

Pro Medicus Limited

ABN 25 006 194 752

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2019

pro  **medicus**

OUR SUPPORT. YOUR SUCCESS.

DIRECTORS' REPORT

Your Directors of Pro Medicus Limited (the "Company") and its subsidiaries (the "Group") submit their report for the half-year ended 31 December 2019.

DIRECTORS

The names and details of the Company's directors in office during the half-year and until the date of this report:

- Peter Terence Kempen AM
FCA, FAICD (Chairman)
- Dr Sam Aaron Hupert
M.B.B.S. (Deputy Chairman and Chief Executive Officer)
- Anthony Barry Hall
B.Sc. (Hons), M.Sc. (Executive Director and Technology Director)
- Anthony James Glenning
B.Sc, B.Eng, M.EE (Non-Executive Director)
- Dr Leigh Bernard Farrell
PhD, B.Sc. (Hons), FAICD (Non-Executive Director)

REVIEW AND RESULTS OF OPERATIONS

The Company reported a first half after tax profit of \$12.051m, an increase of \$2.969m (up 32.7%) compared to the same period last year. Revenue from contracts with customers for the 6 month period of the Company increased from \$25.315m to \$29.288m, an increase of 15.7%.

Underlying profit before tax was \$14.810m compared with \$10.190m for the previous corresponding period, an increase of 45.3%. The underlying profit for 2018, comprises of reported profit before tax of \$13.239m and subtracting the one off capital sale to the German government of \$3.049m before tax.

Tax expense for the first half was \$2.759m which represents a tax rate of 18.6%. This is due to the expense being reduced by the benefit of a tax deduction relating to the company's purchase of shares for employees under the Long Term Incentive Scheme. This benefit will not be replicated in the second half and the tax rate will move closer to the statutory rate for the full year.

During the period the Company continued to make strong inroads into the North American market winning key contracts with Ohio State University (A\$9.0m – 5 year deal), a large multi-disciplinary academic medical center in Columbus, Ohio; and Nines (A\$6.0m – 5 year deal), a Palo Alto based teleradiology business. The Company also continued to make significant progress with all key implementations being on or ahead of schedule.

The Company is looking to further build on its presence in North America and is actively pursuing a growing number of opportunities within the enterprise imaging/large teaching hospital and corporate/private imaging centre markets.

The Company's European business performed in line with expectations with an increase in support revenue, following last year's capital sale of \$3.049m with the German government hospital.

The Company's Australian business increased revenue by 21.5% compared to the same period last year, with the rollout of the Healius (formerly Primary Health) contract and extension of the contract with I-MED being the main contributors to the increased revenue.

The Company maintained its significant investment in research and development ("R&D"), both in Australia as well as overseas.

The Company's cash reserves increased by \$6.529m despite an increase of \$1.052m in dividend payout, \$1.393m increase in tax payments and greater investment in R&D for the 6 month period. Cash reserves were \$38.844m at the end of December 2019 and the company remains debt free.

The Board is of the view that there are sufficient cash reserves to fund the anticipated growth of the business from internal sources. As a result the Company has announced a fully franked interim dividend of 6.0c per share payable on 20 March 2020.

ROUNDING

The amounts contained in this report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which the Legislative Instrument applies.

AUDITORS' INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, we have obtained a declaration of independence from our auditors Ernst & Young, a copy of which is attached.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'P T Kempen', with a large, stylized initial 'P'.

