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# EDITED TRANSCRIPT

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

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## PRESENTATION

### Operator

Welcome to Sonic Healthcare's Full Year Results Presentation. I'll now hand you over to Dr. Colin Goldschmidt.

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

Thank you very much, and good morning, ladies and gentlemen. I want to welcome you all to Sonic Healthcare's results presentation for the financial year 2019 for the year ended 30th of June 2019. My name is Colin Goldschmidt, CEO of Sonic Healthcare, and I'm joined today by 2 of my colleagues, Mr. Chris Wilks, Sonic's CFO; and Mr. Paul Alexander, Sonic's deputy CFO.

So I plan to take you through the results presentation, which I hope you have with you. And then following the presentation, Chris and Paul will join me to discuss any questions that you might have.

If we start with Slide #3, Sonic's constant currency EBITDA growth for the year came in at 6.7%, which is in line with our revised guidance which we issued in February this year at the half year results release. Just as a reminder, at the half year, we upgraded our underlying constant currency EBITDA growth from 3% to 5% to 6% to 8% to incorporate the acquisition of the Aurora Diagnostics business, which we completed on the 30th of January this year. So this full year result does include 5 months of that Aurora acquisition. If we move to the statutory the results, these are results now in actual currency. Our revenue grew by 11.6% to \$6.2 billion. The EBITDA grew by 13.3% to \$1.1 billion, and net profit grew by 15.6% to \$550 million.

Now just as an aside at this point and with your forgiveness, I just want to take a moment really on behalf of Sonic's staff, because I know that there'll be quite a few listening on this call, and to say to them that 2019 will go down as quite an important year for us in our evolution because this is the year that we actually exceeded \$1 billion of EBITDA and that's both in constant currency and actual numbers. We've generally not been a company that crows about successes. But reaching this \$1 billion EBITDA mark is a great milestone for the company and really a magnificent

achievement for all of Sonic's people, starting with our hard-working Board, all the way through to our leaders throughout the world and all our staff right down the world. And I'm sure we're going to find a bit of time to pop a bottle or 2 of bubbly to celebrate this occasion. Okay. That's it.

Moving along and back to the headlines. The Board has ratified a \$0.02 increase to our final dividend, which now goes to \$0.51 per share. That's a 4.1% increase, which brings the full year dividend up \$0.03 to \$0.84, which is 3.7% up. The year was marked by the strategic acquisition of Aurora Diagnostics, as I mentioned. That deal completed in January. A big deal. In fact, the biggest deal in Sonic's history with revenues of \$450 million and a purchase price just north of \$750 million. The year also saw a rare strategic divestment, and traditionally, we're certainly not a company that sells businesses. But we divested the technology platform GLP Systems, and that was recently in June of this year, just 2 months ago.

And really, a summary statement is that the company has strong growth momentum with significant opportunities ahead. And if I could maybe just make a statement about the overall position of the company. If you look at the global operations, we are in a strong, stable and healthy shape as a company. We're currently in 8 countries. We employ 37,000 people. And all our people are very actively delivering what I can only call essential health care services of a very high quality and delivering these services to, our last count, it's more than 120 million patients each year.

Very importantly, our Medical Leadership model continues to strengthen and resonate around the world as the preferred way to deliver what we think is the best patient care. We're very, very fortunate to have outstanding leadership teams in all the countries in which we operate. And when I talk about leadership teams, these are experienced health care experts who are committed to Sonic's culture. Our turnover at senior leadership level is very low, and that gives us a big advantage as a company as well. But a standout feature of Sonic at the moment is our strong growth momentum, both at organic growth level and very particularly at M&A level as well as JV partnership and contract levels, too. So we do have a rich pipeline, and it's actually a pretty exciting time at Sonic Healthcare right now.

So if we could move on to Slide 4, where we tabulate the headline numbers, and just to take you through the revenue and EBITDA from the actual number through to the underlying numbers. So the revenue was \$6.184 billion. We've corrected for the one-off gain from the sale of GLP Systems and then added back the \$9 million from the new accounting standard, AASB 15, because it wasn't there in the previous year. AASB 15, you're probably familiar with, and that's the one where doctor contracts are no longer amortized as an intangible, but rather as an offset to revenue. So that gives us an underlying revenue of \$6.143 billion, and we will refer to that number a bit later.

Similarly, with EBITDA, the number was \$1.075 billion. Again, we've corrected for both the one-off gain from GLP Systems' sale and the new accounting standard, and we've added back nonrecurring costs. And if you go to the text, you'll see the second major bullet point where we list out the nonrecurring costs are predominantly acquisition related and contract related, but also related to laboratory relocations, mergers and restructuring. Our net profit, which we've already mentioned, grew at 16% and the earnings per share grew at 9% and sitting at \$1.22 per share at the moment.

Just a few points on the text to the side of that. Group-wise, our organic revenue growth came in at 4% on a constant currency basis. Just a reminder that our revenue was reduced by \$33 million because of the merger of our U.S. Midwest business where we've converted to a minority position. That's the ProMedica joint venture. We're sitting at 49%. We've mentioned our constant currency EBITDA growth. Also to mention that our EPS obviously was affected by the equity raise to fund the Aurora acquisition. This was an equity raise completed around midyear where we issued something like 45 million new shares in both an institutional placement and a share purchase plan to raise something like \$770 million, something like that -- sorry, \$930 million [versus \$770 million], \$930 million total raised in that raising.

The bottom bullet point talks about our cash generation, which was strong this year, came in at \$847 million, which was up 10% on the prior year. And our EBITDA conversion to cash flow is sitting at a healthy 102% after adjustments for the nonoperating cash items.

Moving to Slide 5 and our guidance. And just to note that the top -- that the guidance this year excludes any impacts from the other new accounting standard, which is AASB 16, not to be confused with 15. This new accounting standard, which is effective 1 July of this year, refers to lease payments which have previously been expensed through the rental expense line on the P&L but are now going to be accounted for on the balance sheet and amortized over the period of the lease. So our guidance, we are giving at 6% to 8% EBITDA growth on a constant currency basis on an underlying FY 2019 EBITDA of \$1,052 million. There's a box at the bottom which explains that the actual underlying EBITDA number for 2019 (sic) [2020] will be reduced by \$9 million to take into consideration AASB 15 given that it's now going to be present in all years going forward.



