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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: What are your general thoughts on the full-year result, which was another record for PME, with revenue up 29% to \$161.5 million and net profit up 36.5% to \$82.8 million?**

A: All of our key financial metrics moved in the right direction resulting in another record year, not just in terms of revenue and profits, but also other metrics like sales and implementations, so we think it was a very strong result.

**Q: How difficult will it be to continue these growth rates in the year/s ahead?**

A: Clearly maintaining growth rates of 30% plus year on year gets harder as the base gets bigger but we believe we can maintain our trajectory of strong, profitable growth. Our clients are growing well above industry average and with our transaction-based model, if they grow, we grow. We also had a record year in terms of new contract wins that are now coming on stream, so we expect a material step-up in transaction volumes from these clients in the FY25 year. This includes Baylor Scott and White our largest contract to date that will be fully implemented by this September. And then there is the prospect of new sales which, as you know, are long term contracts that adds to our base of recurring revenue.

On the cost side, we have a highly scalable business model with high operating leverage that has enabled us to achieve growth whilst at the same time, having a tightly contained cost base, which we plan to maintain going forward.

**Q: The result was largely driven by a 34.4% increase in revenue from North America. What is behind this growth?**

A: North America now accounts for close to 90% of our revenue.

Our growth in this market is due to several factors, our propriety streaming technology, our proven ability to seamlessly implement in a fraction of time compared to our peers and the fact that we are arguably the only vendor that can fully deploy in cloud at scale.

We are also benefiting from the increasing network effect as a result of our growing client base not only in terms of the numbers of clients, but also who they are. We now service 11 of the top 20 hospitals in the US as voted by US News 24/25, far more than any of our competitors.

**Q: EBIT margins have increased steadily from 53% in FY20 to 69.5% this year. How do these compare to your peers and are these sustainable?**

A: Our margins are multiples of our peers. We thought that the initial bump in margins during the COVID-19 pandemic— because we didn't have major expenses in travel and trade shows – would be temporary and once things settled would gravitate to a midpoint between COVID and pre COVID levels, but we were able to maintain these margins after the COVID-19 pandemic and have been able to steadily increase them year-on-year. This year being another case in point. We believe these margins are sustainable and do not expect them to deviate materially in either direction from these levels.

**Q: You won nine key contracts with a minimum total contract value of \$245M in North America during the period – a record year for sales. This was across a range of opportunities academic, IDNs large, medium, and small, regional hospitals and imaging centres including the \$140M, 10-year contract with Baylor, Scott and White, which was significantly larger than your other contract wins to date.**

**Do you see this trend of increasing sales continuing and are there more of these larger contracts out there?**

A: FY24 was certainly our biggest year of sales on record. As you have noted, the sales were across a broad range of market segments and size of opportunities, ranging from boutique opportunities such as Nicklaus and Nationwide children's hospitals through to very large opportunities such as Baylor, Scott and White, and opportunities in between.

Being able to address such a broad range of opportunities is incredibly important because it gives us a much larger TAM. Unlike our competitors, we are not confined to a single segment of the market. We have implementations ranging from a two-radiologist practice in Melbourne all the way through to some of the largest and most sophisticated US healthcare enterprises all being serviced by the one Visage 7 platform – we don't have different versions for different market segments.

We currently have a bit over 7% of the market in the US, so there is still a huge opportunity for us. Baylor Scott & White Health is in the top 30 healthcare systems in the US, so there are definitely others of that size out there, which, in conjunction with our ability to address such a large share of the market, leads us to believe we can maintain increased sales momentum going forward.

**Q; What about Europe and Asia?**

A: The US is the world's largest market. We are doing well there so the last thing we want to do is to take our eye off the prize. Having said that, we are looking at other regions but, as we have said before, Europe in particular is still a number of years behind North America in terms of healthcare IT and Cloud, so while there will be opportunities in Europe and possibly Asia, they will tend to be smaller and more opportunistic compared to those in the US.

