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ASX Announcement :

CEO on Update

Open Briefing interview with CEO Sam Hupert

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In this Open Briefing®, Sam discusses:

- Financial results for the six months ended 31 December 2019
- Strong cash flows and increased dividend payout
- Record pace of implementation for Partners Health
- Strong pipeline and capacity for implementation of new contracts
- Feedback on new products – AI Accelerator and Visage 7 Worklist

Record of interview:

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Pro Medicus announced an after-tax profit of $12.1m, up 32.7% year-on-year for the first half of FY20, off revenues which were up 15.7%. This was despite having a $3.0m capital sale in the first half of FY19 which you told the market would be unlikely to be repeated in this half. Can you comment on this please?

CEO Sam Hupert
Each of our jurisdictions improved over the period. If you take out the one-off capital sale in Europe, they also improved period on period. I think the key driver was the significant increase in transaction revenue, particularly in the US as well as in Australia. Even taking into account the capital sale we were able to outstrip that in terms of both revenue and profit. The important thing is that the income in this half was all recurring transaction-based revenue that sets the base for growth in the next half and for future periods.

Also, even as we continued to invest in additional staff in both the US and Europe, our cost base as a percentage of revenue continued to decline so our margins have increased.

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Cash from operations grew strongly to $16.1m, up from $6.4m, as short-term debtors decreased from $17.4m at 30 June 2019 to $11.0m at 31 December 2019. What drove this significant decrease in debtors and what ongoing level can we expect for the debtors' balance?

CEO Sam Hupert
As we said at the full year results, we raised a number of invoices towards the end of June and all of these have been paid hence the significant decrease in debtors. Going forward, we expect the end of period debtor balance, subject to invoice timing, will increase but only in line with additional revenue that we are making.

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The company's cash balance grew 20.2% to $38.8m despite increased tax payments for the half of $5.5m, up from $4.1m, an increased dividend payout and a share buy-back during the period. Do you have any specific plans for this cash and the franking credits generated by the tax paid?

CEO Sam Hupert
We look at the cash balance in three different "buckets". The first and primary use of cash is to invest in the business so we increased staff numbers in a prudent manner in order to ensure we maximise our opportunities and will continue to do so. The second is in terms of dividends; the board reviews this every six months based on a number of factors, but certainly we have a good level of franking credits that gives us flexibility. Finally, we look at retaining cash for possible merger and acquisition activity. We always review our cash position in light of these three requirements with investment in the business being number one.

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You recently announced a $6.0m, five-year deal with Nines, a Palo Alto-based organisation that aims to bring together best-of-breed engineers and radiologists to bring the power of modern artificial intelligence (AI) to clinical settings. The announcement says that Nines will be using "Visage in the Cloud" as their platform – how does this affect pricing and implementation? The announcement also suggests projected growth from Nines as they establish their presence in the market, suggesting there could be significant upside to the contract value you've announced. What significance is this contract to your market position and business outlook in the USA?

CEO Sam Hupert
This contract is different for several reasons. Unlike out other clients who are established health systems or private practices with known radiology volumes, Nines is a start-up with volumes anticipated to grow in time. They are developing modern AI algorithms to supplement the radiologist's workflow and will be basing their offering on our "Visage in the Cloud" platform which will be hosted by Google. Being cloud based helps us implement quicker and provide Nines with flexibility and scalability they would otherwise find difficult to replicate using their own infrastructure which is important for a rapidly growing business.

The other thing that is also very interesting about Nines are the people in the organisation, who are a mix of some very highly skilled and respected AI/Machine Learning engineers as well as some of the top radiologists from both Mt Sinai and Stanford hospitals. This opens up a potential market in the advanced teleradiology space where our product is ideally suited and helps reinforce our view that we have a larger potential market that many people realise.

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At 30 June the company indicated that revenue would start flowing from the Partners HealthCare contract in the six-month period to 31 December 2019. How did the implementation at Partners HealthCare go and when will they move onto Phase two of their implementation process?

CEO Sam Hupert
The implementation went extremely well. We were able to complete it within six weeks, a record time for the industry especially when you consider the size and complexity of the job. This has had a positive impact on our transaction volume in the first half which grew 30% half to half and

will continue to do so in the second half and into the future. Based on the success of phase one, we have commenced the implementation for phase two, which due to the number and geographical spread of the hospitals will be done in a series of smaller implementations spread out over the next nine months.

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Successful implementations are crucial to your clients. What is the status of your current contract implementations, and do you have the capacity to keep performing strongly on this front?

CEO Sam Hupert
We are on or ahead of our implementation schedule, having completed phase one of Partners. Duke Health, our next major implementation goes live at the end of this month. They are like Yale in that the implementation will largely concentrate around their main teaching campus - so most of the work will be completed in a single go-live adding to our transaction volumes in the second half. After that, Ohio State University and the remainder of phase two of Partners HealthCare are ahead of us, leaving us with plenty of capacity to implement any new client that we contract.

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In Nov/Dec you exhibited at the RSNA trade show in the USA which you have described as the de facto world radiology conference, attracting an estimated 60,000 registrants annually. Following the trade show you commented you thought it was your best RSNA to date. What impact has RSNA had on your pipeline and what follow on has there been following the release of the new products you announced at the show in particular your new Worklist and Visage AI Accelerator platform.

CEO Sam Hupert
We told the market in our full-year results that the pipeline was the best it had ever been in terms of quantity and quality of opportunities. The RSNA only served to strengthen this position in terms of progressing existing opportunities, as well as presenting a significant number of new ones, more so than ever in the past.

We believe this for a number of reasons. The first is that we see more opportunities coming to market as legacy "compress and send" systems continue to struggle with the exponential increase in the size of datasets created by modern imaging equipment - something we predicted would happen. The second is that we are benefiting from a growing network effect, first from Mayo, then Yale and now Partners and others. The effect is additive so the more clients you have the greater the effect. We now have 5 of the top 20 hospitals in North America that have standardised on our product so whilst it by no means guarantees you a sale, it certainly helps in the overall process.

We also received extremely positive feedback on both our new Worklist and the AI Accelerator platform. We released Visage 7 Worklist as we are getting requests from potential clients who have a preference for a single vendor solution and we can now offer that as an option. Also, having our own worklist allows us to provide an end-to-end, fully manged offering via our "Visage in the Cloud" platform. This is the platform that Nines will be standardising on.

As for AI Accelerator, it is exactly what its name implies - a comprehensive solution that enables our clients to fast track the implementation of AI within their business. We were able to prove this by using AI Accelerator to develop our own Breast Density algorithm which, with clinical input from Yale, we were able to get from concept to FDA submission in months, not years. The fact that we were able to demonstrate a holistic approach to these emerging technologies was definitely seen as a positive by those who attended.

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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.