Other points around our guidance. Interest expense is going to increase by about 3% on a constant currency basis, effective tax rate around 25%. And importantly, our capital expenditure, we expect to be significantly lower in FY 2020 over FY 2019, which was a little bit higher than normal. So that's a significant [budgetary matter even though it's a] CapEx level. And of course, our guideline considerations, which we've given before, we exclude any future acquisition. This guidance does incorporate the U.S. PAMA fee cuts, and it's approximately 2% of total group EBITDA. We assume no other regulatory changes. We also assume that current interest rates prevail. And we make the point that on current exchange rates, our EBITDA guidance would actually be enhanced by a further 3%.

Right. Next slide is the dividend slide, and I've already mentioned the numbers. The final dividend is going to be franked to 30% compared to 20% for the interim. Record and payment dates are there for your information. And the DRP remains suspended particularly in light of the major equity raise which we completed in the financial year for the Aurora acquisition.

On Slide 7, we've provided a full year dividend history chart again just for your interest. And I guess I can call it a progress of dividend policy [and] performance. I think I was a little hesitant a year ago, but I've read up the definition now and I think it does fit. Our dividend has never gone backwards. But we did have 2 years, 2009 and '10 -- '10, '11, where it stayed constant. But the point I want to make is that the Board of Sonic remains very committed to this progressive dividend policy under which we aim obviously to increase the dividend per share each year.

On the following slide, Slide 8, we've provided a revenue chart going back to the start of Sonic Healthcare in 1988. We provided it for a few reasons. Firstly, to give a perspective over the 32 years of Sonic's history. It is interesting to have a look at it, especially for many of us who've been around for a while in Sonic. Just out of interest, if you look back 20 years, our revenue was -- that's 1999, the revenue was \$200 million. So we've made huge leaps in 20 years. I think it's gone up more than thirtyfold.

Another reason why we're presenting this is to highlight, I guess, the \$6.2 billion of revenue and the jump from the prior year of \$5.5 billion. That \$700 million increase between the 2 years does include 5 months of Aurora and includes some FX tailwind, and it also includes \$50 million in gain from the sale of GLP. But a big jump up with a company very much in growth mode.

And I guess the chart also gives us an indication of FY 2020 revenue prospects. However, I do need to make a disclaimer and I want to stress that, that \$6.7 billion is illustrative only based on market consensus, including market consensus FX assumptions, but it should not be read as Sonic guidance. So that estimated \$6.7 billion will include a full year of Aurora, but we assume no new acquisitions have been included in that \$6.7 billion.

Slide 9 is the usual revenue split in a pie chart that we provide. It's provided as statutory revenue by country and major division. And I guess just as a note, the pie chart does not include interest income of \$7 million, this is in the box below, nor the \$50 million one-off gain from the sale of GLP Systems. So if you sum up all these segments, you won't get to \$6.184 billion as we reported. You'll actually get to \$6.127 billion, which is the \$57 million that's not included in the pie chart.

A point of interest on the pie chart relates to our U.S. business. At the half year, we did predict that our U.S. pathology division would grow roughly equal with our Australian pathology division. And you can see this now clearly on the chart, both sitting at about 24%. But looking ahead, our U.S. business will move clearly into the #1 revenue position as our largest division in FY 2020 and beyond because our expectation is that there is fairly significant growth ahead in that market. So in FY 2020, Sonic Healthcare U.S.A. will include a full year of Aurora and of course, prospects for substantial growth in general, which are very encouraging, and this will be growth at organic, M&A and hospital laboratory partnership and JV levels.

And I guess just one other point of interest from this pie chart is if you look at the total revenue, 61% of that total revenue is currently international with 39% of our revenue in Australia. But if you then look at pathology only or laboratory medicine, so if you take out SCS and take out imaging, then 72% of Sonic's revenue is international with 28% Australian. But this is really good news for Sonic. It's good news that our international revenues are set to grow even stronger than they have grown so far into the future. So we really do expect that ratio of international to Australian to increase significantly in years ahead.

Right. Moving on to Slide 10. A few points about our Australian pathology division. First of all, the financials. Organic revenue growth came in at 5%, and we believe that represents small market share gain given that these -- that number is above the annual Medicare number. We've shown earnings growth and margin accretion once again, and this was largely due to what we believe is healthy organic growth and the stabilization of

collection center costs and ongoing scale and synergy benefits that we continue to work on in the division. And of course, that does include savings that we get out of procurement initiatives.

As far as the operations go, we've actually closed around 60 collection centers through the financial year. There is also a stabilization of rents, and in some cases, rents have reduced slightly as well. We've relocated successfully into a brand-new, state-of-the-art lab in Adelaide in the second half of the year. We are continuing with the national rollout of our total lab automation system. That's GLP Systems. Adelaide has been completed, and Perth is imminent. We also have proprietary IT solutions delivering ongoing efficiency gains, especially in the front-end of our labs. And our Sonic genetics business is moving ahead strongly and is positioned well, and we do boast the largest team of genetic pathologists in Australia.

I have to say that we're extremely proud to have an outstanding team in this Australian pathology division. The team includes an amazing 400 pathologists, which is quite incredible. There is no peer, no single company that even comes close to that in Australia. But in addition to the 400 pathologists, we've got thousands of qualified scientists and thousands of other staff, all vital for our operations and all driving our Medical Leadership model and pushing our differentiation in the market further as we move into the future.

Turning to the U.S.A. First of all, the financials. The revenue came in at 18% on a constant currency basis, and as I've mentioned, that does include 5 months of the Aurora acquisition. Organic revenue growth was 5% for the full year on a constant currency basis. Of course, the revenue and earnings have been impacted by the PAMA Medicare fee cuts, which we've spoken about before. And these were slightly higher in the second half, therefore slightly more weighted effect in that second half.

