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Interview with Dr Sam Hupert, CEO Pro Medicus Limited

- Full-Year results
- Sales and implementation update
- Market segmentation and factors driving the industry
- Pipeline

Q: It was another record result from Pro Medicus – revenue up 33.6% and net profit up 36.5%. What are your general thoughts on the result and what were the highlights for you?

A: All of our key financial and growth metrics moved in the right direction even after taking into account a weaker Australian dollar. We won seven new contracts across a range of market opportunities, both academic and non-academic. We also saw good growth in transaction volumes as some of the larger implementations we completed towards the end of the first half came onstream supplemented by organic growth from the existing user base. On top of that we completed eight new implementations, all of which were Cloud-based so a very solid year all around and importantly one that we think will set us up well for the coming year.

Q: You mentioned in your interim results in February the "difficult macroeconomic backdrop." Given your second half was better than your first, do you feel the "economic backdrop" is easing at all?

A: We are, to a large degree, insulated from many of the macroeconomic factors that affect many other more consumer-oriented businesses. Healthcare is largely non-discretionary and interest rates tend not to affect us as we are debt-free, and our clients are well-funded. So, whilst it appears that some of the macroeconomic headwinds have eased a little over the past few months, we are confident we would have achieved the growth in the second half regardless.

Q: Margins remain strong. What comments do you have on PME's margins?

A: We thought that after COVID our margins would normalise from the low 60s to high 50s with the resumption of travel and conference expenses, but pleasingly they have continued to increase steadily from there. As for where to from here, it is hard to predict but, all things being equal, we anticipate that they will broadly remain around these levels.

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Q: Could you comment on the change in accounting treatment, particularly towards the capitalization of development costs?

A: We mentioned the change in our accounting treatment relating to capitalization of R&D in the first half and, as foreshadowed, the same treatment has been applied in the second and it will continue to be applied from now on, so going forward it will be like-for-like.

Q: All major implementations scheduled for the period are complete, and you received a full six months of revenue from Novant Health, Allina Health and Inova Health. Do you have any comment on the implementations schedule and what is in store going forward?

A: We had a very busy 12 months in terms of implementations, all of which were completed within their planned timeframes. This has helped "clear the deck" enabling us to implement the contracts we have recently won, namely University of Washington, Samaritan Health and Gundersen Health System as well as others that come our way.

Q: Are you happy with the speed of implementations with new clients? Are implementations becoming easier as you do more of them?

A: We are increasing the speed at which we can implement. Cloud has certainly been a factor. It is a more standardised environment and there isn't a hardware purchasing cycle that clients need to complete which previously could take between six and nine months. With Cloud, we can spin up a version of Visage in a matter of days. We are also continually refining our implementation and training processes using a hybrid of onsite and remote implementation. So, whilst no two implementations are the same, it is fair to say that we are always optimising things to ensure we can meet increasing demand.

Q: The move to Cloud is becoming more and more apparent. Does this greater certainty make business easier for you?

A: The move to Cloud has been hugely beneficial to us for several reasons. Firstly, it's the way the industry is moving, and we are the leaders in that transition, being the only vendor capable of a truly full-Cloud implementation. So, it is of enormous strategic value to us. And, as mentioned above, it simplifies things, not only the implementation process but also ongoing support and maintenance. So, Cloud has certainly been good for us.

Q: More new clients appear to be buying PME's full stack of modules – Viewer, Archive and Worklist. Is this a function of Cloud or other factors?

A: Cloud is certainly a driver, but not the only one. We believe that our three modules – Viewer, Archive and Worklist – are best-in-class products in their own right and have been designed to work seamlessly

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together, providing clients with what we believe to be the best solution in the market. It also simplifies things for them (and for us) as there are fewer parties involved. As the Americans like to say, “there is one throat to choke.”

Q: What trends are you seeing with regard to academic/non-academic and corporate/private sectors?

A: We have been active in many segments of the market over the past 12 to 18 months, especially the Academics and IDNs. Having said that, we have started to see renewed interest from the corporate market proving that our solution, unlike others, is applicable to a broad range of opportunities both in terms of size and market segments.

Q: You mentioned radiologist burnout as a key issue in the industry. How big an issue is it, how was it created and how is Visage technology addressing this?

It is the biggest issue currently facing the profession and it is global. There just aren’t enough radiologists to go around. As to what has created the shortage, there are a number of theories, but I think the two that stand out are the exponential rise of imaging datasets; there are simply more images to look at and, the precipitous drop in the number of fellows applying for radiology training five years ago concerned that AI would make radiologists redundant, which it hasn’t. This has been compounded by work life balance issues especially post COVID where many radiologists are looking to work from home at least for part of the week.

The only way to solve the problem is to increase radiologist productivity whilst at the same time improving their work life balance and that is exactly what Visage does. We are the only system that provides sub second access for even the largest datasets enabling radiologists to “read anything, anywhere, anytime”. This, plus many other unique features of our offering, result in unparalleled efficiency improvements regardless of where the radiologist is, in clinic, in hospital or at home. A leading radiologist from one of our tier one academic customers called Visage an “anti- radiologist burnout tool” which I think is a very apt description.

Q: How important is the annual RSNA conference to winning new business for PME? What are your other key marketing commitments?

A: RSNA is considered the de facto world conference for radiology, so it is incredibly important to us and, as we have previously mentioned, it is our biggest single marketing expense. But it is not the only conference that we go to. We go to a number of other industry conferences, such has HIMSS, a healthcare informatics conference and SIIM which is a healthcare imaging informatics conference, as well as a number of sub-speciality conferences. On top of that we do a fair amount of marketing through social media and other channels and whilst it is not strictly speaking marketing, we speak on expert panels and co-publish papers and abstracts at conferences all which serve to increase our profile.

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Q: Can you speak briefly about your businesses in your three key jurisdictions – USA, Europe, and Australia?

A: All three jurisdictions did well over the past year. The only reason that the numbers in Europe were down as compared to FY22 was due to a large capital sale in the previous year which we did not expect to be repeated this year. If you take that out, the underlying business in Europe continued to grow.

Q: Can you comment on your levels of debtors and cash accrual? Your cash levels are now over $120 million. What are your plans for this cash?

A: We did indicate in our first half results that we expected cash collections to increase in the second half, which they did, our cash balance including other financial assets increasing more than 30% year-on-year. In terms of what we do with the cash, first and foremost, we look at what we need to invest in the business after which we look to balance our return to shareholders in the form of dividends, while keeping enough dry powder for any possible future expansion and/or M&A. Having the cash certainly gives us flexibility, especially in the current environment.

Q: Can you comment on your development of ‘other -ologies’ solutions and/or AI?

A: We have been very active in both areas in terms of product development both internally as well as our research collaboration agreements. During the year we recruited a specialist in the cardiology space to help drive our efforts in this market and our two people dedicated to AI and research collaborations in the US have been busy. We are still targeting our first commercialisation in these areas within the next six months.

Q: Can you speak briefly about your pipeline, including a comment on the percentage of contracts you are currently winning?

A: Our pipeline continues to be strong, with opportunities across all major market segments. Pretty much all the opportunities are for Cloud, with an increasing number for multiple products, including many that are looking at our “full stack” or all three products. We think the combination of Cloud and the flexibility we offer in terms of modular product offerings has helped us win the majority of opportunities that we bid for, even though we are deemed to be the most expensive option in the market. Key to this is that we firmly believe we provide by far the greatest value in terms of return on investment, both financially and clinically.

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

Authorised by the Board of Pro Medicus Limited