P T Kempen AM
Chairman
Melbourne
13 February 2020

AUDITOR'S INDEPENDENCE DECLARATION

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

| | | Consolidated | |
|---|--------------|-------------------------------|-------------------------------|
| | Notes | 31 Dec 2019 \$'000 | 31 Dec 2018 \$'000 |
| Revenue from contracts with customers | 3 | 29,288 | 25,315 |
| Interest revenue | | 110 | 126 |
| Revenue | | 29,398 | 25,441 |
| Cost of sales | | (163) | (1,260) |
| Gross profit | | 29,235 | 24,181 |
| Net foreign currency gains / (losses) | 4a | (85) | 390 |
| Accounting and secretarial fees | | (533) | (394) |
| Advertising and public relations | | (1,166) | (945) |
| Depreciation and amortisation | 4b | (3,785) | (3,024) |
| Insurance | | (370) | (321) |
| Legal costs | | (222) | (137) |
| Other expense | | (821) | (852) |
| Salaries and employee benefits expense | 4b | (6,754) | (5,221) |
| Travel and accommodation | | (689) | (438) |
| Profit before income tax | | 14,810 | 13,239 |
| Income tax expense | 10 | (2,759) | (4,157) |
| Profit for the period | | 12,051 | 9,082 |
| Other comprehensive Income | | | |
| Items that may be reclassified subsequent to profit and loss | | | |
| Foreign currency translation | | (56) | (679) |
| Other comprehensive income for the period | | (56) | (679) |
| Total comprehensive income for the period, net of tax | | 11,995 | 8,403 |
| Earnings per share (cents per share) | | | |
| Basic | | 11.60¢ | 8.77¢ |
| Diluted | | 11.54¢ | 8.70¢ |

The accompanying notes form an integral part of these consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

| | | Consolidated | |
|--------------------------------------|-------|-----------------------|-----------------------|
| | Notes | 31 Dec 2019 \$'000 | 30 Jun 2019 \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 38,844 | 32,315 |
| Trade and other receivables | 8 | 11,004 | 17,419 |
| Accrued revenue | | 2,428 | 1,776 |
| Contract assets | | 245 | 210 |
| Other current financial assets | | 167 | - |
| Income tax receivable | | 2,873 | - |
| Inventories | | 38 | 31 |
| Prepayments | | 838 | 705 |
| Total current assets | | 56,437 | 52,456 |
| Non-current assets | | | |
| Deferred tax asset | 10 | 8,275 | 12,131 |
| Plant and equipment | | 497 | 503 |
| Intangible assets | 9 | 18,504 | 18,168 |
| Contract assets | | 783 | 516 |
| Right-of-use lease asset | 2 | 2,526 | - |
| Trade and other receivables | 8 | - | 504 |
| Prepayments | | 330 | - |
| Total non-current Assets | | 30,915 | 31,822 |
| TOTAL ASSETS | | 87,352 | 84,278 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 11 | 3,916 | 3,421 |
| Income tax payable | | - | 766 |
| Deferred revenue | 12 | 6,163 | 7,626 |
| Lease liabilities | 2 | 638 | - |
| Other current financial liabilities | | - | 159 |
| Provisions | | 2,072 | 1,950 |
| Total current liabilities | | 12,789 | 13,922 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 10 | 6,578 | 5,731 |
| Deferred revenue | 12 | 13,619 | 15,287 |
| Lease liabilities | 2 | 1,917 | - |
| Provisions | | 49 | 50 |
| Total non-current liabilities | | 22,163 | 21,068 |
| TOTAL LIABILITIES | | 34,952 | 34,990 |
| NET ASSETS | | 52,400 | 49,288 |
| Shareholders' equity | | | |
| Contributed equity | | 1,962 | 1,962 |
| Share buyback reserve | | (915) | (73) |
| Share reserve | | 6,929 | 10,290 |
| Foreign currency translation reserve | | (407) | (351) |
| Retained earnings | | 44,831 | 37,460 |
| Total shareholders' equity | | 52,400 | 49,288 |

The accompanying notes form an integral part of these consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2019

| | Share capital \$'000 | Share Buyback Reserve \$'000 | Share Reserve \$'000 | Foreign Currency Translation Reserve \$'000 | Retained Earnings \$'000 | Total Equity \$'000 |
|---|-------------------------|---------------------------------|-------------------------|--|-----------------------------|------------------------|
| Balance at 1 July 2019 | 1,962 | (73) | 10,290 | (351) | 37,460 | 49,288 |
| Profit for the period | - | - | - | - | 12,051 | 12,051 |
| Other comprehensive Income | - | - | - | (56) | - | (56) |
| Total comprehensive Income | 1,962 | (73) | 10,290 | (407) | 49,511 | 61,283 |
| Transactions with owners in their capacity as owners | | | | | | |
| Share based payment | - | - | 450 | - | - | 450 |
| Share buyback | - | (842) | - | - | - | (842) |
| Tax effect of share based payments | - | - | (3,811) | - | - | (3,811) |
| Dividends | - | - | - | - | (4,680) | (4,680) |
| Balance at 31 December 2019 | 1,962 | (915) | 6,929 | (407) | 44,831 | 52,400 |

