

## Sonic Healthcare

**N Neutral**

Re-setting the base; move to Neutral

### Key Points

- FY23 EBITDA/NPAT was -4%/-3% vs MRE. FY24 guidance of A \$1,700-1,800mn (CC) was below expectations; our revised forecasts imply A\$1,756mn (CC).
  - SHL has outlined several initiatives to support organic growth from FY24, with balance sheet capacity for further acquisitions.
  - With more limited downside based on a SOTP valuation, we move to a Neutral rating (from Underperform).
- **A weaker than expected FY23 result:** Revenue was in line with our forecast, but with EBITDA/EBIT -4%/-7%, respectively, due to higher than expected operating expenses. NPAT was supported by a lower tax rate (-3% vs MRE).
  - **FY24 guidance below expectations:** FY24 EBITDA is expected to be in the range of A\$1,700-1,800mn (CC). However, we note this assumes current FX rates over the balance of the year, implying an FX benefit relative to rates recorded in FY23 as well as our house forecasts for FY24. Compositionally, we have increased organic revenue growth assumptions, but with higher cost growth/lower EBITDA margins and reduced COVID-19 testing contributions. In aggregate, this provides FY24 EBITDA of A\$1,756mn (CC) and A\$1,718mn on a reported basis.
  - **A range of initiatives underway:** SHL outlined several initiatives which are expected to support earnings growth over coming years. This includes: **(1)** COVID-19 cost reduction (primarily labour, expected through FY24); **(2)** An enhanced revenue collection system in the US (benefits commencing from FY25); **(3)** Laboratory rationalisations in Germany; and **(4)** Digital pathology and artificial intelligence efficiencies in anatomical pathology.
  - **Balance sheet capacity for acquisitions:** Our FY24 forecasts imply ND/EBITDA of 1.4x. Assuming target gearing of 2.5x, we calculate this to imply up to A\$2.0bn for further acquisitions. Assuming an EBITDA multiple of 12x, we estimate that every A\$500mn would provide EPS accretion of ~1.5% (pre-synergies).

**Earnings changes:** EPS revisions of -10%/-7%/-3% for FY24E/25E/26E due to revised base business and CV19 assumptions; minor outer year changes.

**Valuation:** DCF-derived target price moves to A\$32.00 (from A\$33.50), capturing earnings revisions.

**Catalyst:** Base business trends; potential acquisitions; AGM (16-Nov).

### Investment Thesis and Recommendation

Our previous analysis has highlighted modest organic growth for SHL over time (here) which we see as captured within our forecasts. Combined with current initiatives, balance sheet capacity for acquisitions and more limited downside on a SOTP basis, we **move to a Neutral rating (from Underperform)**.

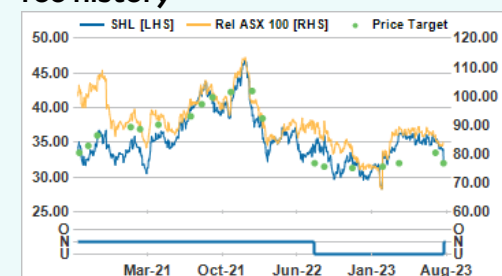
### Health Care Equipment & Services Australia

SHL AU	Neutral
Price (at 17 Aug 2023)	AUD32.03
12-month target	AUD32.00
12 month TSR (%)	3.1
Volatility Index	Medium
Market Cap (Local) (m)	15,105
Market Cap (USD) (m)	9,752
30-day avg turnover (AUD)(m)	33.4

### Investment Fundamentals

Year end 30 Jun	2023A	2024E	2025E	2026E
Revenue (m)	8,155	8,655	9,050	9,501
EBITDA (m)	1,708	1,718	1,853	1,975
EBITDA growth (%)	(39.7)	0.6	7.9	6.6
EBIT (m)	1,005	978.8	1,081	1,159
EBIT growth (%)	(53.4)	(2.6)	10.5	7.2
Reported profit (m)	685.0	629.7	676.1	726.8
Adjusted profit (m)	685.0	629.7	676.1	726.8
EPS adj (€)	145	133	143	153
EPS adj growth (%)	(52.0)	(8.3)	7.4	7.5
PER adj (x)	22.1	24.1	22.4	20.9
PER rel (x)	1.5	1.6	1.6	1.6
Total DPS (€)	104	108	112	117
Total DPS growth (%)	4.0	3.8	3.7	4.5
Total div yield (%)	3.2	3.4	3.5	3.7
Franking (%)	100.0	100.0	100.0	100.0
ROA (%)	7.9	7.2	7.6	8.0
ROE (%)	9.1	8.1	8.5	9.0
EV/EBITDA (x)	9.9	9.8	9.1	8.5
Net debt/equity (x)	11.1	23.7	25.3	25.2
P/BV (x)	1.9	1.9	1.9	1.8

