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Sonic Healthcare Limited
ABN 24 004 196 909

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2020
Lodged with the ASX under Listing Rule 4.3A

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the year ended 30 June 2020

Financial Results \$'000	2020 Statutory		% Change
Revenue from ordinary activities	6,831,843		10.5%
Profit after tax from ordinary activities attributable to members	527,749		(4.0)%
Dividends			
Cents per share	FY2020	FY2019	% Change
Final dividend	51¢	51¢	-
Final dividend franked amount per security	15.30¢	15.30¢	-
Interim dividend	34¢	33¢	3.0%
Interim dividend franked amount per security	10.20¢	6.60¢	54.5%

The final dividend is scheduled to be paid on 22 September 2020 to shareholders registered as at close of business on 8 September 2020 (the record date). The 2020 final dividend includes no conduit foreign income. The Company's Dividend Reinvestment Plan ('DRP') has been 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.

the impacts of AASB 16.

Financial Results \$'000					% Change Excluding AASB 16	
	2020 Statutory	2020 Constant Currency ¹ Excluding AASB 16	2020 Actual Currency Excluding AASB 16	2019 Statutory	2020 Constant Currency versus 2019	2020 Actual Currency versus 2019
Revenue	6,831,843	6,639,830	6,859,819	6,184,056	7.4%	10.9%
Non-recurring gains	-	(19,767)	(21,068)	(50,385)		
Underlying Revenue ²	6,831,843	6,620,063	6,838,751	6,133,671	7.9%	11.5%
Underlying EBITDA ²	1,425,059	1,068,775	1,108,833	1,051,544	1.6%	5.4%
Non-recurring gains ⁴	-	19,767	21,068	50,385		
Non-recurring costs ⁵	(13,225)	(12,822)	(13,225)	(27,101)		
EBITDA ³	1,411,834	1,075,720	1,116,676	1,074,828		3.9%
Depreciation	(540,658)	(226,909)	(233,204)	(209,856)	8.1%	
EBITA	871,176	848,811	883,472	864,972		
Amortisation of intangibles	(65,210)	(63,494)	(65,210)	(63,288)	0.3%	
Net interest expense	(106,903)	(75,430)	(78,500)	(79,427)	(5.0)%	
Income tax expense	(157,160)	(162,483)	(168,065)	(163,188)	(0.4)%	
Net (profit) attributable to minority interests	(14,154)	(13,853)	(14,154)	(9,344)		
Net profit attributable to Sonic shareholders	527,749	533,551	557,543	549,725	(2.9)%	1.4%
Less: After tax impacts of non-recurring items			(5,440)	(31,412)		
Underlying net profit			552,103	518,313		6.5%
Cash generated from operations	1,360,298		1,066,828	847,308		25.9%
Earnings per share						
Basic earnings per share (cents per share)	111.1	112.4	117.4	122.5		
Diluted earnings per share (cents per share)	110.6	111.8	116.8	122.1	(8.4)%	(4.3)%

¹ For an explanation of 'Constant Currency' refer to 2(a) in the Commentary on Results.

² Underlying Revenue, EBITDA and Net Profit = Revenue, Net Profit and EBITDA adjusted to remove the impact of non-recurring items in the current and/or previous year.

³ EBITDA = Earnings before interest, tax, depreciation and amortisation.

⁴ Non-recurring gains: FY2020 gain on sale of Hawaii laboratory building. FY2019 gain of sale of GLP Systems subsidiary.

⁵ Non-recurring costs mainly relate to acquisitions, contract bids, laboratory relocations, mergers and restructuring.

An explanation of the figures reported above is provided in the following pages of this report.

