



SONIC  
HEALTHCARE

# Financial and Operational Review

## Year to 30 June 2009

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28 August 2009

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## **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 the Ordinary Earnings disclosed in the Appendix 4E released to the ASX on 28 August 2009, which are adjusted for non-recurring items including the intangibles write-down in New Zealand.*

# Financial Highlights

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- ▶ Revenue ↑ 27%
- ▶ EBITDA ↑ 21%
- ▶ Net profit ↑ 29%
- ▶ EPS ↑ 16%
- ▶ Cash generation ↑ 33%

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# Highlights

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- ▶ **Sonic outperforms guidance**
  - ▶ “Revenue growth >15%” - actual 27%
  - ▶ “EPS growth >10%” - actual 16%
- ▶ **Strong organic growth in Australia, Germany, USA**
  - ▶ Australian pathology organic revenue growth 9% (market 4.8%)
- ▶ **Margin expansion in Australia, Germany, USA**
  - ▶ Australian pathology delivers robust H2 margin expansion
  - ▶ Synergy gains in Germany and USA ongoing
  - ▶ A\$44 million marginal profit and synergies delivered in FY 09
- ▶ **Australian pathology fee cuts to be offset**
- ▶ **War-chest for acquisitions**
  - ▶ A\$775 million headroom

# FY 2010 Guidance

	FY 2010 Guidance
Net profit after tax (NPAT) growth	10 - 15%

- ▶ Based on FY 09 NPAT of A\$315 million
- ▶ Incorporates loss of Auckland contract
- ▶ Variables:
  - ▶ Foreign exchange rates (FY 09 rates assumed)
  - ▶ Interest rates
  - ▶ New acquisitions

# Dividend

	2009	2008	Change
Interim Dividend	\$0.22	\$0.20	10.0%
Final Dividend	\$0.35	\$0.32	9.4%
Full Year Dividends	\$0.57	\$0.52	9.6%

- ▶ Dividend franked to 35%
- ▶ Record Date 14 September 2009
- ▶ Payment Date 28 September 2009
- ▶ Dividend Reinvestment Plan remains suspended

# Financial Summary

A\$ million	FY 09	FY 08	Growth %
Revenue	3,014	2,380	27%
EBITDA	579	479	21%
<b>NPAT</b> (before NRIs)	<b>315</b>	<b>245</b>	<b>29%</b>
Non-recurring items after tax			
New Zealand pathology	(136)		
Items expensed in HI 09	(8)		
NPAT statutory	171		
EPS (diluted, before NRIs)	85.2¢	73.5¢	16%
Cash from operations	442	332	33%

- N.Z. pathology adjustments as per Sonic's 18 Aug 2009 announcement
- Other non-recurring items – see Appendix 4E

