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18 August 2022

Interview with Dr Sam Hupert, CEO Pro Medicus Ltd

- **Full-year results**
- **Contract wins and renewals**
- **Margins and retained earnings**
- **Update on New York R&D Hub**
- **Pipeline**

Q: PME's revenue was up 37.7%% to $93.5 million for the full year and net profit was up 44.1% to $44.4 million. It was the company's best ever full-year result. What are your general thoughts on the result?

A: It was another year where all our key financial metrics headed in the right direction. All three jurisdictions did very well, culminating in the combined result. North America – our biggest market – was the main contributor with a significant jump in transaction volumes coupled with several large sales. We were also pleased with the fourth extension of the contact with the German Government, which was material for the European region. In Australia we continued to see incremental growth.

Importantly, the bulk of our revenue is recurring in nature so the previous financial year becomes the base for the current year. FY22 has provided us with a solid base for this year, on top of which we have the revenue from the contracts we announced in FY22 year which is still to come.

Q: You made three new contract announcements in North America during the year – Novant Health in October 2021, Inova Health in April 2022 and Allina Health in June 2022. How important were these to the overall result and what did the market learn from these announcements?

A: All three are large Integrated Delivery Networks (IDNs) continuing the success we have had in this space with clients such as Sutter, Mercy, Medstar and Intermountain. The contracts however contributed little financially to FY22 as their implementation start date is in the first half of FY23. So, their significant impact is yet to be felt but provides a solid start for FY23.

What has happened is that people now see our offering is highly suited to a broad range of healthcare institutions, not just the Tier-one academic space where we also do very well. I also think it confirms what we are saying about the huge momentum swing towards Cloud, as all three clients selected our

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CloudPACS offering to be fully deployed in the public Cloud. We expect this trend to continue unabated and our proven Cloud capability to provide a significant strategic advantage over our competitors.

Q: All three announcements were for significant amounts: $40 million, $32 million and $28 million respectively. There appears to be a trend towards larger contract amounts. What does this say about the market and your current and potential customers?

A: I think this is due to several factors: the clients are large entities; our per transaction price has increased over the years, and two of the three deals were for multiple products, Visage 7 Viewer and Visage 7 Workflow, a trend we see continuing. Clearly, when a client purchases more products, it has a positive impact on the total contract value. It also provides us with a broader reference base for these products, not only for potential customers but also those existing customers looking to enhance their system with new modules/products.

Q: You announced two material contract renewals in June 2022 – Sutter Health for seven years and Wellspan Health for five years – for a total of $47 million. How important are renewals such as these to PME, and what can we expect in terms of renewals in the future?

A: They are incredibly important as our aim, as you would expect, is to retain 100% of our client base. To date, we have been successful in achieving that and see this as a powerful endorsement of our products by those who know them best.

Two key features of these renewals, and the others before them, stand out. The first is the contract term. It is standard in our industry that renewals are short-term, typically two or three years on average whereas all our renewals have been for the original contract term of five years, and, in the case of Sutter Health seven years. The second is that we have been able to negotiate an increased cost per transaction, somewhere between their original contract price and the current market price, which we feel is fair as early adopters of our technology should have an ongoing benefit.

Q: Timing means a lot to your results. You received a year, or nearly a year, of revenue from NYU Langone, Northwestern, Medstar and Intermountain. Could you comment please?

A: We did tell the market that we expected a material step up in transaction revenue for the FY22 year knowing that these clients would contribute for the full 12 months in case of Northwestern, NYU and Medstar and roughly 8 months for Intermountain. So, timing of when sites go live has an impact on how large the step-up in transaction revenue is from year to year. A large client that goes live in June will have limited impact in that financial year, but a large impact the following year.

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Q: Cash and Other Financial Assets increased to $90.6M an increase of 46.5% despite paying record dividends and a share buyback. Can you comment on this and what are the plans for the cash going forward?

A: I think we are an unusual hybrid in that we are a growth company, as evidenced by our result, yet it is in our DNA is to be financially conservative. We continue to accumulate cash and don't have any debt which we feel puts us in a strong position especially given the current market environment. Having cash also provides us with flexibility. First and foremost, it allows us to invest in our business which we continue to do. It also allows us to strike a balance between return to shareholders in terms of increased dividends and the share buyback and leaving dry powder for M&A should the appropriate opportunity arise.

Q: Your EBIT margins increased from 63% to 67%. Any comment on PME's margins?