Just a quick mention about the Aurora acquisition even though we've covered it before. This was completed in January 2019, and the integration of the business is proceeding extremely well and very much to plan. It was a pretty important step, this acquisition, for Sonic as you would imagine. It's an outstanding business that is culturally very aligned to Sonic. And of course, it represents a major step for us into the U.S. anatomical pathology market, which we estimate to be in excess of USD 10 billion. It also provides us with a strategic platform for future growth in anatomical pathology and clinical pathology and the hospital laboratory market. It's all pretty well related and hanging off involvement in the anatomical pathology market. And as I've stated before, we really value highly the 220 Aurora pathologists that came with the deal who are now very much part of Sonic. They are Sonic pathologists now. And so this is a vital step for us to push our Medical Leadership model in a much more concentrated way in the U.S. market in general.

A few points about our operations. We have completed successfully the installation of Sonic's Apollo IT system into our mid-south division in Memphis, Tennessee, and in fact, in the whole state of Tennessee. This was a huge achievement and nothing easy about it where our U.S. teams were incredibly appreciative from the assistance that was given by Australian Apollo experts who spent time in Memphis, making this such a successful launch. And of course, we do have plans to extend Apollo as a laboratory information system into other parts of our business in the U.S.A.

I've mentioned that our pipeline for acquisition and hospital laboratory opportunities are rich, and we're certainly in the midst of something very exciting in the U.S. market in terms of potential growth. We're involved very much in a billing enhancement project, which we have mentioned before. And I also just wanted to mention that following the Aurora acquisition, our exposure to PAMA reduces from what it was, somewhere closer to 20%, now down to roughly 12% of total U.S. revenues.

And just to end on the U.S., I also want to mention, because this is one of our big divisions, that we do have an outstanding team in the U.S.A. where our Medical Leadership model and culture really is providing increasing differentiation from our competitors. We've got a growing team now of approximately 300 pathologists in total, together with very committed managers and again, thousands of scientists and other staff who are driving our growth in this very large market, that is the U.S. lab market.

Moving on to Slide 12 on Germany. The constant currency revenue growth came in at 3.5%, and both our revenue and margins were impacted by regulatory changes which commenced in April 2018. And just as a reminder, those included the EBM or statutory insurance fee changes as well as regulatory changes to the referral bonus payments also under the EBM system. And just, again, another note to let you – to remind you that our EBM billing is approximately 40% of our total revenues in Germany.

What we are finding following those changes in April 2018 is that our organic revenue growth and our margins are trending stronger in recent months. It's likely that we could be cycling through the doctor referral bonus changes, and we're keeping a close eye on the EBM fee changes as well. But if -- signs are somewhat encouraging in the last few months.

A few notes on our operations. As we have announced before, the Trier acquisition from July of 2018 has now been successfully integrated, and we've commenced with synergy activity flowing from that acquisition. Just if you remember, that was a roughly EUR 20 million revenue per annum acquisition. That Trier acquisition, whilst on a smaller scale than the Aurora acquisition in the U.S., also represents an important step for Sonic in the German laboratory market because it signals our expansion into the German anatomical pathology market, which we estimate to be in the order of roughly EUR 1 billion per annum.

In Germany, like in the U.S., we have an active pipeline in both anatomical pathology and in the clinical pathology markets. Both of these markets remained pretty fragmented, and we have significant opportunity to capitalize on that fragmentation as we go forward. We've also got a large number of efficiency projects in progress, including a number of laboratory mergers and relocations.

And if I could end, and I'm not going to make comment on the smaller divisions, but a comment about our third large division in Sonic, the Sonic Healthcare Germany business, we are extremely proud of the achievements to date in our German business. We have an excellent team of roughly 300 pathologists in Germany, 300 PhD scientists. And again, together with thousands of lab scientists and other staff, all underpinning our excellent service and our Medical Leadership culture. And I guess to end, we can say that the regulatory environment in Germany remains unchanged as we speak.

Moving on to the next slide, which is U.K. and Ireland. We achieved 9% organic revenue growth on a constant currency basis in this business, which includes the Barnet and Chase Farm hospital contract, which commenced in October 2017. So we're still on the tail of that addition. Our business in the private non-NHS market has been particularly strong. That market is an amalgam of the so-called Harley Street market where private specialist [referrals] work and the many private hospitals that we service as well.

As far as our operations go, we continue to optimize our operations in our fantastic new lab in the Halo building in Central London, including the integration of Barnet/Chase Farm. And in addition to that, we are currently on the cusp of merging our 2 NHS partners' facilities into 1 to form the U.K.'s largest histopathology laboratory. So we'll be merging the histopathology departments of UCLH and Royal Free into the 60 Whitfield Street location, which is where TDL and Sonic's lab used to be before we moved into the new Halo site.

Some good news and a real win for our U.K. team that we've recently won an NHS contract to provide HPV testing or screening for the whole of London. This is approximately GBP 15 million per annum contract with an initial term of 5 years. And it's going to be a progressive start somewhere around the end of this calendar year, beginning of next calendar year. This really is great news and a great win for our U.K. team. And I wanted to just say that Sonic's extensive women's health experience in Australia and our integral involvement here in Australia in setting up the HPV screening program did assist greatly in the London bid and will be of enormous value going forward. And this is a really nice example of Sonic global synergy at work. This London HPV contract is not only valuable but it's one that carries a lot of kudos for us as a company.

So the prospects for ongoing growth in the U.K. are very promising. As an indication of that, we are currently bidding on NHS contracts with potential revenues in excess of GBP 150 million per annum. And it really is quite encouraging to see the increasing growth momentum for Sonic in the U.K. market. Now when I look back at Sonic's U.K. revenues, say, 10 years ago, 2009, when I checked, I think it was around 103 million per annum in the 2009 year. So revenue has quadrupled in 10 years, and our momentum is certainly gathering pace, which is really good news.

Moving on to Switzerland. The financials, where good organic revenue growth was 4%, and we've achieved strong earnings and margins growth once again. As far as the operations go, the Zug Cantonal Hospital, which we announced a new contract which commenced in January of this year, is operating to plan. We've got a number of IT and e-health solutions supporting high-level services. And we're a leader in genetics in Switzerland, too, which is a great feather in the cap for Sonic in Switzerland. But in addition to that, there's a large range of workflow and efficiency programs in operation across the multiple sites which we operate in Switzerland, and the regulatory environment remains stable. Just to note that we are the #1 player in the Swiss pathology market. And our businesses in Switzerland, both of them, are performing to exceptional standards at both operational and financial levels.