# Revenue

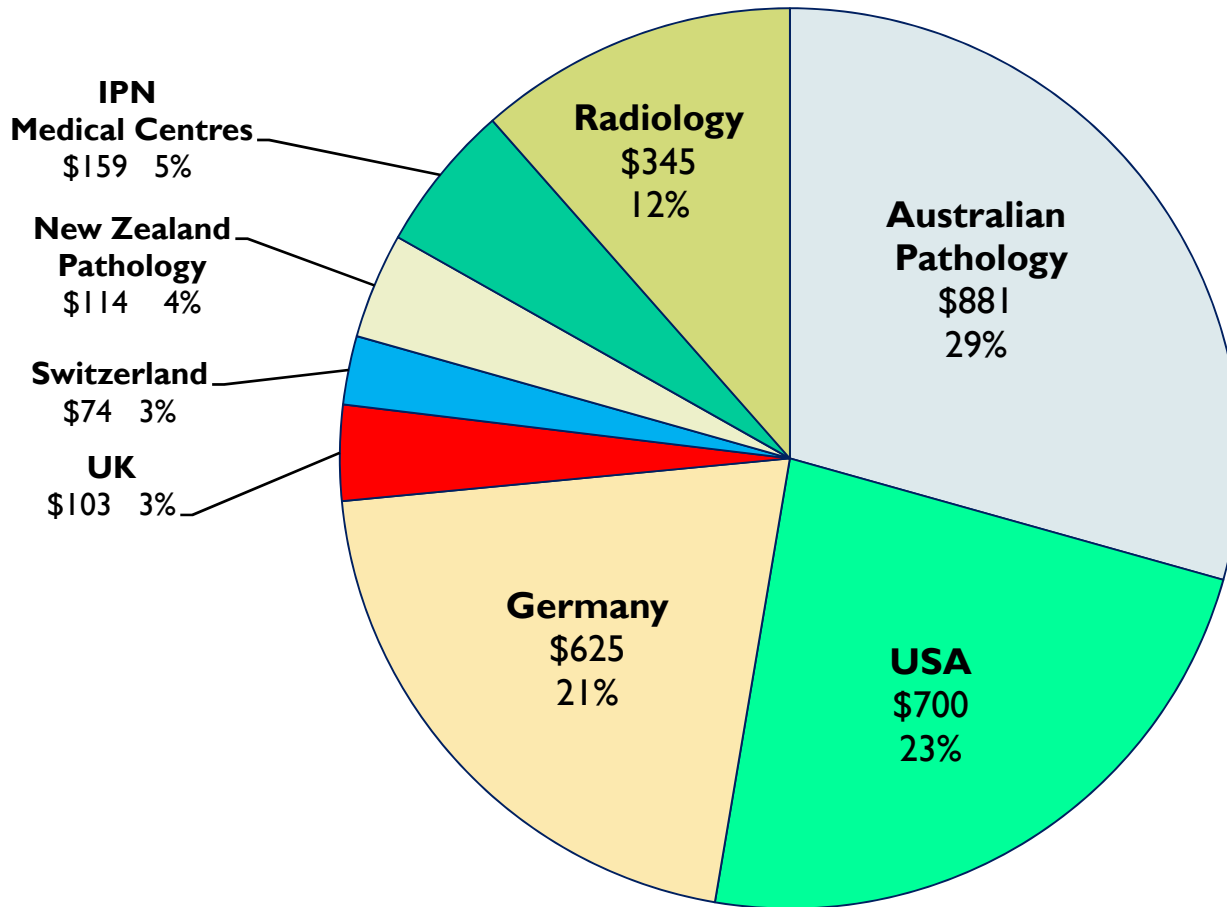
	2009 (A\$M)	2008 (A\$M)	Growth (%)
Total Revenue	3,014	2,380	27%

## Organic revenue growth (excluding acquisitions)

- ▶ Australian pathology 9% Market growth 4.8%
- ▶ USA 5% Market growth ~4%
- ▶ Europe 6% Includes German fee cuts
- ▶ Australian radiology 3% Fees to increase from 1 Nov 09



