

15 February 2023

**Interview with Dr Sam Hupert, CEO Pro Medicus Ltd**

- **First half results**
- **Commentary on 2<sup>nd</sup> half**
- **Shift to Cloud**
- **Recent wins and pipeline**
- **KLAS award for best Universal Viewer**

**Q: Revenue from ordinary activities was up 28.3% and underlying profit before tax up 30.0%, in what has been a very tough market for many companies. How were you able to achieve this?**

A: There is no doubt we were very pleased that all our key financial metrics headed in the right direction. And, as you say, this is against a difficult macroeconomic backdrop of increasing interest rates and high inflation. We believe we are, to a large extent, insulated from these macroeconomic trends, and I think this result helps to support our belief. The other positive was that whilst North America is our key market and we continued our growth trajectory there, we also saw improvements in Australia and an underlying improvement in Europe, so the improvement was across the board.

**Q: Could you please explain your confidence that ‘the second half will be better still’?**

A: There are two key factors that lead us to think this. The first is that we completed three very large implementations in the first half in Inova, Allina and Novant, the largest of the three which we implemented in late December. These will all provide a full six months of transaction volumes in the second half as will the other smaller sites that we brought online in the period; so, we expect a step-up in transaction volumes. We also won't have the cost of the RSNA conference, which is our biggest single expense incurred in the first half of the year.

**Q: Could you comment on Pro Medicus' expenses for the six months please?**

A: They were very much in line with our expectations in that we continue to incrementally hire staff in all three jurisdictions bucking the trend in our industry. We also had our biggest presence to date at the RSNA, both in terms of footprint and staff numbers which was all expensed during the half. The other sizeable change in this period was related to a change in how we capitalised some of our R&D expenses, which on a like-for-like basis, increased our expense line by approximately \$1.25m as compared to the corresponding first half. This will have a one-off impact this financial year which will be offset by lower amortisation costs going forward.

**Q: Margins remain healthy. What can we expect going forward?**

A: Despite the increase in our cost base, we were able to maintain good margins which traditionally improve in the second half. We believe that they will still be in range of where they were at the full year which, putting them into perspective, are two to three times our competitors.

**Q: You have said previously that Pro Medicus was not unduly affected by COVID. Could you comment on the post-COVID period? How has the company fared during this time, particularly with regard to installations?**

A: We haven't been negatively impacted by COVID, if anything, it has been a tailwind for us. Exam volumes are higher than they were pre-COVID on a like-for-like basis. We have also adopted a highly-optimised implementation model that is a hybrid between onsite and remote that we are using for the bulk of our implementations nowadays. And, of all the medical disciplines, radiology is arguably the most suited to remote working which plays into one of our key strengths, the speed of Visage even on low bandwidth.

**Q: It was a busy period with four new contracts signed – all in the USA – and a contract extension with the University of Florida. Can you comment on PME's pipeline, and in which areas you are strongest?**

A: Our pipeline remains strong, and we have experienced an increase in the number of inbound RFPs in the last 18 months. Importantly, we have a very healthy spread of opportunities across tier-one academic institutions, large and medium-sized IDN's, as well as some interest from the private sector. Certainly, two themes that we see are the trend towards multiple products, resulting in an increasing number of opportunities for "full stack" or all three products, and the huge momentum swing towards Cloud, both of which are very positive for us.

**Q. Can you explain "Cloud" and tell us what your customers experience is and where do we go to learn more ?**

They say a picture is worth a thousand words and in this case the quickest way to answer is for you to watch a video we co-created with Amazon Web Services (AWS), Click on <https://hubs.la/Q01C6gbr0> to view this. For more information visit [cloudpacs.com](http://cloudpacs.com)™.

**Q: What percentage of contracts that you bid for are you currently winning?**

A: If anything, our percentage win rate, which was already the highest in the industry, may have gone up a notch or two given the recent number of medium-sized deals we have won that have supplemented our existing success in the larger end of the market.