COMMENTARY ON RESULTS For the year ended 30 June 2020

1. Headlines

- Sonic Healthcare is playing a key role in combating the COVID-19 pandemic in its markets, whilst continuing to provide its usual essential healthcare services
- FY2020 underlying EBITDA (excluding AASB 16 impact) of A\$1,109 million (24 June 2020 trading update ~A\$1,075 million)
- Underlying revenue growth of 11.5% to A\$6.8 billion (excluding AASB 16 impact)
- Underlying net profit growth of 6.5% to A\$552 million (excluding AASB 16 impact)
- FY2020 final dividend maintained at A\$0.51 per share (full year up 1.2% to A\$0.85)

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 year to 30 June 2020 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 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 comparative 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:

	2020 Statutory	2019 and Constant Currency
AUD/USD	0.6712	0.7154
AUD/EUR	0.6068	0.6270
AUD/GBP	0.5328	0.5527
AUD/CHF	0.6557	0.7116
AUD/NZD	1.0544	1.0666

To manage currency translation risk Sonic uses 'natural' hedging, under which foreign currency assets (businesses) are matched to the extent possible 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.

COMMENTARY ON RESULTS For the year ended 30 June 2020

2. Explanation of results (continued)

(b) Revenue

Revenue breakdown

AUD M

	2020 Statutory Revenue	% of 2020 Statutory Revenue	2020 Constant Currency Revenue	2019 Revenue	Growth 2020 Constant Currency v 2019
Laboratory – Australia and New Zealand	1,574	23%	1,573	1,504	4.6%
Laboratory - USA	1,861	27%	1,746	1,441	21.2%
Laboratory - Europe	2,460	36%	2,358	2,244	5.0%
Imaging – Australia	520	8%	520	500	4.0%
Other	418	6%	418	438	(4.6)%
Revenue – underlying	6,833	100%	6,615	6,127	8.0%
Non-recurring gain	21		20	50	
Impact of new accounting standard (AASB 16)	(28)		-	-	
Interest income	6		5	7	
Total revenue	6,832		6,640	6,184	7.4%

Total revenue growth (excluding AASB 16 impact) for the year was 11%, enhanced by the Aurora Diagnostics acquisition (completed 30 January 2019) and currency exchange rate movements (which added A\$221M to Statutory Revenue). Group organic revenue growth was ~4% at Constant Currency exchange rates (i.e. applying the average rates for the year ended 30 June 2019 to the current year results).

For the 8.5 months to mid-March 2020, Sonic's revenue growth and trading results were in line with expectation, however in the second half of March, the COVID-19 pandemic and associated lockdowns precipitated dramatic falls in base patient volumes and revenues, almost simultaneously across Sonic's global businesses. With significant uncertainty surrounding the potential extent of the falls and the timing to recovery, Sonic's operations responded swiftly, firstly to secure the safety of staff and then to reduce costs to mitigate against the revenue shortfalls.

The declines in base business (i.e. excluding COVID-19 testing) revenues varied significantly by market, but early stabilisation of levels became evident in late April, followed by commencing recovery during May, at different rates in each market. By 30 June 2020 the majority of Sonic's divisions had returned to pre-COVID base volumes and revenues. Base revenues in the USA, the UK, Ireland, and Belgium were still below pre-COVID levels but trending positively. In addition to the recovery of base volumes/revenues, many of Sonic's laboratory businesses had ramped up substantial COVID-19 testing.

Flowing from this, Sonic's revenues for March and April 2020 were substantially below forecast, with May and June results stronger than expected. This positive trend has continued to date post-year end.

The Laboratory division achieved revenue growth of 14% in the year (9% on a Constant Currency basis), including ~4% organic revenue growth (Constant Currency).

Sonic's Australian Laboratory business achieved organic revenue growth of ~5%, including robust growth from COVID-19 and genetic testing.

US revenue grew 21% on a Constant Currency basis, including the Aurora acquisition. US organic revenue growth was approximately 3% on a Constant Currency basis, including significant COVID-19 testing revenues.

Within Europe, Sonic's UK operations achieved organic growth of ~5% (Constant Currency). German organic growth was ~6%, enhanced by significant COVID-19 testing volumes. Swiss and Belgian organic growth was ~5% and ~(2)% respectively (Constant Currency).

