



12 December 2018

Sonic Healthcare to acquire Aurora Diagnostics (USA); launches A\$600m Institutional Placement and announces Share Purchase Plan

Key highlights

- Sonic Healthcare Limited (“Sonic”) (ASX: SHL; ADR: SKHHY) has entered into a binding agreement to acquire 100% of Aurora Diagnostics, LLC (“Aurora”) for US\$540m (A\$750m).¹
- Aurora is one of the leading providers of anatomical pathology services in the U.S. Its ~220 pathologists and 32 practices process approximately 2.5 million accessions per annum, received from ~23,000 referring physicians and with more than 100 hospital contracts across the U.S.
- Aurora generated pro-forma revenue of approximately US\$310m (A\$431m) and pro-forma EBITDA of approximately US\$59m (A\$82m) in the 12 months to 30 September 2018.²
- The transaction will transform Sonic’s U.S. business, providing it with a strategic national footprint and platform that adds significant scale and extends Sonic’s existing presence in anatomical pathology.
- Implied acquisition multiple of approximately 9.2x³ pro-forma EBITDA² for the 12 months ended 30 September 2018.
- Sonic is today announcing a fully underwritten Institutional Placement (“Placement”) to raise A\$600m and a non-underwritten Share Purchase Plan (“SPP”) to retail shareholders in Australia and New Zealand to raise up to A\$100m.⁴
- The acquisition is expected to be approximately 3% EPS accretive post Placement on a pro-forma FY2019 basis, before any expected revenue and cost synergies.⁵
- Year 1 ROIC on transaction expected to be 9–10%⁶ which exceeds Sonic’s FY2018 group ROIC.
- Pro-forma for the acquisition and capital raising, Sonic is expected to maintain a robust balance sheet with strong capacity for further growth initiatives, including M&A activity.

¹ FX rate of A\$1.00 = US\$0.72 used to convert all US\$ metrics

² Pro-forma revenue and EBITDA reflect Aurora’s reported revenue and EBITDA adjusted for non-recurring items, recent business developments, and annualisation of earnings of business acquisitions completed in the period

³ Before transaction costs

⁴ Sonic reserves the right (in its absolute discretion) to scale-back applications under the SPP if demand exceeds A\$100m or to raise a higher amount

⁵ Pro-forma FY2019 EPS accretion metrics presented as if the acquisition was effective from 1 July 2018 and excludes transaction costs and any impact from the SPP. Note that actual EPS accretion in FY2019 will be lower than this given that completion is not expected to occur until early CY2019

⁶ Return On Invested Capital (“ROIC”) positively impacted by tax deductions for goodwill amortisation (over 15 years)



Transaction overview

Sonic is pleased to announce that it has signed a binding agreement to acquire Aurora for an all cash enterprise value of US\$540m (A\$750m).

Headquartered in Florida, Aurora is one of the leading providers of anatomical pathology services in the U.S. Aurora has ~1,200 staff including ~220 pathologists, and operates 32 anatomical pathology practices in 19 U.S. states. Aurora's platform is diversified across payer mix, practice portfolio and customer type. Aurora receives accessions from approximately 23,000 referring physicians and has more than 100 hospital contracts. The company has also developed a molecular testing centre in Jacksonville, Florida and is exposed to favourable macro trends in molecular and Next Generation Sequencing ("NGS") testing, and in personalised medicine.

In the 12 months to 30 September 2018, Aurora generated pro-forma revenue of approximately US\$310m (A\$431m) and pro-forma EBITDA of approximately US\$59m (A\$82m).⁷ The acquisition of Aurora is expected to be approximately 3% EPS accretive post Placement on a pro-forma FY2019 basis, before expected revenue and cost synergies.⁸

The transaction is expected to complete in early CY2019 and is subject to anti-trust approval under the Hart-Scott-Rodino Act in the U.S. and other customary closing conditions.

Strategic rationale

The acquisition is underpinned by a compelling strategic rationale and represents a significant and exciting opportunity for Sonic to substantially grow its operations in the U.S.

- **Acquisition closely aligned with Sonic's U.S. and global patient-centric culture**
 - The acquisition of Aurora is consistent with Sonic's strategy of pursuing strategic, attractive opportunities at disciplined prices
- **Transforms Sonic's U.S. business, providing opportunity to differentiate its Medical Leadership model**
 - Aurora provides Sonic with a high quality pathologist team that enables it to expand its Medical Leadership model in the U.S.
 - Aurora and its pathologists provide critical mass for growth in the anatomical and clinical pathology markets, both organically and via additional acquisitions
- **Adds significant scale in the attractive and fragmented U.S. anatomical pathology market**
 - U.S. anatomical pathology is a large and growing market supported by attractive macro tailwinds

⁷ Refer note 2 above

⁸ Refer note 5 above



- Provides opportunity to continue to participate in, and benefit from, the consolidation of a fragmented North American medical laboratory market
- **Complements and diversifies Sonic's U.S. market presence and physician exposure**
 - Aurora significantly extends and complements Sonic's geographical presence and coverage across the U.S.
 - Provides platform for Sonic to expand its clinical pathology business in regions it does not currently operate in
- **Aligns with Sonic's deep anatomical pathology experience in other markets**
 - Post acquisition, Sonic will be a leading provider of both clinical and anatomical pathology in the U.S.
- **Creates one of the largest pathologist groups in the world**
 - Aurora's ~220 pathologists will join with Sonic's ~700 global pathologists
- **Financially attractive acquisition**
 - The acquisition of Aurora is expected to be approximately 3% EPS accretive post Placement on a pro-forma FY2019 basis, before expected revenue and cost synergies⁹

Sonic's CEO, Dr. Colin Goldschmidt said: "The Aurora acquisition is an exciting and seminal step for Sonic Healthcare and we warmly welcome the management, pathologists and staff working in Aurora's outstanding anatomical pathology practices around the U.S. The integration of these practices into Sonic's existing U.S. operations, in conjunction with Aurora's management team, will offer Sonic Healthcare USA the scale and critical mass to boost the national promotion of Sonic's unique Medical Leadership model in the U.S. laboratory and pathology markets."

