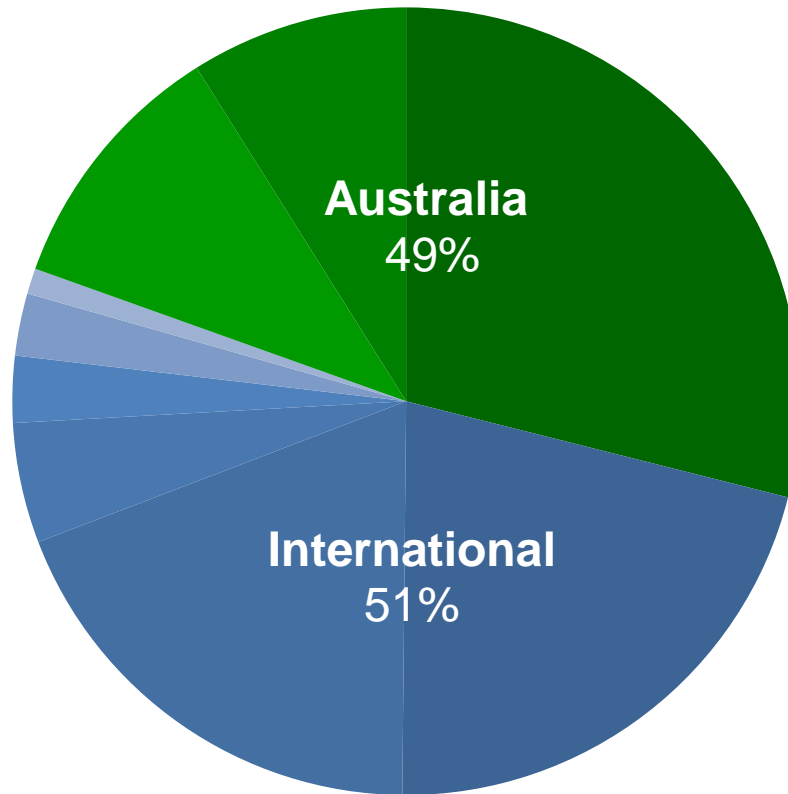
	1993	2014
Revenue (A\$ million)	33	3,913