Imaging revenue growth was ~4%, driven by investments in greenfield sites and new equipment in the current and prior periods offsetting the COVID-19 volume declines.

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 flat, due to the impacts of the COVID-19 pandemic. The Other segment included revenue and earnings of GLP Systems in the comparative period, prior to its sale in June 2019.

Non-recurring gains comprise the gain on sale of Sonic's main laboratory building in Hawaii in FY2020, and the gain on sale of GLP Systems in FY2019. The Hawaii laboratory was leased back on a long term basis, and under AASB 16, the gain on sale becomes a small loss.

COMMENTARY ON RESULTS
For the year ended 30 June 2020

2. Explanation of results (continued)

(c) Earnings

Underlying EBITDA grew 5%, or 2% on a Constant Currency basis, excluding the impacts of AASB 16. The non-recurring costs of A\$13M 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. Other than some minor acquisition costs in the second half, these costs were incurred in the first half of the year.

Margins declined for the full year due to the impacts of the COVID-19 pandemic. For the first half of the year both the Laboratory and Imaging divisions had reported margin expansion. Despite organic revenue growth of ~4% for the full year, the size and speed of the base business volume reductions due to the pandemic were such that the margin impact in March and April could not be fully offset in May and June 2020. In addition, the pandemic caused costs such as medical consumables (including personal protective equipment for Sonic's staff) and freight to increase as a percentage of revenue.

Statutory EBITDA was increased by \$A295M due to the impact of the new (effective 1 July 2019) lease accounting standard AASB 16.

(d) Depreciation and lease amortisation

Depreciation increased 8% 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% 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 in the prior year, and the strong cash generation in the year.

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 year ended 30 June 2020

2. Explanation of results (continued)

(f) Interest expense and debt facilities (continued)

Sonic's net interest bearing debt at 30 June 2020 comprised:

	Facility Limit M	Drawn M	AUD \$M Available
Notes held by USA investors – USD (fixed coupons)	US\$800	US\$800	-
Notes held by USA investors – Euro (fixed coupons)	€515	€515	-
Bank debt facilities			
- USD limits	US\$175	US\$120	80
- Euro limits	€390	€308	134
- AUD limits	A\$48	A\$48	-
- CHF limits	CHF307	CHF182	192
Debt drawn in facilities above in different currencies to facility limits			
- AUD	-	113	(113)
- GBP	-	66	(118)
Minor debt/leasing facilities	n/a	A\$17*	-
Cash	n/a	A\$(1,230)*	1,230
Available funds at 30 June 2020			1,405

* Various currencies

Sonic's credit metrics at 30 June 2020 were as follows:

	30.6.20	31.12.19	30.6.19
Gearing ratio	26.1%	29.9%	29.5%
Interest cover (times)	11.5	11.2	10.5
Debt cover (times)	1.8	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

Sonic's senior debt facility limits are due to 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 (USD January, CHF July)	-	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, staggered facility maturity profile, and its strong and reliable cash flows significantly reduce refinancing risk.

COMMENTARY ON RESULTS
For the year ended 30 June 2020

2. Explanation of results (continued)

(g) Tax expense

The effective tax rate (excluding AASB 16 impacts) is ~23%, similar to the rate in the prior year.

(h) Cash flow

Excluding the impacts of AASB 16, cash generated from operations was 26% higher than in the comparative period and gross operating cash flow equated to 114% of EBITDA. Cash generation was augmented by cash preservation initiatives and the receipt of prepayments of ~A\$63M of US Medicare testing revenue. This amount is expected to reverse in H1 FY2021 as the testing is performed.

(i) FY2021

Sonic is not providing annual earnings guidance at this time due to COVID-19 related unpredictability.

Revenue growth rates in July and August 2020 are substantially higher than historical rates, augmented by strong COVID-19 testing volumes. July 2020 base laboratory business revenues were ~5% higher than in the prior year in most countries, with negative but improving growth in the US and UK. The outlook is dependent on fluctuations in base business and COVID-19 testing revenues. Due to the uncertain environment, current growth rates may not be sustained. In general, if base business volumes are negatively impacted by the pandemic, COVID-19 testing volumes tend to increase.