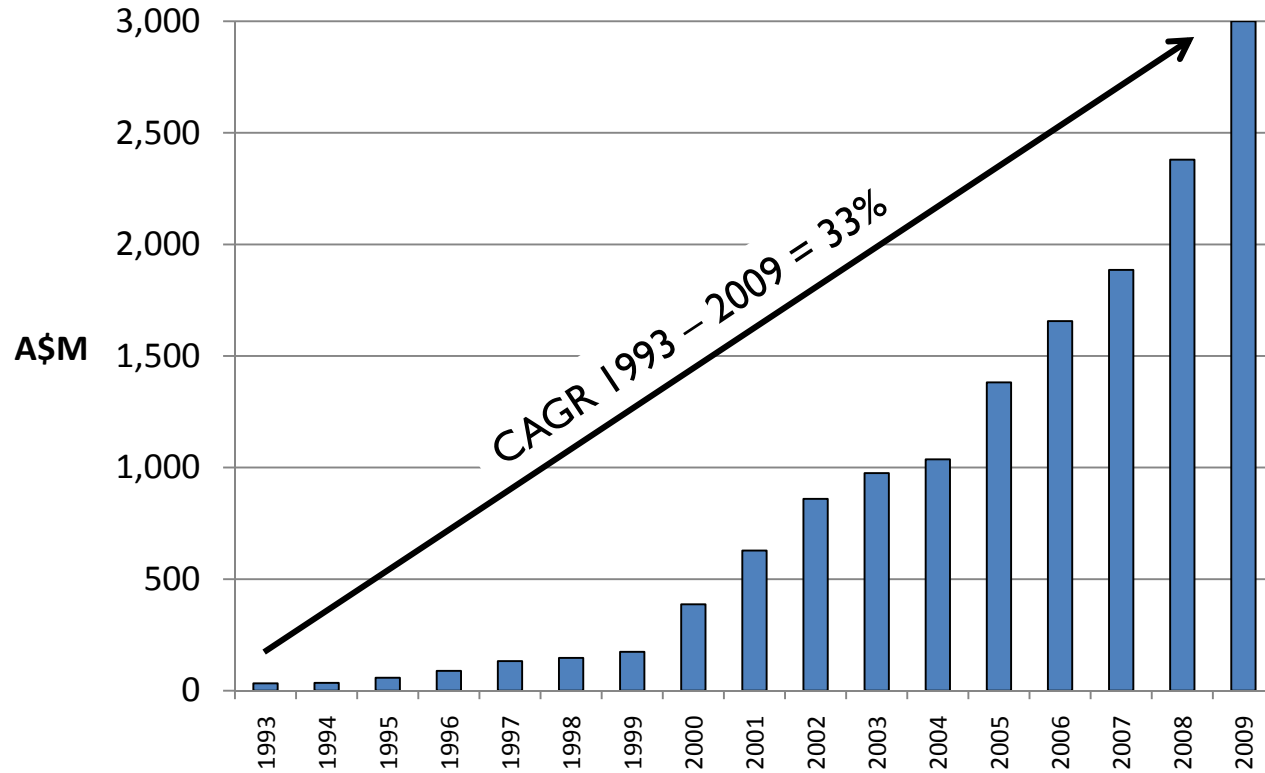
# Revenue Split FY 2009



Revenue in A\$ million

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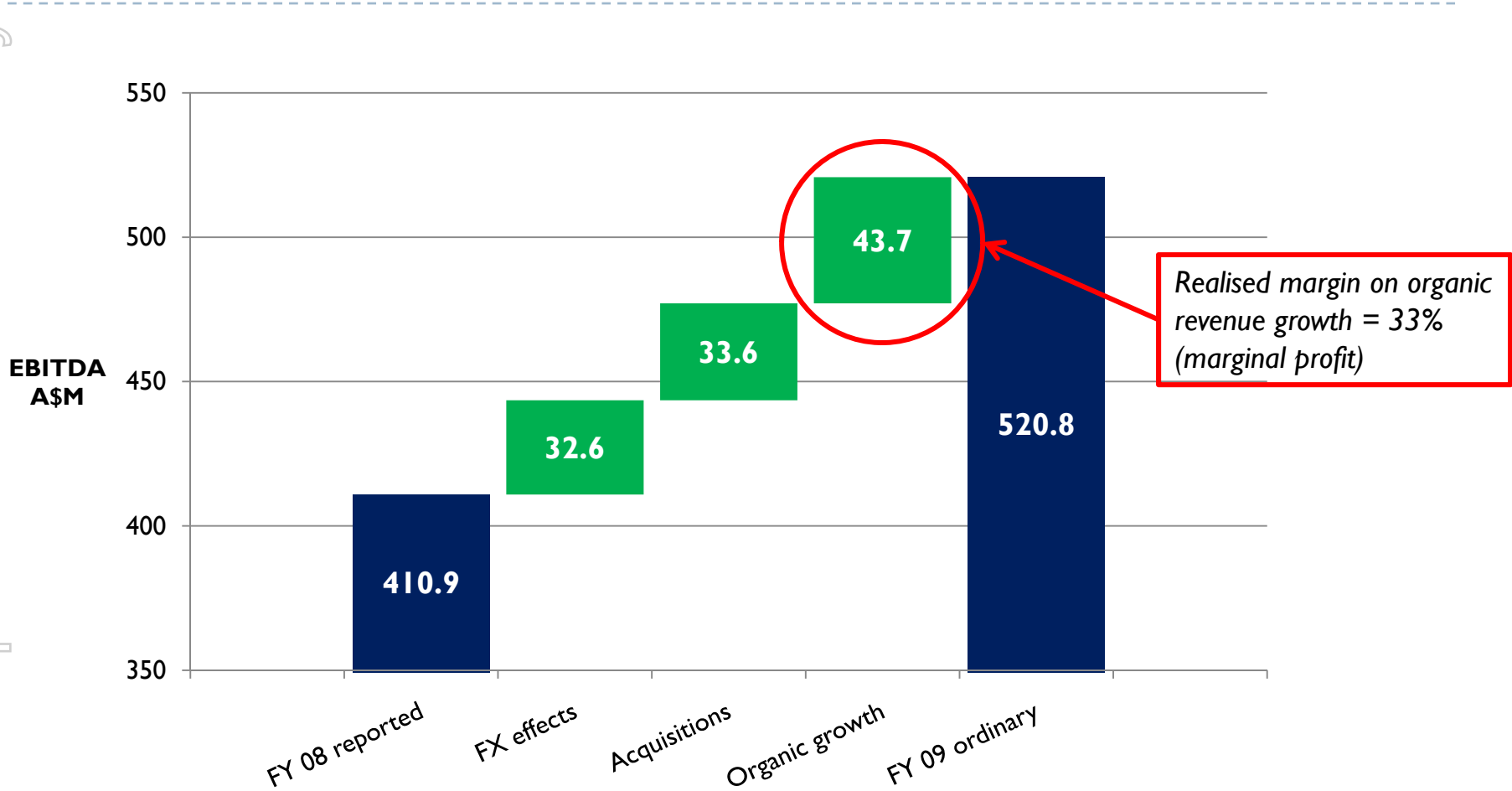
# Sonic Revenue Growth