### SHL AU rel ASX 100 performance, & rec history



Source: FactSet, Macquarie Research, Aug 2023 (all figures in AUD unless noted, TP in AUD)

## Result Summary

### What we liked

- **Base business trends:** FY23 organic base business revenue (ex-COVID testing) +7% (CC) vs FY22, with 1H23 +6% and 2H23 +9%. Growth in specialist and hospital referral markets is currently ahead of GP referrals. Organic growth for Jul-23 was +8%.
- **Australia, Germany and Belgium:** Base business organic revenue of +11%/+10%/12% YoY for AUS/GER/BEL, respectively. Growth was attributed to specialist referrals in AUS/GER, with +6% fee indexation from Jan-23 a key factor for BEL.
- **Imaging a beat:** Revenue increased +13% (CC), +2%/+3% vs MRE/VA consensus, respectively, with EBITDA +20% (+4% vs VA). Excluding Canberra Imaging Group, organic revenue growth was +11%. Management noted improved same site revenues underpinned by brownfield expansions (MRI, CT, PET CT installations), cost controls/margin expansion, eight new regional MRI licenses in FY23, and successful expansion into VIC community pathology.
- **Balance sheet position:** ND/EBITDA of 0.6x, with A\$2.1bn in available headroom at 30-Jun 23 (before final dividend and ~A\$890mn of announced acquisitions). SHL note A \$43mn of net debt increase (total A \$74mn) was FX related.
- **Improved cash conversion:** Gross cashflow represented 110% of EBITDA in FY23 (95% in the pcp). Reduced receivables and COVID-19 related inventory were primary factors in higher cash conversion.

### What we didn't like

- **FY23 earnings below expectations:** Revenue in line with MRE/VA, but with EBITDA -4%/-5% and NPAT -3%/-5%, respectively. For 2H23, EBITDA margins declined to 19.3%, -330bps HoH and -170bps vs MRE.
- **COVID-19 impacting margins:** CV-19 revenue fell -80% YoY (1H23 A \$379mn; 2H23 A \$106mn; Jul-23 A \$5mn), with 2H23 group margins impacted by COVID-19 related labour and infrastructure costs (-3% HoH, -2% vs MRE).
- **Pathology EBITDA below expectations:** FY23 EBITDA of ~A \$1,485mn was down -44% YoY and -5% below MRE (~A\$1,561), with margins down ~1100bps YoY (21.3% vs 32.2% in the pcp).
- **FY24 outlook below expectations:**
  - ⇒ EBITDA: A\$1,700-1,800mn (CC), vs MRE at A\$1,832mn in reported FX and VA A\$1,846mn.
  - ⇒ Net interest: +25% vs FY23 implies ~A\$90mn.
  - ⇒ PAMA fee cuts: from Jan-24, ~US \$10mn impact.
- **Increased labour costs:** +7.0% YoY (~2.5% acquisition-related, ~2.4% currency impact), representing 47% of total sales in FY23 vs 37% in pcp.
- **Swiss fee cuts:** A 10% reduction to the national fee schedule became effective in Aug-22, reducing SHL's Swiss revenue by ~7% p.a. However, organic base revenue increased by +1% for FY23, with volume growth offsetting price cuts.
- **SCS revenue below MRE/consensus:** -3%/-6%, respectively (-10% vs FY22), largely due to cessation of COVID-related services. SHL note improvement in 2H23 due to increasing doctor hours and private billing by GPs, with FY24 to be supported by further private billing, government funding increases and new Defence Force contract (~A \$30mn p.a.).

### What was interesting

- **COVID-19 cost reductions:** A formal program to reduce COVID-19 related costs has been implemented, focusing on labour.
- **COVID-19 testing:** COVID-19 testing to be increasingly incorporated into respiratory virus panels and treated as BAU revenue over time. Ongoing monthly revenue is expected to be ~A \$5mn.
- **US revenue collection system:** Targetting national roll-out in FY24, improving US pathology earnings in FY25.
- **Growth in licensed diagnostic tests:**
  - ⇒ Thyroseq (US) approaching A \$100mn p.a.
  - ⇒ MetaPanel (AUS), world-first comprehensive metagenomic test for gut pathogens, to be released in partnership with Microba.
  - ⇒ OncotypeDX (GER), breast cancer genetic test, exclusively provided by SHL in Germany with the only testing lab in EU.
- **UK contracts:** A 15-year NHS laboratory contract in final governance process (West Essex/Hertfordshire), with SHL awarded preferred bidder status for Whittington Health NHS Trust (minimum 5-year outsourcing).
- **Lab rationalisation underway:** Hamburg (3 labs into 1) and Munich (2 labs into 1).
- **Digitisation of pathology:** The digitalisation of specimens and the diagnosis process has commenced in anatomical pathology, which represents ~A\$1bn of SHL revenue.
- **AI updates:** [Franklin.ai](#) (pathology) near completion of first anatomical pathology product with validation studies to begin early CY24. [Annalise.ai](#) (radiology) deployed chest x-ray AI tool throughout SHL, while evaluation of CT brain AI application is underway within SHL. All AI products will be sold globally, as well as deployed within SHL.

