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SHL.AX - Half Year 2019 Sonic Healthcare Ltd Earnings Call

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PRESENTATION

Operator

Welcome to Sonic Healthcare's half year results presentation.

I'll now hand you over to our presenter, Dr. Colin Goldschmidt.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Thank you very much, and good morning, ladies and gentlemen. First of all, an apology for our late start, but we were informed that there was a bit of a crush to get on the line.

I want to welcome everyone to today's half year results presentation for Sonic Healthcare for the period ending 31 December 2018. I am Colin Goldschmidt, CEO of Sonic Healthcare. And 2 of my colleagues are with me, Chris Wilks, Sonic's CFO; and Paul Alexander, Sonic's Deputy CFO.

I'm planning to take you through our results presentation today, and I do hope that you had a chance to access it by now. Again, apologies if you haven't got it yet. We were a little late in posting it. But hopefully, everyone's got it by now. And then after the presentation, Chris and Paul will join me to discuss any questions that you may have.

So I'm going to start on Page 3 of the presentation, which presents the headlines of our results. First of all, we're happy to reaffirm that we are on track to achieve our full 2019 guidance, and that's after 7 months of trading. Later in the presentation, we'll give details on an upgrade to our guidance, following the Aurora acquisition.

And then, the main numbers in our results. First of all, revenue growth was 9%. Our organic revenue growth for the group in constant currency was 4.5%. Our underlying EBITDA growth, again, constant currency was 7% -- 3.4%, I beg your pardon, and that's the number that relates to our guidance. But in actual currency, it was 7%. The net profit growth was 7%, and we'll talk a bit more about the adjustment we made to the prior period to take into consideration the one-off net tax benefit we had last year. And cash generation from operations was healthy, up 5%. And pleasingly, we converted 101% of EBITDA to cash flow.

The 6 months was a really positive period for us, particularly in our U.S., Australian and Swiss laboratory markets and operations. And the period was -- it stands out in many ways because of the Aurora acquisition, which we completed after the period, in January of this year, but it was announced in the period itself. And obviously, most of the negotiations took place during the first half of the year.

The Aurora acquisition is a major strategic acquisition for us, and we'll talk a little bit more about it in the future to give you a sense of its importance and strategic value for the future of Sonic Healthcare. We funded this acquisition by a very well-supported equity raising, where we raised $928 million, and we'll talk more about that a bit later as well.

Our progressive dividend policy has been maintained for the period. And if I could give a summary of the company's status right now, Sonic is tracking well at present. Our unique culture of Medical Leadership continues to strengthen, and it really is giving us a competitive edge in the market and it -- and also in terms of product differentiation as well, service differentiation.

It's pretty exciting that we're getting significant momentum in the U.S.A., and this is very much based around our Medical Leadership model and also very much including the Aurora acquisition, which I certainly do believe will become a major positive turning point in Sonic's entire history. So if I could summarize, I think Sonic is really well placed right now for strong growth into the future.

If we go to Slide 4, which is the table providing a summary of our results. I'll just go through these. These results are presented in actual currency, in Aussie dollars. Revenue growth, 9%; underlying EBITDA growth, 7%; net profit growth, 7%; cash generated from operations, as mentioned, 5%; and EPS, growth 5% up.

Now I need to just flag that we've used superscript in that table for the prior period against some of those numbers. You'll see a little 1 and a little 2. Those relate to the footnote on your slide. And we've done this to highlight adjustments to the comparative period last year so that we get a like-for-like comparison of the numbers. And there are 2 issues that have been adjusted in the prior period. One is the new accounting standard, AASB 15; and the other is the one-off net tax benefit that we received last year. So we have adjusted the prior period at net and EPS lines for that. The adjustment for the new accounting standard was to reduce last year's number by $4 million, and the net tax profit adjustment is a $20 million adjustment to net and EPS numbers for last year, giving us like-for-like comparison on those particular numbers.

I guess, the -- if we go to the text on that slide where we talk about constant currency numbers, the underlying EBITDA growth, as mentioned, at 3.4%, and group organic revenue growth at 4.5%. And we do want to point out that the revenue for this period was reduced by approximately AUD 13 million due to the contribution of our U.S. Midwest business into the ProMedica joint venture.

Moving on to the guidance slide, which is Slide 5. So just repeating the guidance that we issued in August of last year, and that's obviously pre the Aurora deal, we guided to 3% to 5% EBITDA growth on underlying FY 2018 EBITDA of $962 million, all in constant currency, with interest expense at 4% and effective tax rate at 25%. And as mentioned, we're on track, after 7 months, to achieve that result. We've delivered 3.4% underlying EBITDA growth. We believe that the second half will be somewhat stronger than the first half in terms of EBITDA growth, and so we're quite confident at this stage that we will be well within that 3% to 5% range.

However, with the acquisition of Aurora Diagnostics, our guidance requires amendment. And layering on expected Aurora profitability in the 5 months remaining, the Aurora deal was completed on 30 January 2019, so we have 5 months to go, the EBITDA growth that we expect now is 6% to 8% on the same underlying FY 2018 EBITDA number, again, all in constant currency. The effective tax rate will be, more or less, the same at 25%. But the interest expense will change, obviously, due to the equity raise, and will be at around the FY 2018 level of $75 million.

If we go to Slide 6. The board has ratified a $0.01 increase per share in the interim dividend, so it's up to $0.33 per share. It is franked to 20%. Record date, 11 March; payment date, 26 March. And the dividend reinvestment plan is suspended logically because of the recent equity raising completed.

Turning now to Slide 7, which is the pie chart that most people would be familiar seeing. I guess, this -- just so that I make it clear, this pie chart shows revenue in actual currency, in Australian dollars, and split by country and division. I guess, the important change in the chart relates to the growth of our U.S. division even before the Aurora acquisition. So the strong growth that we are experiencing in the U.S. has moved this division into the #2 spot even before Aurora, as I mentioned, which completed in late January of this year.