	1993	2009
Revenue (A\$ million)	33	3,014

# Sonic Global Pathology Earnings

## EBITDA Contribution

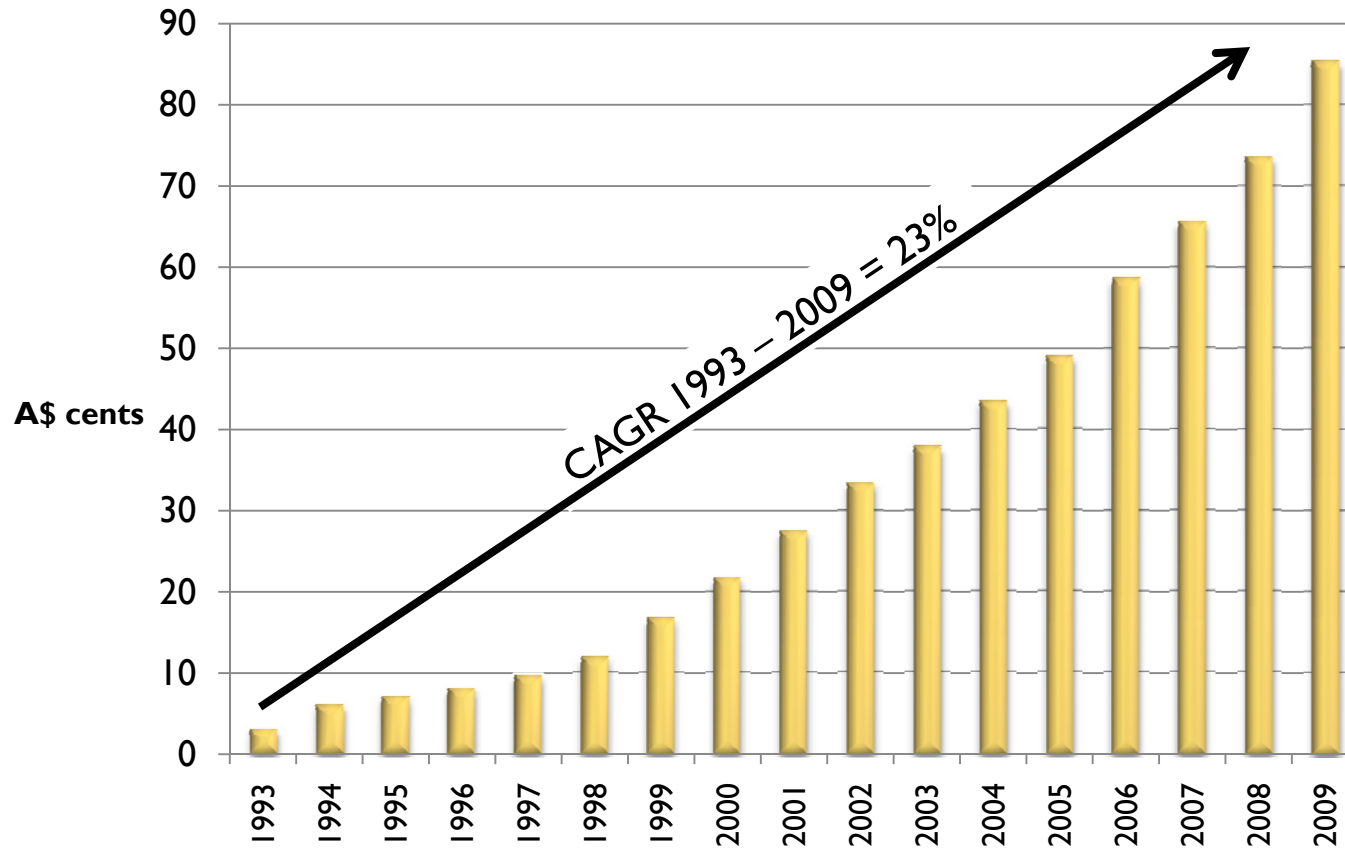


# Synergies and Margin Expansion Pathology

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- ▶ A\$44 million organic EBITDA added in FY 09
- ▶ USA – margin expansion of >200 basis points (bps)
- ▶ Germany – margin expansion of >100 bps
  - ▶ Despite fee cuts commencing 1 January 2009
- ▶ Australian Pathology
  - ▶ H2 09 margin expansion of 60 bps (vs H2 08)
  - ▶ Full-year margin expansion of 20 bps
- ▶ Sonic global pathology operations
  - ▶ Margin expansion of 80 bps
  - ▶ Includes NZ pathology margins which fell by ~200 bps
- ▶ Margin growth to continue
  - ▶ Rationalisation of infrastructure, centralisation of testing, global purchasing, cost discipline, smart systems, IT initiatives,

# Sonic EPS Growth



	1993	2009
EPS (A\$ cents)	3.2	85.3

# Australian Pathology

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- ▶ **Strong market share growth – clear market leader**
  - ▶ Revenue growth of 9% vs market growth of 4.8%
  - ▶ H2 revenue growth >10% (vs H2 08)
  - ▶ Sonic ~20% larger than nearest competitor
  - ▶ Strong revenue growth continuing into FY 10
- ▶ **Margin turnaround in second half of year**
- ▶ **Fee reforms**
  - ▶ Impending Medicare fee cuts to be offset
  - ▶ New billing policies being implemented
  - ▶ A more sustainable model for the future
- ▶ **Esoteric testing driving growth**
  - ▶ Genetic testing, immunology, specialist histopathology

# USA

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- ▶ Sustained strong performance from Sonic USA
- ▶ Organic revenue growth 5% vs market growth ~4%
- ▶ Margin expansion of >200 bps
- ▶ Synergies realised
  - ▶ Group purchasing annual savings > US\$3 million
