

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:

- AGM Commentary - ahead of budget year to date plus strong cash inflow post balance date
- Feedback from the recent RSNA conference in Chicago
- Market's reaction to PME's AI accelerator platform announced at last month's AGM
- Visage's new Breast Density Algorithm
- Competitive landscape – positioning of PME technology

Record of interview:

openbriefing.com

At the AGM in November PME's Chairman said that "results to date are comfortably ahead of budget" which was "set recognising strong growth" and that the company was anticipating another strong year with the majority of growth in the second half. He also referred to strong cash inflow post balance date due to a significant release of trade receivables. Can you expand on these comments and have those trends continued?

CEO Sam Hupert

I think a key take away from our Chairman's address is that when he refers to our budget, it is a growth budget and by that we don't just mean incremental GDP type growth but rather strong, organic growth. The fact that on a year to date basis we are comfortably ahead of that budget is a positive and there is nothing to indicate that this trend won't be sustained.

Also, it is normal for us to have a stronger second half. This is for two reasons. The first is the timing of when clients go live. If we bring on a new customer somewhere in the first half we will only get a proportion of that half's transaction revenue, whereas in the second half we will get the whole six months' worth. On top of that we will also get some revenue from those clients we bring on in the second half, which this year will include Duke and OSU. We also have our single biggest expense in the first half which is the RSNA conference that we just attended in Chicago. This is fully expensed in the half and is not replicated in the second half.

In terms of our receivables, we did tell the market that we completed some significant installations in June and raised the invoices for that work and these were reflected in the June 2019 financial statements. As expected, these invoices have now been fully paid which has significantly increased our cash balances.

Also, as our revenues grow so do our receivables and again the vast majority of these have been paid, so we have strong cash inflows for the half, which is pleasing.

openbriefing.com

Can you also remind us how the weaker A\$ vs US\$ impacts your results and how much of your revenue is in US\$?

CEO Sam Hupert

Currently over 80% of our revenue is in US Dollars and this will continue to grow as our business expands there. We instigated a hedging policy a number of years ago to eliminate wild swings in FX rates and that's been very successful. So nowadays, the impact of changes in the A\$ vs US\$ is largely limited to when we convert our revenue in USD to AUD which we do on a monthly basis using an average rate for the month. So, the lower the A\$ the greater the dollar conversion from US\$ to A\$. But having said that, the decline of the A\$ since the 30th of June has been relatively limited.

openbriefing.com

PME presented at the RSNA in Chicago last week, the premiere trade show for your industry. You mentioned in your preshow announcement that this year would be PME's largest presence ever at the show. Can you tell us what that entailed and what was the feedback from the show?

CEO Sam Hupert

The RSNA is the de facto world radiology conference. It's held in Chicago just after Thanksgiving every year. Roughly 60,000 people attend, making it one of the biggest conferences in the world.

We measure our presence by a number of parameters including the size of the booth, the number of demonstration areas we have, the volume of pre booked meetings and the quality of the visitors we have throughout the conference. On all of these measures this year was by far the biggest for us.

To cater for increased volume, we had more employees on the stand this year than any other year and increased the number of display areas over previous years. We even built theatrettes where we can display to large groups. Previously we've had 2, this year we had 3 and they were busy pretty much all of the time.

We also showcase what's new at the RSNA and this year we had more new product than ever before including Visage AI Accelerator and our new Breast Density algorithm which we demonstrated as a work in progress.

Feedback was incredibly positive. Scheduled meetings were the most that we've ever had on top of which we had an unprecedented number of walk-ins or unscheduled meetings. So, it was unquestionably the busiest RSNA we've had and the quality of the meetings was excellent.

openbriefing.com

Given this feedback, what is the market opportunity for PME and how does your presence at the RSNA impact this going forward?

CEO Sam Hupert

The RSNA impacts the three major customer groups that make up our pipeline and we saw increased attendance and quality of personnel from all three.

First of all those that are currently in RFP discussions with us. They typically visited us 2 or 3 times, bringing radiologists, business operations people and IT. There can be twenty or more people at times. This really helps us progress those opportunities from RFPs towards ultimately signed contracts.

The second group are those planning to release an RFP in the near future. Again, all 3 components, IT, operations, and radiologists will come often multiple times. Visits from this group very much sets the tone for inbound RFP's in the current financial year.

Last but not least is walk-ins and we also had more of these than in prior years. These are the people who hadn't made appointments, had heard about us and wanted to see the product and get a better understanding of what we can do. They are usually referred by others – often clients.

For personal use only

This is the group thinking about going to RFP in either 2020 or 2021 so we think of them as “pre RFP” opportunities.

So there is little doubt that this year’s RSNA will have a significant and positive impact on our pipeline going forward.

openbriefing.com

You first mentioned the Visage AI Accelerator at November’s AGM and then later that month, on 28th of November, announced on the ASX that you would show case this and other new products at the recent RSNA. Can you background us on what the Visage AI Accelerator does and the benefits to clients?