Source: Company data, Macquarie Research, August 2023

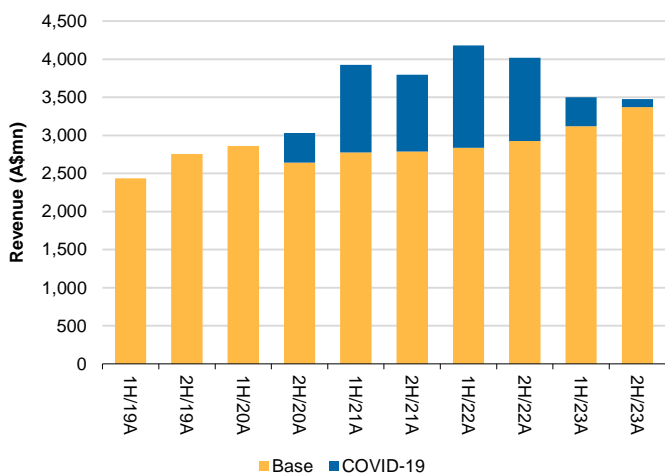
## Results snapshot

Figure 1 - FY23 result snapshot

Income Statement (A\$m)	2022A	2023A	YoY %	2023E	Var %	2H22A	2H23A	YoY %	2H23E	Var %
<b>Total Revenue</b>	<b>9,338</b>	<b>8,155</b>	<b>-13%</b>	<b>8,170</b>	<b>0%</b>	4,582	<b>4,078</b>	-11%	4,092	0%
Operating expenses	6,508	6,448	-1%	6,391	1%	3,292	3,290	0%	3,233	2%
<b>EBITDA</b>	<b>2,830</b>	<b>1,708</b>	<b>-40%</b>	<b>1,779</b>	<b>-4%</b>	<b>1,291</b>	<b>787</b>	<b>-39%</b>	<b>859</b>	<b>-8%</b>
D&A	675	703	4%	697	1%	344	357	4%	352	2%
<b>EBIT</b>	<b>2,155</b>	<b>1,005</b>	<b>-53%</b>	<b>1,082</b>	<b>-7%</b>	<b>947</b>	<b>430</b>	<b>-55%</b>	<b>508</b>	<b>-15%</b>
Net interest	78	73	-6%	78	-6%	38	36	-7%	40	-11%
<b>PBT</b>	<b>2,077</b>	<b>931</b>	<b>-55%</b>	<b>1,004</b>	<b>-7%</b>	<b>243</b>	<b>394</b>	<b>62%</b>	<b>468</b>	<b>-16%</b>
Tax	562	223	-60%	271	-18%	243	79	-68%	126	-38%
Minority Interest	55	23	-58%	24	-4%	33	13	-61%	14	-7%
<b>Underlying NPAT</b>	<b>1,461</b>	<b>685</b>	<b>-53%</b>	<b>710</b>	<b>-3%</b>	<b>-33</b>	<b>303</b>	<b>-1015%</b>	<b>327</b>	<b>-8%</b>
Abnormals (post-tax)	0	0	0%	0	0%	0	0	0%	0	0%
<b>Reported NPAT</b>	<b>1,461</b>	<b>685</b>	<b>-53%</b>	<b>710</b>	<b>-3%</b>	<b>633</b>	<b>303</b>	<b>-52%</b>	<b>327</b>	<b>-8%</b>
Adjusted EPS	302	145	-52%	150	-4%	132	64	-51%	70	-8%
DPS	100	104	4%	96	8%	60	62	3%	54	15%
EBITDA margin	30.3%	20.9%	-9.4%	21.8%	-0.8%	28.2%	19.3%	-8.9%	21.0%	-1.7%
EBIT margin	23.1%	12.3%	-10.8%	13.2%	-0.9%	20.7%	10.5%	-10.1%	12.4%	-1.9%
Segmental (A\$m)	2022A	2023A	YoY %	2023E	Var %	2H22A	2H23A	YoY %	2H23E	Var %
Australia	2,459	1,939	-21%	1,958	-1%	1,110	952	-14%	971	-2%
New Zealand	32	29	-9%	30	-3%	15	14	-7%	15	-7%
US	2,169	2,114	-3%	2,129	-1%	1,098	1,035	-6%	1,050	-1%
UK and Ireland	708	595	-16%	567	5%	335	311	-7%	283	10%
Germany	2,025	1,550	-23%	1,584	-2%	1,062	776	-27%	810	-4%
Switzerland	631	595	-6%	570	4%	320	308	-4%	283	9%
Belgium	175	155	-11%	157	-1%	79	81	3%	83	-3%
<b>Total Pathology</b>	<b>8,199</b>	<b>6,976</b>	<b>-15%</b>	<b>6,996</b>	<b>0%</b>	<b>4,018</b>	<b>3,476</b>	<b>-13%</b>	<b>3,496</b>	<b>-1%</b>
Imaging	706	796	13%	780	2%	353	408	16%	392	4%
SCS & Other	433	383	-12%	394	-3%	211	193	-8%	205	-6%
<b>Total Sales</b>	<b>9,338</b>	<b>8,155</b>	<b>-13%</b>	<b>8,170</b>	<b>0%</b>	<b>4,582</b>	<b>4,078</b>	<b>-11%</b>	<b>4,092</b>	<b>0%</b>

