This publication is not research or a rating and does not constitute advice or a recommendation with respect to the security which is the subject of this publication ("Security"). The information in this publication is provided only for the purposes of illustrating our investment process and our current rationale for acquiring, disposing of or continuing to hold the Security for the Fund and should not be relied upon when making any investment decision with respect to the Security (see further the disclaimer at the end of this publication).

Sonic Healthcare

Information current as at 1 August 2023

What are the main business activities?

Sonic Healthcare is a global healthcare provider with operations in laboratory medicine/ pathology, radiology, general practice medicine and corporate medical services. It is the largest private operator for pathology services in Australia, Germany, Switzerland and the U.K., the second largest in Belgium and New Zealand and the third largest in the U.S. Pathology services contribute roughly 85% of group revenue.

In Australia, Sonic is the largest operator of medical centres and the second largest player in diagnostic imaging.

Why is this firm attractive to its customers?

Sonic's value proposition to clinicians is to achieve optimum patient management through state-of-the-art laboratories staffed by specialist pathologists and medical scientists and technicians, providing timely and accurate results.

Sonic is committed to service excellence and aims to provide medical leadership across its businesses with a focus on responding to the needs of individual referring physicians, hospitals, governments and patients, and on providing the most efficient and personalised service possible.

ESG observations

(E)–We have discussed climate change as both a risk and an opportunity with Sonic's board and management in recent years. Sonic are accelerating their approach to sustainability and climate change with senior management appointments including a new global Head of Sustainability. We believe that Sonic is now increasingly likely to sign up to net zero emissions by 2050 to align itself with the targets of many of their key customers.

(G)–Sonic has released their modern slavery statement and disclosed they use a risk-based approach in analysing their supply chains. Sonic has focused on top suppliers that are large global brands. Sonic determined the risk exposure for medical consumables was low as they believe that while it is a risk, it is being well managed. Sonic are aware there may be risks in smaller suppliers but are comfortable with the majority of suppliers analysed. Sonic has made significant improvements to their modern slavery statement; however, they have not found any instances of modern slavery to date. Sonic are aware that they will need to delve deeper into supply chains.

Why does the portfolio hold this stock?

Sonic is a high-quality company with a stable and growing core earnings profile. Sonic's core business has grown consistently over the last decade, with revenue and EBITDA[1] growing at an annual rate of 9% and 10% respectively.

Sonic has a strong balance sheet which it can use to fund both inorganic growth and shareholder returns. Over the course of the COVID-19 pandemic, Sonic generated more than $2.5bil of EBITDA from PCR testing which materially strengthened their balance sheet position. Sonic's medical leadership culture makes them a buyer of a choice for many vendors and allows them to make accretive acquisitions at attractive multiples.

Sonic's core business is attractively valued on a price to free cashflow basis, Sonic is highly cash generative and has converted >100% of profit into free cashflow over the last 18 years.

[1] Earnings Before Interest Tax, Depreciation and Amortisation.