Sonic Healthcare Limited

ABN 24 004 196 909

ASX APPENDIX 4D AND HALF YEAR REPORT – 31 DECEMBER 2019

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 2019 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the six months ended 31 December 2019

Financial Results $'000	Six months ended 31.12.19 Statutory		% Change
Revenue from ordinary activities	**3,340,586**		**15.2%**
Profit after tax from ordinary activities attributable to members	**254,395**		**14.1%**
Dividends Cents per share	**FY2020**	**FY2019**	**% Change**
Interim dividend	**34¢**	33¢	**3.0%**
Interim dividend franked amount per security	**10.20¢**	6.60¢	**54.5%**

The record date for determining entitlements to the interim dividend will be 11 March 2020. The interim dividend will be paid on 25 March 2020. The 2020 interim dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan remains suspended for this dividend.

Explanation of results

Sonic has adopted the new accounting standard AASB 16 *Leases* from 1 July 2019 and, under the transitional provisions, has not restated comparatives. Whilst the impact of AASB 16 in the period is immaterial to *Revenue from ordinary activities* and *Profit after tax from ordinary activities attributable to members*, it is material to components of the financial results. To enhance comparability, the analysis below and commentary in the following pages of this report focus on financial performance excluding the impacts of AASB 16.

					% Change Excluding AASB 16	
$'000	**Six months ended 31.12.19 Statutory**	**Six months ended 31.12.19 Constant Currency* Excluding AASB 16**	**Six months ended 31.12.19 Actual Currency Excluding AASB 16**	**Six months ended 31.12.18 Statutory**	**31.12.19 Constant Currency versus 31.12.18**	**31.12.19 Actual Currency versus 31.12.18**
Revenue	**3,340,586**	3,260,844	3,343,755	2,900,929	12.4%	15.3%
Earnings before interest, tax, depreciation and intangibles amortisation (**EBITDA**) pre non-recurring restructure and acquisition costs (**Underlying EBITDA**)	**702,699**	534,773	547,786	480,438	11.3%	14.0%
Non-recurring restructure and acquisition costs	**(12,672)**	(12,381)	(12,672)	(9,216)		
EBITDA	**690,027**	522,392	535,114	471,222	10.9%	13.6%
Depreciation	**(258,141)**	(111,406)	(113,743)	(100,801)	10.5%	
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**431,886**	410,986	421,371	370,421		
Amortisation of intangibles	**(31,981)**	(31,350)	(31,981)	(30,596)	2.5%	
Net interest expense	**(52,516)**	(37,902)	(39,321)	(39,960)	(5.2)%	
Income tax attributable to operating profit	**(85,136)**	(84,190)	(86,091)	(71,939)	17.0%	
Net (profit) attributable to minority interests	**(7,858)**	(7,712)	(7,858)	(4,947)		
Net profit attributable to Sonic shareholders	**254,395**	249,832	256,120	222,979	12.0%	14.9%
Cash generated from operations	**534,171**		379,258	368,504		2.9%
Earnings per share						
Basic earnings per share (cents per share)	53.6	52.6	54.0	52.1		
Diluted earnings per share (cents per share)	53.3	52.4	53.7	51.9		3.5%

* For an explanation of 'Constant Currency' refer to 2(a) in the Commentary on Results.

COMMENTARY ON RESULTS
For the half year ended 31 December 2019

1. Summary

- After seven months of trading the Company is on track to achieve the full year earnings guidance issued in August 2019 (6-8% underlying EBITDA growth, Constant Currency, excluding impact of AASB 16 *Leases*).
- Underlying EBITDA growth of 14% (to A$548 million) actual currency (excluding the impact of AASB 16 *Leases)*; 11% Constant Currency.
- Revenue growth of 15% to A$3.3 billion.
- Solid organic revenue growth of ~5% (Constant Currency).
- Net profit growth of 14% to A$254 million (growth 15% excluding AASB 16).
- Margin accretion in both laboratory and imaging operations.
- Aurora Diagnostics acquisition performing to expectation.
- Progressive dividend policy maintained, increase of 1 cent (3%) to 34 cents for the FY2020 Interim Dividend.

2. Explanation of results

(a) Constant currency

As a result of Sonic's expanding operations outside of Australia, Sonic is increasingly exposed to currency exchange rate translation risk i.e. the risk that Sonic's offshore earnings and assets fluctuate when reported in AUD.

The average currency exchange rates for the six months to 31 December 2019 for the Australian dollar ('A$', 'AUD' or '$') versus the currencies of Sonic's offshore earnings varied from those in the comparative period, impacting Sonic's AUD reported earnings ('Statutory' earnings). The underlying earnings in foreign currency are not affected.

As in prior periods, in addition to the statutory disclosures, Sonic's results for the half year have also been presented on a 'Constant Currency' basis (i.e. using the same exchange rates to convert the current period foreign earnings into AUD as applied in the comparative period, being the average rates for that period). This facilitates comparability of the Group's performance, by providing a view on the underlying business performance without distortion caused by exchange rate volatility, so that an assessment can be made of the growth in earnings in local currencies. Constant Currency reporting also allows comparison to the guidance Sonic provides to the market about its prospective earnings.