A market update will be provided at Sonic's Annual General Meeting on 12 November 2020.

FULL YEAR REPORT
For the year ended 30 June 2020

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This 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 accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue from operations		6,831,843	6,133,671
Other income		-	50,385
Total		6,831,843	6,184,056
Labour and related costs		(3,173,784)	(2,848,122)
Consumables used		(1,117,373)	(995,288)
Lease expense		(51,344)	(351,909)
Depreciation		(540,658)	(209,856)
Repairs and maintenance		(193,058)	(169,130)
Transportation		(177,248)	(158,562)
Utilities		(148,907)	(139,017)
Borrowing costs expense		(112,851)	(86,063)
Amortisation of intangibles		(65,210)	(63,288)
Other expenses from ordinary activities		(552,347)	(440,564)
Profit from ordinary activities before income tax expense		699,063	722,257
Income tax expense		(157,160)	(163,188)
Profit from ordinary activities after income tax expense		541,903	559,069
Net (profit) attributable to minority interests		(14,154)	(9,344)
Profit attributable to members of Sonic Healthcare Limited		527,749	549,725
Basic earnings per share (cents per share)	4	111.1	122.5
Diluted earnings per share (cents per share)	4	110.6	122.1

The above Consolidated Income Statement should be read in conjunction with the accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Profit from ordinary activities after income tax expense	541,903	559,069
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	33,175	109,109
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial (losses) on retirement benefit obligations	(5,782)	(22,203)
Other comprehensive income for the period, net of tax	27,393	86,906
Total comprehensive income for the period	569,296	645,975
Total comprehensive income attributable to:		
Members of Sonic Healthcare Limited	555,809	634,016
Minority interests	13,487	11,959
	569,296	645,975

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED BALANCE SHEET
As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Current assets			
Cash assets and cash equivalents		1,230,149	736,646
Receivables		986,770	827,932
Inventories		163,425	119,673
Other		74,761	68,933
Total current assets		2,455,105	1,753,184
Non-current assets			
Receivables		50,429	40,201
Other financial assets		91,754	88,135
Property, plant and equipment		1,230,498	1,268,319
Right-of-use assets		1,267,582	-
Intangible assets		6,954,904	6,764,738
Deferred tax assets		70,759	39,166
Other		6,099	6,091
Total non-current assets		9,672,025	8,206,650
Total assets		12,127,130	9,959,834
Current liabilities			
Payables		983,831	627,311
Interest bearing liabilities		364,198	826,004
Lease liabilities		298,923	-
Current tax liabilities		145,163	125,455
Provisions		259,826	222,321
Other		18,192	48,293
Total current liabilities		2,070,133	1,849,384
Non-current liabilities			
Interest bearing liabilities		2,872,429	2,209,595
Lease liabilities		1,080,331	-
Deferred tax liabilities		173,335	151,116
Provisions		163,538	139,550
Other		102,966	118,323
Total non-current liabilities		4,392,599	2,618,584
Total liabilities		6,462,732	4,467,968
Net assets		5,664,398	5,491,866
Equity			
Parent entity interest			
Contributed equity	5	4,000,910	3,966,892
Reserves	7	175,426	146,275
Retained earnings	8	1,397,417	1,299,163
Total parent entity interest		5,573,753	5,412,330
Minority interests		90,645	79,536
Total equity		5,664,398	5,491,866