A: Last financial year our margins jumped from mid-to-low 50%'s to over 60% which at the time we felt was largely due to a one-off reduction in expenses such as travel and conference expenses because of COVID. We forecast that once things started to normalise again our margins would settle back to around the high 50%'s but pleasingly we have been able to maintain them above 60% and grow them incrementally from there. This is despite the fact we have been increasing our investment in the business both in terms of R&D spend and staff numbers however the increase in our revenue is more than compensating for this.

Q: What impact has COVID had on PME's business during the past year? Are things returning to normal?

A: It has had negligible impact. The major impact of COVID occurred back in March-May 2020 when exam numbers decreased due to severe lockdowns, but the recovery was swift and for 24 months now, we have noticed similar if not greater exam numbers than pre-COVID levels. Things have also returned to normal in other areas. We are going to in-person conferences again, albeit with fewer attendees than in previous years, but again we think this is also trending back with more people attending conferences as the world gets used to dealing with COVID. Over the past 12 months we attended the major conferences RSNA, HIMMS and SIMM, as well as subspeciality conferences like SBR (breast imaging) ANSR (neuroradiology) and DMEA in Germany, so we been busy on that front. And then there are the demonstrations and implementations which are a mixture of onsite and remote as required.

Q: What impact have inflation and wage costs had on PME's business?

A: Very limited I would say for the following reasons: Firstly, we are very efficient when it comes to staff numbers so whilst we don't live in a vacuum, having a small, highly effective team limits the impact of wage inflation. Secondly, being a Software as a Service company, we don't have supply-chain or product price inflation pressures that say a manufacturing company would have so our costs have not been materially

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impacted thus far. I think another important factor is that healthcare, unlike more consumer-oriented segments, is largely non-discretionary and our clients are well funded so we are, to a large degree, insulated from the impacts of the inflation/rising interest rate cycle.

Q: At your AGM in November last year, your chairman announced that the Board had commissioned external advisors to prepare a workforce future proofing report, to determine the optimal management structure over the short to medium term, to underpin the company's growth and that the company was in process of enacting the recommendations of the report. Can you provide us with a bit more colour around this and an update on your progress.

A: We established our global leadership structure many years ago and whilst it has served us extremely well to date, we thought, given our growth aspirations, now is the time to review our go-forward structure hence the reason for the workforce future proofing report. It provides us with a blueprint we are executing starting with two new corporate appointments, a head of People and Culture and a Chief Strategy Officer. Their roles will assist me, and senior management assess, grow and accelerate opportunities, both organic and M&A.

Q: How are you progressing with some of the "other ologies" such as cardiology.

We continue to make steady progress on this front. As far as we know, no other company has a single viewer that can encompass the "other ologies". At the RSNA last November we showcased our ejection fraction software which is a core piece of functionality in a cardiology offering, one normally done by specialised, standalone systems.

Q: How is the R&D hub travelling in New York?

A: It took us a few months longer than we originally anticipated to set up simply because we could not get our people from Germany into New York because of COVID restrictions. But, since August 2021, we have made good progress, not only establishing our presence there but with several very interesting projects that are part of our research collaboration agreement with NYU. An example of this is the video reports project announced at RSNA that enables patients to see a one-minute video where a radiologist highlights the clinical findings in the patient's scan. We are also working on a number of interesting AI projects with NYU as well as with our other partners including Yale and Mayo. This year, we have had a record number of abstracts where we are jointly involved with our research partners accepted by the RSNA.

Q: Can you comment on M&A opportunities in the industry?

A: I think there has been a clear momentum shift in the market, particularly when it comes to pre-revenue and/or unprofitable companies. This has materially affected valuations and the ability of these companies to

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raise capital in the current environment. As we have indicated previously, we think this could provide us with M&A opportunities, particularly but not exclusively in the areas of AI, where most companies are either pre-revenue or not profitable, but this is still to play out.

Q: Any comments on PME's pipeline?

A: The pipeline remains very strong, both in terms of quantity and market spread. We are seeing interest across most sectors of the market including renewed interest from the for-profit sector, which was the sector hardest hit during COVID. We also see the dynamic of Cloud as a major theme in pretty much all our pipeline opportunities, as well as a material number of opportunities considering multiple products. These are trends that are positive for us and ones we think will continue.

Thank you, Sam
Interviewer: Richard Allen
Oxygen Financial Public Relations

Authorised by the Board of Pro Medicus Limited.