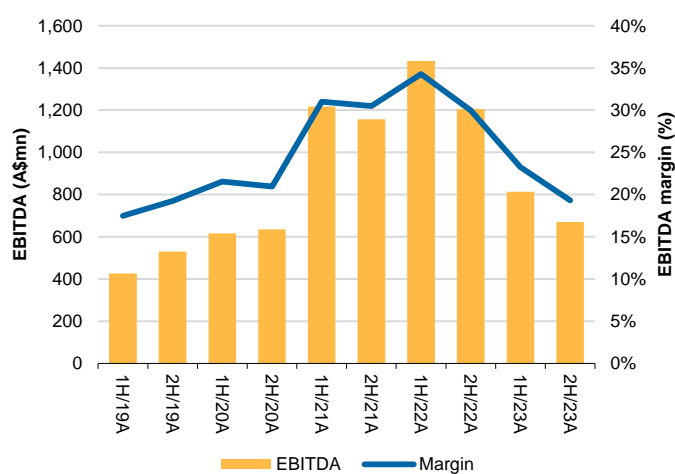
Source: Company data, Macquarie Research, August 2023

Figure 2 - Lower COVID-19 revenue contribution...



Source: Company data, Macquarie Research, August 2023

Figure 3 - ...impacting EBITDA and EBITDA margin



Source: Company data, Macquarie Research, August 2023

## SOTP valuation

- In assessing current valuations for SHL, our approach is to focus on FY24 EBITDA (pre-AASB16). Further, we focus on base pathology given its contribution to group earnings. Based on our forecasts, we calculate the current share price as implying a group EV/EBITDA multiple of 12.2x. To assess the market implied value for SHL base pathology, we estimate an enterprise value (EV) for various segments. This assumes EBITDA multiples of:
  - ⇒ 3.0x for COVID PCR testing (calculated as the NPV of COVID PCR earnings contributions relative to our FY24 EBITDA forecast).
  - ⇒ 11.5x for Imaging (based on historical trading multiples for IDX).
  - ⇒ 9.0x for SCS (MRE assumption).
- From this, we calculate an implied EV of ~A\$14.8bn for SHL base pathology and an implied EBITDA multiple of 12.3x. Applying multiples of 11.5x/12.0x for base pathology (group average 11.6x over 2013-19) and holding all else equal would provide values/share of A\$29.93/A\$31.20, -7%/-3% below the current share price.

**Figure 4 - SHL SOTP valuation**

	Current market valuation			Lower base pathology multiple		
	FY24 EBITDA	Multiple	Value	FY24 EBITDA	Multiple	Value
Base	1,201	12.3x	14,809	1,201	11.5x	13,816
COVID-19	17	3.0x	50	17	3.0x	50
Imaging	186	11.5x	2,138	186	11.5x	2,138
SCS	6	9.0x	55	6	9.0x	55
<b>Total</b>	<b>1,410</b>	<b>12.1x</b>	<b>17,052</b>	<b>1,410</b>	<b>11.4x</b>	<b>16,060</b>
Net debt			1,920			1,920
<b>Equity value</b>			<b>15,132</b>			<b>14,140</b>
SOI			472			472
<b>Value per share</b>			<b>32.03</b>			<b>29.93</b>