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	6,801,349	6,258,438
Payments to suppliers and employees (inclusive of goods and services tax)	(5,209,415)	(5,207,533)
Gross operating cash flow	1,591,934	1,050,905
Interest received	5,947	6,636
Borrowing costs	(101,170)	(83,930)
Income taxes paid	(136,413)	(126,303)
Net cash inflow from operating activities	1,360,298	847,308
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	(97,783)	(863,405)
Payments for property, plant and equipment	(234,900)	(281,578)
Proceeds from sale of non-current assets	73,673	141,433
Payments for intangibles	(98,192)	(105,070)
Repayment of loans by other entities	32,470	13,142
Loans to other entities	(10,185)	(3,851)
Net cash (outflow) from investing activities	(334,917)	(1,099,329)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities (net of transaction costs and related taxes)	22,997	943,975
Proceeds from borrowings	1,468,184	1,363,839
Repayment of borrowings	(1,315,512)	(1,246,425)
Principal elements of lease payments	(300,075)	-
Dividends paid to Company's shareholders	(403,667)	(365,112)
Dividends paid to minority interests in controlled entities	(8,663)	(8,611)
Net cash (outflow)/inflow from financing activities	(536,736)	687,666
Net increase in cash and cash equivalents	488,645	435,645
Cash and cash equivalents at the beginning of the financial year	736,646	313,268
Effects of exchange rate changes on cash and cash equivalents	4,858	(12,267)
Cash and cash equivalents at the end of the financial year	1,230,149	736,646

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2020

	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 period	-	-	527,749	527,749	14,154	541,903
Other comprehensive income for the period	-	33,842	(5,782)	28,060	(667)	27,393
Total comprehensive income for the period	-	33,842	521,967	555,809	13,487	569,296
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(403,667)	(403,667)	-	(403,667)
Shares issued	31,614	(8,617)	-	22,997	-	22,997
Transfers to share capital	2,342	(2,342)	-	-	-	-
Share based payments	-	6,330	-	6,330	-	6,330
Allocation of treasury shares	62	(62)	-	-	-	-
Contributions from minority interests	-	-	-	-	6,285	6,285
Dividends paid to minority interests in controlled entities	-	-	-	-	(8,663)	(8,663)
Balance at 30 June 2020	4,000,910	175,426	1,397,417	5,573,753	90,645	5,664,398
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 period	-	-	549,725	549,725	9,344	559,069
Other comprehensive income for the period	-	106,494	(22,203)	84,291	2,615	86,906
Total comprehensive income for the period	-	106,494	527,522	634,016	11,959	645,975
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	(365,112)	(365,112)	-	(365,112)
Shares issued	964,499	(11,430)	-	953,069	-	953,069
Transaction costs on shares issued net of tax	(6,366)	-	-	(6,366)	-	(6,366)
Transfers to share capital	2,413	(2,413)	-	-	-	-
Share based payments	-	3,878	-	3,878	-	3,878
Allocation of treasury shares	471	(471)	-	-	-	-
Sale of minority interests	-	1,505	-	1,505	(3,199)	(1,694)
Acquisition of minority interests	-	20,823	-	20,823	(26,015)	(5,192)
Dividends paid to minority interests in controlled entities	-	-	-	-	(8,727)	(8,727)
Balance at 30 June 2019	3,966,892	146,275	1,299,163	5,412,330	79,536	5,491,866

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes, the 2019 Annual Report, the 2019 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

Note 1 Summary of significant accounting policies

This financial report has been prepared in accordance with International Financial Reporting Standards, other authoritative pronouncements and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001.

This 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, the 2019 Annual Financial Statements and any public announcements made by Sonic Healthcare Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The on-going COVID-19 pandemic has not significantly increased the estimation uncertainty in the preparation of the consolidated financial statements. A thorough consideration of potential COVID-19 impacts on the carrying value of assets and liabilities, contracts and potential liabilities has been made with no material impact to the financial report.

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 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 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.

The effect of adopting AASB 16 was as follows:

Impact on the Balance Sheet increase/(decrease) as at 1 July 2019

	A\$M
Current assets	
Receivables	6
Other	(3)
Total current assets	<u>3</u>
Non-current assets	
Receivables	13
Property, plant and equipment	(4)
Right-of-use assets	1,097
Deferred tax assets	7
Total non-current assets	<u>1,113</u>
Total assets	<u>1,116</u>
Current liabilities	
Payables	1
Interest bearing liabilities	(1)
Lease liabilities	274
Provisions	(1)
Total current liabilities	<u>273</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

Note 1 Summary of significant accounting policies (continued)

Impact of adopting AASB 16 (continued)

Lessee accounting (continued)

	A\$M
Non-current liabilities	
Interest bearing liabilities	(2)
Lease liabilities	893
Provisions	(2)
Other	(26)
Total non-current liabilities	<u>863</u>
Total liabilities	<u>1,136</u>
Equity	
Retained earnings	(20)
Total equity	<u>(20)</u>

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.