At the full year result that's coming up, so I guess, in 6 months' time, with about 5 months of Aurora's performance onboard, we would expect that the U.S. and the Australian divisions will be, more or less, level pegging at that point. But thereafter, the U.S. division will become our largest division. It will be in the #1 position and very likely to stay there, given the great growth opportunities that we see ahead for Sonic in the U.S. lab market. And we'll be talking more about that in a later slide.

Slide 8. We deal with Australian Pathology. We achieved 6% organic growth for the half. And obviously, the National Bowel Cancer Screening contract did contribute to that, somewhere in the order of 2%. So if you took that off, our non -- our, I guess, other organic growth would be around 4%.

As a summary, this division is performing very strongly. We have outstanding leadership teams throughout the country. And I guess, we're very proud to be delivering exceptional world best standards of laboratory medicine in our Australian Pathology division. And we're continuing, I guess, to set a very high benchmark for the whole of Sonic Healthcare, all under our unique, and now global, Medical Leadership model.

The earnings of the group, we had margin accretion and earnings growth as per the last period. And I guess, this was somewhat related to the stabilization of the collection center costs, and we don't see any material change to that particular cost structure going forward. We don't see it going up. And we always hope it might come down a bit, but it is stabilized, and that's important for us as we grow the business and grow our margins.

At the operations level, we're in the process of rolling out our total lab automation system, that's GLP Systems. That's the state-of-the-art track that Sonic owns. It's currently already installed in 2 of our large Australian labs, at Douglass Hanly Moir and at Sullivan Nicolaides, and also installed in our lab in London, in the Halo Building, and in our lab in Berlin, Lab 28. Our plan is now to roll this out progressively to all our divisions and all our major labs throughout Australia over the next year or so, which is a pretty exciting move, putting all of our Australian labs absolutely at the pinnacle of state-of-the-art practice.

We're also achieving ongoing procurement wins. And I guess, there's a standout, a big contract recently, and will provide something of a boost to our second half results, which is nice news.

We're soon to open a new state-of-the-art lab in Adelaide. That will happen in the next few months. And that lab became a necessity, not only because of the acquisition of Adelaide Pathology Partners, which is now fully merged into our lab, Clinpath, in Adelaide, but also because Clinpath is experiencing strong growth in the Adelaide and South Australian market.

We're also experiencing efficiency gains from our in-house IT products and solutions, which we continually are producing, designed really to improve our quality and service and, I guess, efficiencies as well. So all up, I think the Australian Pathology division is going great guns.

But I guess, if we move to Slide 9, the real action in Sonic at the moment is very much in our U.S.A. division. And as I mentioned before, it's pretty exciting times for Sonic, given that this is happening. There's actually a lot happening in this market for Sonic, presenting us with significant opportunities for growth in what is, by far, the largest lab market in the world. The division, Sonic Healthcare USA, is performing strongly, and we anticipate that this outperformance will continue into the future.

I want to announce that Dr. Jerry Hussong, a pathologist and Sonic's former Chief Medical Officer, has been appointed as our CEO in the U.S.A., following the retirement from the workforce of previous CEO, Steve Shumpert. And certainly, as a big-picture goal, our aim is to continue to drive our Medical Leadership model in the U.S.A. to the advantage of Sonic Healthcare.

So going to the numbers. The revenue growth we experienced was 6% on a constant currency basis in the U.S. market. The organic growth rate was, actually, 8%, again, constant currency, boosted by hospital laboratory joint ventures, all of which are tracking well. The difference between those 2 numbers relates to the USD 9 million reduction due to the contribution of our Midwest business into our now 49%-owned ProMedica joint venture. Obviously, we don't consolidate at 49%, and so that USD 9 million is about AUD 13 million, and that was -- that's come off our revenue growth for the period.

The PAMA Medicare fee cuts have presented only a minor headwind to us in the period, and they come to about 1.3% of our total U.S. revenue, post-Aurora. And just to give you a sense of this, something like only 1% of Aurora's revenue is exposed to PAMA. If you looked at Sonic pre-Aurora, approximately 17% of our revenue in the U.S.A. was exposed to PAMA. And so when you put the 2 together, it's about 13% of total U.S.A. revenue post-Aurora. And given that this calendar year, the PAMA fee cuts are around 10%, that's how we get to the 1.3% of our total U.S. revenue.

Moving to operations. Opportunities ahead of us. There are additional hospital laboratory opportunities for us, joint ventures and other opportunities as well as acquisitions in the pipeline. We're very much involved in enhancing our billing systems right now, and these are beginning to deliver additional revenue and earnings for the group. And I'm very pleased to say that we've had our first major installation of Sonic's in-house, owned, laboratory information system, Apollo, into a major U.S. division. That's our Midsouth division headquartered in Memphis, Tennessee. And that implementation has gone very smoothly, which is outstanding news. And congratulations to all involved because these are always difficult ventures. It's taken us quite a while to get to this position. But our plan is to progressively roll out American Apollo, because Apollo has been Americanized from its Australian roots, we plan to roll it out further into Sonic U.S.A. in the next few years.

If we go to the next slide. Because of, I guess, the important significance and strategic value of the Aurora acquisition, we thought it was appropriate to spend just a few minutes on the acquisition itself, even though we have put out announcements about the acquisitions before.

As I mentioned earlier, the acquisition completed on the 30th of January of this year. The purchase price was USD 540 million, that's about AUD 750 million. And annual revenues are around USD 310 million, that's about AUD 430 million. This is a financially attractive and EPS-accretive acquisition.

I think we've mentioned before that Aurora is one of the leading anatomical pathology providers in the U.S.A. It has 32 pathology practices spread across the U.S., 1,200 staff, including 220 pathologists, servicing around 23,000 physicians and over 100 hospital contracts and covering 19 U.S. states. We -- the business has a strong and experienced anatomical pathology management and pathologist team headed up by Bruce Walton, who is an experienced laboratory manager, very much a medical leader. And Aurora is to operate as a separate SHUSA division going forward, and we look forward to working with Bruce and all the pathologists and staff of Aurora as we go forward.