In preparing the Constant Currency reporting, the foreign currency elements of each line item in the Income Statement (including net interest expense and tax expense) are restated using the relevant prior period average exchange rate. There is only this one adjustment to each line item so no reconciliation is required.

The average exchange rates used were as follows:

	31.12.19 Statutory	**31.12.18 and Constant Currency**
AUD/USD	0.6846	0.7246
AUD/EUR	0.6170	0.6289
AUD/GBP	0.5437	0.5595
AUD/CHF	0.6763	0.7172
AUD/NZD	1.0593	1.0822

COMMENTARY ON RESULTS
For the half year ended 31 December 2019

2. Explanation of results (continued)

(a) Constant currency (continued)

To manage currency translation risk Sonic uses 'natural' hedging, under which foreign currency assets (businesses) are matched to the extent practicable with same currency debt. Therefore:

- as the AUD value of offshore assets changes with currency movements, so does the AUD value of the debt; and
- as the AUD value of foreign currency EBIT changes with currency movements, so does the AUD value of the foreign currency interest expense.

As Sonic's foreign currency earnings grow, debt is repaid, and interest rates change, the natural hedges have only a partial effect, so AUD reported earnings do fluctuate. Sonic believes it is inappropriate to hedge translation risk (a non-cash risk) with real cash hedging instruments.

(b) Revenue

Revenue breakdown AUD M	**Six months ended 31.12.19 Revenue**	**% of 31.12.19 Revenue**	**Six months ended 31.12.19 Constant Currency Revenue**	**Six months ended 31.12.18 Revenue**	**Growth 31.12.19 Constant Currency v 31.12.18**
Laboratory – Australia and New Zealand	788	24%	788	734	7.4%
Laboratory – US	896	27%	846	617	37.1%
Laboratory – Europe	1,178	35%	1,146	1,084	5.7%
Imaging – Australia	266	8%	266	247	7.7%
Other	212	6%	212	217	(2.3)%
Revenue excluding interest income and AASB 16 impact	3,340	100%	3,258	2,899	12.4%

Total revenue growth for the half year was 15%, enhanced by the Aurora Diagnostics acquisition (completed 30 January 2019) and currency exchange rate movements (which added A$82.9M to Statutory Revenue). Group organic revenue growth was ~5% at Constant Currency exchange rates (i.e. applying the average rates for the six months ended 31.12.18 to the current period results).

The Laboratory division achieved revenue growth of 17% in the half year, including ~5% organic revenue growth (Constant Currency).

Sonic's Australian Laboratory organic revenue growth of ~7% was strong, including robust growth in genetic testing.

US revenue grew 37% on a Constant Currency basis, including the Aurora acquisition. US organic revenue growth was approximately 2% on a Constant Currency basis. US revenue was impacted ~1.3% by Medicare ('PAMA') fee cuts.

Within Europe, Sonic's UK operations achieved organic growth of ~13% (Constant Currency), with strong growth in both the private and National Health Service market segments. German organic growth was ~3%, impacted by statutory insurance fee quota changes. Swiss and Belgian organic growth was ~6% and ~2% respectively (Constant Currency).

Imaging revenue growth was strong at ~8%, driven by investments in greenfield sites and new equipment in the current and prior periods.

Revenue growth for Sonic Clinical Services ('SCS'), Sonic's medical centre and occupational health businesses (the major components of the Other segment, which also includes other minor operations), was ~3%, stronger than in the comparative period as market conditions are improving. The Other segment included revenue and earnings of GLP Systems in the comparative period, prior to its sale in June 2019.

COMMENTARY ON RESULTS
For the half year ended 31 December 2019

2. Explanation of results (continued)

(c) Earnings

Underlying EBITDA grew 14%, or 11% on a Constant Currency basis, excluding the impacts of AASB 16. The non-recurring costs of A$12M related to acquisition and contract bidding expenses, and restructuring costs, including relating to rationalisation of sites in the SCS businesses and efficiency improvements in the Laboratory and Imaging divisions.

Statutory EBITDA was increased by $A155M due to the impact of the new (effective 1 July 2019) lease accounting standard AASB 16.

EBITDA growth in the Laboratory division was enhanced by the Aurora Diagnostics acquisition in the US. Laboratory division margins increased by ~10 basis points. Margin accretion was particularly strong in the Australian business. Sonic's Imaging business reported 10% earnings growth and 40 basis points of margin improvement.

Consumables cost for the half year was reduced by A$11.9M as this amount was attributable to variable cost leases embedded in consumables procurement arrangements. A corresponding increase in lease expense was therefore recognised with a net nil impact on profit. Excluding this adjustment consumables cost still decreased as a percentage of revenue.