  - ▶ Inter-company referrals increased by ~42%
  - ▶ ACS integration into Sunrise, with closure of NJ lab
  - ▶ Sunrise margins up by 250 bps following ACS integration
  - ▶ Rationalisation of billing centres (3 billing centres closed)
  - ▶ Apollo IT implementation into first Sonic US lab (Orlando)
- ▶ New acquisition opportunities

# Germany

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- ▶ **Financial performance**
  - ▶ Organic revenue growth of 5%
  - ▶ Margin expansion of >100 bps
- ▶ **Synergy gains achieved**
  - ▶ 70% of 2012 target for Bioscientia / Schottdorf (€10 million)
  - ▶ 30% of 2011 target for Lab 28 / GLP (€5 million)
- ▶ **Management**
  - ▶ Sonic Germany Executive Committee (GSEC) established
- ▶ **Fee reforms**
  - ▶ “Direct Billing” reform (1 Oct 08)
  - ▶ Public Fee schedule (EBM) (Jan/Apr 09) ~2% negative
  - ▶ Private Fee schedule (GOÄ) – stable
  - ▶ No further changes expected
- ▶ **Acquisition pipeline building**



# Switzerland

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- ▶ Ongoing strong financial performance
- ▶ Integration of Krech acquisition complete
  - ▶ Expected synergies realised
- ▶ New government fee schedule from 1 July 2009
  - ▶ Fee reductions for routine tests
  - ▶ Fee increases for esoteric tests
  - ▶ “Case Fee” per request increased
  - ▶ Sonic’s case mix favourable (high esoteric volume)
  - ▶ Neutral outcome expected for Sonic
  - ▶ Pressure on small routine labs → market consolidation

# UK

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- ▶ Strong revenue and earnings growth
- ▶ Organic revenue growth 15%
- ▶ Establishment of small operation in Manchester
- ▶ Outsourcing opportunities
  - ▶ NHS contracts
  - ▶ Independent sector contracts
- ▶ Positive outlook for ongoing growth