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. 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

Note 2 Segment information

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 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), laboratory automation development (up until the sale on 26 June 2019 of GLP Systems), and other minor operations. The A\$50M gain on sale of GLP Systems is also included in FY2019. In addition acquisition costs and certain other non-recurring costs are expensed in this segment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2020

Note 2 Segment information (continued)

Year ended 30 June 2020	Laboratory \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue (Constant Currency)	5,673,613	519,783	454,525	(13,624)	6,634,297
Currency exchange movement	219,990	-	-	-	219,990
Segment revenue	5,893,603	519,783	454,525	(13,624)	6,854,287
AASB 16 revenue impact					(27,976)
Interest income excluding impact of AASB 16					5,532
Total revenue					6,831,843
Segment EBITA (Constant Currency)	822,001	59,965	(33,155)	-	848,811
Currency exchange movement	34,661	-	-	-	34,661
Segment EBITA (Statutory)	856,662	59,965	(33,155)	-	883,472
AASB 16 EBITA impact					(12,296)
Amortisation expense					(65,210)
Unallocated net interest expense including impact of AASB 16					(106,903)
Profit before tax					699,063
Income tax expense					(157,160)
Profit after income tax expense					541,903
Depreciation expense	394,637	60,753	85,268	-	540,658
Depreciation expense excluding AASB 16 impact	168,930	33,896	30,378	-	233,204
Year ended 30 June 2019	Laboratory \$'000	Imaging \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
Segment revenue	5,188,773	499,774	502,063	(13,190)	6,177,420
Interest income					6,636
Total revenue					6,184,056
Segment EBITA	772,905	68,341	23,726	-	864,972
Amortisation expense					(63,288)
Unallocated net interest expense					(79,427)
Profit before tax					722,257
Income tax expense					(163,188)
Profit after income tax expense					559,069
Depreciation expense	146,796	31,469	31,591	-	209,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2020

Note 3 Dividends

	2020 \$'000	2019 \$'000
Total dividends paid on ordinary shares during the year		
Final dividend for the year ended 30 June 2019 of 51 cents (2018: 49 cents) per share paid on 25 September 2019 (2018: 27 September 2018), franked to 30% (2018: 30%)	242,148	208,746
Interim dividend for the year ended 30 June 2020 of 34 cents (2019: 33 cents) per share paid on 25 March 2020 (2019: 26 March 2019), franked to 30% (2019: 20%)	161,519	156,366
	403,667	365,112

Dividends not recognised at the end of the year

On 19 August 2020 the directors declared a final dividend of 51 cents per share (2019: 51 cents) franked to 30% (2019: 30%), payable on 22 September 2020 with a record date of 8 September 2020. Based on the number of shares expected to be on issue at the record date, the aggregate amount of the proposed final dividend to be paid out of retained earnings at the end of the year, but not recognised as a liability is:

243,417	242,148
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Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan is suspended for the FY2020 final dividend.

