



**SONIC
HEALTHCARE
LIMITED**

28 April 2023

International Tax Branch
Corporate and International Tax Division
Treasury
Langton Crescent
PARKES ACT 2600

MNETaxTransparency@treasury.gov.au

Dear Sir/Madam

**Submission by Sonic Healthcare Limited in relation to the publication of
country-by-country reporting**

The 'Treasury Laws Amendment (Measures for Future Bills) Bill 2023: Multinational tax transparency - Tax changes' Exposure Draft was released on 6 April 2023 and contains a transparency measure applying to multinational entities whereby certain tax information on a country-by-country (CBC) basis and a statement on their approach to taxation will be publicly released. The Government has sought stakeholders' views on the exposure draft legislation and accompanying explanatory material implementing this measure. Sonic Healthcare Limited ("Sonic" or "we") welcomes the invitation extended by Treasury seeking stakeholders' views.

Whilst Sonic is supportive of reasonable tax transparency measures, we would like to use this opportunity to highlight the significant adverse commercial consequences which will arise to Sonic if the proposals are enacted as set out in the Exposure Draft legislation. Further, we note that the proposals go beyond what has been proposed in other jurisdictions in which Sonic operates, namely the EU directive which only requires a detailed level of disclosure for the activities of a multinational group within the EU, whereas activities outside the EU can be aggregated in total.

If you would like to discuss any aspect of this submission or require any further information, please do not hesitate to contact me on 02 9855 5404.

Yours sincerely

Chris Wilks
Chief Financial Officer and Finance Director
Sonic Healthcare Limited

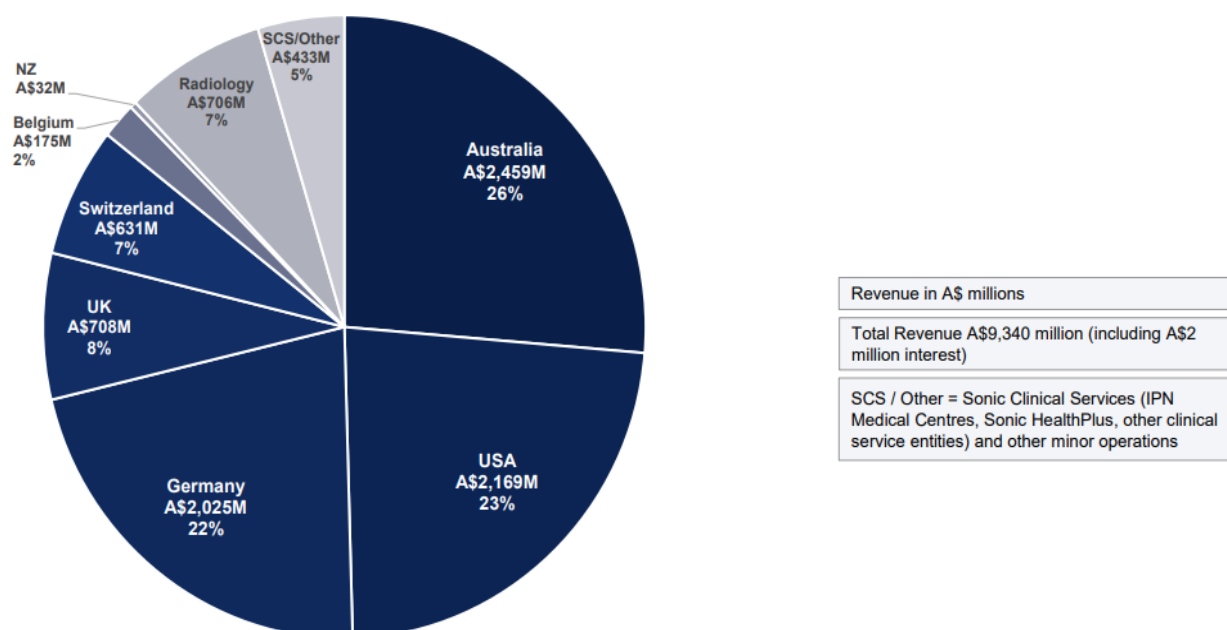
1. An Introduction to Sonic Healthcare

Sonic Healthcare is an Australian public company listed on the Australian Securities Exchange (ASX code: SHL), and is classified as an ASX Top-50 company. Sonic's annual revenues exceed \$8 billion and our current market capitalisation is over \$16 billion. Sonic and its subsidiaries employ over 19,000 people across Australia, and a further 21,000 overseas. Sonic's shares are widely held, predominantly by Australian investors. Sonic's share price has increased by a compound annual growth rate of 15.2% over the last 29 years (30 June 1993 to 30 June 2022), plus the company has generally maintained a dividend payout ratio of around 70% of net profit.