# Revenue Split FY '14

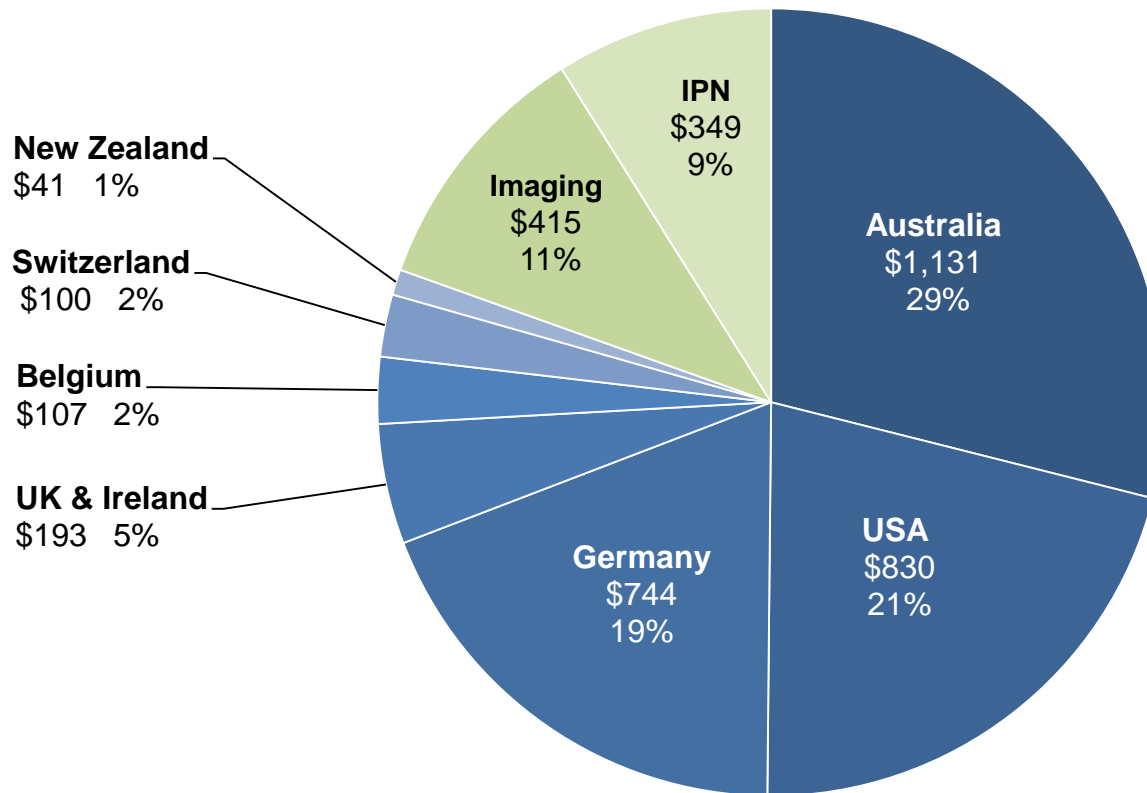


# Revenue Split FY '14





# Revenue Split FY '14



Statutory revenue in A\$ million

Blue wedges = Laboratory medicine / pathology

Green wedges = Imaging and IPN (medical centres and occupational health services) in Australia



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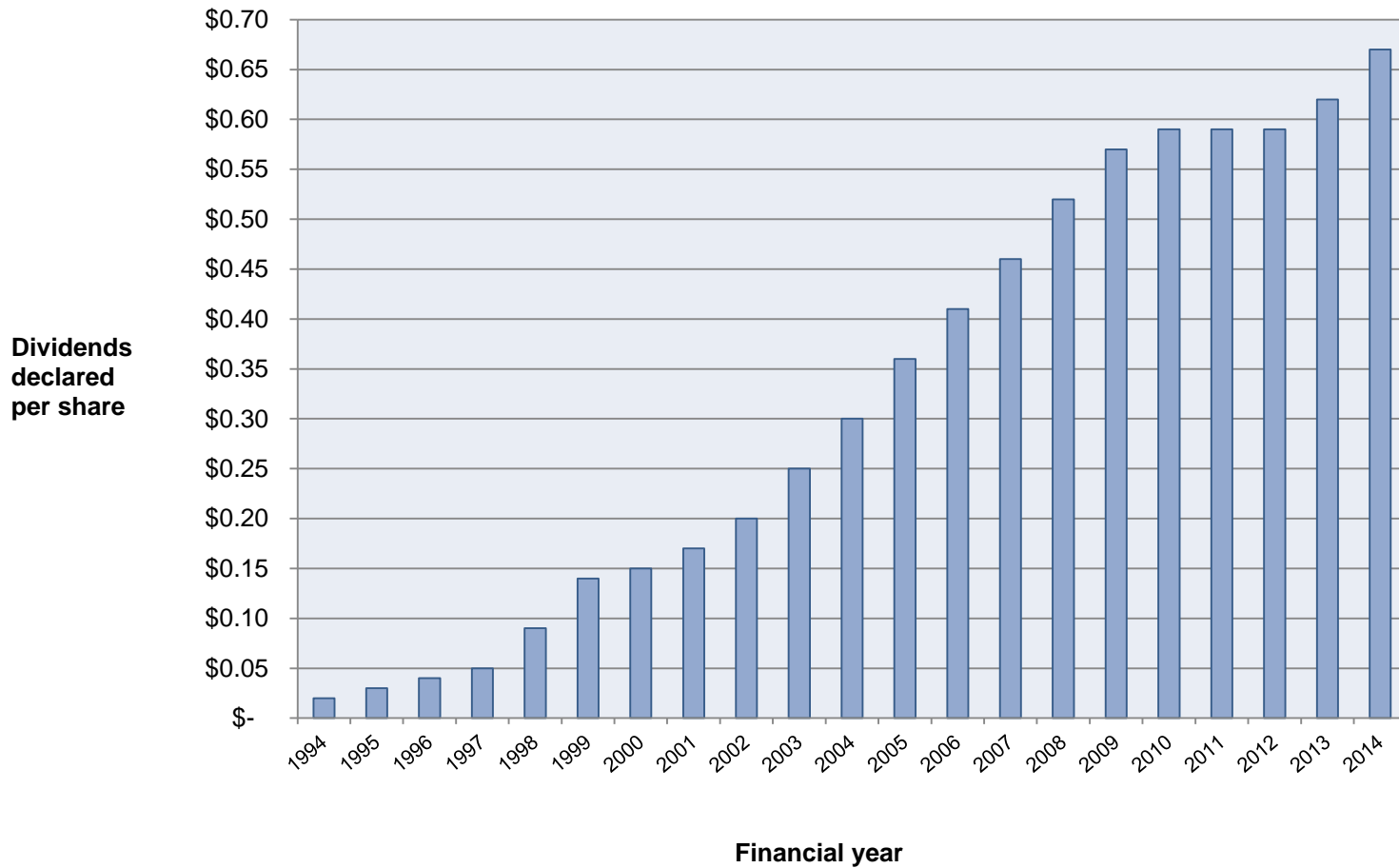
# Dividends