Source: Company data, Macquarie Research, July 2023

## Earnings changes

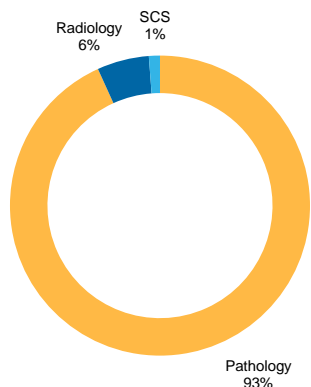
**Figure 5 - SHL earnings changes**

	2023A			2024E			2025E		
	Old	New	Chg%	Old	New	Chg%	Old	New	Chg%
<b>Total revenue</b>	8,170	8,155	0%	8,733	8,655	-1%	9,122	9,050	-1%
<b>EBITDA</b>	1,779	1,708	-4%	1,832	1,718	-6%	1,915	1,853	-3%
<b>NPAT</b>	710	685	-3%	696	630	-9%	722	676	-6%
<b>EPS</b>	150	145	-4%	148	133	-10%	153	143	-7%

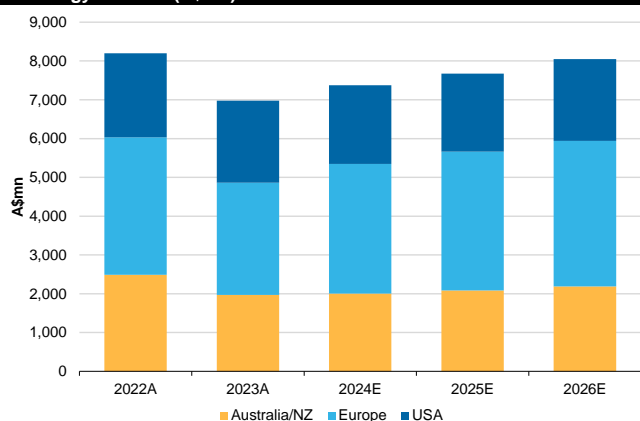
Source: Company data, Macquarie Research, August 2023