**Q: Can you comment please on your levels of debtors and cash accrual?**

A: The dollar-value of debtors at the end of the half increased due to some large implementations that were completed and invoiced close to or, in one case, just before the end of the half. Most of these have now been collected. We also had our largest dividend payout and a higher amount of tax paid within the period. Cash collections in the beginning of the second half have been strong so we anticipate that collections for the full year will be in line with previous years.

**Q: You held a strategy meeting before your AGM. Can you tell us what came out of that?**

A: It was the first strategy meeting that we were able to have face-to-face since 2019. Certainly, it helped us crystallise our plans around a number of initiatives that were already in play, particularly around manpower and succession-planning, geographical spread, the role of Cloud, as well as the future of other -ologies and AI.

**Q: What recruiting is PME undertaking?**

A: We have been actively recruiting across the board in all three jurisdictions and as mentioned above we are continuing to build “our bench strength” as part of the future manpower planning exercise we undertook in early 2022. We filled two key management roles last year and are in the process of filling two more. We see this plus the other recruiting we are doing as central to underpinning our growth.

**Q: Could you comment on your cash reserves and what your plans are for them?**

A: Our number one use for cash is to invest in the business which we continue to do. We then look to balance return to shareholders by way of dividends with other possible uses of the funds such as keeping “dry powder” for M&A given the compression of valuations in the market.

**Q: When might we see a similar interest in your technology in Europe as we have seen in the USA?**

A: We have established a beachhead in Germany with several sales there in recent years and are looking to build on that. The European healthcare informatics market is still behind the US but is showing early signs of catching up which would suit us. We also think that the growing acceptance of Cloud, whilst not in Europe in a major way today, will be a factor that will assist us in these markets in the future.

**Q How are you progressing with the other “ologies” and your research collaboration agreements?**

We continue to make good, what I call “under the bonnet” progress in both areas so whilst there is a lot of activity going on it is not yet apparent to the outside world, but this sort of activity is essential to ensuring longer term success and includes clinical trials, publishing academic papers etc. It also includes a fair amount of discovery to work out which AI and non-AI projects are suited to commercialisation and how to best do that. Having said that, we have already had success with some of our projects such as Video reports with NYU which is going from strength to strength and some of the leading edge work we are doing with Yale in paediatric tumour segmentation and classification and how that can be translated into the broader market.

**Q: What were your key takeaways from the RSNA annual conference in the USA, which you attended during November/December?**

A: It was our busiest RSNA to date. Our stand was bigger, we had more demonstration areas, and they were all busy. The net result being we were able to generate the most leads we have had from an RSNA, despite attendee numbers being slightly lower than 2019. This resulted in a very good mix of opportunities across a broad range of market segments, ranging from smaller private groups to some of the largest tier-one academic hospitals and IDNs.

**Q: PME recently won a Best in KLAS award achieving the number 1 ranking in the Universal Viewer (Imaging) segment. What is the award and what does it mean for PME?**

The Best in KLAS report recognizes software and services companies who excel in helping healthcare professionals improve patient care. All rankings are a direct result of the feedback of thousands of providers over the last year.

Visage 7 achieved the #1 ranking in the Universal Viewer (Imaging) segment with a score of 90.2. KLAS defines the Universal Viewer (Imaging) segment as “Solutions that can be used for referential and/or diagnostic viewing; that support multiple media types (e.g., DICOM, JPEG, MPEG, Cine clip); and that do so across multiple service lines (e.g., radiology, cardiology, pathology, wound care).” To qualify as a Universal Viewer (Imaging) solution, provider organizations must verify to KLAS they use the solution for at least two (2) different clinical service lines.

I think there are a few interesting things about this award. Firstly, it is for viewing across multiple service lines, which means multiple departments or “ologies” as we refer to them. It also covers two categories of viewing, diagnostic viewing which we do for radiology and are currently extending into other disciplines such as cardiology, and what they call referential, which is non-diagnostic viewing of the images by clinicians and healthcare professionals.

So, whilst we currently do not get rated in their PACS survey even though all our sales are replacing PACS systems, we think this is a broader, more enterprise-oriented category, which is the direction in which health systems are going.

In terms of impact on future results, it is early days: however, we think this endorsement will further raise our visibility to a broad range of customers and hopefully encourage them to consider Visage as their solution.

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

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