Belgium. Everything is stable in Belgium and really tracking more or less to plan. The revenue was essentially flat, but that was due to a targeted fee cut in the period. Everything else is pretty stable: operations, stable; regulatory environment, stable.

Moving on to Slide 16, Sonic Imaging. The imaging division continues to perform strongly with 6% organic revenue growth and 7% earnings growth, meaning that we've achieved margin accretion in this division. As far as the operations go, we received only 3 MRI licenses out of the 53 that were recently granted by the government. But that didn't worry us too much. Our projects continue to realize synergies. We're expanding via a number of ways, including greenfields expansions and new modality opportunities. And of course, we're investing in equipment and technologies to improve our services and our efficiencies.

The regulatory environment is stable and potentially even positive with the introduction of fee indexation from July 2020, which is going to affect about 80% of the Medicare imaging schedule. And we continue to work via our industry association to try and get this to 100% of the Medicare schedule. We believe that indexation is important for all the work we do in imaging.

Slide 17, which is Sonic Clinical Services. SCS represents about 7% of total Sonic's revenues. We are, by far, the largest primary care operator in Australia. We have 233 medical centers and approximately 2,400 partner GPs working in those centers.

We continue to work on optimization of our medical centers, including the consolidation of centers where possible in order to gain benefits of scale. Our GP recruitment continues to be successful as well with the net addition of about 85 new GPs net in financial year 2019. These GPs are now all working in 233 centers, which is actually 5 centers less than a year ago. We're seeing strengthening of our financials in the business. This was coming through in H2 FY 2019. And the regulatory outlook is stable.

Slide 18 is a slide that we usually present, showing our capital management. And just as a note to this slide, a reminder about the equity raise of \$928 million in the middle of the financial year. Post this equity raise and looking at our debt metrics at 30 June 2019, which you will see in the table, our total net interest-bearing debt is down by around \$200 million, although this is pre-dividend payment. Our equity is up. Our gearing ratio is down, it's now below 30%. And our interest cover is up, and the debt cover is down. All pointing to a very healthy balance sheet and capital management.

We make a note there that our current cost of debt is sitting at around 2.7%. And current available headroom is approximately AUD 1 billion, and that's after the final dividend is paid.

And moving on to the final slide, the outlook. I'm pleased to say today that this company is in a strong, stable position and well-positioned for ongoing and strong growth. We do have a rich pipeline of opportunities ahead of us, acquisitions, joint ventures and contract opportunities. Our balance sheet is strong, and we've got significant headroom for expansion. In fact, we've got \$1 billion worth of headroom to support that expansion.

In fact, these 3 bullet points probably are a very good summary of Sonic's current position. I believe that we are on the cusp of major growth, certainly in my mind. Perhaps, the best opportunity for growth we might have had in our history. It's taken many years, possibly even decades, to reach this growth potential. You'd understand, we've actually established infrastructure and a medical presence in the major markets of Australia, the U.S.A., Germany, Switzerland and the U.K.

And even more important than that, it's taken a long time to establish a critical mass within Sonic. So we now have 37,000 staff, and we have something like -- it's more than 40 operating companies. And to develop our unique medical culture, it's taken a long time, this is our Medical Leadership model. And we found that, increasingly, this model resonates strongly with our own people and with external customers, that's the doctors and the medical community at large. All of these have come together and have put us in a somewhat unique position to make accretive acquisitions, to form partnerships and joint ventures and to win contracts in our key global markets.

So we're expecting Sonic's growth to continue and even to accelerate. We've now entered the anatomical pathology markets of both the U.S.A. and Germany. These are both very big markets. And the U.S. market alone valued, as we've said before, they're around USD 10 billion. And not to forget as well that we continue to source acquisition as per normal in the much larger clinical pathology markets too, again, particularly in the U.S.A. and Germany. And we've also got big opportunities for partnerships and joint ventures in the U.K., must not forget that, and the U.S.A. And

of course, at the base of our global business, we benefit as a -- from a diagnostic industry that is itself growing. And when you couple that with our strong underlying organic growth returns off our strong and differentiated market position.

So returning to bullet points, we've mentioned before the great value of our geographical diversification which not only gives us risk mitigation but gives us opportunities for growth. And you can see it now where, whilst we may be out of acquisition or growth opportunities in, say, Australia, we've got huge opportunities in the U.S. and in Germany as examples.

We're very fortunate to have stable, outstanding and dynamic global management teams. I cannot stress that point enough. We also are at the cutting edge of technology and bringing in innovations all the time to drive efficiencies in the business.

And I guess on the cost side, we're always looking to sharpen up the company, particularly in the area of procurement but also in a whole range of synergy initiatives that are going on throughout Sonic at any one time. And I should end by just saying that how proud I think everyone at Sonic is that we now have a global team of more than 1,000 pathologists. I think I've said this before that I don't believe there is a company in the world with that many pathologists on board. We have more than 200 radiologists, and we've got thousands of qualified technical staff and non-technical staff as well, all of whom underpins Sonic's Medical Leadership culture and really who are not only highly capable but also fully engaged, if not excited, to take Sonic forward into the future.

So thank you very much. I'll now return you to the operator to coordinate the questions and invite Chris and Paul to join me. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We will start with the first question from David Low from JPMorgan Sydney.

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### David A. Low - JP Morgan Chase & Co, Research Division - Research Analyst

Colin, if I could start with where you ended. You certainly talked a very large opportunity on the acquisition front. As you'd know, we are sort of looking more towards bolt-on acquisitions that can add incremental improvement or synergy benefits quite quickly rather than sort of new beachheads. I was wondering if you could talk a little bit to that as to what Sonic is now targeting for the -- post the Aurora acquisition and post the acquisition in Germany, please?

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

Yes. So thanks, David. The answer to that is that we're not really confined to one particular segment in terms of M&A. So yes, we continue to look for bolt-ons and particularly in the clinical pathology market where you do get the 1 plus 1 equals 3 synergies. But we are also open to bigger acquisitions, such as the Aurora acquisition. And of course, now that we have made a statement of entry into the anatomical pathology market, there could be other acquisitions that you may not classify as bolt-on but they may be medium and some even bigger. So -- and this applies in both the U.S.A. and Germany in particular.

