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ACQUISITION OF PATHOLOGY WATCH

Sonic Healthcare Limited ('Sonic') (ASX: SHL ; ADR: SKHHY) is pleased to announce that it has signed binding agreements to acquire Pathology Watch, a medical technology business headquartered in Salt Lake City, Utah, USA, which has developed and commercialised an integrated, end-to-end digital pathology platform for skin pathology (dermatopathology).

The Pathology Watch acquisition is attractive to Sonic as it creates multiple return opportunities, including acceleration of Sonic's transition to digital pathology, provision of competitive advantage in existing dermatopathology markets and the promotion of significant synergies with Franklin.ai, Sonic's AI partner.

The purchase price of US\$130 million (cash and debt free) will be funded in USD from Sonic's existing cash and debt facilities. Pathology Watch is currently at pre-profit stage, however Sonic expects to achieve attractive earnings per share and return on invested capital accretion as the opportunities listed below are realised over coming years.

The transaction is subject to customary conditions and is expected to close in December 2023.

The founders, management team and staff of Pathology Watch will join Sonic's USA and global team structures.

Digital pathology is a revolution in anatomical pathology that is rapidly gaining momentum around the world. It involves scanning glass slide-mounted tissue sections to create a digital whole slide image that can be accessed and reported by a pathologist located remotely using a computer screen or mobile device. Workflow efficiencies from digital pathology are due to the elimination of the physical handling of glass slides, accuracy enhancements, and the ability to distribute images from multiple sites to pathologists in any location to balance workloads, and to expedite expert second opinions. Additionally, digital pathology enables the use of AI in anatomical pathology to further increase the efficiency of pathologists, while enhancing quality and improving case turnaround times.

Sonic Healthcare is one of the world's largest anatomical pathology providers, with annual revenues from anatomical pathology of approximately A\$1 billion. Anatomical pathology represents a vital component of Sonic's services and is required for all cancer diagnoses. From a business perspective, expertise in anatomical pathology has driven hospital and specialist clinician relationships which, in turn, have augmented "cross-sell" revenues from clinical pathology tests from these referral sources. Sonic's strength in anatomical pathology is particularly notable in Australia, the USA, Switzerland, and Germany, where the majority of Sonic pathologists are trained and qualified as specialist anatomical pathologists. With large anatomical pathology practices in these countries, sub-specialist expertise has flourished to the point where Sonic now employs more than 1,000 expert and well-recognised anatomical pathologists covering almost every sub-speciality in medicine.

Sonic is therefore perhaps best placed in the world to benefit from the transformation of the practice of anatomical pathology that will be driven by digital pathology and AI, benefitting from major improvements in efficiency and capacity, and the recruitment and retention of the next generation of pathologists.

Pathology Watch has concentrated to date on the digitisation of dermatopathology (pathology for the diagnosis of skin diseases) and has rapidly built up a digital dermatopathology business in the USA, with current run rate annual revenues of ~US\$15 million. The Pathology Watch end-to-end system is known as 'DOT' (Dermatopathology Optimisation Tool) which incorporates a laboratory information system, digital pathology viewer, image storage and artificial intelligence algorithms.

Pathology Watch was recently named as part of the Inc. 500 fastest growing private companies in America.

The acquisition of Pathology Watch provides the following opportunities for Sonic:

- Acceleration of the transition to digital pathology workflows, initially in dermatopathology, but with potential for use across all anatomical pathology sub-specialties globally.
- Cost synergies from optimisation of anatomical pathology laboratories, enhancement of pathologists' reporting times and optimisation of caseload distribution across anatomical pathology networks.
- Increased dermatopathology revenues and market share gains flowing from the value and attractiveness of the Pathology Watch system to dermatology clients. New referrers enjoy the benefits of IT integration between their practices and the Pathology Watch system, as well as improved clinico-pathological correlation between dermatologist and pathologist.
- Increased pathologist recruitment, retention and job satisfaction due to improved workflows, enhanced peer-to-peer interaction, flexible work hours and work location.
- Synergies with Franklin.ai, Sonic's joint venture with Harrison.ai for developing market leading pathology AI tools. Franklin.ai is nearing completion of its first AI product, with field trials to commence in 2024. The end-to-end Pathology Watch digital pathology platform will facilitate the integration of Franklin's AI applications and accelerate AI deployment into Sonic's AP practices.
- The integration of Pathology Watch's end-to-end digital pathology platform with Franklin's AI applications has the potential to simplify and accelerate the adoption of both digital pathology workflows and AI in global markets.
- Potential future value from a prognostic AI algorithm for melanoma. Pathology Watch has completed early R&D work to design a multiparametric AI algorithm to predict the probability of metastases following a primary diagnosis of melanoma. Sonic's medical expertise and access to relevant data, potentially augmented by Franklin's AI capability, will enhance this development effort. If successful, this test has the potential to be marketed worldwide.

Sonic's CEO, Dr Colin Goldschmidt said: "The acquisition of Pathology Watch is an important and enormously exciting step in Sonic's transition to digital pathology and pathology AI and offers multiple avenues for value creation. I warmly welcome the Pathology Watch team into our USA and worldwide team of Sonic Healthcare colleagues. We look forward to working together with this innovative and respected group to enhance our digital pathology and AI strategy, and to provide competitive advantage for Sonic through a superior service offering to referring physicians and their patients."

Whilst an important strategic step for Sonic Healthcare's anatomical pathology operations, the transaction is not considered to be material for Sonic Healthcare Limited. This announcement has been authorised by Sonic's Managing Director. For further information regarding this announcement, please contact:

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