Sonic is recognised as one of the world's largest international medical diagnostics companies, delivering high quality laboratory services to patients and medical professionals in 7 countries located across 3 continents. Sonic also provides radiology and medical centre services in Australia.

Sonic holds pathology market leadership positions in Australia, Germany, Switzerland, the UK and Northern Belgium (Flanders), and is the third largest provider in the USA. We are now the 3rd largest medical diagnostic company in the world and the largest international player, the two larger players essentially only operate in the USA. Our company is structured as a decentralised federation of medically-led diagnostic practices, with our global head office located in Sydney, Australia.

Sonic's geographic revenue breakdown for the 2022 financial year was as follows:



The Australian components of revenue include 'Australia' (which is Australian pathology revenue), 'Radiology' (which is Australian radiology revenue) and 'SCS/Other' (which is predominantly medical centre services revenue).

Sonic has been subject to various ATO reviews over the years and has received no material negative outcomes.

2. Sonic's Expansion Strategy

Sonic is considered by many to be a significant Australian success story. Starting with one laboratory (revenue ~\$13 million) in Sydney in 1987, Sonic expanded by acquisition and organic growth to become the market leader in Australia. Having reached a dominant market share in the early 2000's from which it would be difficult to grow further by acquisition in Australia due to antitrust restrictions, Sonic sought to take its strategy of consolidating pathology markets to fragmented offshore markets, using its unique medical leadership culture, federation model and other intellectual property to provide competitive advantage.

As proven by Sonic over decades in Australia and over the last 20 years offshore, the pathology industry is one in which economies of scale are very significant, and so consolidation of fragmented markets by the acquisition of businesses produces significant synergies over time, as specimen collection infrastructure, courier networks and laboratory infrastructure and workflows are rationalised and procurement benefits are obtained. Business acquisitions have therefore been a fundamental part of Sonic's model, and over 80 significant acquisitions have been completed over the last 29 years. The graphic attached as Appendix 1 sets out the years, names and countries of these acquisitions.

3. Proposed measures

Under the proposed transparency measures, Sonic is required to publish the names of each entity in its CBC reporting group and a description of the group's approach to tax.

For each jurisdiction that the Sonic CBC reporting group operates in, Sonic would also be required to publish, at a group level:

- a description of main business activities;
- number of employees;
- revenue from unrelated parties;
- revenue from related parties;
- expenses from related party transactions;
- profit and loss before income tax;
- a list (including the value of) intangible assets;
- a list (including the value of) tangible assets;
- income tax paid (on cash basis);
- income tax accrued (current year);
- effective tax rate;

- the reasons for the difference between income tax accrued (current year) and the amount of income tax due if the income tax rate applicable to the jurisdiction were applied to profit and loss before income tax;
- the currency used in calculating and presenting the above information; and
- any additional requirements that can be added by regulation.

4. Impact on Sonic

If the proposed transparency provisions are enacted as set out in the exposure draft legislation Sonic:

- will suffer significant adverse commercial consequences; and
- will be subject to a significant additional compliance burden which will be accompanied by significant additional cost.

4.1 Commercial Consequences

As an ASX listed company, Sonic is required to report its financial results twice a year at 31 December (six month period) and 30 June (full year results). The information provided to the ASX includes audited financial statements comprising:

- a statement of financial position (or balance sheet);
- a statement of comprehensive income (or profit and loss statement);
- a statement of cash flows;
- a statement of changes in equity (or statement of retained earnings);
- notes to the financial statements above required by any law, regulation, rule or accounting standard;
- any disclosures in relation to the financial statements above required by any law, regulation, rule or accounting standard; and
- any other information necessary to give a true and fair view of the financial position and performance of the entity required by any law, regulation, rule or accounting standard.