Now we are not saying anything about new geographies at this point. But of course, at some stage in the future, I'm sure that's going to become an opportunity for Sonic as well as other countries become suitable for us.

But then just to finish with the answer to your question, there are sizable opportunities outside of M&A in the area of partnerships and joint ventures and particularly in the U.S.A. with hospital labs and in the U.K. with NHS. And also -- so those are the real big opportunities. There's also contract wins, just straight contract wins which generally are not going to be as big as medium to large acquisitions as well.





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**David A. Low** - *JP Morgan Chase & Co, Research Division - Research Analyst*

So just to finish up on that, do you think it's likely Sonic will come back to the equity market in the next 12 months or so?

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

No, I think it's very unlikely. We're sitting with \$1 billion of headroom, strong balance sheet. And the answer, as definitive as I could be, no.

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**David A. Low** - *JP Morgan Chase & Co, Research Division - Research Analyst*

If I could just ask one other on a different topic. In the first half, we saw quite a significant -- or a reasonable contribution from the billing system enhancements in the U.S. I'm just wondering if you could talk to what came through for the full year and what we should expect on that front in 2020 and beyond, please?

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

Chris is going to take this one.

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

Yes. David, there was probably a bit more from that because there's a bit of a step-up in the way we look at our receivables and some initiatives that happened in the first half. We've got a team of people working on that project. It's probably got a few years to run yet. And it will be sort of a bit of a stepwise process as we implement new systems, including things like systems that enable us to take credit cards upfront from patients. We can't actually charge them because we don't know what the charge is upfront. But our competitors had that sort of system in place for a while. We're sort of playing a little bit of catch-up on things like that. But those sort of benefits will start to flow through in the years to come. We had probably more than normal because we had -- about an 8% was a little -- just a little less than 8% in the first half growth, more like 3% in the second. That was also suffering a bit of full PAMA 10% effect on Medicare that started in January '19. So there are few different effects that had weighed on the first and the second half there.

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**David A. Low** - *JP Morgan Chase & Co, Research Division - Research Analyst*

So just the 5% organic revenue growth reported, what proportion of that would have come from revaluing receivables?

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

Not so much a revaluation but it's more recognizing that we're getting -- we're bringing more cash in than what we had in the past. But I don't know -- I don't want to mislead you, but there's probably a bit over 1% or so from that source, might be closer to 2%, something like that, not hugely material in the scheme of Sonic more broadly but still very positive for the business in the U.S.

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**David A. Low** - *JP Morgan Chase & Co, Research Division - Research Analyst*

And in pathology, if you think, going on, I mean are we going to see the same again next year FY '20, do you think?



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

Hard to know, there's lots of initiatives coming through, how quickly they affect the growth in revenue. I wouldn't want to put out a number on it. But it's certainly going to be in the positive direction. That's how big it is, remains to be seen.

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**Operator**

The next question will be coming from Steve Wheen of Evans & Partners Sydney.

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

Colin, I noticed on the slides, obviously, the portfolio of Sonic is working well. You've called out the margin accretion of Australia, Switzerland in Imaging. Because there isn't a reference to margins in the others, does that mean we assume they are flat to negative? And if not, which ones might be positive? And the extension of that is, are there any of those that are turning around in terms of your guidance for FY '20?

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

So it's Paul here. You shouldn't assume anything from where we have or haven't referred to that. It's just that the country that we've called out were particular -- or markets that we've called out were particularly strong margin performers. You expect that Germany, because of the regulatory issues there, that there has been some margin deterioration in that market. Likewise, Belgium, where the revenue growth is flat, that's not going to be helpful to margins as you'd expect. But we are always working on our businesses. We always hope that margins will improve or expect that margins will improve in coming years. Germany, as Colin referred to, seem to be cycling through the doctor bonus changes. So the outlook is more positive going forward.

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

Just in Germany too I think the volume in the last few months have looked quite positive. So the cycling of the doctor bonus arrangements, Steve, unlike a fee cut where you cycle from an exact date, when you got something like the doctor bonus and we think most of the analysts are familiar with that. That's something that's a change in behavior that happened over a period of time. So it doesn't cycle in a particular month. But we're starting to see some positive trend in volumes so I mean where next year you should see some benefits coming from that.

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

Yes, great. Okay. Secondly, I just wanted to ask about the Aurora Diagnostics acquisition in terms of funding. Some talk around insurers trying to take cuts to what they're going to pay. It looks clearly isolated. Just wondering what your take is from that Anthem announcement and whether or not there's others that are contemplating that?

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

Yes. So Steve, we are aware that there's been sort of isolated approaches by Anthem, which for everyone's information is one of the managed care companies. But we have not been directly involved in any of these at all. And I don't think there's any evidence as yet that this is going to be spreading beyond a local phenomenon. So essentially, at this point in time, there is nothing that we are aware of like you read about Anthem in selected states. So they haven't approached us.



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

Steve, Chris here. Even though Anthem might announce that they're looking at doing certain things, each one of those are kind of ending up in negotiation. So just because they make statements about things, I guess that's their position that these things often end up in a negotiation depending on what your -- what sort of leverage you might have in a particular market.

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

And you should just bear in mind that the Aurora business has a huge number of hospital contracts which are regarded as absolutely vital services. So these are pathologists who are doing all the surgical pathology at hospitals. They have to be there. And so there is a lot of leverage in those arrangements, those contracts and many ways to deal with insurers should they approach us the way Anthem apparently has but as I say this is all theoretical because it hasn't actually happened to Sonic.

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

Yes, I understand. That's clear. Final question for me, just back to Australia and collection centers. Does that have an impact on your organic revenue that you're seeing or is that fairly immaterial just in terms of the number of closures that you've done?

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

Yes. So generally the answer is no, it hasn't had an impact on our growth. So we've been very selective in how we go about closing centers for example. Obviously, we're going to be choosing the low-volume centers. And where we do negotiate to close a center, we obviously do our very best to keep the referrals, and in many cases, we do succeed. So you'll see from our organic growth number in Australia that it really hasn't had an impact at all. And so -- and I think this could be an evolving trend in the whole market that I think some sanity is descending whereby the huge number of collection centers including in low-volume locations are reducing. Now I can't speak for anyone else, but certainly, that's the direction that Sonic's heading.