Net profit growth of 15% (excluding the impacts of AASB 16) is in line with the growth in revenue. Earnings per share growth has been impacted by the shares issued under the equity raisings associated with the Aurora acquisition, which have created balance sheet flexibility for future growth.

(d) Depreciation

Depreciation increased 11% on the comparative period (at Constant Currency rates and excluding the impact of AASB 16), reflecting the growth of the Company.

(e) Intangibles amortisation

Intangibles amortisation relates to internally developed and purchased software.

(f) Interest expense and debt facilities

Net interest expense decreased 5.2% on the prior year (at Constant Currency rates and excluding the impact of AASB 16), largely due to the equity raisings associated with the Aurora acquisition.

The majority of Sonic's debt is drawn in foreign currencies as 'natural' balance sheet hedging of Sonic's offshore operations (see (a) Constant currency above).

Interest rate risk management arrangements are in place in accordance with Sonic's Treasury Policy.

COMMENTARY ON RESULTS
For the half year ended 31 December 2019

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 31 December 2019 comprised:

	Facility Limit M	Drawn M	AUD $M Available
Notes held by Private Placement investors – USD	US$405	US$405	-
Notes held by Private Placement investors – EUR	€515	€515	-
Bank debt facilities			
- USD limits	US$660	US$443	309
- Euro limits	€425	€245	288
- AUD (Multicurrency) limits	A$48	-	48
- CHF limit	CHF307	CHF247⁺	89
Minor debt/leasing facilities	n/a	A$3*	-
Cash	n/a	A$(436)*	436
Available funds at 31 December 2019			1,170

⁺ Includes debt drawn in GBP (£51M)
* Various currencies

Sonic's credit metrics at 31 December 2019 were as follows:

	31.12.19	30.6.19
Gearing ratio	29.9%	29.5%
Interest cover (times)	11.2	10.5
Debt cover (times)	2.1	2.1

Definitions:
- Gearing ratio = Net debt / [Net debt + equity] (USPP covenant limit <55%)
- Interest cover = EBITA / Net interest expense (bank covenant limit >3.25)
- Debt cover = Net debt / EBITDA (bank covenant limit <3.5)
- Calculations as per Sonic's debt facility definitions, which exclude the impacts of AASB 16

In January 2020 Sonic issued US$550M of notes in the United States private placement market (see ASX announcement dated 10 October 2019 for further details). The proceeds were used to repay existing USD debt facilities that matured in January.

Sonic's senior debt facility limits at 18 February 2020 expire as follows (**note that the figures shown are the facility limits, not drawn debt**):

Calendar Year	AUD M	USD M	Euro M	CHF M
2021	-	250	-	182
2022	-	75	270	-
2023	48	100	120	125
2024	-	-	185	-
2026	-	-	245	-
2030	-	300	-	-
2032	-	150	85	-
2035	-	100	-	-
	48	975	905	307

Sonic's excellent relationships with its banks, its investment grade credit metrics, and its strong and reliable cash flows significantly reduce refinancing risk.

COMMENTARY ON RESULTS
For the half year ended 31 December 2019

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate is ~24.5%, in line with the full year guidance provided in August 2019 of ~25%, and similar to the 24.0% in the comparative period.

(h) Cash flow

Excluding the impacts of AASB 16, cash generated from operations was 3% higher than in the comparative period and gross operating cash flow equated to 89% of EBITDA. Cash generation was impacted by the timing of creditor payments, and a favourable reversal is expected in H2 FY2020.

(i) Full year (FY2020) guidance

Sonic gave full year guidance in August 2019 for underlying EBITDA growth of 6-8% for FY2020 on a Constant Currency basis (applying FY2019 average currency exchange rates to FY2020) over the FY2019 underlying EBITDA of A$1,052M. After 7 months of trading the Company is on track to achieve the guidance range.

Net interest expense for the year is expected to decrease by ~5% from the FY2019 level of A$79.4M on a Constant Currency basis.

Capital expenditure on property, plant and equipment is expected to be significantly lower in FY2020. Capital expenditure in FY2019 was heavily weighted to the second half of the year.

The FY2020 effective tax rate is expected to be approximately 25%.

Key guidance considerations:

- Excludes any future business acquisitions
- Incorporates known fee reductions in the USA equivalent to ~2% of total group EBITDA
- No other regulatory changes are assumed
- Current base interest rates are assumed to prevail
- Excludes the impact of the new lease accounting standard AASB 16, which was effective from 1 July 2019.

STATUTORY
HALF YEAR REPORT

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report and Financial Statements for the year ended 30 June 2019 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

1. Names of Directors

The Directors of the Company in office during the half year and up to the date of this report are:

Prof. M.R. Compton – Chairman
Dr C.S. Goldschmidt – Managing Director
Mr C.D. Wilks – Finance Director
Dr P.J. Dubois
Mr N. Mitchell
Mr L.J. Panaccio
Ms K.D. Spargo
Dr E.J. Wilson

2. Review of operations

Revenue for the period increased 15% to A$3,341M from a combination of the acquisition of Aurora Diagnostics in January 2019, organic growth of approximately 5%, and favourable currency movements equating to A$83M.