Note 4 Earnings per share

	2020 Cents	2019 Cents
Basic earnings per share	111.1	122.5
Diluted earnings per share	110.6	122.1
	2020 Shares	2019 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	474,827,551	448,784,480
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	477,161,002	450,309,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2020

Note 5 Contributed equity

	2020 Shares	2019 Shares	2020 \$'000	2019 \$'000
Share capital				
Fully paid ordinary shares	475,182,416	473,956,404	4,001,057	3,967,101
Other equity securities				
Treasury shares	(6,035)	(8,835)	(147)	(209)
	475,176,381	473,947,569	4,000,910	3,966,892

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
1/7/19	Opening balance	473,956,404		3,967,101
Various	Shares issued following exercise of employee options/rights	1,226,012	Various	31,614
Various	Transfers from equity remuneration reserve	-		2,342
30/6/20	Closing balance	475,182,416		4,001,057

Movements in other equity securities:

1/7/19	Opening balance	(8,835)		(209)
Various	Allocation of treasury shares	800,979		23,341
Various	Subscription for unissued shares by SHEST	(798,179)		(23,279)
30/6/20	Closing balance	(6,035)		(147)

Note 6 Unlisted share options / performance rights

Exercise Price	Expiry Date	Balance at 1.7.19	Granted	Exercised	Forfeited	Expired	Balance at 30.6.20
\$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	-	(137,500)	-	-	415,000
\$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	-	(30,000)	(55,000)	-	885,000
\$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
\$28.58	05/12/2023	-	4,346,199	-	(10,000)	-	4,336,199
\$24.30	21/12/2023	1,000,000	-	-	(20,000)	-	980,000
\$27.28	22/05/2024	-	5,170,000	-	-	-	5,170,000
\$29.26	19/11/2024	-	588,894	-	-	-	588,894
Performance Rights	02/10/2020	-	2,800	(2,800)	-	-	-
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
		10,288,229	10,172,800	(1,228,812)	(575,156)	-	18,657,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2020

Note 7 Reserves

	2020	2019
	\$'000	\$'000
Foreign currency translation reserve	251,294	217,016
Equity remuneration reserve	(83,265)	(78,574)
Share option reserve	16,427	16,427
Revaluation reserve	3,272	3,272
Transactions with minority interests	(12,302)	(11,866)
	175,426	146,275

Movements

<i>Foreign currency translation reserve</i>		
Balance 1 July	217,016	109,291
Net exchange movement on translation of foreign subsidiaries	34,278	107,725
Balance	251,294	217,016

<i>Equity remuneration reserve</i>		
Balance 1 July	(78,574)	(68,138)
Share based payments	6,330	3,878
Employee share scheme issue	(8,679)	(11,901)
Transfer to share capital (options exercised)	(2,342)	(2,413)
Balance	(83,265)	(78,574)

<i>Share option reserve</i>		
Balance 1 July	16,427	16,427
Movement	-	-
Balance	16,427	16,427

<i>Revaluation reserve</i>		
Balance 1 July	3,272	3,272
Movement	-	-
Balance	3,272	3,272

<i>Transactions with minority interests</i>		
Balance 1 July	(11,866)	(32,963)
Acquisition of minority interests	-	20,823
Sale of minority interests	-	1,505
Net exchange movement	(436)	(1,231)
Balance	(12,302)	(11,866)

Note 8 Retained earnings

	2020	2019
	\$'000	\$'000
Retained earnings at the beginning of the financial year	1,299,163	1,143,643
Net profit attributable to members of Sonic Healthcare Limited	527,749	549,725
Dividends paid in the year	(403,667)	(365,112)
Change in accounting standards	(20,046)	(6,890)
Actuarial (losses) on retirement benefit obligations (net of tax)	(5,782)	(22,203)
Retained earnings at the end of the financial year	1,397,417	1,299,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2020

Note 9 Net asset backing

	2020	2019
Net tangible asset backing per ordinary security	(\$2.72)	(\$2.69)
Net asset backing per ordinary security	\$11.92	\$11.59

Note 10 Events occurring after reporting date

Since the end of the financial year, no matter or circumstance not otherwise dealt with in these financial statements has arisen that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Forward-looking statements

This Preliminary Final Report (Appendix 4E) 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.

COMPLIANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Interpretations or other standards acceptable to ASX.

Identify other standards used

NIL

This report, and the accounts upon which the report is based use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has a formally constituted audit committee.

Signed:


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(Company Secretary)

Date: 20 August 2020

Print name:

PAUL ALEXANDER