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

Yes. And so essentially, you're saying that the closure of those collection centers is a net accretion to the Australian business?

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

Yes. So in terms of the financials, yes.

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

Yes. You can say that already exists which is great.

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

Well, yes, it's contributing. So when we get organic growth of 5% and no abnormal cost pressures, our normal leverage will return to the business with margin accretion. So yes, closing 60-odd collection centers certainly helps the situation going forward, yes.



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

And the fact that organic revenue growth is still 5% in that environment, Steve, is testament to the careful way our management team has handled that which is very good.

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

That's right.

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**Operator**

The next question we have will be coming from Sean Laaman of Morgan Stanley Sydney.

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

Colin, Chris and Paul, question on the U.K., the GBP 150 million worth of tenders, are you able to give a bit of timeline on when you might know the outcomes of those and reference that in contrast the available capacity in the existing Halo building will be quite useful.

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

Sean, those are very leading questions. We obviously can't talk more than what we've publicly released. But there are a number of large contracts that are being tendered out right now which probably are known publicly but we are not going to talk about them. So obviously, the different contracts will be handled differently within the scope of our business in London or in the U.K. Obviously, we would need to make plans. If these were very big, if they were very new. But it's something that we can't really elaborate upon right now because it is confidential what we are doing. We can only tell you that there are large contracts that we are engaged with at the moment which would be pretty exciting for Sonic and well handled by our local U.K. team assisted by our global expertise. So we will find ways through any logistical facility, operational or financial issues. So there's nothing that we won't be able to handle.

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

Thank you, Colin. And just to follow-up on the collection centers. Is that an even cadence of closures during the period for the 60? And is there -- and any more to go?

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

Yes. It was more or less over the period of a year. And yes, there will be more to come. I mean, this is not a -- we're not laying down a number or a particular strategy. But in general, our aim is to optimize the efficiency of our collection network. As I've said many times before, Australia has hugely -- a huge number of collection centers per capita, per anything you want to count. And so in terms of getting some sanity back into the metrics of the pathology industry, I think this is a natural market trend because I think labs would be -- the smaller labs in particular would be struggling under the pressure of so many collection centers. So we will continue assessing each collection center one by one and that's how it's actually done, being careful to maintain as much of the revenue as possible at all times. And bearing in mind all the competitive issues that we face in the marketplace all the time.

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**Operator**

The next question will be coming from David Bailey of Macquarie Sydney.



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**David Bailey** - *Macquarie Research - Research Analyst*

Just firstly from me, I wonder if you could provide organic constant currency revenue growth for Germany for FY '19? Looking at the first half, there was a bit of growth there. But on an organic basis, it was flat. So just trying to understand what the second half looked like on an organic constant-currency basis.

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

Yes. So there was some improvement in the second half, but modest.

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**David Bailey** - *Macquarie Research - Research Analyst*

Okay. And then just then on Australia, if you look at the implied second half growth, it was actually 4%, so looking like you're cycling through the downstream contract. Is that a reasonable growth to assume on a go forward basis?

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

Yes, I think you're right. We are cycling through it. Yes, I mean, we'd be happy with that kind of organic growth. The market, we're tracking the whole industry's growth as well, and it's going through -- there were periods where the -- it appears as though the whole market's growth was a bit low. It's lifted perhaps as a result of the busy flu activity this year compared to last year. And I think -- we also believe that we're taking market several of our markets as well. So if we are growing at 4% to 5% organic in a stable situation, we'd be happy with that, yes.

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**David Bailey** - *Macquarie Research - Research Analyst*

Okay. And just one quick final one for me. Just in terms of Aurora, just wonder if you could quantify the impact of that to EBITDA growth for FY '20 just starting to consider contribution versus probably FY '19?

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

Yes. That's probably easy to -- we haven't disclosed that. But from what we have disclosed, David, if you look at the announcement -- if you took the ratio of, we'll have an extra 7 months in FY '20 versus FY '19 based on the disclosed number, that's probably going to give you a reasonably accurate view on what we think it's going to be.

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**David Bailey** - *Macquarie Research - Research Analyst*

But maybe costs for the full year?

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

Closer to (inaudible). Something like that, yes. You mean the impact on the full year guidance?

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**David Bailey** - *Macquarie Research - Research Analyst*

Correct.



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

Yes. If you work out those numbers, it's in that order or a bit over that probably.

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**Operator**

Next one we have is from Andrew Goodsall of MST Marquee Sydney.

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**Andrew Goodsall** - *MST Marquee - Healthcare analyst*

Just the first one, just on interest costs going up next year, I'm assuming it's largely a function of FX?

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

No. So that guidance is on constant currency, Andrew. So it's not a function of FX. As part of the Aurora acquisition, we took out a bridge facility with something like USD 330 million. That bridge was at a very low margin in the second half of FY '19. There's a step up in that margin that occurred in July, 6 months later. And so that's a significant increase in interest. And there will be a further increase when we term that out effectively when that bridge expires towards the end of this calendar year. So that's the main driver in that increase.

Now of course we have assumed current base rates prevail in the current interest -- in the current market. There's a reasonable chance that those reduce and perhaps we won't see the 3%. But if we assume current base rates, that's what we'll get at this point.

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

Currently currency translations have been.

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**Andrew Goodsall** - *MST Marquee - Healthcare analyst*

Chris, just you called out (inaudible) versus the outlook is stable. Just any (inaudible) particularly in pathology and (inaudible) for the government so patients (inaudible) act on collection centers especially any (inaudible) MBS review for those I guess to sort of rebalance some of the tests, pricing and so on?

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

Yes. So this is activity that's going on sort of at government level. First of all, we talked about the collection center activity. There is activity and -- but as you know, Andrew, I'll stop talking about it because I think at least 5 years ago, I thought something might happen and nothing has happened. So apparently, the government is writing letters to both labs and referring doctors to deal with particular collection centers which fall into a category that the Department of Health deem to be inappropriate. And we're told that that activity will continue. So it seems like there is gentle pressure, if I could put it that way, coming from government quite independent of the labs directly to landlord doctors and the labs that are the lessees. So who knows where that's going to land up. I can't predict it anymore.