Net profit and earnings per share grew by 14% and 3% respectively. EBITDA grew 14% before non-recurring costs and accounting standard changes, equivalent to 11% on a Constant Currency basis.

Summary:

- After seven months of trading the company is on track to achieve the full year earnings guidance issued in August 2019 (6-8% underlying EBITDA growth, Constant Currency, excluding impact of AASB 16 *Leases*).
- Margin accretion in both laboratory (~10 basis points) and imaging (~40 basis points) operations.
- Aurora Diagnostics acquisition performing to expectation, with synergy capture under way.
- Progressive dividend policy maintained, increase of 1 cent (3%) to 34 cents for the FY2020 Interim Dividend.

Further information on the operations and financial results and position of the Company is included in the Commentary on Results section attached to this report, the presentation released to the ASX on the same day as this Appendix 4D, and in the 2019 Annual Report. This information includes results presented on a 'Constant Currency' basis – current period results presented using the comparative period average currency exchange rates to translate offshore earnings. The Constant Currency information is not required to be audited or reviewed in accordance with Australian Auditing Standards.

DIRECTORS' REPORT

3. Subsequent events

Since the end of the financial period, the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years other than as stated below:

- In January 2020 Sonic issued US$550M of notes in the United States private placement market. The proceeds were used to repay existing USD debt facilities that matured in January. Details of the issue were included in Sonic's announcement to the market dated 10 October 2019.

4. Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is attached to this Half Year Report.

5. Rounding of amounts to nearest thousand dollars

The Company is a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that Instrument.

This report is made in accordance with a resolution of the Directors.

M.R. Compton
Chairman

Dr C.S. Goldschmidt
Director

Sydney
18 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Sonic Healthcare Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sonic Healthcare Limited and the entities it controlled during the period.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
18 February 2020

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CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2019

	Notes	Six months ended 31.12.19 $'000	Six months ended 31.12.18 $'000
Revenue from operations		**3,340,586**	2,900,929
Labour and related costs		**(1,587,995)**	(1,354,422)
Consumables used		**(514,125)**	(477,857)
Depreciation		**(258,141)**	(100,801)
Repairs and maintenance		**(96,429)**	(82,713)
Transportation		**(88,762)**	(74,539)
Utilities		**(73,657)**	(68,926)
Borrowing costs expense		**(56,005)**	(41,666)
Lease expense		**(41,850)**	(174,430)
Amortisation of intangibles		**(31,981)**	(30,596)
Other expenses from ordinary activities		**(244,252)**	(195,114)
Profit from ordinary activities before income tax expense		**347,389**	299,865
Income tax expense		**(85,136)**	(71,939)
Profit from ordinary activities after income tax expense		**262,253**	227,926
Net (profit) attributable to minority interests		**(7,858)**	(4,947)
Profit attributable to members of Sonic Healthcare Limited		**254,395**	222,979
Basic earnings per share (cents per share)	4	**53.6**	52.1
Diluted earnings per share (cents per share)	4	**53.3**	51.9

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2019

	Six months ended 31.12.19 $'000	Six months ended 31.12.18 $'000
Profit from ordinary activities after income tax expense	**262,253**	227,926
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(11,447)**	88,779
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on retirement benefit obligations	**1,912**	(4,704)
Other comprehensive income for the period, net of tax	**(9,535)**	84,075
Total comprehensive income for the period	**252,718**	312,001
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	**242,225**	304,450
Minority interests	**10,493**	7,551
	252,718	312,001

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 31 December 2019

	Notes	31.12.19 $'000	30.6.19 $'000
Current assets			
Cash assets and cash equivalents		**436,233**	736,646
Receivables		**805,540**	827,932
Inventories		**132,282**	119,673
Other		**74,988**	68,933
Total current assets		**1,449,043**	1,753,184
Non current assets			
Receivables		**52,255**	40,201
Other financial assets		**96,955**	88,135
Property, plant and equipment		**1,276,149**	1,268,319
Right-of-use assets		**1,123,156**	-
Intangible assets		**6,775,478**	6,764,738
Deferred tax assets		**48,373**	39,166
Other		**5,981**	6,091
Total non current assets		**9,378,347**	8,206,650
Total assets		**10,827,390**	9,959,834
Current liabilities			
Payables		**568,721**	627,311
Interest bearing liabilities		**828,615**	826,004
Lease liabilities		**286,695**	-
Current tax liabilities		**126,763**	125,455
Provisions		**222,331**	222,321
Other		**30,227**	48,293
Total current liabilities		**2,063,352**	1,849,384
Non current liabilities			
Interest bearing liabilities		**1,957,143**	2,209,595
Lease liabilities		**909,393**	-
Deferred tax liabilities		**170,769**	151,116
Provisions		**135,763**	139,550
Other		**85,074**	118,323
Total non current liabilities		**3,258,142**	2,618,584
Total liabilities		**5,321,494**	4,467,968
Net assets		**5,505,896**	5,491,866
Equity			
Parent entity interest			
Contributed equity	6	**3,997,353**	3,966,892
Reserves	8	**124,246**	146,275
Retained earnings		**1,293,276**	1,299,163
Total parent entity interest		**5,414,875**	5,412,330
Minority interests		**91,021**	79,536
Total equity		**5,505,896**	5,491,866