CEO Sam Hupert

It is a complete “end to end” platform for AI that encompasses everything from research to integrating AI algorithms as part of a radiologist’s daily workflow.

It starts with the Visage Research Server module which is a version of our platform that has been optimised to enable those clients who have their own data sciences labs to generate their own AI algorithms. Historically it has been incredibly difficult for institutions to get the data out of their legacy systems, anonymise it and keep it separate or “sand boxing” it from the production environment and we have developed specialised tools to facilitate this.

The Research Server also has tools to optimise curation which is the process whereby a group of specialist radiologists label or code what they’re looking at. For instance, is that tumour a 2a not a 2b. Being able to do that very efficiently and accurately is crucial because it’s no longer acceptable to base your research on 20 or 25 data sets, you need hundreds if not thousands to validate the process.

The second component of AI Accelerator is our AI Market place which incorporates our open API that allows us to fully integrate our client’s or third party algorithms natively into Visage so it becomes a part of the radiologist workflow. These third party algorithms could come from any number of sources including AI start-ups, other academic institutions or even Visage so it’s a very broad-based platform that I think resonated extremely well with those that saw it at the RSNA.

openbriefing.com

What is the “breast density algorithm” and why have you decided to develop this internally? What stage of development is it at and how does it compete with other breast density algorithms in the market?

CEO Sam Hupert

In the US it’s now mandated in most states that a radiologist reading a mammogram must comment on the degree of breast density and classify it into one of four classifications.

We decided that the best way to test our AI platform and the tools we built, is to use them ourselves and create an algorithm from scratch.

Working with the breast imaging team at Yale, which is one of the most highly regarded in the US, we were able, using Visage Research Server, to anonymise over 30,000 cases. This data was then fed into our machine learning model which was used to produce the Breast Density algorithm. As an extra validation, we had a team of five breast imaging specialists at Yale each curate over 500 cases using our curation tools and then tested the algorithm against these curated cases. The results were so promising we decided to commercialise the product and have applied for FDA approval. By using our own platform, we were able to get a project from research through to submission for FDA approval in under 8 months which is way under what it would otherwise have taken using traditional tools. Hence the reason we call the platform AI Accelerator.

For personal use only

We are hoping to hear back from the FDA sometime in the first half of next year, and assuming it gets FDA clearance, we will then commercialize it and make it available to all our other clients.

A key differentiator of our offering compared to others, is that because Visage is GPU based, we are able to run our algorithm on our client's existing hardware which takes around a second to provide the analysis, so it is pretty much on demand. This is unlike others that either require a fair amount of additional onsite hardware to run their algorithm or they have to do it in the cloud which means they need to take the data, anonymise it, upload it to the cloud, run the AI algorithm over it, send the result back, reinstate the patient's data, and then reinsert it back into the client's system. This can be costly and because the files are so large, time consuming.

openbriefing.com

At the RSNA, what was client feedback on the AI Accelerator and other new products you showed?

CEO Sam Hupert

The feedback was universally positive, all of the opportunities that we are in the RFP process with, and all of the new opportunities that came to see us were keenly interested in what our strategy for AI is, and what our product development roadmap looks like. The fact that we could show this full end to end platform is something they found very impressive. We also showed five other companies' algorithms fully integrated into Visage so we could say "look, here are five completely unrelated companies, five sets of algorithms dealing with different anatomies, yet they're all fully integrated, so this is what you can expect". The response to this and our breast density algorithm was overwhelmingly positive.

openbriefing.com

Overall, how does PME's offering differ from its competitors and where do you think PME's technology stack is positioned versus competitors?

CEO Sam Hupert

We think the first and most fundamental difference is that we've always taken the approach that we don't move the image, rather we stream the pixels. This is fundamentally different from our competitors, a lot of whom are using the word streaming loosely in their marketing literature but fundamentally they still compress and send the image.

A second key difference is that most of our competitors started off in the 2D space and so when it comes to 3D advanced visualisation, they have to integrate or "skin" third party products. This means you're not getting one product, you're getting an amalgamation of a whole lot of products, which has a lot of overheads in terms of management and updating.

So, we think we still have a unique position in the market being the only company that can seamlessly do 2D and 3D in the one viewer.

We've said in the past that we think we are 18 to 24 months ahead of our competition and there was nothing at this RSNA to indicate that this is still not the case.

openbriefing.com

Thank you Sam.

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

For previous Open Briefings by Pro Medicus, or to receive future Open Briefings by email, visit openbriefing.com

For personal use only

DISCLAIMER: Ramsgate Advisors Ltd and Orient Capital Pty Ltd have taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Ramsgate Advisors Ltd and Orient Capital Pty Ltd are not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.

For personal use only