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# Radiology

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- ▶ Difficult conditions in FY 09
- ▶ Australian Medicare fee increases
  - ▶ Government acknowledgement of value of radiology
  - ▶ Commencing 1 November 2009
- ▶ Expecting improved performance through FY 10

# Sonic Debt Summary

## Investment Grade Credit Metrics

		30 Jun 09	31 Dec 08	30 Jun 08
Net interest-bearing debt	A\$M	1,198	1,536	1,238
Gearing ratio	%	32.1	36.5	38.0
Interest cover	X	6.5	5.7	6.4
Debt cover	X	2.2	2.3	2.5

▶ **Notes:**

- ▶ *Gearing ratio = Net debt / Net debt + equity (bank covenant limit <55%)*
- ▶ *Interest cover = EBITA / Net interest expense (bank covenant limit >3.25)*
- ▶ *Debt cover = Net debt / EBITDA (bank covenant limit <3.5)*
- ▶ *Formulas as per bank facility definitions*

# Funding Available for Growth

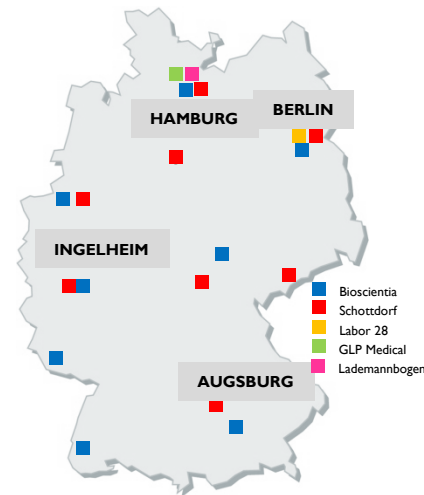
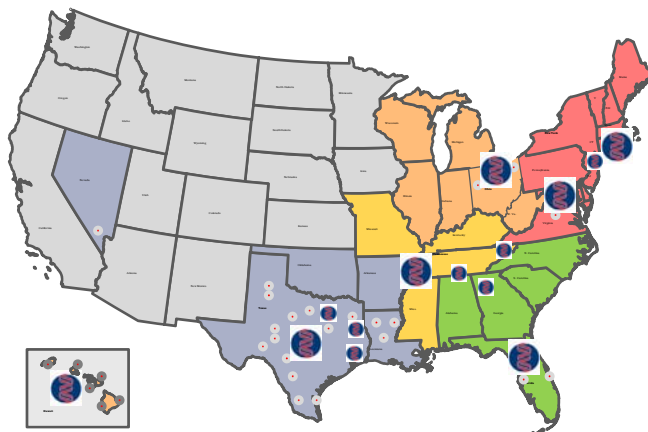
	A\$M
Cash at 30 Jun 09	558
Operating cashflow Jul-Sept 09 est.	90
2009 final dividend	(135)
Approved new bank credit lines*	262
<b>AVAILABLE HEADROOM</b>	<b>775</b>

- ▶ Expect April 2010 debt maturity (~A\$405 million) to be refinanced with existing banks
- ▶ War-chest for suitable acquisitions

\* US\$ and Euro denominated

# Acquisition Strategy

- ▶ Significant headroom now established
- ▶ Focus on synergistic acquisitions
- ▶ Value-adding use of equity raised in November 2008
- ▶ Growing pipeline of potential opportunities



# Summary

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- ▶ Sonic Healthcare in strong and secure position
- ▶ Revenue and market share growth in key markets
- ▶ Value-adding synergy capture in key markets
- ▶ Investment grade balance sheet
- ▶ Acquisition pipeline filling
- ▶ Stable culture and management

# Sonic Healthcare – Key Attributes

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- ▶ **GROWTH**
  - ▶ Strong revenue growth – CAGR 33% over 16 years
  - ▶ 14 consecutive years of double-digit EPS growth
  - ▶ Track record of acquisitions, integration, synergy
  - ▶ Industry growth – new tests, ageing population, preventative medicine
- ▶ **SECURITY**
  - ▶ Investment grade balance sheet
  - ▶ Global operations
  - ▶ Market leadership positions
  - ▶ Management stability
- ▶ **CULTURE**
  - ▶ Medical Leadership model
  - ▶ Federation structure
  - ▶ Sonic Core Values





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Thank you.



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