Figure 6 - SHL Financial Summary

SHL	June Year-End					Price Target: \$32.00	Rating: Neutral			
<b>Income Statement (A\$mn)</b>						<b>Ratios</b>				
	2022A	2023A	2024E	2025E	2026E	2022A	2023A	2024E	2025E	2026E
Total Revenue	9,338	8,155	8,655	9,050	9,501	Adjusted EPS (cps)	302	145	133	143
Operating expenses	6,508	6,448	6,937	7,196	7,526	Growth (%)	11%	-52%	-8%	7%
<b>EBITDA</b>	<b>2,830</b>	<b>1,708</b>	<b>1,718</b>	<b>1,853</b>	<b>1,975</b>	DPS (cps)	100	104	108	112
D&A	675	703	739	772	815	Growth (%)	10%	4%	4%	4%
<b>EBIT</b>	<b>2,155</b>	<b>1,005</b>	<b>979</b>	<b>1,081</b>	<b>1,159</b>	Yield (%)	3%	3%	3%	3%
Net interest	78	73	92	116	121	Payout ratio (%)	33%	72%	81%	78%
<b>PBT</b>	<b>2,077</b>	<b>931</b>	<b>887</b>	<b>966</b>	<b>1,038</b>	ND/EBITDA (x)	0.3x	0.6x	1.4x	1.4x
Tax	562	223	231	261	280	ROIC (%)	20%	9%	7%	8%
Minority Interest	55	23	27	29	31	ROE (%)	21%	9%	8%	8%
<b>Underlying NPAT</b>	<b>1,461</b>	<b>685</b>	<b>630</b>	<b>676</b>	<b>727</b>	EBITDA Margin (%)	30%	21%	20%	20%
Abnormals (post-tax)	0	0	0	0	0	EBIT Margin (%)	23%	12%	11%	12%
<b>Reported NPAT</b>	<b>1,461</b>	<b>685</b>	<b>630</b>	<b>676</b>	<b>727</b>	<b>Balance Sheet (A\$mn)</b>				
	2022A	2023A	2024E	2025E	2026E	Cash	780	798	618	478
<b>Segmental (A\$mn)</b>						Receivables	1,217	1,022	1,085	1,147
Australia	2,459	1,939	1,976	2,055	2,158	Inventory	216	199	213	223
New Zealand	32	29	29	31	31	Fixed Assets	1,321	1,511	1,856	2,040
USA	2,169	2,114	2,027	2,011	2,111	Intangibles	7,361	7,790	8,572	8,653
Germany	2,025	1,550	1,690	1,855	1,947	Other	1,656	1,695	1,751	1,829
Switzerland	631	595	804	815	848	<b>Total Assets</b>	<b>12,552</b>	<b>13,015</b>	<b>14,095</b>	<b>14,370</b>
UK/Ireland	708	595	682	737	774	Short Term Debt	0	0	0	0
Belgium	175	155	164	171	178	Creditors	1,019	960	925	917
<b>Total Pathology</b>	<b>8,199</b>	<b>6,977</b>	<b>7,372</b>	<b>7,675</b>	<b>8,049</b>	Long Term Debt	1,577	1,673	2,538	2,570
<b>Radiology</b>	<b>706</b>	<b>796</b>	<b>876</b>	<b>937</b>	<b>993</b>	Other Liabilities	2,528	2,459	2,527	2,622
<b>SCS &amp; Other</b>	<b>433</b>	<b>383</b>	<b>407</b>	<b>437</b>	<b>459</b>	<b>Total Liabilities</b>	<b>5,124</b>	<b>5,093</b>	<b>5,989</b>	<b>6,109</b>
<b>Total Segment Revenue</b>	<b>9,338</b>	<b>8,156</b>	<b>8,655</b>	<b>9,050</b>	<b>9,501</b>	<b>Net Assets</b>	<b>7,428</b>	<b>7,922</b>	<b>8,105</b>	<b>8,261</b>
	2022A	2023A	2024E	2025E	2026E	<b>Net Debt</b>	<b>797</b>	<b>875</b>	<b>1,920</b>	<b>2,091</b>
Pathology	2,638	1,485	1,467	1,583	1,686	<b>Cash Flow (A\$mn)</b>				
Radiology	158	191	212	229	246	EBITDA	2,830	1,708	1,718	1,853
SCS	34	32	38	41	43	- Inc. in Working capital	129	-154	112	79
<b>Total Segment EBITDA</b>	<b>2,830</b>	<b>1,708</b>	<b>1,718</b>	<b>1,853</b>	<b>1,975</b>	- Net Interest Paid	75	70	92	116
						- Tax Paid	378	340	231	261
						+ Other	70	7	0	0
						<b>Operating cash flow</b>	<b>2,226</b>	<b>1,471</b>	<b>1,283</b>	<b>1,398</b>
						- Capex	287	389	411	445
						+ Other	-702	-191	-1,127	-260
						<b>Investing cash flow</b>	<b>-989</b>	<b>-580</b>	<b>-1,538</b>	<b>-705</b>
						- Dividends Paid	471	491	499	518
						+ Equity Movements	-254	-47	0	0
						+ Debt Movements	-280	-3	882	0
						+ Other	-344	-371	-317	-312
						<b>Financing cash flow</b>	<b>-1,349</b>	<b>-912</b>	<b>67</b>	<b>-832</b>
						<b>Opening Cash Balance</b>	<b>900</b>	<b>780</b>	<b>798</b>	<b>618</b>
						Net Cash Movement	-113	-21	-189	-139
						+ Net FX Differences	-7	39	0	0
						<b>Closing Cash Balance</b>	<b>780</b>	<b>798</b>	<b>618</b>	<b>478</b>
						<b>ND/EBITDA (x)</b>				
						2022A	2023A	2024E	2025E	2026E
						0.3x	0.6x	1.4x	1.4x	1.3x



Pathology revenue (A\$mn)



Source: Company data, Macquarie Research, August 2023

## Key Risks to Investment Thesis

- The key upside risk to our earnings, target price and rating primarily relate to organic growth assumptions and contributions from acquisitions over the forecast period. Downside risks include higher-than-expected cost inflation.

## Company Description

Sonic Healthcare is a global healthcare services company with the bulk of its business being in the provision of pathology testing. Since becoming the market leader in the Australian pathology market, SHL has expanded its operations into the United States, Germany, United Kingdom, Switzerland and New Zealand. It also has smaller operations in Australasian radiology and Australian medical centres through its partly owned subsidiary IPN.

### Key Quant Pick

The quant model currently holds a strong positive view on Sonic Healthcare. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

## Macquarie Alpha Model: Key rankings

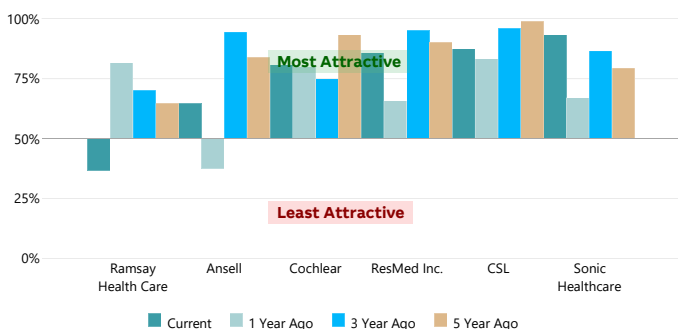
The Macquarie Quant's flagship Alpha model is a dynamic multi-factor model based on a staple of quant factors such as value, momentum, revisions, quality, and risk.