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2019

	Six months ended 31.12.19 $'000	Six months ended 31.12.18 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**3,447,731**	3,031,819
Payments to suppliers and employees (inclusive of goods and services tax)	**(2,800,774)**	(2,555,897)
Gross operating cash flow	**646,957**	475,922
Interest received	**3,495**	1,455
Borrowing costs	**(53,653)**	(38,763)
Income taxes paid	**(62,628)**	(70,110)
Net cash inflow from operating activities	**534,171**	368,504
Cash flows from investing activities		
Payment for purchase of controlled entities and investments, net of cash acquired	**(47,009)**	(108,368)
Payments for property, plant and equipment	**(134,999)**	(113,709)
Proceeds from sale of non current assets	**3,389**	4,214
Payments for investments	**(9,104)**	-
Payments for intangibles	**(43,164)**	(56,526)
Repayment of loans by other entities	**16,142**	5,661
Loans to other entities	**(6,537)**	(2,669)
Net cash (outflow) from investing activities	**(221,282)**	(271,397)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related costs)	**19,940**	624,869
Proceeds from borrowings	**54,619**	273,990
Repayment of borrowings	**(293,019)**	(435,070)
Principal elements of lease payments	**(158,264)**	-
Transaction with minority interests	**5,518**	-
Dividends paid to Company's shareholders	**(242,148)**	(208,742)
Dividends paid to minority interests in controlled entities	**(4,659)**	(6,878)
Net cash (outflow)/inflow from financing activities	**(618,013)**	248,169
Net (decrease)/increase in cash and cash equivalents	**(305,124)**	345,276
Cash and cash equivalents at the beginning of the financial period	**736,646**	313,268
Effects of exchange rate changes on cash and cash equivalents	**4,711**	2,365
Cash and cash equivalents at the end of the financial period	**436,233**	660,909

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2019

	Share capital $'000	Reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total $'000
Balance at 1 July 2019	3,966,892	146,275	1,299,163	5,412,330	79,536	**5,491,866**
Change in accounting standards (AASB 16)	-	-	(20,046)	(20,046)	-	**(20,046)**
Restated balance at 1 July 2019	3,966,892	146,275	1,279,117	5,392,284	79,536	**5,471,820**
Profit for the period	-	-	254,395	254,395	7,858	**262,253**
Other comprehensive income for the period	-	(14,082)	1,912	(12,170)	2,635	**(9,535)**
Total comprehensive income for the period	-	(14,082)	256,307	242,225	10,493	**252,718**
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(242,148)	(242,148)	-	**(242,148)**
Shares issued	28,480	(8,540)	-	19,940	-	**19,940**
Transfers to share capital	1,981	(1,981)	-	-	-	**-**
Share based payments	-	2,574	-	2,574	-	**2,574**
Contributions of minority interests	-	-	-	-	5,648	**5,648**
Dividends paid to minority interests in controlled entities	-	-	-	-	(4,656)	**(4,656)**
Balance at 31 December 2019	**3,997,353**	**124,246**	**1,293,276**	**5,414,875**	**91,021**	**5,505,896**
Balance at 1 July 2018	3,005,875	27,889	1,143,643	4,177,407	105,518	4,282,925
Change in accounting standards (AASB 15)	-	-	(6,890)	(6,890)	-	(6,890)
Restated balance at 1 July 2018	3,005,875	27,889	1,136,753	4,170,517	105,518	4,276,035
Profit for the period	-	-	222,979	222,979	4,947	227,926
Other comprehensive income for the period	-	86,175	(4,704)	81,471	2,604	84,075
Total comprehensive income for the period	-	86,175	218,275	304,450	7,551	312,001
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(208,742)	(208,742)	-	(208,742)
Shares issued	643,626	(10,671)	-	632,955	-	632,955
Transaction costs on shares issued net of tax	(5,660)	-	-	(5,660)	-	(5,660)
Transfers to share capital	2,075	(2,075)	-	-	-	-
Allocation of treasury shares	412	(412)	-	-	-	-
Share based payments	-	2,483	-	2,483	-	2,483
Acquisition of minority interests	-	(1,053)	-	(1,053)	339	(714)
Dividends paid to minority interests in controlled entities	-	-	-	-	(7,012)	(7,012)
Balance at 31 December 2018	3,646,328	102,336	1,146,286	4,894,950	106,396	5,001,346

The above statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2019 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2019 and any public announcements made by Sonic Healthcare Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Working capital

Sonic is required to disclose A$829M of debt (mainly denominated in USD) drawn under facilities which were due to expire before 31 December 2020 as a current liability as at 31 December 2019. As a result the Consolidated Balance Sheet shows a deficiency of working capital of A$614M. In January 2020 Sonic issued US$550M (equivalent to approximately A$785M) of notes in the United States private placement market, the proceeds of which were used to repay the expiring USD debt facilities. This refinancing removed the deficiency of working capital. The financial report has therefore been prepared on a going concern basis.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period other than as noted below.