| | Share capital \$'000 | Share Buyback Reserve \$'000 | Share Reserve \$'000 | Foreign Currency Translation Reserve \$'000 | Retained Earnings \$'000 | Total Equity \$'000 |
|---|-------------------------|---------------------------------|-------------------------|--|-----------------------------|------------------------|
| Balance at 1 July 2018 | 1,962 | (73) | 4,920 | 82 | 28,178 | 35,069 |
| Profit for the period | - | - | - | - | 9,082 | 9,082 |
| Other comprehensive Income | - | - | - | (679) | - | (679) |
| Total comprehensive Income | 1,962 | (73) | 4,920 | (597) | 37,260 | 43,472 |
| Transactions with owners in their capacity as owners | | | | | | |
| Share based payment | - | - | 346 | - | - | 346 |
| Tax effect of share based payments | - | - | 941 | - | - | 941 |
| Dividends | - | - | - | - | (3,627) | (3,627) |
| Balance at 31 December 2018 | 1,962 | (73) | 6,207 | (597) | 33,633 | 41,132 |

The accompanying notes form an integral part of these consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOW FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

| | Notes | Consolidated | |
|---|-------|-----------------------|-----------------------|
| | | 31 Dec 2019 \$'000 | 31 Dec 2018 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers | | 32,425 | 18,562 |
| Payments made to suppliers and employees | | (10,719) | (8,056) |
| Income tax paid | | (5,505) | (4,112) |
| Interest paid | | (62) | - |
| Net cash flows from operating activities | | 16,139 | 6,394 |
| Cash flows used in investing activities | | | |
| Payments for development costs | 9 | (3,721) | (3,596) |
| Payments for property, plant and equipment | | (98) | (238) |
| Interest received | | 110 | 126 |
| Net cash flows used in investing activities | | (3,709) | (3,708) |
| Cash flows from financing activities | | | |
| Payments of dividends on ordinary shares | 5b | (4,679) | (3,627) |
| Payments for share buyback | | (842) | - |
| Payments for lease liabilities | | (240) | - |
| Net cash flows used in financing activities | | (5,761) | (3,627) |
| Net increase in cash and cash equivalents held | | 6,669 | (941) |
| Net foreign exchange differences | | (140) | 438 |
| Cash and cash equivalents at the beginning of the period | | 32,315 | 25,238 |
| Cash and cash equivalents at the end of the period | 7 | 38,844 | 24,735 |

The accompanying notes form an integral part of these consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

The interim consolidated financial statements of the Group for the half-year ended 31 December 2019 were authorised for issue in accordance with a resolution of directors on 13 February 2020.

The Company is a for profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(a) Basis of preparation

The interim consolidated financial statements for the half-year ended 31 December 2019 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2019, together with any public announcements made by the Company during the half-year ended 31 December 2019.

(b) New accounting standards and interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and revised standards and amendments thereof and interpretations effective for the Group from 1 July 2019 include:

- **AASB 16 Leases**

The details and impact of the adoption of AASB16 *Leases* is disclosed below in Note 2(b)(i).

- **AASB Interpretation 23 *Uncertainty over Income Tax Treatments***

Details of AASB Interpretation 23 *Uncertainty over Income Tax Treatments* is disclosed in Note 2(b)(ii). The adoption of this interpretation did not have any impact on the disclosures or the amounts recognised in the Group's interim consolidated financial statements.

- **AASB 2018-1 *Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle***

The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim consolidated financial statements.

- **AASB 2018-2 *Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement***

The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim consolidated financial statements.