	Global	Market (Country)	Sector
	Whole Universe	Australia & NZ	Health Care Equip. & Services
<b>Macquarie Alpha Model</b>	<b>1688/17579</b>	<b>28/420</b>	<b>46/674</b>
Fundamental (Consensus) *	10472/17579	284/420	444/674

\* based on Total Shareholder Return = Consensus Price target / Current Price

## Current and Historical Alpha Model Rank

The chart shows the Macquarie Alpha model ranking against the company's peers and over recent history.



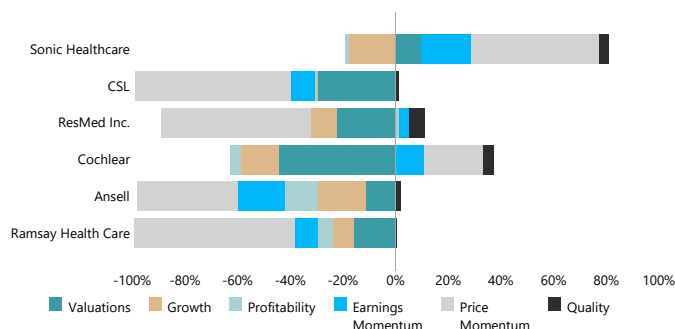
## Alpha Model Decomposition

The Macquarie Alpha is decomposed into its sector and market relative factor & styles exposures (a higher/better percentile is coded in green, whilst lower in red).

Factors / Styles	Percentile relative to		Core factors in definition
	sectors (/674)	market (/420)	
ALPHA	93%	93%	See all the styles below
VALUE	82%	68%	Book, CF, Yield, Earnings Multiples
ANALYST	86%	81%	Revisions (Earnings, Recommendations)
MOMENTUM	89%	78%	Price Momentum
GROWTH	40%	16%	EPS, Sales (Forecast, Historic)
PROFITABILITY	71%	70%	ROE, Margin, Asset Turnover
QUALITY	69%	84%	Accruals, Earn Stability, Cash Conversion
CAPITAL	86%	91%	Investment/Capex, Net share issuance
LIQUIDITY	92%	89%	Size, Turnover, Analyst Coverage
RISK	78%	86%	Beta, Volatility, Earn.Cert, Leverage
TECHNICAL	83%	90%	MACD, RSI, Bollinger, Williams R, etc

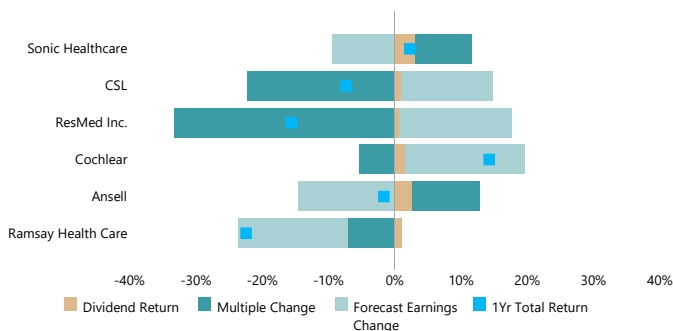
## Factors driving the Alpha Model vs peers