The integration of Aurora will be led by its U.S. CEO, Dr. Jerry Hussong, with support from Sonic's global CEO, Dr. Colin Goldschmidt and its global Chief Medical Officer, Dr. Stephen Fairy, in conjunction with Aurora's management team.

FY2019 trading update

Sonic maintains guidance confirmed at the AGM held on 21 November 2018 (excluding the impact of the Aurora acquisition), and notes that its U.S. business is tracking ahead of expectations 2018YTD.¹⁰

⁹ Refer to note 5 above

¹⁰ Four months to 31 October 2018



Transaction funding

The acquisition is to be funded by a combination of:

- A A\$600m fully underwritten Placement
- A fully underwritten acquisition bridge facility, which is to be subsequently refinanced post completion¹¹

Pro-forma for the acquisition and capital raising, Sonic's net debt / EBITDA¹² is expected to be around 2.5x.¹³ Post completion of the acquisition and capital raising, Sonic is expected to have significant headroom in undrawn, committed debt facilities and cash and a robust balance sheet, with strong capacity for further growth initiatives, including M&A activity.

Placement

Sonic is today undertaking a fully underwritten Placement to raise A\$600m which will be offered to professional and institutional investors.¹⁴ The issue price for the Placement is A\$19.50 per share, which represents an 8.8% discount to the last closing price of A\$21.39 on Tuesday, 11 December 2018.

It is expected that Sonic shares will remain in a trading halt until Thursday, 13 December 2018 while the Placement is conducted, or until such time that Sonic announces the expiry of the trading halt to the ASX. Settlement of new shares issued under the Placement is expected to occur on Monday, 17 December 2018, with allotment scheduled for Tuesday, 18 December 2018.

New shares issued under the Placement will rank pari passu with existing shares of Sonic from their date of issue including in relation to any dividends declared as part of Sonic's 1H FY2019 results.

SPP

In addition to the Placement, Sonic will offer eligible existing shareholders on Sonic's register at 7.00pm on Tuesday, 11 December 2018, with registered addresses in Australia and New Zealand, the opportunity to apply for new Sonic shares through a non-underwritten SPP, without brokerage fees.

¹¹ A commitment letter for the acquisition bridge facility has been executed, with final form bridge facility documentation expected to be executed prior to completion

¹² Calculated per Sonic's debt facility definitions

¹³ Forecast as at 31 December 2018

¹⁴ Refer to Equity Funding Risk on page 26 of the Investor Presentation for further information on the risks associated with the Placement



The SPP aims to raise up to A\$100m and is not underwritten. Sonic reserves the right (in its absolute discretion) to scale-back applications if demand exceeds A\$100m or to raise a higher amount.

The application for new shares under the SPP will be capped at a maximum of A\$15,000 per eligible shareholder. The SPP offer period will be open from Tuesday, 18 December 2018 to Monday, 4 February 2019, subject to Sonic's discretion to amend these dates. Shares issued under the SPP will rank equally with existing shares of Sonic from their date of issue.

The issue price under the SPP will be the lower of the Placement issue price and a 2.5% discount to the volume weighted average price ("VWAP") of Sonic shares traded on ASX over a 5 trading day period ending on the close of the SPP offer period (Monday, 4 February 2019).

The terms and conditions of the SPP will be set out in the SPP Offer Booklet, which will be lodged with the ASX and sent to eligible shareholders in due course. Participation in the SPP is optional and Sonic reserves the right (in its absolute discretion) to scale back any applications under the SPP if demand exceeds A\$100m or to raise a higher amount.

Indicative timetable

Event	Date ¹⁵
Record Date for SPP	7.00 pm Tuesday, 11 December 2018
Trading halt, announcement of the Transaction and Placement opens	Wednesday, 12 December 2018
Announcement in relation to outcome of Placement	Thursday, 13 December 2018
Trading halt lifted – shares recommence trading on ASX	Thursday, 13 December 2018
Settlement of Placement	Monday, 17 December 2018
Allotment and commencement of trading of new shares issued under the Placement	Tuesday, 18 December 2018
SPP opens	Tuesday, 18 December 2018
SPP closes ¹⁶	Monday, 4 February 2019
SPP completion announced	Monday, 11 February 2019
SPP allotment date	Tuesday, 12 February 2019
Trading of new shares issued under the SPP	Wednesday, 13 February 2019
Holding statements dispatched in relation to SPP shares	Friday, 15 February 2019

¹⁵ All dates and times are indicative and subject to change without notice; Australian Eastern Daylight Time

¹⁶ The SPP offer period has been elongated in light of the Christmas/New Year holiday period



Additional information

Further details of the acquisition and the capital raising are set out in the Investor Presentation also provided to the ASX today. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Placement.

For further information regarding this announcement, please contact:

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See Investor Presentation filed with the ASX today for important information and disclaimer regarding the financial information presented in this announcement and the Investor Presentation, including pro-forma financial information of Aurora and pro-forma information of Sonic and Aurora as a combined group.

This announcement contains certain "forward-looking statements". The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Statements regarding plans, strategies and indications of, and guidance on, future earnings, financial position and performance including future performance of Sonic and Aurora as a combined group, and potential or expected synergies and the timing and effects of the acquisition are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, and are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Sonic). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward-looking statements and Sonic assumes no obligation to update such information.