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Interview with Dr Sam Hupert, CEO Pro Medicus Limited

- First half results
- Implementations and Contract trends
- North American TAM and market segments
- Elucid, AI and other ologies
- Recent wins and pipeline

Q1. What are your general thoughts on the result, which included revenue from ordinary activities of \$97.2m, up 31.1%, and net profit of \$51.7m, up 42.7%

A: It was another record result with all our key financial indicators moving in the right direction. It was our biggest half in terms of upticks in revenue, net profit growth and retained earnings. It was also by far our biggest half in terms of new contract wins, contract renewals and upgrades, all of which we think set us up for the second half.

Q2. You achieved several key implementations during the period, including at Baylor Scott & White – which was fully implemented in record time, 11 months from date of signing. Are implementations getting easier?

A: We keep refining our implementation methodology which we believe is the best in the business bar none. We learn from each one we do, and whilst no two are alike, the more we do the more commonality we find. Cloud is also a major factor that has helped us streamline our implementation capability, particularly for large distributed multi-site clients.

Q3. How important is it to complete implementations in a timely fashion, to bring forward revenues as soon as possible?

A: Once a client has made the decision to move to our platform, they usually want it implemented as soon as possible which suits us as the sooner the client is fully live, the sooner we get the full run-rate of revenue going forward. So, it's in both parties' interests to complete the implementations in as timely a manner as possible. It also reinforces our reputation for rapid implementations, which we see as a strategic advantage over our competitors.

Q4. Trinity Health is one of the biggest health networks in the USA, and your contract with them is the biggest in Pro Medicus's history. Do you see this as opening up a new area for you among the bigger health networks?

A: Trinity is one of the top ten IDNs in the USA, so the fact that we have won this certainly increases awareness among other similar-sized healthcare enterprises. But as we have always said, our offering is suitable for all groups, ranging from the largest players like Trinity through to some of our smaller niche clients such as Lurie Children's Hospital and everything in between, Duly being a case in point, all of which we also signed in the half.

Q5: Despite the size of the contract – A\$330M – the contract with Trinity Health moved your footprint in the US market from 7% to over 8%. What does this say about the size of the Total Addressable Market (TAM) in the USA?

A: I think it serves to reinforce just how large an opportunity the USA is for us. Roughly 60 cents of every dollar spent on healthcare globally is spent in the USA. It is a huge market so there is plenty of runway despite a slew of recent wins.

In terms of TAM, we look at it through two prisms. This first is from a product perspective and, as we have said before, we believe we are unique in that we can address close to 100% of the market with the one product offering.

The second is commerciality - when is an opportunity is too small to be commercially viable. There is no question that this threshold has been lowered by a combination of "full stack" which increases the dollar value of these sales, and cloud. Based on our analysis we believe we can address about 85% of opportunities and make them work commercially, with the remaining 15% being too small. That said, these smaller players are disappearing, being absorbed by the larger players because of governance and cyber security costs so if anything, the 15% is shrinking making our TAM larger.

Q7: Can you see this changing at all? Might you end up specialising in one particular area – either in size or segment: academic/teaching hospitals, integrated delivery networks (IDN) or corporate/private imaging centres?

A: No. We continue to have success in all segments including the private-imaging-center market, which previously was dormant but is now starting to provide opportunities for us, the most recent being Duly. We anticipate further opportunities in this segment as we do in the other segments as witnessed by recent sales to Trinity Health and BayCare in the IDN space and University of Kentucky in the academic space.

Q8: You continue to increase spending on R&D? How important is this for the future of the company?

A: As I often tell our team, "There are two states in software, the quick and the dead and you don't want to be dead." Continual investment in R&D is fundamental to our future, not only in terms of new products such as cardiology and AI, but also in continuing to improve and enhance our Visage 7 suite of products. It is in our DNA. We release two, sometimes three, material updates every year, packed with new feature/functions, to ensure that we increase our technological lead over our competitors.

Q9: What are your thoughts on PME's margins during the period, which increased significantly compared to the same time last year?

A: We have previously provided guidelines to the market that our margins would stay roughly within the previous range, however the scale of new implementations, including Baylor Scott and White and others, have meant that the revenue growth has once again outstripped growth in expenses, hence the increase.

Q10: Nvidia's share price was hit hard recently by the emergence of a rival Chinese company in the AI space. Do you keep an eye on rivals in the medical imaging space? What do you learn from them if anything?

A: Most if not all rivals in the medical imaging space are either US or European-based, so from a core platform perspective, we have not seen competitors from China. However, we do continually keep, as much as one can, an eye on what is happening in the industry to make sure that we recognise any emerging trends, as we did with Cloud, and are clearly actively monitoring the AI space as it pertains to medical imaging.

Q11: You have cash reserves of more than \$180 million. What are your plans for this?

A: Primarily we look at our cash in terms of what we need to invest in our business which we continue to do as we continue to build capability. Secondly, we look at returns to shareholders as evidenced by our dividend policy. We also like to keep some dry powder in terms of co-investments and/or future M&A to provide us with maximum flexibility for opportunities as they present themselves.

Q12: What progress have you made with Elucid? Are you looking at other such opportunities?

A: Elucid has recently received FDA approval for its Plaque IQ Technology, which they are looking to commercialise soon. We will be looking to offer that as soon as it is available. They are also making progress with FDA clearance for its FFR application, which we would like to commercialise once that has been achieved. So, while it has taken a touch longer than initially expected, we believe that the commercialisation phase, particularly for Plaque IQ, will start in the next six months.

Q13: Any comment on progress on AI and 'other ologies' during the period?

A: We have continued to make good progress on both fronts. We showed some of our new 'work in progress' AI projects at RSNA in December and received very positive feedback. We have also continued to make progress with our cardiology offering and have signed our first contract for our new cardiac echo-package, which we are looking to implement in the April timeframe. Whilst the contract is with one of our smaller customers, we see this as a material first step.

Q14: Can you add anything about PME's pipeline?

A: We have recently had unprecedented success in converting pipeline to contract. In the last two months alone, this has resulted in contracts with a minimum value of \$485M including U Kentucky and BayCare which were signed in January, so it has been incredibly dynamic of late. Offsetting these are those opportunities that we have been working on throughout 2024 that continue to progress through the pipeline as well as new opportunities that came from the RSNA which was our most successful RSNA to date. So, we continue to build the pipeline of opportunities across all market segments, and across all client sizes.

Thank you, Sam
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Authorised by the Board of Pro Medicus Limited.