

18 August 2021

Interview with Dr Sam Hupert, CEO Pro Medicus Ltd

- **Full-year results – record profit**
- **Step up in transaction volumes**
- **Implementation update – momentum shift to Cloud**
- **Record number of new contract wins**
- **Strong pipeline**

Q: You continue to make record profits – can you give us a bit more colour around the numbers?

A: We were pleased that all our key financial metrics headed in the right direction. We maintained growth both in terms of revenue and profit despite significant headwinds from currency (AUS/USD) with profit before tax growing by 41.0% year on year which equates to 56.3% on a constant currency basis. We were also able to increase our margins and as a result increase our cash reserves and other financial assets.

In terms of maintaining the trend, we think we are off to a good start with the three large sites we implemented towards the end of FY21 with Northwestern, NYU and Medstar contributing a full 12 months of revenue in FY22 which is material. On top of that we will also get transaction revenue from those opportunities we will be implementing in the first six months of this new financial year namely Intermountain, two of the five UC campuses and University of Vermont. So, whilst we don't provide forecasts, we have told the market that we anticipate a step-up in transaction volumes in FY22.

Q: COVID does not appear to have held back the company; quite the opposite. What do you put this down to and how sustainable is your growth in a post-COVID world?

A: The peak effect of COVID on exam numbers occurred in late March/early April in 2020 and whilst exam numbers in the first three months of this financial year were not fully back to normal, they were getting closer. Then, over the next nine months we saw numbers growing to over 100% of what they had been pre-COVID, some of which was related to the pent-up demand from the previous six months but also some as a result of organic growth.

From an operational point of view, we were able to work 100% remotely in all three of our jurisdictions and importantly continue our sales and implementation efforts remotely. As witnessed by the number of

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contracts we wrote in the last 12 months, COVID most likely provided a tailwind for us particularly in terms of enabling radiologists to seamlessly work from home as and when required. This has become the “new norm” and our technology with its streaming platform is ideally suited to this. This is only one factor in the growing adoption of our technology so, we believe that the momentum we have achieved will be sustainable in a post-COVID environment.

Q: Over the last 12 months you have won a number of key contracts in both the academic and non-academic/IDN space. Can you comment on the differences between the two in terms of opportunities? Do you see Pro Medicus’s future more in the academic or non-academic space?

A: We have had a good mix of both academic and non-academic contract wins. The key differences are that the academic space opens the possibility for research collaboration and also exposes us through their associated medical schools to the next generation of clinicians. Having said that some of our largest clients are IDNs or non-academic and therefore are still excellent opportunities for us.

Going forward we believe we will see a healthy mix not only across these two segments of the market but also opportunities of various sizes in both the private and for-profit space.

Q: There seems to be a swing to Cloud deployment with four out of your last seven contracts being Cloud-based. Do you see this trend continuing and how does that impact PME?

A: There is no question that there has been a significant momentum shift towards Cloud, largely driven by the inherent scalability and security offered by Cloud infrastructure and we see this trend continuing. Visage is fully Cloud-native; it is the same application whether the client deploys our solution on-premise or in the Cloud, providing clients with the flexibility to choose the option that best suits them. We see this as a significant strategic advantage as we believe we are one of the few, if not the only, vendor that has a proven, fully Cloud-based solution.

Q: North America dominated new business won during the year. When might you begin to make similar inroads into Europe? Do European health networks appear not to share the same enthusiasm for your products/solutions as their North American counterparts?

A: North America is not only the biggest market but also the most active, so it is no surprise that it represents the bulk of our new business. As for Europe, we think it is a few years behind North America in terms of how they buy informatics in healthcare. Part of this is due to regulation coupled with the fact that most healthcare systems in Europe are Government-based. Having said that, it is changing and the old

paradigm of buying everything from a single vendor is no longer a given, as we saw with our recent win with LMU Klinikum in Germany. Also, each individual opportunity in Europe is smaller than what we tend to see in North America, as most hospitals tend to be regionally based. So, we see growth in Europe as being more incremental than has been the case for us in North America, but it is still an important market for us going forward.