In terms of the MBS review, it is still ongoing but it's now been ongoing for a couple of years, at least. And there's no major activity and no obvious evidence that any changes are going to be made which might negatively impact us or positively impact us for that matter as well. So really, I could just say that as far as the MBS review goes, the situation is stable or unchanged.





**Andrew Goodsall** - *MST Marquee - Healthcare analyst*

The rerate or repricing to more complex tests benefit Sonic, which I could say that with their volume of high end or more complex systems?

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

Well, we certainly are the company in Australia that I believe dominates at that upper end. And so if that should occur, yes, we might benefit. But of course, I think the MBS review look at a range of issues not just pricing of more complex as they look at pricing of bread-and-butter tests as well. So nobody knows what this -- what the mix might turn up for any particular lab. But I do need to stress that there's nothing imminent from the MBS review that might affect the financials of Sonic at this point in time.

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**Operator**

We also have a question from Gretel Janu of Crédit Suisse Sydney.

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

So firstly on Australia, you did make a comment that you believe you're taking market share in several markets. So which markets are these? And is this due to the greater shift towards more complex testing?

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

Yes. So Gretel, I think I might've said we believe we're taking market share. So we know what our organic growth rate is and we do have only Medicare data to use as a benchmark against which to assess our growth relative to the market. So we believe that our 5% organic growth is above the market, which would suggest that we're taking market share. So that's really all I said. I think you'll know it's not a strong statement. As far as we're concerned, the market does not appear to be growing in excess of 5% at the moment. So that's what it appears to be.

In the case of radiology in Australia, we think we are more or less at market based on the Medicare data again. That 6% organic growth, that appears to be what the market is growing at to the best of our knowledge.

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

Okay, thanks. And then just on the U.S, you seem to have a slower growth on an organic constant-currency basis in second half versus first half. Was it just PAMA or is there some other reason for the slowdown? And then in addition, could you give a bit more color in terms of how the U.S. joint venture hospital contracts are going?

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

Yes, it's Chris here. There was a more significant PAMA effect in the second half because the other 10% cut to the Medicare component happened in January '19. So that was certainly part of it. There's probably a little bit of -- I touched on it before when I think I was answering Steve's question, probably a little bit of a slowdown on the benefits we were getting from the billing but we expect that to continue to contribute over a period of a few years. And I guess separately, there's probably a little bit of a slowing in the contribution of some of the joint venture growth. But it'd be fair to say that first half of 8% was a bit exceptional. So I guess none of us would have expected to be able to maintain that number. But that's created a new base for us going forward.

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**Operator**

The next question will be coming from Lyanne Harrison with Bank of America Sydney.

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

First question is on Imaging margins and that has increased this year by about 40 basis points. Can you add some color to what drives this in light of workflow efficiencies and synergies? And could we expect further margin expansion in 2020?

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

You go take it, Paul.

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

One of the biggest drivers there is when you have greenfield and brownfield type expansion. So when I refer to brownfield, adding modalities to existing sites. Initially, there's a ramp-up phase. So it depends how that ramp-up is going and your reporting dates effectively against that ramp-up. So that's one of the biggest drivers of changes in margins in Imaging. As Colin touched on in the presentations, there are a number of other efficiency projects that we have underway with new technologies, et cetera, as well. So there's other drivers in addition but the greenfield type expansion is the big one.

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

And then going into '20, we can expect further expansion, is that fair to assume?

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

We haven't guided to that level of perhaps specificity. So I can't comment on that.

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

Okay. And then another question on your GPs. So you added a fair few GPs in 2019. And we note one of your peers has also stepped up in terms of GPs acquisition. Has this put any upward pressure on your remuneration?

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

So just to be clear, we did not acquire GPs. We recruit them.

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

Sorry. Recruit them, yes.

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

Our strategy is somewhat different to our competitors. And our disbursement rate, if you like, has not changed significantly.

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**Operator**

The next one will be coming from John Deakin-Bell of DITR Sydney.

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

That's Citi. I just want to make sure I'm clear on the guidance of PAMA going forward. So you said 2% of EBITDA which is kind of \$22-odd million and you said that 12% of the U.S. have been impacted which is about \$210 million. So are we just assuming that it's 10% of your impacted revenue and that 100% goes to the EBITDA line?

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

That is how that 2% is calculated, yes. But the guidance allows for that 2%. So you shouldn't take that 2% off the guidance. That is the guidance allows for that 2%.

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

Understood. So then if I do that and I assume about 5% of the growth comes from Aurora, we get to an organic guidance of about 1% to 3%, which would imply that the organic growth is going to be lower next year and that your margins don't go up? So is that -- are you conservatively guiding? Or are you telling us that, that is what's going to happen?

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

Aurora is about 4%.

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

We're now obviously in 5%, so you're saying it's less than that.

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

It's about 4% and a bit, in that order. So I guess if you take that out, then you've got the -- there is the headwind of PAMA, so that has an undermining effect of your base business I guess. But also, there's the effect of the exchange rates which if they stay the same, that is potentially another 3%. But So we are comfortable with where our guidance sits. We have to mention there was a budget for the back -- going through to back that up. If we get some outperformance in some of our markets, we might do -- get -- it's hard to tell at this stage. There's other components.

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

Understand. And just finally, you've talked for some time about the impact of PAMA on some of the smaller players in the U.S. and the potential for the distressed operators who want to sell their business. We have seen a lot of that. Can you just -- it was to visible us. Can you just give us an update on what you're seeing in the market?

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

Well, I think it is happening and it's still evolving, John. Because you've got to imagine -- so as I mentioned in the presentation, one of the benefits of the Aurora acquisition is that it reduces our exposure to PAMA down to about 12% of our total revenue. There are many labs out there with much, much higher exposures as a percentage of their total revenue to PAMA. And even some of the hospital labs are struggling with these cuts. And so deals are evolving and it's one of the reasons why we see very substantial growth opportunity in the U.S. market. So I don't think you should believe that there aren't deals out there because there are. And it's probably going to accelerate given that we are now in the 10% PAMA period with another 10% period to come. So this is going to be hard work for small labs and even medium labs.