It's important that we try and describe the importance of this acquisition and the strategic rationale behind it. Firstly, Aurora is closely aligned with Sonic's global patient-centric culture. This is a deal that will transform our U.S. business and provide opportunity to further differentiate our culture in that market. So for us to be propagating and promoting Medical Leadership in the world's biggest lab market is hugely strategic for us, and the Aurora acquisition gives us significant momentum in that space.

The Aurora acquisition gives us a significant market presence and, importantly, physician exposure. So when we talk about 23,000 physicians, that's a huge benefit for us even though, at the moment, it is largely in the anatomical pathology space. But of course, we operate in clinical pathology as well, and so hopefully, there will be synergy coming through from the exposure to those 23,000 physicians as we go forward.

We're also excited that we get big scale in the anatomical pathology market itself. As you know, we already do quite a bit of anatomical pathology, particularly in our lab in the U.S., CBLPath in New York and also in Hawaii and small amounts elsewhere. So this will really put us on the map in anatomical pathology, and it does provide us with a platform for growth in that space, in the anatomical pathology space, but also, as I mentioned, linking into growth in clinical pathology as well. And obviously, given that we are deeply in the space in Australia, this is an area that we are familiar with, and so we're excited to be getting into the same space in a significant way in a much, much bigger market in the U.S.A.

If you've got the presentation in front of you, it would be useful just to take a quick look at that map because the map of the Aurora locations does also give a good indication of the importance of this acquisition. The Aurora business has an extensive footprint. I wouldn't necessarily call it an entirely national footprint. But the 19 states, these are the more popular states and certainly, for us, gives us a huge additional footprint. And if you look at the map, starting, I guess, in the top left-hand corner, we get exposure and access to the Pacific Northwest. And if you come down into Nevada, it strengthens our business in Las Vegas, we already have a thriving clinical pathology business in Vegas; and entering into Reno in Nevada. Then we get exposure into Scottsdale, Arizona, strengthens our business tremendously in Texas where we already are very strong, gives us access into Alabama. Then if you go north into the Midwest as well, we do have a joint venture in Ohio. But we're not in Michigan, for example, and that would be a big advantage to us. And then enormous opportunity along the entire Eastern Seaboard of the U.S.A.

And I guess, the second point that I'll make in terms of the importance of this deal is that the Aurora's 220 pathologists are critically important for us as we go forward because they will facilitate the promotion of Sonic's attractive and very successful Medical Leadership model. This is a model which resonates so strongly with staff. And also, it's a model which drives product and service differentiation and, ultimately, superior patient care. It's a model that really has, at its core, a deep understanding of doctors, that's clinicians and pathologists and radiologists and GPs. So it's our doctors and our doctor customers, and a deep understanding of the health care profession. And so using this model in the U.S., where we really haven't fully promoted it and capitalized on it, is a very exciting step for us going forward.

Okay. I'm going to move on to Slide 11, which is Germany. The revenue growth in Germany was 3% at a constant currency level but flat organic revenue growth. And the reason for the flat growth were twofold: one, the European heatwave, which also affected our Belgian business; and regulatory changes, which I'll mention in a sec.

In terms of the -- just an overall, I guess, before I go into operations, just to position Germany currently as our third-largest division, Germany has grown enormously over the last several years to reach the #1 position in that country, another big medical laboratory market, with annual revenues in excess of AUD 1 billion, which is an incredible achievement. We have an outstanding team of leaders in Germany as well as outstanding staff, delivering absolutely outstanding services and again, like elsewhere, under the principles of Sonic's Medical Leadership model. And we certainly anticipate ongoing strong, organic growth into the future in Germany.

If we move on to the operations currently in train in Germany, there's a wide range of synergy activities underway, including lab integrations and mergers, following the recent acquisitions that we've made. The most recent acquisition was Pathology Trier, which is in the anatomical pathology space again, revenues of around EUR 20 million. The integration of that lab is complete. And of course, we're hoping to extend acquisitions in that space further as well as, obviously, in clinical pathology as well. And so the pipeline in Germany is rich as well and active.

The regulatory change that I referred to earlier, relates to the referrer doctor bonus scheme, related to the EBM billing, which is the statuary insurance component, which is about 40% of our revenue. A change to the doctor referrer bonus arrangement was made some time ago, and that has affected volumes somewhat. But those have been partially offset by selected fee quota increases. So because the volumes went down, so the -- some of the quotas went up in compensation. We will cycle through this change soon. It certainly seems to have stabilized, and we do not expect that this will be an ongoing long-term issue at all. So we're hoping to get back to organic growth rate -- organic growth in revenue very shortly.

Moving on to the U.K. and Ireland. Very strong organic revenue growth of 9% at constant currency level. The revenue was enhanced by the Barnet/Chase Farm hospital laboratory contract, which is trailing into this period by 3 months. We've also experienced strong growth in our non-National Health Service business, that's TDL, and we certainly expect that to continue.

In terms of the operations, there are significant further opportunities for us in terms of the NHS work, and we're currently bidding on work to the value in excess of GBP 100 million per annum. That's not to say we're going to win them all, hopefully, we will. But I'm sure we're in with a chance with these bids. But it gives you an indication of the activity in that market. And we also have a strong pipeline of opportunities in the non-NHS market, that's the private market, which is also very important for our business in the U.K.

Switzerland. I can go through quickly a summary of Switzerland. The operations are very stable, strong performance from 2 outstanding businesses. We're the #1 player in Switzerland, as most people know. But both our businesses, that's Medisupport and Medica, are outstanding laboratory operations with outstanding leadership teams, both doing exceptionally well, Medisupport being more dominant in the French-speaking part of Switzerland and headquartered in Geneva; and Medica, the dominant player in Zürich, and more involved in the German-speaking part of Switzerland.

We previously announced the contract win for the Zug Cantonal Hospital, and that's now being successfully transitioned, and operations have begun. And the regulatory environment is stable in Switzerland.