Q: You have more than \$60 million in cash and other financial assets. What are these other financial assets and what are your plans for this money?

A: The other financial assets are fixed-income securities that enhance our returns on available funds. We view these and our cash reserves in three buckets. First and foremost, to support our investment in growing our business, including investment in R&D and staff. Secondly, in terms of dividends and returns to shareholders. And thirdly, in terms of possible future M&A. We are always looking to balance these three things with the primary focus being investment in the business. For example, when we signed the NYU collaboration agreement, we told the market that we would be increasing our investment in R&D by establishing a new R&D hub in New York City which we see as a key investment in our future.

Q: You have had six major sales in the past year, plus Northwestern which you sold in late June of 2020. How are these implementations going and how have you managed this process in light of COVID restrictions? Do you have capacity to take on more work?

A: Despite COVID we have had our busiest period in terms of implementations. In August of 2020 we implemented Ohio State University (OSU), which was done 100% remotely. Since then, we have fully implemented four out of our seven recent contract wins, namely Northwestern, NYU, LMU Klinikum and Medstar plus a number of other smaller sites. Some of these were done 100% remotely, some via the previous on-site model and interestingly a number that were a hybrid of on-site presence and remote. So, we have proven models that will work anywhere, from a fully on-site presence through to one that is 100% remote.

Going forward we think the optimal solution is the hybrid solution – part onsite and part remote. It is ultimately the client's decision, but even in a post-COVID world we would envisage many of our clients opting for this solution.

In terms of capacity, as mentioned above, we have fully implemented four out of our seven recent contracts, with the other three on track for this calendar half, so we certainly believe we have capacity to implement any contracts that we may win going forward.

Q: You say in your announcement that the two research collaborations (NYU Langone Health and Mayo Clinic) represent “good opportunities” for the company. What in particular?

A: There is a lot of research being done in these institutions that could potentially be commercialised and not just in the field of artificial intelligence. We feel we bring complementary assets and skills to the table. This includes the AI Accelerator platform that significantly speeds up the process from concept to FDA approval coupled with our proven ability to productise and distribute technology. So, whilst it is early days, we do believe these agreements will help generate new products that we can offer to the market.

Q: Can you explain the importance of FDA clearance for your Breast Density AI Algorithm and what impact this will have on the pipeline with regard to Artificial Intelligence?

A: The breast density algorithm was initially embarked upon as validation of the AI Accelerator platform, but when we saw how well the algorithm performed compared to a consensus of radiologists, we realised that we should commercialise it, and FDA approval is a mandatory step. The algorithm is currently being trialed at one of our academic customers so that we can fully assess where and how it is used and once that process is complete, we will offer it to the rest of our clients.

Importantly, using AI Accelerator, we were able to take the Breast Density AI project from concept through to FDA approval in a fraction of the time it would normally take. So, we believe we can use this methodology to fast-track those projects that we do in collaboration with our academic clients as well as those we do on our own.

Q: Can you tell us a little more about the pipeline?

A: The pipeline is strong with opportunities at various stages of the cycle. There is very healthy mix of opportunities across a broad range of market segments and size including academic, non-academic, the for-profit and the private sector as well as a mix of Cloud and on-premise. Pleasingly, a number of the opportunities are for more than one Visage product a trend we see continuing.

Q: PME is in the ASX 200. What are you looking to do with regard to environmental, social and governance (ESG) reporting?

A: As a company, we think we tick many of the boxes when it comes to the underlying principles of ESG. Our environmental footprint is incredibly small, and from a social/ethical investing perspective our software

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“does good”, it moves the needle in terms of clinical outcomes. So, as a Board we are taking a number of steps to increase our reporting around this, both in terms of ESG and other areas. We have already published a lot of our policies and governance statements, as well as including more ESG reporting in our upcoming annual report. We are also in the process of recruiting a new independent director to our Board to chair our Risk and Audit committee so there is a lot happening on this front.

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

Authorised by the Board of Pro Medicus Limited.

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