A\$	FY '14	FY '13	Growth
Interim Dividend	\$0.27	\$0.25	8.0%
Final Dividend	\$0.40	\$0.37	8.1%
<b>Total Dividends</b>	<b>\$0.67</b>	<b>\$0.62</b>	<b>8.1%</b>

- Final dividend franked to 55% (previously 45%)
- Paid 23 September 2014

# Dividend History

## Progressive Dividend Policy



# Trading Update

## October YTD

- ▶ Strong performance YTD in Germany, UK, Switzerland, IPN, Imaging
  - ▶ Belgium – now cycled through November '13 fee cut
- ▶ Australian pathology
  - ▶ Low market volume growth in Q1 FY '15 (post-Federal Budget announcement), recovery in October
  - ▶ Increasing cost of collection centres (number, rent, labour)
  - ▶ Unexpected, targeted Medicare fee cuts effective 1 November 2014 (announced 16 October 2014)
  - ▶ Cost-out initiatives in train – benefits expected in H2
- ▶ USA
  - ▶ Sustained volume growth recovery (4% October YTD) – revenue growth lower
  - ▶ Underperformance of anatomical pathology business (CBLPath) – remedial strategies under review
- ▶ Various other profit enhancing initiatives commenced
- ▶ Strategic growth: UK JV and Alberta contract

# Earnings Guidance

## FY '15

- ▶ Original FY '15 guidance: EBITDA growth of approximately 5%
- ▶ Revised FY '15 guidance: EBITDA growth of 2 – 4%
- ▶ EBITDA growth strongly weighted to H2 (flat in H1)
  - ▶ Australian pathology – volume growth returns to trend levels in Q2
  - ▶ Australian pathology – cost-out initiatives commenced
  - ▶ USA – review of CBLPath
- ▶ FY '15 Guidance
  - ▶ Based on constant currency rates (FY '14 FX rates)
  - ▶ Based on FY '14 guidance of A\$733 million
  - ▶ Interest expense expected to decrease by ~10% (constant currency)
  - ▶ Current base interest rates assumed to prevail
  - ▶ Tax rate expected at ~25%

# Growth Opportunities

- ▶ Sonic's Medical Leadership culture provides competitive advantage in major growth areas
- ▶ Organic growth
  - ▶ Market growth and market share gains
  - ▶ Market growth long-term trend ~5%
  - ▶ Market share gains driven by culture, high quality service and innovation
- ▶ Acquisitions
  - ▶ Track record of successful execution and integration of ~100 acquisitions
  - ▶ Sonic's culture attracts like-minded, quality businesses
  - ▶ Active pipeline of synergistic opportunities – usual disciplined approach
  - ▶ Significant funding capacity available
- ▶ Contracts
  - ▶ Increasing global trend for governments and others to outsource services
  - ▶ Wide variety of models and current opportunities globally e.g. UK JV, Northern Alberta, public and private hospitals, government programs, corporate health, clinical trials etc



# UK Joint Venture

- ▶ **JV with University College London Hospital/Royal Free**
  - ▶ Contracts signed 30 July 2014, commencement early 2015
  - ▶ 51% Sonic ownership
  - ▶ Incremental revenue ~£50 million in first full year
  - ▶ Earnings accretive, margin dilutive
  - ▶ Chair of JV board: Lord Carter of Coles
  - ▶ 10 year contracts to provide pathology services to partners
  - ▶ Existing TDL (Sonic UK) revenue excluded from JV
  - ▶ Targeting further NHS outsourcing opportunities
  - ▶ Recent 10 year agreement to provide pathology to North Middlesex University Hospital (initial revenue ~£9 million p.a.)
- ▶ **New state-of-the-art hub laboratory in central London**
  - ▶ Replaces existing hub lab (Whitfield Street) and satellite properties
  - ▶ Relocation expected early 2016



# **Halo Building**

New central London  
hub lab facility





[1 Mabledon Place](#)

King's Cross Biomedical Campus



# Canada



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# Alberta, Canada

## Laboratory Services Contract

- ▶ **Sonic selected as exclusive preferred provider**
  - ▶ Laboratory services in the Edmonton area
  - ▶ Option for Alberta Health Services to extend contract into Northern and Central Alberta
- ▶ **Long-term, significant, strategic opportunity**
  - ▶ 15 years with possible option period
  - ▶ Covers all pathology in Edmonton area
  - ▶ University of Alberta Hospital and regional hospitals
  - ▶ Requires new lab build in Edmonton
  - ▶ Initially more than C\$200 million revenue p.a. plus growth over time
  - ▶ Provides entry point into new market – Sonic's 9<sup>th</sup> country of operation
  - ▶ Further possible opportunities within and outside Alberta
- ▶ **Selection process**
  - ▶ Rigorous and comprehensive Request For Proposal process
  - ▶ 13 assessment teams, 108 assessors
  - ▶ Four parties submitted proposals
  - ▶ Culture, values and quality were key parameters – Medical Leadership
- ▶ **Next steps**
  - ▶ Exclusive due diligence and negotiation period
  - ▶ Transition planning