Going on to Belgium. The operations are pretty stable in Belgium. Organic revenue was flat, we believe largely due to the European heat wave. We've done quite extensive work to determine this. Certainly, that's going to be a one-off effect and, hopefully, over. And the flat revenue growth was despite the fact that there were 2 successive 1% increases in our fees, which are indexation-based, so the latest one being from January of this year. But the business and operations are pretty stable in Belgium.

Moving on to Sonic Imaging. The Imaging division continues to perform strongly, 6% organic revenue growth, moderate earnings growth. In terms of the operations, we're continuing to seek out benefits from prior investments in equipment, in facilities and in greenfield sites. We want to leverage our national infrastructure to achieve synergies, and we're certainly well on track to do this but, hopefully, to continue into the future. Medical Leadership is very much embedded in this division, and it's stable and strong, delivering outstanding services.

The regulatory environment is fairly stable. We are seeking indexation for our radiology services. The government has undertaken to introduce indexation for certain radiology services from 2020. The Industry Association is looking to try and expand that and bring it forward.

We're on Slide 16 now, which is Sonic Clinical Services. As everyone knows, this includes IPN, the medical centers; and our occupational health business, Sonic HealthPlus. We are the largest primary care operator in the country and the largest occupational health provider in the country. We currently have 240 medical centers and approximately 2,350 GPs.

From a financial point of view, our revenue growth was flat for the half, with minor earnings decline. We put the revenue growth down to weaker market conditions, which we believe are largely due to the lower flu season this year. I think it's probably important to recognize that this is more significant than many people recognize. So we have a very benign flu season this last winter versus an almost record flu season the year before.

In terms of the operations, we have instituted a raft of initiatives to try and boost our revenue, and those have recently commenced. Our doctor recruitment remains healthy as does our doctor retention. We're still busy consolidating selected centers and infrastructures to enhance our efficiencies. And we've completed the rollout of our IT infrastructure, and that will provide ongoing operational and financial benefits well into the future.

Slide 17 is a table with our capital management. And the first thing you'll notice on that slide is that our net debt has decreased by approximately $400 million. This is largely due to the institutional equity placement in December, in which we raised $600 million. However, the $600 million was partially offset by an increase in debt due to currency rate movements and acquisitions in the period detailed -- and that comes to about $200 million as per one of those bullet points.

You'll also notice in the table that our equity has increased, largely on account of the issue of new shares from the equity raising. And our debt cover is down to 2x now as at 31 December 2018, and we expect it to be under 2.5x come 30th of June, 2019.

I guess, this slide does give me an opportunity to make mention of our recent equity raising. Most people would appreciate that this was a big event for Sonic to fund a big deal. Aurora is a big deal for us, I guess, both literally and figuratively. And this was the first time, actually, that we've come to the market in something like 10 years. As already outlined, there were 2 components to the raising. There was the institutional placement, which was $600 million; and then a share purchase plan for retail shareholders, which raised $328 million.

The response to the raising was extremely positive, indicating a strong vote of confidence for the Aurora acquisition and, I guess, for the company as well. And I guess, pleasingly, on top of all that, there was strong support for our stock in the aftermarket, too. So on behalf of the Board of Sonic and all of us at Sonic, if I may take this opportunity, I want to thank all the shareholders who participated in this very successful event -- or a very successful raising.

Moving to the last slide, which is really a summary and an outlook. The company, at the moment, is in a strong position and well set for ongoing strong growth. As I mentioned, we have a rich pipeline of acquisitions, joint ventures and contracts ahead of us, in addition to all the measures that we have in place for ongoing organic growth and market share growth, all very important, but the company is well set up for all of those.

Our balance sheet is strong, and we have plenty of room -- headroom for expansion. Our geographical diversification is very important for us. It's providing us with growth opportunities as we're experiencing right now as well as providing us with risk mitigation, very important feature. If one country is not doing as well as another, the whole company doesn't go down in any significant way.

We are fortunate to have an incredible management team throughout the world, stable and dynamic. And I guess, we do operate at the cutting edge of technology and innovation. It's a wonderful thing in Sonic that we absolutely keep up-to-date, delivering world best services at the highest quality levels and drive efficiency with the technologies and innovations to hand. We're very much ongoing in our procurement efforts, both at national and global levels, and a raft of other synergy initiatives that are always in train to deliver ongoing benefits.

And I guess, if I could end by saying that our success to date and our confidence in the future, comes down to our people, really. These are people who operate our practices so successfully and who work so hard to protect our brands, which are so highly respected around the world.

Under our Medical Leadership culture, we continue to deliver world-leading medical services at highest quality levels to patients and clinicians right around the world. And at the same time, we are delivering financial results to back our ongoing successes into the future.

So at this point, I'll hand back to our moderator and throw the lines open to questions, which we welcome.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes, go ahead.

Operator

The first question will come from Andrew Goodsall of MST Marquee, Sydney.

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Just want to understand, what's happening with rentals. They only went up by about 5.7% versus your overall cost, up 8.5%. So is there an Australia benefit you're driving on rentals at the moment?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

You're asking is there a benefit we are deriving from the rentals.

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Yes.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Essentially, no. As I mentioned, Andrew, the -- our assessment is that the rents are not really coming down. They're stabilizing. So I'm just not sure which numbers you're actually looking at to get that?

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

Andrew's looking at the global...

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Your expense line. Yes, it's the global.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

You're looking at global, not Australian. Okay.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

By the mix of our business, which changes over time with acquisitions, like Trier, et cetera, my understanding is the Australian pieces, there is some slight increase in rentals that's more in line with the normal CPI calls as you'd have in leases, Andrew. So I think, the days of the significant growth in that cost category are hopefully behind us.

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Okay. And just quickly on Germany, obviously, lower volumes, but a bit of a higher quota payment. Just trying to understand what that looks like going forward, if that volume will annualize, I guess, through the next 6 months, and that you'll still get the quota offset.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. So what we don't -- we can't predict the quota changes as they go forward. But we will cycle through the doctor bonus effect in April of this year. It's already stabilized, as I mentioned. And so we are expecting to return to normal market growth, certainly from April. But we're seeing it begin to come through even now. So I think there was a one-off sort of shock to the system in that EBM category of doctor, which seems to be waning already.