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



## Drivers of Stock Return

Breakdown of 1-year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



## Macquarie Style Returns over last year

Recent performance to Macquarie style factors

Australia & NZ	Monthly Factor Long-Short Returns for												Last 5 Years (ann)	Last 10 Years (ann)
	Jul - 23	Jun - 23	May - 23	Apr - 23	Mar - 23	Feb - 23	Jan - 23	Dec - 22	Nov - 22	Oct - 22	Sep - 22	Aug - 22		
ALPHA	-3%	2%	1%	-3%	0%	0%	-1%	-1%	-3%	0%	4%	6%	-6%	-1%
VALUE	1%	4%	3%	-3%	-5%	-1%	-2%	1%	2%	-2%	4%	6%	1%	-2%
ANALYST	0%	-1%	-1%	0%	-1%	0%	0%	-3%	-5%	-3%	5%	5%	8%	6%
MOMENTUM	-4%	0%	-1%	-3%	1%	-4%	-4%	-2%	0%	-3%	2%	5%	-14%	-4%
GROWTH	-1%	2%	5%	-2%	0%	-3%	-4%	0%	-6%	3%	-1%	5%	-8%	-2%
PROFITABILITY	-3%	6%	-1%	-4%	3%	-5%	4%	-3%	5%	-2%	4%	-3%	2%	2%
QUALITY	-3%	1%	3%	-2%	-1%	0%	-2%	-1%	2%	-6%	0%	-2%	-12%	-9%
CAPITAL	-1%	1%	0%	-1%	4%	-3%	-2%	0%	1%	1%	-3%	1%	-2%	-1%
LIQUIDITY	1%	0%	0%	0%	1%	-9%	0%	2%	4%	1%	2%	1%	-2%	-1%
RISK	-2%	0%	3%	-1%	-4%	6%	-5%	0%	-2%	-3%	1%	0%	1%	-1%
TECHNICAL	-2%	0%	1%	3%	4%	1%	3%	-1%	8%	4%	0%	3%	12%	10%

Source (all charts): FactSet, Refinitiv, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative Team: maccapequitiesresearchquantglobal@macquarie.com. Explanation for items on this page can be found at <https://www.macquarieinsights.com/rp/d/r/p/OTUyMzg1>

## Important Disclosures

Recommendation definitions	Volatility index definition	Financial definitions
<p><b>Macquarie – Asia and USA</b>            Outperform – expected return &gt;10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie – Australia/New Zealand</b>            Outperform – expected return &gt;10%            Neutral – expected return from 0% to 10%            Underperform – expected return &lt;0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p><b>Recommendations</b> – 12 months  <b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high</b> – highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 25–40% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to select stocks in Asia/Australia/NZ</p> <p><b>Note:</b> expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made:  <b>Added back:</b> goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense            Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit /average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation            *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

### Recommendation proportions for quarter ending 30 June 2023

	AU/NZ	Asia	USA	
<b>Outperform</b>	56.88%	63.90%	63.89%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
<b>Neutral</b>	36.88%	23.06%	33.33%	(for global coverage by Macquarie, 1.22% of stocks followed are investment banking clients)
<b>Underperform</b>	6.25%	13.04%	2.78%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

### Company-Specific Disclosures

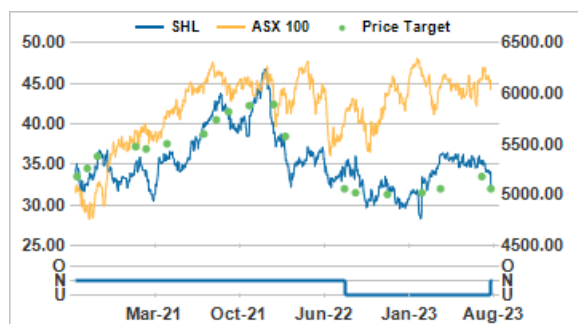
Company Name	Disclosure
<p><b>Sonic Healthcare (SHL AU)</b>  <b>Neutral</b>            12-month target: AUD32.00 - DCF            Valuation: AUD 31.99 - DCF (WACC 6.4%, beta 0.9, ERP 5.0%, RFR 2.4%, TGR 2.0%)            Price: AUD32.03</p>	<p>Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Sonic Healthcare Ltd.            Macquarie Group Limited together with its affiliates owns a net long of 0.5% or more of the equity securities of Sonic Healthcare Ltd.</p>

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### Recommendation history

Company name	Date	Recommendation	Target price
Sonic Healthcare (SHL AU)	17-Aug-2023	Neutral	AUD 32.00
	24-Jul-2023	Underperform	AUD 33.50
	6-Apr-2023	Underperform	AUD 32.00
	16-Feb-2023	Underperform	AUD 31.50
	17-Nov-2022	Underperform	AUD 31.30
	25-Aug-2022	Underperform	AUD 31.50
	27-Jul-2022	Underperform	AUD 32.00
	21-Feb-2022	Neutral	AUD 38.45
	21-Jan-2022	Neutral	AUD 42.40
	18-Nov-2021	Neutral	AUD 42.25
	24-Sep-2021	Neutral	AUD 41.50
	23-Aug-2021	Neutral	AUD 40.50
	21-Jul-2021	Neutral	AUD 38.75
	15-Apr-2021	Neutral	AUD 37.55





19-Feb-2021	Neutral	AUD 36.90
22-Jan-2021	Neutral	AUD 37.20
14-Oct-2020	Neutral	AUD 36.00
17-Sep-2020	Neutral	AUD 34.50
21-Aug-2020	Neutral	AUD 33.50

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