The information provided to the ASX also includes a breakdown of disaggregated revenue by jurisdiction and business type as shown in the pie chart above. Sonic does not provide a breakdown of the profitability of each jurisdiction for the following reasons:

- so competitors do not obtain a commercial advantage. Most competitors in our industry are either privately owned or private equity (PE) owned who either publish limited financial information about their operations or no financial information. If competitors have access to Sonic's profitability and other information by jurisdiction they could use that information to undermine Sonic's relationships with customers, suppliers, funders and government. This would be particularly disadvantageous to Sonic in bidding for contracts. Competitors could also use Sonic's information for benchmarking to improve their own business performance and become stronger competitors to Sonic.

- to maintain relationships with external suppliers. Sonic has entered into a number of multi-year, cross jurisdictional contracts with external suppliers. If these suppliers were aware of Sonic's profitability per jurisdiction it has the potential to negatively impact Sonic's position in future supply negotiations.
- to manage relationships with funders. Sonic receives a large component of its revenue from insurance companies, especially in the USA. If the insurance companies were aware of Sonic's profitability by country, the insurance companies could seek to reduce the fees that they pay to Sonic for providing services to their insured patients.
- to maintain a competitive advantage in relation to acquisitions. As noted above, Sonic is an acquisitive group and it is expected that this acquisition strategy will continue, especially in relation to future offshore acquisitions. If sellers of businesses that Sonic is negotiating to purchase are aware of Sonic's profitability in a particular jurisdiction this will adversely impact on Sonic's negotiating position.
- to maintain relationships with referring doctors. Doctors refer their patients to Sonic for diagnostic testing. In a large majority of cases this testing is undertaken by a local Sonic laboratory such that the referring doctors have no real sense of the ultimate size of Sonic in a particular jurisdiction. If the referring doctors become aware of the size, scope and profitability of Sonic in their jurisdiction they may be less inclined to refer patients to a large multi-national organisation. If this occurred it would lead to a decrease in Sonic's revenue and profitability.
- to ensure that investors and financial analysts don't misinterpret financial information. Providing investors and financial analysts with profit per jurisdiction without a nuanced explanation of the reasons why different countries have different levels of profit is likely to lead to investors and financial analysts to make incorrect assumptions about the financial performance of Sonic. This is likely to lead to an adverse impact on the Sonic share price.

Given that the proposed transparency measures include the public release of profit per jurisdiction we feel that the public release of this metric for the reasons listed above would be particularly damaging to Sonic's business.

4.2 Additional Compliance Burden

If the Exposure Draft provisions become law, Sonic will be subject to an increased compliance burden which will be accompanied by significant additional costs. This will arise in a number of different ways:

- the transparency measures included in the Exposure Draft go beyond the current CBC reporting requirements and will require Sonic to report on additional metrics. The items that will require a significant compliance burden include:
 - a list (including the value) of intangible assets – as at 30 June 2022 Sonic had consolidated worldwide intangible assets of \$7.3bn in its balance sheet. To value each of these assets every year and to

compile an aggregated worldwide list from numerous sources across seven countries will require hundreds of hours of manpower each year as well as the additional costs arising from consulting with external valuers across seven countries.

- a list (including the value) of tangible assets - as at 30 June 2022 Sonic had consolidated worldwide tangible assets of \$2.8bn in its balance sheet. This issues associated with valuing the assets and compiling an aggregated worldwide list from numerous sources across seven countries will be the same as for the intangible assets.
 - the reasons for the difference between income tax accrued (current year) and the amount of income tax due if the income tax rate applicable to the jurisdiction were applied to profit and loss before income tax – this exercise is currently only undertaken on a consolidated basis such that there will be additional work to undertake the reconciliation across seven countries. This is particularly complex in countries such as the USA, Germany and Switzerland where the overall tax paid is based on a Federal rate plus different state/cantonal income tax rates. As Sonic operates across a number of different states/cantons in the USA, Germany and Switzerland with different state/cantonal tax rates, the reconciliation has additional complexity.
- Sonic is concerned that providing significant amounts of detailed data covering complex tax issues without significant further explanation is unlikely to promote public confidence in the tax system. Such information has the potential to influence investors and other stakeholders' actions with the potential for poor investor decisions and resulting adverse consequences for Sonic. The nature of the information published would not by itself help inform shareholders and other stakeholders as to whether Sonic's tax obligations are being appropriately met. The information is a snapshot of certain aggregated data on a worldwide basis which requires comparison with other taxpayers and an understanding of how the figures were determined to be of value. It will be incumbent on Sonic to provide explanations of the transparency reporting so that the data is not misinterpreted. Preparation of such explanations will incur extra cost and time.