Andrew Goodsall - *MST Marquee - Healthcare analyst*

Okay. And just a final one on the U.S. There's been a bit of noise around sort of insurers saying to put together preferred lab lists and also some reference, potentially to PAMA. Just your views on what's happening in that insurance market?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. So there are some moves, but bear in mind that we would be actively participating in as many of those as possible. There are none that we're aware of where we might be excluded. There are some indications of positive news in that space for us, yet to play out. And in terms of PAMA, look, the news there is that we've started calendar 2019, which is to be a 10% PAMA fee cut. There's slated to be the final 10% fee cut in 2020. The hospital labs have now been forced to provide their fee structures to the government. Whether that's going to have any impact on the 2020 number, we don't know and don't think so. But it certainly will make a difference to what was previously seen as market value for the Medicare tests. So it'll have an effect of raising the fees for those particular tests, once the hospital labs are forced to be included in the survey. So we look forward to that. And I guess the final piece of the information is that there is still a legal challenge against these PAMA fee cuts running. But it doesn't appear to be reaching a conclusion anytime soon. So nobody is really hanging out for any change from that mitigation.

Operator

Our next question will be coming from John Deakin-Bell of Citigroup, Sydney.

John Deakin-Bell - *Citigroup Inc, Research Division - Director & Head of Healthcare in Australia and New Zealand*

Gentlemen, my question is just about the leverage in the business. And I know it's a lot to work with but if I look at the accounts on Page 19, and you've got some segmentals there. Imaging revenue is up, a little bit less than 6%, but EBITDA is up 3%. And labs, obviously, it's a big bucket, but up 5%, and EBITDA up 3%. Can you just explain to us, why -- well, first of all, in Imaging, why there isn't some leverage? And secondly, why there isn't more leverage on the lab side?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So I guess, first of all with Imaging, I think, most people are well aware that the Imaging business doesn't have the same sort of operational leverage that is available in Pathology. So you don't get quite the same drop through. There were some particular issues in this period. We're coming off a very strong profit growth figure and margin uplift in the previous year, if you look back to that. So I don't think there is anything too unusual in that result.

John Deakin-Bell - *Citigroup Inc, Research Division - Director & Head of Healthcare in Australia and New Zealand*

Yes, but you wouldn't expect -- I would have expected EBITDA to be coming in line with revenue growth. But it's less. I'm just a bit confused.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

Listen, yes. So I guess all I'm saying is that there's no particular reason why that is the case. That's just the way the numbers have come out. It's a relatively small movement this year, and as Paul said, if you look last year, we got significant benefits. So I think it's probably a little bit of a time, we're looking at a 6-month period. You get different impacts, but it's actually -- it's relatively small and maybe that second half will be a bit stronger than it normally is. Maybe just to carry on, on the lab side, as Colin alluded as he went through his presentation, there's some strong leverage results and some other -- some slightly weaker ones in this result. We alluded to the fact that Australia and the U.S. and Switzerland were very strong where we saw the leverage come through. The U.K. is still in transition to some degree into its new lab, and so -- and with all of these satellite labs, it's dealing with our new partners and also the Barnet and Chase Farm contract, which is breakeven in the early stages, but will -- so it's a bit diluted to margins, but will come through once the synergies come through. And Germany, obviously, with a flat revenue growth, but still some pressure on cost structures. That -- this is a period where we have seen some margin dilution in that market as well. So the net upshot of all that is some slight increase in margin, but for the reasons Colin explained, we expect that to be a little bit related to this particular half and hopefully, going forward some of those -- particularly in Germany, once we cycle past the volume effects to mitigate.

Operator

Our next question will be coming from Gretel Janu of Crédit Suisse, Sydney.

Gretel Janu - *Crédit Suisse AG, Research Division - Research Analyst*

So just firstly on Australia, your major peers called out significant softness in market growth for both Pathology and Imaging. But it seems like you've been relatively immune from that in those 2 segments whereas you saw it in your clinical services business. So just wondering if you could give a little bit more data in terms of what market trends you're seeing, particularly for Pathology and Imaging.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. To be honest, both of them remain strong. It's fairly consistent across our Pathology division and in Imaging as well. So that's all I can say is that for us, it's been business as usual. The market remains highly competitive, but we back our companies to the hilt. We have outstanding businesses, both in pathology and radiology, and outstanding reputations and market presences. And so I can't speak for competitors, but we continue to do well at top line level, which is really good news. So -- this is a deep question if we really get into all the measures that drive top line. It's a long discussion, which I'm sure you won't be expecting me to answer. But all I can say is that our activities focus on top line and on cost control, and we never take our eye off the importance of top line growth. And so there are a huge range of measures, which go into that, including our Medical Leadership culture, which probably sits at the very top and encircles everything we do. It's a very important driver of the success of our business, especially top line. So I guess, I'm not giving you any specifics, but other than to say for us, it's business as usual, and we hope to continue growing strong here top line.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

I guess the only industry issue, which I think our competitors probably alluded to as well with the flu thing which you mentioned, which probably had a little bit of an effect on both...

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

For SCS.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

And a little bit of flow-through for the Path businesses as well.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Very small in Path, and almost nothing in radiology. But yes, for the primary care business, that's certainly affected our revenue growth. But I think you're asking about Pathology and Radiology?

Gretel Janu - *Crédit Suisse AG, Research Division - Research Analyst*

Yes. That's right. I was just wondering if you could give kind of what your volume growth was for Pathology in the half.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Not going to be able to do that, sorry, because it's not in this presentation or anywhere.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

It's similar to the revenue because there's not really any fee increases in Pathology. So you can read through into that.