(i) AASB 16 Leases

AASB 16 *Leases* ("AASB 16") supersedes AASB 117 *Leases* ("AASB 117"), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

(i) AASB 16 Leases (continued)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 July 2019. The reclassifications and adjustments arising from the transition to AASB 16 are therefore recognised in the opening statement of financial position at 1 July 2019. As the Group has adopted the modified retrospective method, there was no restatement of comparative information

Nature of the effect of adoption of AASB 16

The Group is, or has been in the relevant period, lessee under lease contracts for office premises and motor vehicles.

Before the adoption of AASB 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. All of the Group's leases were classified as operating leases under AASB 117.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases that it is lessee. AASB 16 provides specific transition requirements and practical expedients, which has been applied by the Group.

• *Leases previously classified as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the initial date of application being 1 July 2019. The right-of-use assets for leases were recognised at an amount equal to the lease liability at the initial date of application, adjusted for previously recognised prepaid or accrued lease payments.

Application of practical expedients

In applying AASB 16 at the initial date of application being at 1 July 2019, the Group has applied the available practical expedients:

- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

(i) AASB 16 Leases (continued)

Effect of adopting AASB 16 at 1 July 2019

The effect of adopting AASB 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) at 1 July 2019:

| | Consolidated 1 Jul 2019 \$'000 |
|--------------------------------------|---|
| Non-current assets | |
| Lease assets | 2,822 |
| Deferred tax asset | 827 |
| Total non-current assets | 3,649 |
| TOTAL ASSETS | 3,649 |
| Current liabilities | |
| Lease liabilities | 661 |
| Total current liabilities | 661 |
| Non-current liabilities | |
| Lease liabilities | 2,161 |
| Deferred tax liabilities | 827 |
| Total non-current liabilities | 2,988 |
| TOTAL LIABILITIES | 3,649 |
| NET ASSETS | - |
| Equity | - |
| TOTAL EQUITY | - |

There is no impact on the statement of profit or loss and other comprehensive income, statement of cash flows, and basic and diluted earnings per share for the comparative period as the Group elected to adopt the modified retrospective approach to transitioning to AASB 16.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

| | Consolidated 1 Jul 2019 \$'000 |
|--|---|
| Operating lease commitments as at 30 June 2019 | 497 |
| Weighted average incremental borrowing rate as at 1 July 2019 | 4.76% |
| Discounted operating lease commitments at 1 July 2019 | 469 |
| Add: | |
| Payments in optional extension periods not recognised as at 30 June 2019 | 2,353 |
| Lease liabilities as at 1 July 2019 | 2,822 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

(i) AASB 16 Leases (continued)

Effect of AASB 16 on the six months period ended 31 December 2019

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the half-year ended 31 December 2019:

| Consolidated | Right-of-use assets | | Lease liabilities | |
|-------------------------------|---------------------|--------------------------|-------------------|-----------------|
| | Property \$'000 | Motor vehicles \$'000 | Total \$'000 | Total \$'000 |
| As at 1 July 2019 | 2,724 | 98 | 2,822 | (2,822) |
| Depreciation expense | (272) | (24) | (296) | - |
| Interest expense | - | - | - | (62) |
| Payments | - | - | - | 302 |
| Foreign exchange translation | - | - | - | 27 |
| As at 31 December 2019 | 2,452 | 74 | 2,526 | (2,555) |

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application at 1 July 2019.

- *Right of use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the relevant commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the relevant lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the relevant lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*

At the commencement date of the relevant lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the relevant commencement date), and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The Group applies the practical expedient to not separate non-lease components from lease components, and instead accounts for each lease component and any associated lease components as a single lease component.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

(i) AASB 16 Leases (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the relevant lease commencement date if the interest rate implicit in the lease is not readily determinable. After the relevant commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Significant judgements*

The Group has makes the following significant judgements with respect to its leases as lessee:

- *Determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Under some of its property leases, the Group is able to continually exercise the option to extend the term of the lease. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e. a change in business strategy). The Group has included reasonably certain renewal options as part of the lease term for its property leases ranging from 5 to 10 years.

- *Determining the incremental borrowing rate*

The Group has applied judgement to determine the incremental borrowing rate, which affects the amount of lease liabilities or right-of-use assets recognised. The Group reassesses and applies the incremental borrowing rate on a lease by lease basis at the relevant lease commencement date based on the term of the lease (or the remaining term of the lease at the initial date of application).

