

ASX Announcement :**CEO on Update**

Open Briefing interview with CEO Sam Hupert

Pro Medicus Limited
450 Swan Street
Richmond VIC 3121**In this Open Briefing[®], Sam discusses:**

- New 5 year contract with Ohio State University Wexler Medical Center
- Pipeline growth and recent influx of RFP's
- Competitive landscape – WA Health contract
- Upcoming RSNA

Record of interview:**openbriefing.com**

Pro Medicus today announced a 5-year deal with The Ohio State University Wexler Medical Center (OSUWMC). Can you give us the details of this contract in terms of services and products to be provided, who OSUWMC is and how they fit into the USA healthcare system, including whether you'd class them as academic or regional?

CEO Sam Hupert

The contract is similar to the other North American contracts that we have won over the past five years in that it is an operational, transaction-based model with minimums so there is upside in terms of their normal volumes plus anything else that they choose to add to their business with us in the future.

Being a state-affiliated organisation, it is not uncommon for them to opt for a 5-year contract period which is within our normal target zone of 5 to 7. The contract also has roll over provisions that will allow them to extend the term at a later date.

OSUWMC is both a large regional medical centre and also an academic center affiliated with a leading medical school in the state of Ohio, so it's a bit of a hybrid. Importantly, I think this sale illustrates that our offering is a great solution to a wide range of industry opportunities, not just the large academic integrated delivery networks (IDN's).

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Can you describe this new contract in context with the others that Pro Medicus has won over the past 12 months and also tell us how long this opportunity was in the pipeline?

CEO Sam Hupert

This time last year, Partners, Duke and OSUWMC were in our pipeline in amongst other opportunities that are still ongoing. So, in less than 12 months we've been able to convert the following from pipeline to contract - Partners, our biggest deal to date, Duke, a key academic University hospital, and now OSUWMC, so we are very pleased with that strike rate.

How long have they been in the pipeline? I would say on and off for 2 to 3 years which is not unusual. A lot of these deals have long sales cycles.

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Can you remind us how your contracts in the USA typically work in terms of minimum quantities, transition services and what if any hardware is included in these multi-year contracts?

CEO Sam Hupert

This recent contract is very much in line with the other contracts we've written in North America. They are transaction-based and have a minimum number of transactions that the client commits to so we are guaranteed this revenue over the life of the contract. Any implementation and training we do is charged separately as professional services which are typically around 10% of the contract value.

In the U.S. we provide software and professional services that are both high margin and directly attributable to us. We don't provide hardware.

In Europe, where we've won a contract last year with the German government, they required us to include hardware. However, that's not common for us, so when you look at our accounts close to 100% of our revenue figure comes to us. We don't have revenue that we then have to payout to 3rd parties such as hardware vendors and other software companies as is so often the case with many of our competitors.

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In Australia, the WA Government recently announced the award of a contract with a headline \$45m value to Canon. Did Pro Medicus bid on this contract and does Canon winning this contract change the competitive landscape?

CEO Sam Hupert

This contract was originally put out to RFP a number of years ago and we were asked to participate with a large hardware vendor. We submitted a bid with our co-bid partner, as I'm sure many others in the industry did. We thought given our success in the hospital/academic market in the US we were well-positioned from a product and services point of view. After a number of months the WA government declined all offers and called off the tender.

A new RFP was issued some 12 to 18 months later and knowing what we knew about the size of the opportunity and the process involved, we decided not to respond to this 2nd RFP.

People ask, "It's worth \$45 million, surely it must be worthwhile?" but the \$45 million is a headline number. In RFPs like this, they typically include all the hardware, hardware maintenance, data hosting, 3rd party software - pretty much everything, so the actual revenue to the software supplier is a fraction of that, and when we assessed it in terms of effort per dollar we decided that our efforts would be better rewarded elsewhere. Since then, we have decided not to bid on government contracts in Australia for that reason.

If you look at the North American contracts we announce, they are the opposite: they're what we call baseline numbers, i.e. they're the minimums that we are going to get, and more importantly 100% of that revenue comes to us, there is no hardware or on-selling of other people's software or services. So even though a headline \$45 million looks a lot, in terms of revenue to us, it equates to one of our medium-sized contracts in the U.S.

Also, when dealing with government, there are many layers of process one has to go through in order to implement the system as witnessed by the fact that the government has indicated the project will only be completed in 2022 some two and half years away. Contrast this with the Partners opportunity which is significantly larger. We completed that within seven months of signing the contract which is another reason we prefer to focus our resources on the North American market.

In terms of competitive landscape, we have always had, and always will have competitors as you would expect in an industry of this size. Canon, who acquired Toshiba Medical in 2016, is but one of a number of companies working in this space. We have competed against their Vitrea offering even before it was owned by Toshiba. Since the acquisition we have only come up against them as Canon once in the US which was a number of years ago and not since. Importantly, we tend to know who we are up against once we get to the “pointy end” of the sales cycle and as far as we can ascertain, they are not in contention for any of the key opportunities we have in our pipeline. So, we don’t believe this deal will materially change the competitive landscape, at least not from our perspective. We still think our technology is 18 to 24 months ahead of the competition.

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The RSNA conference in the USA is a major marketing platform for you. When is the next one and how are you positioned leading into it in terms of pipeline?

CEO Sam Hupert

RSNA 2019 starts at the end of November and extends into early December.

This year we will have the biggest presence we’ve ever had, both in terms of the size of the stand, number of staff, and also the number of pre-booked appointments. So, all in all, this RSNA is shaping up to be our busiest ever.

In terms of pipeline, the influx of RFPs in the last 12 months is the highest we’ve ever seen especially the last 3 months. So as opportunities such as Partners, Duke and OSUWMC have transitioned from pipeline to contract, they have been replaced by an even larger number of new opportunities not to mention those opportunities that were already in the pipeline that we are still working on.

As to why there has been an increase in market activity, we think this is being driven by a number of factors.

Firstly, the datasets created by modern imaging equipment continues to grow relentlessly. The vast majority of our competitors still use ‘compress and send’ technology that is no longer capable of efficiently coping with datasets of this size and their clients are starting to really struggle especially in areas such a breast imaging and functional MRI.

Secondly, we think that there are a large number of healthcare institutions who have made huge investments in an electronic health record (EHR) as part of the Obama Care meaningful use program and they’re now looking at the next step, “what do we do in terms of imaging?”

And finally, we are seeing an increased network effect following the successful implementation of Partners which has resulted in our technology now being used in five out of the top twenty hospitals in the US.

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Thank you Sam.

For more information about Pro Medicus, visit www.promedicus.com or call Sam Hupert on (+61 3) 9429 8800.

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