Gretel Janu - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Great. And then just on the margin profile for Australia, so you said that lab automation system is coming through. So what impact do you think that will have on the margin as well as the procurement contracts that you did win? What impact should it have for second half '19?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. Well they were both -- both of those will be positive for our margins. Obviously, procurement wins go straight to the bottom line. And in terms of the GLP track system, we're developing a lot of experience with this track, and it unequivocally drives, not only better efficiencies, but much better quality as well. So there's just a -- it's more precise in terms of how specimens are delivered to instruments. There's less wastage of reagents. And we've demonstrated now at Douglass Hanly Moir and at Sullivan Nicolaides, and most definitely in Berlin, still early days at the Halo in London, improved efficiencies with the installation of these tracks. So we're looking forward to rolling this out as soon as we can in our major labs throughout the country in all capital cities because they will generate greater efficiencies, and therefore, margin accretion. So that will be good news. And I guess, that's part of the reason why we're expecting a slightly stronger second half, not in all our divisions, but in many of our divisions around the world, we're expecting slightly stronger performance in H2 versus H1.

Operator

Our next question will be coming from Craig Wong-Pan of Deutsche Bank, Sydney.

Craig Wong-Pan - *Deutsche Bank AG, Research Division - Research Analyst*

Just on Imaging, Paul mentioned, there was a few issues you experienced in the period. Could you just elaborate on what those were?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

No, sorry. Perhaps, I misspoke, Craig. What I meant to say that there was no significant issue in that period. It's just the way that the results played out in that half. As Chris mentioned, the half is a short period of time to measure over. So no, I was not trying to flag any particular issue.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

There's no really issues of no -- at all in the Imaging division. It's performing extremely well and going strong.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

And it is off a higher base if you look at our growth in margins in previous -- and in the last few years, it's actually been quite positive.

Craig Wong-Pan - *Deutsche Bank AG, Research Division - Research Analyst*

Just moving to the U.S. business. The revenue growth you achieved, are you able to split out what the growth was if you exclude the joint venture contribution?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Okay. So it's not easy to do that because the joint ventures flow through to community work as well, and so the joint venture has a benefit in its own right. But most of the joint ventures have physicians associated with the hospital in question, which are then accessible to us as a joint venture partner in the community. And so we can't split them out, but the way we do these deals, we're finding them to be very attractive in terms of the actual hospital lab or labs themselves, but also to get access to physicians associated with the hospitals, with which we now partner. So not possible to split it out, but we expect this stronger than average growth -- organic growth, to continue via this route because we have a pipeline of hospital lab joint ventures where the same phenomenon will occur in each location. So it's really a great new avenue of growth for us going forward.

Craig Wong-Pan - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And then my last question, just on your SCS business, the modest earnings decline in the first half, are you expecting a similar trend in the second half?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

We're sharing this question. So...

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

Look, I guess, where -- I alluded before to the fact that we were affected as was the whole industry by the flu. So in terms of a comp, the flu was down in the period we've just measured. So we won't have that effect in the second half, and we did mention -- Colin, in his presentation, also spoke about some -- a bunch of initiatives that are underway that will hopefully drive revenue during this coming period. So yes look, I'm thinking things might improve a little bit. There were some adjustments you will see in the segment reporting relating to the change in accounting standards, where the amortization of doctor payments is now coming through the revenue line and the EBITDA line. So -- instead of being in the amortization line. That's had a bit of an effect in the numbers you'll see there as well.

Operator

Our next one will be Sean Laaman of Morgan Stanley.

Sean M. Laaman - *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Follow-up from an earlier question on the U.S. growth rate. So you've significantly outpaced your 2 largest peers. Are you able to characterize how that's so?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. It rests largely with the joint ventures that we've done. And just to go -- you can go back to the previous question, these joint ventures are proving to be successful, and via the hospital labs that we've partnered with and via access to new physician customers as well. That's really the base of the business. We also -- in all the markets where we don't have joint ventures, it's not uniform throughout the whole U.S. market, but the bigger divisions are performing well. We've had some benefits -- so that's the Southwest division, CPL, based in Texas and our Northeast division, Sunrise based in New York, both growing strongly and doing very well. We've also had some benefit in the revenue line from our billing system initiative, which obviously is yielding revenue coming through.

Sean M. Laaman - *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Thank you, Colin. And just on to Aurora, are you able to, at this stage, maybe talk to the types and magnitude and timing of potential synergies?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

I can only really talk in generalities because it's very early days, given that the deal only closed at the end of January. But we are very much looking forward to a major initiative that's probably going to run for 1, 2 or 3 years because there will just be more and more value coming out of this. And that doesn't include follow-on acquisitions in the space. So we are starting off with a fairly extensive road show, which I'll be involved in, going to all the Aurora practices over a period of 2 weeks coming up very soon. There's already huge feedback that we're getting from Aurora pathologists and staff, and the central head office in Florida about Sonic's acquisition of this business because I think everyone in Aurora feels that Sonic is the natural home for a business like this. And then, each of the Aurora practices needs to be dealt with on a case-by-case basis because in some locations, we do not operate at all, and in those locations, we will be seeking in time to start accessing the clinical pathology market through our anatomical pathology beach head or Aurora practice. Where we already operate, there will be opportunities to combine our clinical labs with the anatomical labs, not necessarily physically, but certainly to engage the pathologists in those locations to assist us with market growth and accessing physicians, et cetera. And there are a few other mechanisms that we will put in place in other locations, which have specific features as well. So this is -- I can only describe it as a massive step forward for Sonic, not only in the U.S., but globally for the whole company. I cannot stress enough the magnitude of the market in the U.S., how big it is. And how big the opportunity is for Sonic with its Medical Leadership model so deeply embedded and now with this large Aurora acquisition and 220 pathologists. It really presents us with a huge opportunity to capitalize on that particular market, where we have really not exploited the Medical Leadership model to any significant degree yet. However, we can tell that the market is thirsty for the Medical Leadership model as it has been in Australia, the U.K., Germany, Switzerland and Belgium. And so we're very excited about the huge potential that sits ahead of us, and I'm certainly looking forward to working with our CEO and team in the U.S. and others, to really make this happen. It's an exciting inflection point for Sonic Healthcare. And as I mentioned in the presentation, I think, in retrospect, this is going to be seen as a major turning point for us in the entire history of the company.