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(b) New accounting standards and interpretations (continued)

(ii) AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* ("AASB Interpretation 23") addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 *Income Taxes* ("AASB 12"). It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. AASB Interpretation 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of AASB Interpretation 23, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities.

AASB Interpretation 23 did not have an impact on the interim consolidated financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

3. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on country of origin. Discrete financial information is reported to the executive management team on at least a monthly basis.

Impairment is not monitored at a segment level.

Types of products and services

The Group produces integrated software applications for the health care industry. In addition the Group provides services in the form of installation and support.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those used in preparing the financial statements in prior periods.

Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. The price aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

Operating segments

| | Australia | | Europe | | North America | | Total Operations | |
|--|---------------|---------------|--------------|--------------|---------------|---------------|------------------|---------------|
| | 31 Dec | 31 Dec | 31 Dec | 31 Dec | 31 Dec | 31 Dec | 31 Dec | 31 Dec |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Half-year ended | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue from contracts with customers | | | | | | | | |
| Sales to external customers - software | 5,335 | 4,392 | 1,658 | 4,140 | 22,295 | 15,578 | 29,288 | 24,110 |
| Sales to external customers - hardware | - | - | - | 1,205 | - | - | - | 1,205 |
| Inter-segment sales | 21,644 | 13,687 | 7,803 | 4,166 | - | - | 29,447 | 17,853 |
| Total segment revenue | 26,979 | 18,079 | 9,461 | 9,511 | 22,295 | 15,578 | 58,735 | 43,168 |
| Inter-segment elimination | | | | | | | (29,447) | (17,853) |
| Total consolidation revenue | | | | | | | 29,288 | 25,315 |
| Results | | | | | | | | |
| Segment Result | 14,799 | 10,190 | (675) | 2,519 | 576 | 404 | 14,700 | 13,113 |
| Interest Revenue | | | | | | | 110 | 126 |
| Non segment expenses | | | | | | | | |
| Income tax expense | | | | | | | (2,759) | (4,157) |
| Profit for the period | | | | | | | 12,051 | 9,082 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

3. SEGMENT INFORMATION (CONTINUED)

Product information

| | Consolidated | |
|--|---------------|---------------|
| | 31 Dec 2019 | 31 Dec 2018 |
| | \$'000 | \$'000 |
| Revenue from external customers | | |
| Radiology Information Systems (RIS) | 4,768 | 3,708 |
| Picture Archiving Communications Systems (Visage 7/PACS) | 24,434 | 20,382 |
| Hardware income | - | 1,205 |
| Other income | 86 | 20 |
| | 29,288 | 25,315 |

4. EXPENSES

| | Consolidated | |
|--|--------------|--------------|
| | 31 Dec 2019 | 31 Dec 2018 |
| | \$'000 | \$'000 |
| (a) Net foreign currency gains / (losses) | | |
| Currency gains | 2,551 | 1,894 |
| Currency (loss) | (2,636) | (1,504) |
| | (85) | 390 |
| (b) Expenses | | |
| <u>Depreciation and amortisation</u> | | |
| Property improvements | 1 | 1 |
| Motor vehicles | 3 | 4 |
| Office equipment | 97 | 76 |
| Furniture and fittings | 3 | 10 |
| Right-of-use lease assets | 296 | - |
| Amortisation on software licences | 1 | - |
| Amortisation on capitalised development costs | 3,384 | 2,933 |
| Total depreciation and amortisation expenses | 3,785 | 3,024 |
| <u>Salaries and employee benefits expense</u> | | |
| Gross wages and salaries | 8,991 | 7,222 |
| Capitalised wages and salaries (i) | (3,300) | (2,902) |
| Long service leave provision | (13) | 32 |
| Share-based payments expense (ii) | 450 | 346 |
| Defined contribution plan expense | 626 | 523 |
| Total salaries and employee benefits expenses | 6,754 | 5,221 |