Impact of adopting AASB 16

Lessee accounting
AASB 16 primarily impacts accounting by lessees as it requires the recognition of right-of-use assets and lease liabilities for all leases unless the lease term is less than 12 months or the underlying asset is of a low value. Assets and liabilities arising from a lease are initially measured on a present value basis including non-cancellable lease payments and any payments to be made in optional periods if the lessee is reasonably certain to extend the lease. Lease payments, previously expensed through the operating lease rental expense line in the Income Statement, have been replaced with a straight-line amortisation of the right-of-use asset and an interest expense from carrying the lease liability at present value.

The Group has adopted AASB 16 from 1 July 2019 and applied the retrospective transition provision from the standard which allowed adjustments to be made to the amounts recognised in the Balance Sheet and retained earnings as at the date of initial application without restating comparatives for the FY2019 reporting period.

The Group recognised on transition lease liabilities of A$1,164M which had been previously been classified as 'operating leases'. The liability was measured by applying the weighted average incremental borrowing rate to the remaining lease payments. The associated right-of-use assets of A$1,093M were measured at either an amount equal to the lease liability or on a retrospective basis as if the new rules had applied since lease commencement.

Deferred tax assets increased by A$7M, payables and other liabilities reduced by A$25M, provisions reduced by A$3M and other current assets by A$3M. The net impact on retained earnings was a decrease of A$20M.

Cash payments for the principal portion of the lease liability are classified in the Cash Flow Statement within financing activities and cash payments for the interest portion of the lease liability classified within interest paid. Operating lease payments were previously included within net cash flow from operating activities.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has reassessed its contract portfolios at the date of initial application to ascertain whether a contract is, or contains a lease, and not to rely on assessments made by applying AASB 117 and Interpretation 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 1 Summary of significant accounting policies (continued)

Impact of adopting AASB 16 (continued)

Lessor accounting
Lessor accounting is fundamentally unchanged under AASB 16 however where the Group has an intermediate lessor relationship a reassessment is required on transition as to whether a sublease should be classified as an operating lease or a finance lease. A key indicator of being a finance lease is that the lease term is a major part of the economic life of the underlying right-of-use asset. The Group has reassessed its intermediate leases on transition and has recognised on the Balance Sheet a net investment in lease receivable of A$19M. The net investment in a lease is the sum of the lease payments receivable by the lessor plus any unguaranteed residual value, discounted at the interest rate implicit in the lease.

Significant judgements

Determination of the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew and considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Calculation of the incremental borrowing rates
The Group cannot readily determine the interest rate implicit in the lease contracts hence the present value of the Group's lease liabilities were estimated using the incremental borrowing rate as if leasing over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group used observable inputs such as market interest rates as applicable. The weighted average incremental borrowing rate on transition was 2.3%.

Note 2 Segment information

Business segments

The Group's Chief Executive Officer and the Board of Directors (the chief operating decision makers) review the Group's performance both by the nature of services provided and geographic region. Discrete financial information about each operating segment is reported to the Chief Executive Officer and the Board of Directors on at least a monthly basis and is used to assess performance and determine the allocation of resources. The internal reports use a 'Constant Currency' basis for reporting revenue and EBITA with foreign currency elements restated using the relevant prior period average exchange rates. The segment revenue and EBITA have therefore been presented using Constant Currency.

The Group has the following reportable segments:

(i) Laboratory
Pathology/clinical laboratory services provided in Australia, New Zealand, the United Kingdom, the United States of America, Germany, Switzerland, Belgium and Ireland. The geographic regions have been aggregated into one reportable segment as they provide similar services and have similar expected growth rates, cost structures, risks, and return profiles.

(ii) Imaging
Diagnostic imaging services provided in Australia.

(iii) Other
Includes corporate office functions, medical centre operations (IPN), occupational health services (Sonic HealthPlus), and other minor operations. In FY2019 'Other' also included laboratory automation development, until the sale of GLP Systems in June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 2 Segment information (continued)

Half Year ended 31 December 2019	**Laboratory $'000**	**Imaging $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Segment revenue (Constant Currency)	2,778,538	265,699	220,055	(6,755)	3,257,537
Currency exchange movement	82,911	-	-	-	82,911
Segment revenue	**2,861,449**	**265,699**	**220,055**	**(6,755)**	**3,340,448**
AASB 16 revenue impact					(3,169)
Interest income excluding impact of AASB 16					3,307
Total revenue					**3,340,586**
Segment EBITA (Constant Currency)	393,908	35,728	(18,650)	-	410,986
Currency exchange movement	10,385	-	-	-	10,385
Segment EBITA	**404,293**	**35,728**	**(18,650)**	**-**	**421,371**
AASB 16 EBITA impact					10,515
Amortisation expense					(31,981)
Unallocated net interest expense including impact of AASB 16					(52,516)
Profit before tax					**347,389**
Income tax expense					(85,136)
Profit after income tax expense					**262,253**
Depreciation expense	189,238	29,742	39,161	-	**258,141**
Depreciation expense excluding AASB 16 impact	81,837	16,660	15,246	-	**113,743**