Sean M. Laaman - *Morgan Stanley, Research Division - Australian Healthcare Analyst*

Thanks, Colin. Just one very quick last one. Just on U.K., can you remind us of the capacity in Halo?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Well, we have asked that question, and we've had a look at it ourselves, and we believe we can double -- at least double the volumes going through there. Some people say even more, and I think when you get to more than doubling, then it depends very much on which department you're talking about, some can go even more than 3x, the more automated departments, but the more manual ones, probably it's double.

Operator

Next question will be coming from Steve Wheen of Evans & Partners.

Steven David Wheen - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

I just wanted to touch on, again, the margin versus revenue dynamic, and contemplate some of those new deals that you've done, whether it be the bowel contract, the outreach programs for the U.S. hospitals and the joint ventures. Would all of those -- could all of those be characterized as being on a lower-margin percentage, but obviously, a gross margin dollar advantage? Is that partly or a lot of the explanation as to why the revenue growth is so much outstripping the EBITDA growth?

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

Yes. You have to look at each one individually, Steve. So Barnet and Chase Farm clearly at this point -- oh sorry, actually all NHS work is margin dilutive versus Sonic's global margin. That's the way it is with government contracts generally. And Barnet and Chase Farm in these early days, where we're still rationalizing the actual operation, it's very low, if any margin. So that's certainly in that camp. I won't go into margins on specific contracts, like the [Apollo]. It really is a case-by-case. The joint ventures again, they vary. So some are margin-dilutive, others not necessarily the case. So it's a case-by-case situation. As you say, overall though, they contribute to profit growth and that's why we wanted to engage in them.

Steven David Wheen - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Yes, sure. Okay. The other thing is, are you able to let us know what the average quota was for Germany for the period? Considering that it's come from the 91.58% quota, where would it have finished based on the mix of your exposures in Germany in aggregate?

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

So it varies by quarter to some extent. I'm not sure we'd really want to go into that level of detail.

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

We haven't disclosed that, Steve. But look, knowing there are 17 different KVs, and as it turned out in the last few quarters, they've all varied a bit. I'm actually not aware off the top of my head of what the average is, but we probably shouldn't disclose it given we haven't disclosed it. But we -- Colin has mentioned that even though it was due to get -- head down to 89%, there have been some KVs that have paid more than that reflecting the fact that they've got a backer to deal with. If the volumes were down, then there was scope for the quota to go up to some degree, compensate for that. So I don't think we should give any more than the information we have given in the presentation.

Steven David Wheen - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Okay. I guess, what I'm trying to get at here is, is the better-than-expected outcome in aggregate leave you with a quota above 91.58%, or above the 89%? Just trying to see which one is being referenced to.

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Yes, it certainly will be above the 89%. But I just actually don't know the answer to that off the top of my head, and we haven't disclosed it. So I am a bit loath to be disclosing on this call something that we haven't put in our presentation. But the 89% was deemed as sort of a floor, and I think we have -- we have said that the -- a bunch of them have -- a bunch of those KVs have paid higher than that floor reflecting the reduction in volume.

Steven David Wheen - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Got it. Just lastly for me, there's obviously been historically, in the U.S., a bit of a stranglehold over Aetna and United insurers by LabCorp and Quest. And that those relationships seemingly have broken down more recently. I'm just wondering if you can talk to your ability to participate more fully with those insurers in your original business, ex Aurora, and maybe what it looks like with Aurora.

THOMSON REUTERS

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Just to be clear, Steve, we have always had regional contracts with both United and Aetna in all of our U.S. divisions. So Quest and LabCorp had a national contract each, but that did not stop regional players from having regional contracts. And that's generally our approach to contracting with insurers in the U.S. We contract on a regional basis. So nothing has really changed there. We had contracts with them for the last 10 years, and we still have contracts with them now.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

You shouldn't perceive that we had locked out of those insurers in any way.

Steven David Wheen - *Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst*

Yes. No, I was thinking quite the contrary that you actually now would be able to access them more -- on a more unincumbent basis, but what you're saying is...

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

No. There is no change. We've always been able to access them.

Operator

Next question will be coming from Saul Hadassin of UBS.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Can I start with just really the cash flow from investing for the half, you spent $108 million on acquisitions. I understand, Trier is probably in there, but what -- are you able to say, how much was Trier and what the balance was spent on?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So the bulk of it is Trier. There were a few minor acquisitions around the group, but the vast bulk of that number is Trier.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

And then on that basis again, just looking at the delta of your EBIT at a group level, Paul. So EBITDA is up I think about $6.5 million, versus PCP on a constant currency basis. And I'm just wondering, are you guys happy with the return profile that you are getting on that invested capital? And I think, for that acquisition, specifically, you guided to 1% to 1-up% EPS accretive. Considering what's happened in Germany this half, are you still content with that return profile from that business?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So remember that Trier is an anatomical pathology practice, and therefore, has very low exposure to EBM billing. In fact, basically almost 0 exposure. So yes, we are happy with the return on that acquisition.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

So from a -- going from an ordering perspective -- doctor ordering perspective, is anatomical pathology immune from the volatility you would say?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Yes.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Yes. It is.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Okay. And then just moving onto the -- just going back to the cost growth. It looks like the key growth cost bucket this half was actually in repairs and maintenance and transportation, both up double digits, it [kind of goes] into the currency impact there. But even so, can you talk to what has driven that cost above, say labor and consumables? And is there any chance of some cost relief in either of those cost lines?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So Saul, there's nothing significant in that. Again, it's a half year period. If you look at them as percentages of revenues, they're barely up. So there is currency impact in the gross number as you referred to. So if you look at them as a percentage of revenue, there is very little change. It's in the swings and roundabouts-type category. Obviously, we are very focused on labor costs and consumable costs, given that those are the larger cost categories. But that's not to say we're not focused on the other ones either, but there's nothing particular there. Just to come back to your previous point. Just to emphasize that anatomic pathology is paid under a different, what I refer to as, chapter of the EBM fee schedule, and so that chapter is not involved with the quotas. That's what I was trying to say earlier.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Or the doctor bonus...