- i. The Group's total wages and salaries incurred was \$8,991,000 (2018: \$7,222,000) of which \$3,300,000 (2018:\$2,902,000) of these costs have been capitalised as development costs within intangible assets.
- ii. 91,293 performance rights were granted on 16 September 2019 under the Group's long term incentive plan. The performance rights vest in accordance with performance conditions related to earnings per share ("EPS") and total shareholder returns ("TSR") after completion of a service condition being 4 years from the grant date. The total fair value of the performance rights at grant date was \$848,000 (\$2.85 to \$13.58 per performance right). The amount of share-based payment expense for the half-year ended 31 December 2019 takes into consideration the probability of certain performance conditions vesting.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 31 Dec 2019 \$'000 | 31 Dec 2018 \$'000 |
| (a) Dividends proposed and recognised as a liability | | |
| Franked dividend | - | - |
| (b) Dividends paid during the half-year | | |
| Franked dividend | 4,679 | 3,627 |
| Unfranked dividend | - | - |
| (c) Dividends proposed and not recognised as a liability | | |
| Interim franked dividend | 6,237 | 3,627 |
| Special franked dividend | - | 2,590 |
| Interim unfranked dividend | - | - |
| Dividends per share (cents per share) | | |
| - Franked dividends per share | 6.00¢ | 6.00¢ |
| - Interim dividend per share | 6.00¢ | 3.50¢ |
| - Special dividend per share | - | 2.50¢ |

6. EVENTS AFTER THE BALANCE SHEET DATE

On 13 February 2020, the directors of Pro Medicus Limited declared a fully franked interim dividend of 6.0 cents per share amounting to \$6,237,000. These dividends have not been provided for in the 31 December 2019 interim financial statements.

7. CASH AND CASH EQUIVALENTS

Reconciliation of cash

For the purposes of the Statement of Cash Flow, cash and cash equivalents comprise the following:

| | Consolidated | |
|--------------------------|-----------------------|-----------------------|
| | 31 Dec 2019 \$'000 | 30 Jun 2019 \$'000 |
| Cash at bank and in hand | 30,764 | 24,315 |
| Short-term deposits | 8,080 | 8,000 |
| | 38,844 | 32,315 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

8. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 31 Dec 2019 \$'000 | 30 Jun 2019 \$'000 |
| Current | | |
| Trade receivables | 10,968 | 17,861 |
| Less: Allowance for expected credit loss | - | (647) |
| | 10,968 | 17,214 |
| Other receivables | 36 | 205 |
| | 11,004 | 17,419 |
| Non-current | | |
| Trade receivables | - | 504 |
| | - | 504 |

9. INTANGIBLE ASSETS

| | Consolidated | | | |
|---|------------------------------------|--------------------------------|--------------------------------|-----------------|
| | Intellectual Property \$'000 | Development Costs \$'000 | Software Licenses \$'000 | Total \$'000 |
| Half-year ended 31 December 2019 | | | | |
| At 1 July 2019, net of accumulated amortisation and impairment | - | 18,167 | 1 | 18,168 |
| Additions - internal development | - | 3,721 | - | 3,721 |
| Amortisation charge for the period | - | (3,384) | (1) | (3,385) |
| At 31 December 2019, net of accumulated amortisation and impairment | - | 18,504 | - | 18,504 |
| At 31 December 2019 | | | | |
| Cost | 1,848 | 50,601 | 317 | 52,766 |
| Accumulated amortisation and impairment | (1,848) | (32,097) | (317) | (34,262) |
| Net carrying amount | - | 18,504 | - | 18,504 |
| Year ended 30 June 2019 | | | | |
| At 1 July 2018, net of accumulated amortisation and impairment | - | 16,853 | 1 | 16,854 |
| Additions - internal development | - | 7,207 | - | 7,207 |
| Amortisation charge for the year | - | (5,893) | - | (5,893) |
| At 30 June 2019, net of accumulated amortisation and impairment | - | 18,167 | 1 | 18,168 |
| At 30 June 2019 | | | | |
| Cost | 1,848 | 46,879 | 321 | 49,048 |
| Accumulated amortisation and impairment | (1,848) | (28,712) | (320) | (30,880) |
| Net carrying amount | - | 18,167 | 1 | 18,168 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

9. INTANGIBLE ASSETS (CONTINUED)

In accordance with the Group's accounting policies and process, the Group evaluated each cash generating unit ('CGU') at 31 December 2019, to determine whether there were any indications of impairment. Where an indicator of impairment exists a formal estimate of the recoverable amount is performed.

