

4 October 2021

Interview with Dr Sam Hupert, CEO Pro Medicus Ltd

- **\$40M - 7-year Novant Deal**
- **Increasing momentum and penetration of North American IDN market**
- **Cloud and Pipeline**

Q. The \$40M, 7-year contract with Novant Health is the equal largest in Pro Medicus's history. Can you add some colour around the structure of the deal, particularly around the fact that the \$40 million represents a minimum payment over 7 years?

A: Clearly this is a significant deal for us, not only because of its size but also the fact that it continues the trend that an increasing number of our contracts are for more than one product. In this case, the Visage 7 Viewer and Visage Workflow Manager – both of which are charged on a per-transaction basis.

Our transaction-based contracts have a concept of minimums whereby the client commits to a minimum or baseline number of transactions each year for the life of the agreement. We calculate this number based on a percentage of their previous year's examination volume, with the average ranging between 70 to 90 percent.

For example, if a client did 1 million examinations in the year prior to signing the contract, and the minimums are set at 80%, then they commit to paying for at least 800,000 transactions each year for the life of the contract. If they perform the same one million examinations as the previous year, we will charge them for the minimum 800,000 transactions plus an additional 200,000 transactions. On top of that, organic growth and, in some cases, acquisitions by the client can further add to these transaction volumes. So, in effect, the minimums act as "a floor to the contract," but there is no ceiling. The more the client grows, the larger the contract value becomes. However, when we announce the value of the contract, we only account for the guaranteed minimum amount, even though clients invariably do more - hence the reason we say there is inherent upside in our contracts.

Q. Novant is a large Integrated Delivery Network (IDN) that spans three US states, not unlike Medstar and Intermountain. How important is the IDN space compared to the Tier 1 academic space where you have done so well?

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A: Both the IDN and academic spaces are equally important to us not only because of these three recent deals but also when you look at our existing customer base where some of our largest clients, such as Mercy and Sutter, are IDNs. So, whilst there may be a view that we predominantly work in the Tier-1 academic space because of our success there, the reality is we are just as successful in the IDN space confirming the suitability of our product suite to a broad range of market segments.

Q. This is your seventh major contract in North America in less than 18 months. You refer to the importance of momentum. How important is this announcement from a momentum point of view?

A. Given the size of the deal and the fact that it builds on our recent history of record sales it certainly contributes to our market leading position. And, as we have said before, there are a number of factors that continue to work heavily in our favour; the exponential growth of imaging data sets; the heightened requirement for work-from-home as a result of COVID restrictions, and the network effect of our rapidly expanding user base, all of which underpin our growing momentum in North America.

Q. Where do you see Pro Medicus' competitive position in the USA and Europe? Does this announcement do anything to alter/strengthen your competitive positioning?

A: Every sale, particularly ones of this size strengthens our market leading position in the North America market and we believe this will have a flow-on effect assisting our efforts in Europe as will the contracts we have recently won there, such as LMU Klinikum. But as we have previously said, Europe is not one but many countries, so whilst we see opportunity there, we anticipate our growth will be more incremental than it is in the US simply because North America is the largest market. It is also the most active.

Q. This is your fifth cloud-based deal in a row. Is it inevitable that all such deals in the future will be based in the cloud? Are CIOs becoming more comfortable with the cloud?

A: We are seeing a huge shift towards Cloud, particularly in North America, and think this will continue which is very positive for us. We have one of the few, if not the only, solutions that is truly cloud-native backed by a proven track-record of large customers successfully operating in the cloud. Having said that, some clients will prefer an on-premise solution. The beauty of our offering is that it is the one product that works equally well in either environment, providing our clients with the ultimate flexibility to choose what is most appropriate for them.

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Q. This deal includes Visage 7 Workflow as well as the Visage 7 Viewer. How important is the fact that PME offers clients a choice of products, giving them flexibility of choice with modular multi-product solutions?

A: When you look at our last 18 months of sales, around half of our contracts are for more than one Visage product which vindicates our strategy of broadening our core offering to include Visage Open Archive and Visage Workflow. This not only provides us with the flexibility to cater for more of our client's requirements, it has the added benefit of increasing the total contract value of the sale.

Q. Lastly, can you comment on your pipeline?

A: Our pipeline is strong. There are opportunities at various stages of the cycle, and we are experiencing a good flow of inbound opportunities across a broad range of market segments. There is also a healthy mix of cloud and multiple product opportunities, trends we see continuing.

Thank you, Sam
Interviewer: Richard Allen
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Authorised by the Board of Pro Medicus Limited.