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**Operator**

We have a question from Chris Cooper of Goldman Sachs Sydney.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Just back on the U.S., I hear your comments on PAMA. But you did slow sequentially whilst your competitors actually improved over the same period despite facing some exposure. Should we be reading anything into the different path you've chosen strategically? Or is this just sort of noise around your changes to billing and I guess some of the slower (inaudible) if you could give some color on that as well?

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

Chris, I think we're still growing better than the major competitors that you're referring to. It's just that we are coming off an unusually high positive growth period in the first half. So -- and I think you shouldn't be reading anything negative into that. I think we're still doing very well.

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

Plus, I think it's very important with that question, Chris, just to reiterate that our strategy is now also to operate in the anatomical pathology market which is something that not all labs can do. We've had deep experience in that market here in Australia, for many years -- decades, in fact. And Sonic's Medical Leadership culture and model are very well suited to that market which is pathologist-centric and pathologist-dominant. So through the anatomical pathology market, there will be potential to grow organically and to grow via add-on acquisitions and to cross-sell into clinical pathology which will be organic growth and also to secure hospital lab deals because we are involved in anatomical pathology, which will in most cases, also be regarded as organic growth.

So we have been a little conservative here and our guidance never includes new deals. But it's very possible that our new strategy, which is a major expansion into anatomical pathology, will drive stronger organic growth going forward. And if it's not in the short-term, it will probably be in the medium-term. And I'm confident it will flow through the medium and long-term.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it. And just on the -- sort of organic opportunity in the U.S. you alluded to, can you give us your expectations at this stage in terms of where the market might be growing at over the next 12 months in the U.S.?

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

So there is no information as such that we can get our hands on. We are guided by our big 2 competitors. They're sizable chunks of the market and give us a good indication about the market itself. But there's no official stats which give us market growth. So sorry, can't answer.

**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Sure. But just in terms of your expectations and how you've kind of put about guidance around the U.S. As you said, it's an increasingly large part of the business. And I presume you have sort of expectations broadly speaking, high level in terms of what the market might do and even directionally, faster or slower than '19?

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

I guess the second half is circa 3%. So that's the most recent month's performance. So I guess that's probably a reasonable guide for the future.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it. And just one quick one on collection centers in Australia, if you don't mind. So the current stats is a bit of a moving target. I heard you comment that there will be more pressure to come. But could you just give us some sense of at this stage, should we be thinking more or less than the 60 that you closed in '19 to come in '20, please?

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

Chris, I -- we simply cannot give you that guidance because we're sort of doing this on a center by center basis. And as conditions change, there might be change coming out of Canberra. It's really impossible for us to say whether that's going to be more or less. We'll obviously not go crazy with closures. We don't want to do that in many of the situations. We're comfortable with the situation as it is. So I'm sorry, I just don't want to give you a definitive answer to that.

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

And just to emphasize, Chris, that closing a center is almost, if you like, the last resort. Obviously, the preferred outcome is a renegotiation of the rent. So what you can't see when we talk about the number of centers is in how many circumstances we've reduced the rent as well. And that's probably the more important statistic.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Could you give us some color just on that on a say like-for-like basis, what rental costs do we have if we exclude the closures or -- the '19 over '18 for example?

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

It's hard to do so, Chris, because there's obviously increases on some leases as well. Normal CPI type increases.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Which is across the portfolio, I guess.

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

If you look at the overall operating lease rental expense in our P&L, you'll see that it's reduced as a percentage of revenue. That's probably all I'll say on the subject.

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**Chris Cooper** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

But that includes the closures as well.

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

Yes, it does. And that's probably all I had in mind.

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**Operator**

The next one, we have Saul Hadassin of UBS Sydney.

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

It's Saul here. Colin, Chris and Paul, just a couple of quick questions. On the clinical services, I think revenue for the year was flat versus last year. You did mention second half performance had strengthened. But there was an early and strong flu season. So I'm just wondering do you think that business continue GP hires during the year? Do you think that business can actually grow revenues organically into fiscal '20?

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

Yes, we certainly do think that. I mean the addition of 85 GPs makes a difference. We are also working on a whole range of initiatives to optimize both revenue and look at the cost side of the business as well.

So the answer is yes, that's been our steady-state situation. I think the market went through a bit of a slowdown in the first half and maybe in H2 of last year or 2018 financial year. But it seems like it's picking up.

Last -- the last financial year was affected by the flu season. This year, the flu season came early and then it kind of went down again. It's a strange chunk, the flu activity this year which does influence GP attendances. So the answer is absolutely yes. Our aim is to grow the business forward and we believe that we are in a very good position to do that.

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

Nice comment. Just one more from me. Looking back at the U.S. segment, is the implied contribution from Aurora at the revenue line effectively the difference between the organic revenue growth and the reported? So it's about 13% growth coming from Aurora. Can you quantify the revenue contribution from Aurora?

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

Chris?





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

So we gave -- when we announced the Aurora acquisition, we gave you the annual revenue of that business. So that was a little bit of growth, is what's going into this period. I just don't have the math in front of me that you are doing. But...

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

Doing math is -- I have done that math, and I get about \$140 million depending on if there's any other contribution from other JVs in the year. But assuming it's about \$140 million and that maybe a bit high. But given the NPAT contribution of \$22 million which implies a very high NPAT margin assuming that essentially grew about 500 or 600 basis points higher. And I'm just wondering, is that just a simple reflection of the fee structure and the cost structure of that business? In other words, it's just a materially higher EBITDA and EBIT business or is there something in that entire contribution?

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

So Aurora is tracking in line with the financials that we announced when we announced the deal 6 or so months ago -- or 8 months ago. So that's really all I think we can say on it. It does have a higher margin in that business than in -- than the average our U.S. business.

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

Yes, that's true, there's that effect.

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

The net profit number, you're referring to the note in the 4E, is that...

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

Yes, the \$22 million.

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

Yes, yes. So that's net profit after tax, there's a bit of interest in that entity as well, that's come off that as well. But it's not highly geared. so if you're looking at versus Sonic's overall NPAT, it's disproportionate because it doesn't have gearing of any note.

**Operator**

We don't have any more questions in queue as of the moment.

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

Then, thank you very much, everyone. We will end the call now. Have a good day.

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