After consideration of potential indicators which could impact the valuation of the CGU's at 31 December, the Group concluded there are no impairment indicators for the Group's CGU's as at 31 December 2019.

Impact of judgements and estimates on valuation outcomes

It should be noted that significant judgement and assumptions are required in making estimates of an asset's recoverable amount. This is particularly so in the assessment of long life assets. The projected cash flows used in the recoverable amount valuation are subject to variability in key assumptions, including, but not limited to revenue forecasts. A change in the revenue forecasts used in the estimates could result in a change in an asset's recoverable amount as outlined in the 30 June 2019 annual financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019**

10. INCOME TAX

The Group calculates the period income tax expense using the tax rate that would be applicable to expected total annual earnings (i.e. the estimated average annual effective income tax rate applied to the pre-tax income of the interim period).

The major components of income tax expense in the interim consolidated income statements are:

| | Consolidated | |
|---|---------------------|--------------------|
| | 31 Dec 2019 | 31 Dec 2018 |
| | \$'000 | \$'000 |
| Current income tax expense | (1,798) | (3,956) |
| Prior year adjustment | (22) | (143) |
| Origination and reversal of deferred taxes | (939) | (58) |
| Income tax expense | (2,759) | (4,157) |
| Income tax recognised in other comprehensive income | - | - |
| Total income tax expense | (2,759) | (4,157) |

| | Interim Consolidated Statement of Financial Position | | Interim Consolidated Statement of Comprehensive Income | | Direct to Equity | |
|--|---|------------------------|---|------------------------|-------------------------|------------------------|
| | 31 Dec 2019 | 30 Jun 2019 | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Deferred tax liabilities | | | | | | |
| Foreign currency exchange gain | (23) | 51 | 74 | (92) | - | - |
| Capitalised development expenses | 5,566 | 5,439 | (127) | (385) | - | - |
| Prepayments | - | - | - | (2) | - | - |
| Contract assets | 249 | 184 | (65) | 4 | - | - |
| Lease asset | 750 | - | 77 | - | - | - |
| Depreciation expenses | 36 | 57 | 21 | (7) | - | - |
| | 6,578 | 5,731 | (20) | (482) | - | - |
| Deferred tax assets | | | | | | |
| Employment entitlements | 599 | 619 | (20) | (16) | - | - |
| Intellectual property expenses | 262 | 271 | (9) | (10) | - | - |
| Audit fee accrual | 24 | 37 | (13) | 16 | - | - |
| Deferred revenue | 4,750 | 5,451 | (701) | 392 | - | - |
| Lease liabilities | 759 | - | (68) | - | - | - |
| Employee share trust - unvested share based payments | 1,881 | 5,749 | (104) | 39 | 520 | 249 |
| Other | - | 4 | (4) | 3 | - | - |
| | 8,275 | 12,131 | (919) | 424 | 520 | 249 |
| Deferred tax movement | | | (939) | (58) | 520 | 249 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2019

11. TRADE AND OTHER PAYABLES

| | Consolidated | |
|-----------------------------|--------------|-------------|
| | 31 Dec 2019 | 30 Jun 2019 |
| | \$'000 | \$'000 |
| Current | | |
| Trade payables | 1,723 | 705 |
| Other payables and accruals | 2,193 | 2,716 |
| | 3,916 | 3,421 |

12. DEFERRED REVENUE

| | Consolidated | |
|--|--------------|-------------|
| | 31 Dec 2019 | 30 Jun 2019 |
| | \$'000 | \$'000 |
| Current | | |
| Deferred revenue from contracts with customers | 6,163 | 7,626 |
| | 6,163 | 7,626 |
| Non-current | | |
| Deferred revenue from contracts with customers | 13,619 | 15,287 |
| | 13,619 | 15,287 |

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Pro Medicus Limited, I state that:
In the opinion of the Directors:

- (a) The Financial Statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf board



P T Kempen AM
Chairman
Melbourne
13 February 2020