## Alberta

- Area: 82% of NSW
- ~1,200 Km from north to south
- 4 million people
- Capital: Edmonton (pop. 1.2 million)

# Sonic Innovations



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# Sonic Innovations

- ▶ Sonic continues to pioneer innovations to optimise its operations and services
  - ▶ Laboratory Medicine/Pathology
  - ▶ Radiology
  - ▶ Primary Care
  - ▶ Occupational health
- ▶ Healthcare service delivery has changed in the digital age
- ▶ Enhancing service provision to clinicians and patients
- ▶ Ability to innovate has become a key component of high quality medicine

# Why Innovate?

- ▶ **Innovation drives revenue growth**
  - ▶ Service/product differentiation
  - ▶ Reinforces market leadership and brand
  - ▶ Creates strong bonds with customers (clinicians, hospitals, patients)
- ▶ **Innovation fosters operational efficiency**
  - ▶ IT innovations crucial for optimising internal operations
  - ▶ Ensures best-practice protocols
  - ▶ Allows a value-added, premium service
- ▶ **Innovation enhances customer service**
  - ▶ Management of clinical data and access to patient results
  - ▶ Customer education and training
  - ▶ Convenience and accessibility – makes clinician's work practice easier
- ▶ **Innovation reflects high quality service**
  - ▶ Fosters continuous improvement of service
  - ▶ Improves service levels, turnaround times and accuracy

# Sonic Innovations

Examples of recent Sonic innovations...



# Sonic Dx

## Mobile Results App: Sonic Healthcare Australia



# Sonic Dx

- ▶ Allows doctors to access patient results using mobile devices
  - ▶ Secure
  - ▶ Intuitive, easy to use
  - ▶ Strong positive feedback from GPs and specialists
- ▶ Feature-rich app
  - ▶ Rapid access of lab test results
  - ▶ Cumulative results and graphing
  - ▶ Creation of watch lists and special folders
  - ▶ Request of additional tests
  - ▶ Filters



# Sonic Pathology Handbook

## Sonic Healthcare Australia

### A Seminal Laboratory Manual for Clinicians



# Sonic Pathology Handbook



- ▶ Provides doctors with a tool to enhance clinical practice
  - ▶ 800 topics, ~1,000 pages
  - ▶ First of its kind in Australia
  - ▶ Sonic's commitment to teaching and academic excellence
  - ▶ Of great practical use in clinical practice
  - ▶ Received with critical acclaim by clinicians and medical students
- ▶ Production
  - ▶ A mammoth task
  - ▶ 3 years in the making
  - ▶ Input from 65 Sonic pathologists
  - ▶ Tangible representation of the expertise residing in Sonic
  - ▶ 32,000 copies distributed in Australia thus far
  - ▶ Adaptation for distribution in UK, Germany, USA
- ▶ Handbook app – soft copy version
  - ▶ Feature rich, novel search and notes functions
  - ▶ Integration of Sonic Dx and Pathology Handbook



# GLP Track System

## A Global Lab Industry Game Changer



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# GLP Track System



## ▸ Total Laboratory Automation system

- Single-tube transport with intelligent 'cars'
- Modular interfaces to different lab instruments
- Fully automated specimen archive system
- Integrates workflow and lab management systems
- Patented technology

## ▸ Implementation

- Sonic is a minority shareholder in GLP Systems
- First installations completed at Sonic's Hamburg and Berlin labs
- Current installation in progress at Sonic's DHM lab in Sydney
- Product slated for world-wide distribution
- Already strong demand from large non-Sonic labs
- Sysmex contracted for global distribution and installation

# Sonic Healthcare Today



- ▶ **World's third-largest medical diagnostics company**
  - ▶ Market leader in Australia, Germany, UK
  - ▶ 28,000 employees
- ▶ **Attractive and growing global healthcare markets**
- ▶ **Proven business model**
  - ▶ Successful consolidator of fragmented markets
  - ▶ Competitive differentiation to drive organic and acquisitional growth
  - ▶ Early adopter of technology and innovations
- ▶ **Stable financial record and outlook**
  - ▶ Consistent revenue and earnings growth
  - ▶ Reliable dividend stream
  - ▶ Investment grade balance sheet
- ▶ **Strongly embedded culture and values**
  - ▶ Medical Leadership model
  - ▶ Federated management structure
  - ▶ Focus on highest possible quality
  - ▶ Experienced and passionate managers and staff



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Thank you