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Or the doctor bonus there actually.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

It wouldn't be affected by that at all.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Okay. That's great. And then just a last question, back on Germany. Are you able to tell us what revenue growth was between the EBM-funded side of your work versus the GOA side?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

We don't disclose that. So I think the answer is no.

Saul Hadassin - *UBS Investment Bank, Research Division - Executive Director & Research Analyst*

Can you say whether one was positive and the other one was negative? Was GOA positive and that will offset the negative growth in EBM?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So I think what you're going to -- what you can see from what we have said is that there was volatility in volume impacts from the doctor bonus thing, and we say partially offset by fee increases. So that would suggest that the EBM side was not strong growth and you would imagine that the private side would have been stronger.

Christopher David Wilks - *Sonic Healthcare Limited - Finance Director, CFO & Executive Director*

It's probably worth pointing out too, that I think we've mentioned that the EBM is 40%, shouldn't assume the balance is GOA because there is quite a reasonable amount of income that comes from outside of Germany as well. We service the Middle East and North Africa and those sort of places. So there's another component to the income flow -- revenue flow in Germany.

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Yes, and that bucket also includes things like clinical trial work, corporate work, hospital outsourced contracts, it's a whole bunch of things. So I think we have said in the past that the GOA represents somewhere between about 30% to 35% of our U.S. revenue on top of the EBM, which is 40% -- sorry, German revenue. And then, on top of that, you've got this other bucket.

Operator

We have a question from Lyanne Harrison of Bank of America.

Lyanne Harrison - *BofA Merrill Lynch, Research Division - VP*

Whilst we're still on Germany, you've made a number of acquisitions in that market of late. Can you actually shed some color on the synergies that you're getting out of those acquisitions, with particular reference to maybe your consumable spend and your collection infrastructure?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Okay. Maybe on the first instance in Germany, the collection infrastructure is really only the courier network, which we are constantly tweaking. There is no collection center infrastructure as such in Germany. That's one of the differences between our operations there and the rest of the world and all their collections are largely done by doctors. And the procurement asset, which as Colin alluded to, is sort of tied into our global asset, is ongoing. It sort of cycles the different platforms we have, it's a bit like painting the Sydney Harbour Bridge, once you've finished you start again, so -- and look, we'll have periods where the benefits will be more dramatic, and then tail off and then there'll be another larger contract, which is what sort of happened in Australia with a fairly significant contract that will benefit the second half and FY '20. But look, those efforts are ongoing and will play through into the numbers in a sort of steady fashion.

Lyanne Harrison - *BofA Merrill Lynch, Research Division - VP*

Okay. Thank you. And my second question is on your GLP System. What sort of labor cost savings you're seeing come out of that, given that you've already installed that in a number of your labs?

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

So we won't be able to quantitate it precisely -- quantify it precisely, but there are savings throughout the lab, I guess, a pathway through -- the specimen pathway through the lab. So it provides efficiencies in the lab itself where people are working. It also gives us procurement benefits as well, in terms of less reagent used. It actually gives savings, in terms of specimen storage because these track systems have automated storage systems. It gives us savings in specimen retrieval because something like 10% of specimens are retrieved for further testing, and the GLP track system automates all that whereas previously this was all done manually. So there are multiple points along the way of the specimen path where we get savings. I just want to also stress, as I mentioned before, that this is not only cost savings, but it's a much more accurate system, and so you eventually get savings in terms of troubleshooting and in terms of -- I guess going back to repeat things, it's a much more precise and efficient system quality-wise as well. Margaret, maybe we've got to take one more because I think at 11:30, we're meant to stop.

Operator

All right. We have David Bailey who will be next in line. David Bailey is from Macquarie.

David Bailey - *Macquarie Research - Research Analyst*

Just firstly on the U.K., that NHS contract that you've called out. Just interested in the other number of contracts looking out there, in terms of size? And then any potential timing as to when that -- those might come through?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

So there are a number of different sizes. There's been press about, for example, the South East London process, that is the largest one of them. The exact amount of that will obviously depend on what the bidding parties bid but it is many tens of millions of pounds of potential revenue on its own. There are some others of varying size. So there is one that's probably 1/3 of the South East London, 1/3 or 1/2, and then there are some smaller ones as well. So it is a pipeline of differing opportunities there.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

So the big one that Paul talks about, the South East London one, which involves Guy's and St. Thomas Hospital trust, plus a few others, it's down to the 3 -- there are 3 players left, Sonic, TDL, HSL being 1 of the 3. I don't think there is any indication of when the bid will be decided, but it will have to be in the next several months because the contract expires next year. And so planning is going to be a big part of that because it's an enormous contract. And then the other one is the Northwest London, that Paul's mentioned, and again, with -- there is no exact time when the contract will be awarded. And then there are also a bunch of small ones and a pipeline. So there is -- there's a lot happening at any one time.

David Bailey - *Macquarie Research - Research Analyst*

Got it. Okay. And just for the follow-up on Germany. You've called out the regulatory impacts but also the impact of where -- I'm just wondering if you are able to quantify how that impact of the heat wave that came through in the half?

Paul J. Alexander - *Sonic Healthcare Limited - Deputy CFO & Company Secretary*

Yes, look it's hard to put your finger on a number and we haven't correlated it -- if you [tested the site] -- if you look at the weather in Germany, and it was in Belgium as well, we're talking about temperatures that were sort of 10 degrees above the average for the same period in previous years, and that does evidently have a -- the things that we might think of normal here in Australia, in Germany if you are an elderly patient who are often the people who are going to doctors and it's stinking hot outside, they stay in. And so we saw a dip in volume in Germany and it matched Belgium because the weather was similar in Belgium. And so we were able to sort of correlate it. But I'd prefer not to put a number on it because I actually don't recall -- but it affected a few different weeks. It wasn't just one heat wave, it -- there were a few different weeks in July and August mainly.

Colin Stephen Goldschmidt - *Sonic Healthcare Limited - CEO, MD & Executive Director*

Okay. Margaret, I think that's it. And I guess, I'll just thank everyone for attending. Thank you, and signing off.