Half Year ended 31 December 2018	**Laboratory $'000**	**Imaging $'000**	**Other $'000**	**Eliminations $'000**	**Consolidated $'000**
Segment revenue	2,435,312	246,616	223,841	(6,546)	2,899,223
Interest income					1,706
Total revenue					2,900,929
Segment EBITA	340,884	32,381	(2,844)	-	370,421
Amortisation expense					(30,596)
Unallocated net interest expense					(39,960)
Profit before tax					299,865
Income tax expense					(71,939)
Profit after income tax expense					227,926
Depreciation expense	71,311	15,278	14,212	-	100,801

Disaggregated revenue (including AASB 16 impact in H1 FY2020; excluding interest income)

	Six months ended 31.12.19 $'000	**Six months ended 31.12.18 $'000**
Laboratory		
Australia	**770,631**	717,343
Germany	**631,648**	599,332
USA	**895,710**	616,872
Switzerland	**232,513**	206,083
UK & Ireland	**240,296**	207,639
Belgium	**73,532**	70,990
New Zealand	**16,805**	17,053
Non-Laboratory		
Imaging	**265,699**	246,616
Other (Medical centres, occupational health services, etc.)	**210,263**	217,295
	3,337,097	2,899,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

	Six months ended 31.12.19 $'000	Six months ended 31.12.18 $'000
Note 3 Dividends		
Dividends paid during the half year	**242,148**	208,742

Dividends not recognised at the end of the half year

Since the end of the half year the Directors have declared an interim dividend of 34 cents (2019: 33 cents) franked to 30% (2019: 20%).

The dividend is payable on 25 March 2020 with a record date of 11 March 2020. The interim dividend includes no conduit foreign income.

Based on the number of shares on issue at 18 February 2020 the aggregate amount of the proposed interim dividend to be paid out of retained earnings at the end of the half year, but not recognised as a liability is:	**161,519**	156,366

Dividend Reinvestment Plan
The Company's Dividend Reinvestment Plan remains suspended for the FY2020 interim dividend.

	Six months ended 31.12.19 Cents	Six months ended 31.12.18 Cents
Note 4 Earnings per share		
Basic earnings per share	**53.6**	52.1
Diluted earnings per share	**53.3**	51.9

	Six months ended 31.12.19 Shares	Six months ended 31.12.18 Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**474,576,651**	427,989,347
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**477,006,381**	429,404,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 5 Goodwill

	31.12.19 $'000	30.6.19 $'000
Cost	**6,424,045**	6,422,865
Accumulated impairment	**(102,479)**	(102,135)
Net book amount	**6,321,566**	6,320,730
Opening cost	**6,422,865**	5,337,656
Acquisition/(disposal) of businesses (net)	**24,370**	888,095
Foreign exchange rate movements	**(23,190)**	197,114
Closing cost	**6,424,045**	6,422,865
Opening accumulated impairment	**(102,135)**	(97,657)
Foreign exchange movements	**(344)**	(4,478)
Closing accumulated impairment	**(102,479)**	(102,135)

Note 6 Contributed equity

	31.12.19 Shares	30.6.19 Shares	31.12.19 $'000	30.6.19 $'000
Share capital				
Fully paid ordinary shares	**475,024,916**	473,956,404	**3,997,562**	3,967,101
Other equity securities				
Treasury shares	**(8,835)**	(8,835)	**(209)**	(209)
	475,016,081	473,947,569	**3,997,353**	3,966,892

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
01/07/19	Opening balance	473,956,404		3,967,101
Various	Shares issued following exercise of employee options/rights	1,068,512	Various	28,480
Various	Transfers from equity remuneration reserve	-		1,981
31/12/19	Closing balance	475,024,916		3,997,562

Movements in other equity securities:

Date	Details	Number of shares	$'000
01/07/19	Opening balance	(8,835)	(209)
Various	Allocation of treasury shares	788,179	22,969
Various	Subscription to unissued shares by SHEST	(788,179)	(22,969)
31/12/19	Closing balance	(8,835)	(209)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 7 Unlisted share options and performance rights