**Q: With all these recent sales, how is your implementation timeline going and what trends are we seeing with implementations?**

A: We did nine implementations in the last financial year, which is a record number, so we have definitely been keeping on top of this to ensure we don't have a backlog. As I often say, it's one thing to sell systems, but another to seamlessly implement them, which I think we are unique in achieving. If anything, Cloud is making these implementations more streamlined, so implementation timelines are shortening.

**Q: Cloud-based systems seem to be the way forward for new contracts. What was the turning point? Was it simply a matter of healthcare systems becoming more comfortable with the Cloud?**

A: It was only relatively recent; I would say in the last 3 to 4 years that healthcare systems realised that the Cloud is far more secure and scalable than traditional on-premise solutions. There really was a pivot. Since then, we have not implemented a single on-premise solution in the US, they have all been Cloud-based. We see this as a strategic advantage, as our competition has not been able to re-engineer their systems to fully take advantage of Cloud.

**Q: You have said that your modular approach is attractive to new customers. Is this still the case and what impact has this had?**

A: It is very much still the case. Initially we sold only the Viewer – our cornerstone product – in the US. Then we added Archive and more recently Workflow Management, so we now offer all three modules ("full stack"). This means that clients need only deal with one vendor and can still get a best-of-breed solution. This has been the case with most of our recent sales. The net result is an increase in the total contract value, as the sales include three products. It also makes it easier for us to implement as we are not reliant on a third party to do their bit in order to complete the implementation.

**Q: What trends are you noticing in the industry, and have you seen any changes in the competition?**

A: I think a key one is the shift to Cloud which has stratified the competitive landscape far more than one would expect.

Legacy vendors have struggled to transition their technology to this new paradigm despite claiming they can. Some have said they are on a "journey" to the cloud which means they are not there yet and may never get there. Others offer hybrid solutions that require on an on-premise system as well as a system in the cloud which defeats the purpose of cloud. You end up having two systems to manage instead of one, and as a result, you increase cost and exponentially increase your exposure to cyber risk by increasing the attack surface of the solution. In my view, it is the worst of both worlds.

Then there are the new entrants in the market who, whilst being cloud based, are finding that the bar has been raised as it is no longer enough to offer a 2D based system, radiologists are expecting a lot more bells and whistles even in a basic offering so there is a much higher barrier to entry, not to mention the regulatory FDA cycle.

So, we think we are in a unique position.

**Q: Your cash and other financial assets are 28% higher at \$155.4 million. What are your plans for these assets?**

A: Our main focus is, and always has been, on making sure that we invest in our business, not just in terms of R&D, but also ensuring we have appropriate staff numbers to service our increasing client base. After that we balance returns to shareholders while keeping enough dry powder for any possible M&A opportunity. Certainly, with interest rates rising over the past few years, it is a good position to be in.

**Q: In the first half of the year, you made a \$U5 million investment in a Boston-based AI company Elucid Bioimaging. Might we see more of these sorts of investments?**

A: We have said for a while we would use part of our retained earnings for investment and M&A should good opportunities arise. The markets have moved in our favour in terms of valuations in the past 18-24 months. So, we are always on the lookout for opportunities that we can add value to; Elucid is an example of this and there may be others.

**Q: What progress have you made with AI and other -ologies during the year?**

A: We have continued to make very good progress in both areas. Our AI research collaborations have resulted in a number of papers and abstracts being presented at academic conferences during the year supporting the benefit/accuracy of our AI offerings which is so important for a clinical product. We have also continued to add feature functions to our cardiology offering which we showcased at the RSNA conference late last year broadening its appeal as a leading edge, single platform enterprise solution.

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**Q: You said at half-year that your pipeline remains strong in terms of quantity and quality of opportunities. Is this still the case?**

A: Very much so. We have seen an increased cadence of inbound RFPs across a broad range of market segments and size of opportunities. This, plus the heightened focus on Cloud, has helped boost our pipeline both in terms of quantity and quality and pleasingly, many are for “full stack.” We have already started the year on a positive note, signing a contract with Lurie Children’s Hospital, the leading paediatric hospital in Chicago and there are plenty of other opportunities like this, and larger, in the pipeline

Thank you, Sam.

Interviewer: Richard Allen

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