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15 February 2024

Interview with Dr Sam Hupert, CEO Pro Medicus Ltd

- Commentary on first half results
- Contract trends and implementation update
- USD \$5M Elucid investment and view on M&A
- Launch of Visage Ease VP for Apple Vision Pro
- · Recent wins and pipeline

Q: What are your thoughts on the interim result, which was another half of record revenue and net profit? Can you continue to grow profits and revenues around 30% each year?

A: We were very pleased with the results. It was another half of profitable growth where all key financial metrics headed in the right direction. Our transaction-based business model underpinned by minimums and long-term contracts provides us with an annuity stream with each new contract building on the existing base of annual recurring revenue. On top of that, our clients are growing well above industry average and there is always the potential for them to take additional products from us. So, we believe we will be able to maintain our growth trajectory especially when you consider we have had our strongest six-months of sales in the company's history, with the revenue from these sales still ahead of us.

Q: Why are PME's expenses proportionally bigger in the first half?

A: One of the key reasons is the RSNA, which is our largest single marketing expense, and this always occurs in the first half. We also increased staff numbers in line with our budgets in preparation for some of the large implementations on the near-term horizon such as Memorial Sloan Kettering, Baylor Scott & White, and others as well as cater for future growth. Having said that, margins were still strong in the first half.

Q: During the period you won key contracts with Memorial Sloan Kettering, Baylor Scott & White, South Shore Health and Oregon Health & Science University. These contracts were for a combined A\$200 million at minimums, and all are 7-10-year deals. Are there any trends evident in the new contracts you are winning?

A: The two key trends that we have identified, particularly over the past 18-24 months, have been the transition to Cloud and the fact that most of our recent opportunities have been for more than one Visage product, and in many cases what we call "full stack", or all three products – Viewer, Workflow and Archive.



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These four recent sales align with this trend, which is positive for us, with Cloud enabling faster implementation and full stack increasing the total contract value of each of the sales.

Q: North America continues to be your key market. When might we see some momentum build in other key markets, Europe for instance?

A: We see Europe as a more medium-term opportunity. Healthcare in Europe is largely government funded, so there is a material bureaucratic overlay, but things are changing there, particularly with the recent ability of the big three Cloud providers to work in the EU. This may help break the ice for us not only in Europe but as cloud adoption continues to grow globally, potentially in other jurisdictions as well.

Q: You appear to continue to make good progress with key implementations. Can you comment?

A: We have had another very busy half, having completed four material implementations. This helps us clear the decks to implement the four contracts we won in the first half, plus any new opportunities that come our way in the second. It also means that the sites we implemented in the half will contribute a full six months of revenue in the second half which is a positive.

Q: You mention that your modular approach continues to provide flexibility and scalability. How important is this when it comes to winning new business?

A: This is becoming increasingly more important for a few reasons. Firstly, there are those who prefer to deal with a single vendor, so providing all three modules – Workflow, Viewer and Archive – is a big plus, as witnessed by the number of full-stack sales we have made over the past 18 months. Having said that, there are some opportunities that would only ever use the Viewer, for instance, a remote reading group servicing a hospital, where the hospital is the archive of record. So being able to mix and match modules depending on client need is key to addressing the diverse opportunities in this market.

Q: Subsequent to the period the company made a \$5 million investment in Elucid, an AI company based in Boston; what is the rationale behind that?

A: Elucid is a US based company that specialises in AI for cardiac CT, which is an area where we see substantial growth. Importantly, in the two forms of AI that Elucid is looking to bring to the market – FFR and plaque characterisation – there are material reimbursements. The board felt that, given their growth profile, a minority investment would be a positive, so we participated in their recently closed round-C funding.



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Q: Is the company looking at investments in other companies, including other Al companies?

A: We have always said that we will look at potential investments and M&A if it makes commercial sense, inasmuch as we see a return on the investment or there are potential synergies. Clearly this is a benefit of having a growing base of surplus cash particularly in the current environment.

Q: What progress have you made with other -ologies during the period?

A: We have continued to make progress with the other ologies, particularly in cardiology around cardiac ultrasound, which was very well received when we showcased it at the recent RSNA in December last year. With our investment in Elucid we are adding another plank to our cardiology strategy in terms of cardiac CT, which could be one of the quickest-growing diagnostic tests in the cardiology space.

Q: The announcement in February about the Apple Vision Pro was incredibly well received. What is the potential for this technology in your space?

A: We were particularly excited to be able to be an early adopter, and developer, for this technology, which is ideally suited to our 3-D streaming platform and if anything serves to reinforce our technology lead or moat as analysts like to call it.

In terms of potential for the technology, it is still early days, but we and some of our thought-leading clients have already identified potential uses for this technology and as clinicians start to use it, we believe more will come to light. We also see a role for spatial imaging coupled with AI as these are highly complementary technologies. Finally, if Apple's history is anything to go by, this is version 1.0 of this technology so immersive, spatial imaging could evolve substantially in the healthcare space, especially when you consider the human body is a 3-D volume.

Q: A comment on your pipeline?

A: Even though we have had our best six months in terms of sales, the pipeline remains very strong, with new opportunities of varying sizes across a broad range of market segments. RSNA also helped replenish the pipeline with a wide range of new, inbound opportunities reinforcing our view that we can address the bulk of the total-addressable market with the one product offering, something we don't believe that any of our competitors can do.

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