Exercise Price	Expiry Date	Balance at 1.7.19	Exercised	Granted	Forfeited	Expired	Balance at 31.12.19
$17.32	27/11/2019	250,069	(250,069)	-	-	-	**-**
$18.84	30/11/2019	220,500	(220,500)	-	-	-	**-**
$18.49	20/08/2020	552,500	(10,000)	-	-	-	**542,500**
$19.78	11/10/2020	1,661,333	(427,833)	-	-	-	**1,233,500**
$19.41	20/11/2020	356,641	-	-	-	-	**356,641**
$21.62	17/09/2021	800,000	(84,000)	-	-	-	**716,000**
$22.02	17/09/2021	200,000	(45,000)	-	-	-	**155,000**
$21.62	17/11/2021	671,089	-	-	(433,423)	-	**237,666**
$23.34	05/05/2022	970,000	-	-	(20,000)	-	**950,000**
$21.64	22/11/2022	675,145	-	-	-	-	**675,145**
$21.83	14/10/2023	2,000,000	-	-	-	-	**2,000,000**
$21.69	21/11/2023	667,787	-	-	-	-	**667,787**
$24.30	21/12/2023	1,000,000	-	-	(20,000)	-	**980,000**
$28.58	05/12/2023	-	-	4,346,199	-	-	**4,346,199**
$29.26	19/11/2024	-	-	588,894	-	-	**588,894**
Performance Rights	17/11/2021	87,843	(31,110)	-	(56,733)	-	**-**
Performance Rights	22/11/2022	87,762	-	-	-	-	**87,762**
Performance Rights	21/11/2023	87,560	-	-	-	-	**87,560**
Performance Rights	19/11/2024	-	-	64,907	-	-	**64,907**
Performance Rights	02/10/2020	-	-	2,800	-	-	**2,800**
		10,288,229	(1,068,512)	5,002,800	(530,156)	-	**13,692,361**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 8 Reserves

	31.12.19 $'000	**31.12.18 $'000**
Foreign currency translation reserve	**202,956**	196,612
Equity remuneration reserve	**(86,521)**	(78,813)
Share option reserve	**16,427**	16,427
Revaluation reserve	**3,272**	3,272
Transactions with minority interests	**(11,888)**	(35,162)
	124,246	102,336
Movements		
Foreign currency translation reserve		
Balance 1 July	**217,016**	109,291
Net exchange movement on translation of foreign subsidiaries	**(14,060)**	87,321
Balance	**202,956**	196,612
Equity remuneration reserve		
Balance 1 July	**(78,574)**	(68,138)
Share based payments expense	**2,574**	2,483
Employee share scheme issue	**(8,540)**	(11,083)
Transfer to share capital (options exercised)	**(1,981)**	(2,075)
Balance	**(86,521)**	(78,813)
Share option reserve		
Balance 1 July	**16,427**	16,427
Movement in period	**-**	-
Balance	**16,427**	16,427
Revaluation reserve		
Balance 1 July	**3,272**	3,272
Movement in period	**-**	-
Balance	**3,272**	3,272
Transactions with minority interests		
Balance 1 July	**(11,866)**	(32,963)
Transactions with minority interests in period	**-**	(1,053)
Net exchange movement	**(22)**	(1,146)
Balance	**(11,888)**	(35,162)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half year ended 31 December 2019

Note 9 Net asset backing

	31.12.19	30.6.19
Net tangible asset backing per ordinary security	**($2.67)**	($2.69)
Net asset backing per ordinary security	**$11.59**	$11.59

Note 10 Business combinations

The acquisition accounting for Aurora Diagnostics, LLC, acquired on 30 January 2019, was finalised in the current reporting period. The aggregate cost of the acquisition, the value of the identifiable assets and liabilities, and the goodwill arising on acquisition are detailed below:

	$'000
Consideration – cash paid	726,017
Less: Cash of entities acquired	(1,606)
Total consideration	724,411
Fair value of identifiable net assets of businesses acquired	
Debtors & other receivables	53,375
Prepayments	5,903
Inventory	868
Property, plant & equipment	11,757
Identifiable intangibles	532
Trade creditors	(16,362)
Sundry creditors and accruals	(39,063)
Current tax liabilities	(57)
Deferred tax liabilities	(7,763)
Lease liabilities	(2,787)
Lease exit costs	(68)
Provisions	(2,156)
Other liabilities	(36,921)
	(32,742)
Goodwill	757,153

The total adjustment to goodwill during the reporting period as a result of finalising this business combination was an increase of A$7,356,000.

Note 11 Events occurring after the balance sheet date

Since the end of the financial period no matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years has arisen other than:

- In January 2020 Sonic issued US$550M of notes in the United States private placement market. The proceeds were used to repay existing USD debt facilities that matured in January. Details of the issue were included in Sonic's announcement to the market dated 10 October 2019.

Forward-looking statements

This Half Year Report and ASX Appendix 4D 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 report 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.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 12 to 24 are in accordance with the *Corporations Act 2001,* including:

 (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that Sonic Healthcare Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

M.R. Compton
Chairman

Dr C.S. Goldschmidt
Director

Sydney
18 February 2020

Independent auditor's review report to the members of Sonic Healthcare Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Sonic Healthcare Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sonic Healthcare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sonic Healthcare Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
18 February 2020