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Interview with Dr. Sam Hupert, CEO Pro Medicus [ASX: PME]

- **Financial results for the year ended 30 June 2020**
- **COVID-19 effects on the business**
- **Strong cash flows and dividend payout**
- **Doing business in the COVID-19 environment**
- **Current pipeline and prospects**

1. **The company continued its growth trajectory in FY20 with revenue from underlying operations up 24% and underlying profit before tax up 33% - what do these two numbers tell the market?**

   A: I think they give a strong indication that our transaction-based strategy is working. We had 11 months of transaction revenue from Mass Gen Brigham (formerly Partners), which was supplemented by Duke University coming on stream in late February 2020. These built on the other contracts that we have implemented in recent years. We also had a strong year in Australia with the Healius and I-MED rollouts, and if you exclude the one-off sale to the German government in FY19 we had a positive year in Europe as well.

2. **Your EBIT Margins increased from 51.6% to 52.5%. Is this sustainable and how do you view margins as a metric of how you are going as a business?**

   A: We have told the market that we think that once we hit 50% EBIT margins, growth will be incremental, and we do not foresee any radical changes to that. In terms of business metrics, margins are important, but certainly not our number-one focus. That is reserved for how we maintain and improve our competitive advantage. The best way to do that is to continue to invest in the business, particularly in areas such as R&D and scalability which are the things we focus on, more so than margins per se.

3. **Your results must be particularly pleasing given the difficult business conditions worldwide?**

   A: Yes, we were very pleased with the net result. Before COVID-19, we were trading in line with our budget and on track with all our implementations. Then COVID-19 hit, and by the end of March healthcare institutions across the globe put non urgent, elective work on hold in order to repurpose their facilities to prepare for the expected deluge of COVID-19 cases. Clearly, this affected radiology volumes but only for a short period. Firstly, there was always a base level of urgent or essential work that had to be done. Then, secondly, I think groups started to adapt to how they were going to manage in the COVID-19 environment using protective clothing, distancing, etc. that enabled them to continue to function through these trying times.

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Also, as a business, we were able to continue operating at 100% capacity, albeit remotely. This not only included our support and R&D activities but also sales and marketing, so we were able to engage with prospects and due to the "thinness" of our technology were able to do large scale remote demonstrations and implementations instead of doing them onsite as we would have done pre-COVID-19.

Then there is the new experience of the virtual trade show. Even our main industry event, the RSNA which is held in Chicago at the end of November, will be a virtual event this year. If this happened 5 or 6 years ago, it most probably would have impacted us, as we were building our name in the US and the RSNA was a key part of that strategy. I think most would-be purchasers know of us now and given it is the same for all of our competitors, it is a level playing field at worst. On the flip side it could potentially be an advantage because our technology is ideally suited to remote demonstration whereas most others aren't.

So, apart from the conferences it has been 'business as usual' as much as it could be in a COVID-19 environment.

4. **You say that you are now experiencing "near normal" examination numbers, back above 90% and in some cases back at 100%. Were you surprised that things have come back so quickly?**

   A: Clearly, back in March/April 2020 no one could have accurately predicted how long it would take for radiology numbers to normalise other than knowing that the majority of the tests that were deferred could not be put off forever. And certainly, the recovery was not uniform in terms of its timing, with certain regions like the east coast of the USA being hit harder and therefore lagging other regions, sometimes by weeks in terms of recovery. Thankfully, most areas have tracked back to near normal, but clearly, as we have seen here in Australia, with Victoria and in the USA, with California, one has to be mindful that things can change quickly.

5. **You mention also that your cash flow was higher than profit for the year. How important is cash flow in today's business conditions?**

   A: Cash flow is important at any time and maybe even more so in the current environment. Cash increased significantly year-on-year despite paying out increased dividends. We now have over 2 years' worth of operating expenses in cash, with no debt. And, all things being equal, we expect to continue to accrue cash in the coming year, so we think we are in good shape as far as that goes.

6. **Can you give us some more information about the key contract wins during the period: Ohio State University, Nines and Northwestern Memorial? Was any one of these more important than another?**

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A: They are very different. On one end of the spectrum, you have Nines which is a Silicon-Valley start-up looking to use its artificial intelligence (AI) algorithms in conjunction with Visage to offer a differentiated teleradiology service; and then there is Northwestern, a large tier-1 academic hospital recognised as one of the top 10 in the US. Ohio State University is somewhere in between. It is a mid-sized, state-run regional hospital system that is has its own medical school. The fact that these opportunities are so different supports our view that our technology can work across a broad range of market segments.

In terms of importance, they were all important, but for different reasons.

7. **You make mention in your results release of the importance of one-off revenue being replaced by recurring revenue. Can you explain this please?**

A: As we have stated previously, the one-off revenue was a sale to the German government in the first half of FY19. It was a capital sale where the licence revenue was taken up in a single point in time. If you look at our revenue figures this year, they have increased period on period, even accounting for that one-off sale. The difference is this year's revenue increase was recurring transaction-based revenue, which builds the base for this year and future years to come. So, whilst all revenue is good, recurring revenue is clearly preferable

8. **How important is it to build momentum at both academic hospitals and regionally based community hospitals? Do you see your technology better suited to one than the other?**

A: From a technology standpoint, I think we are equally suited to both, and the fact that we had sales in multiple segments during the year backs this up. Clearly, we want to continue to build momentum not only in these two segments but also in the teleradiology and imaging center markets where we have a presence as well.

9. **How do you see your pipeline at the moment? Can you give us an idea of the percentage of both those key market segments in the US that have you captured, and therefore what is left to capture?**

A: We said in June when we announced the Northwestern contract that the pipeline was the strongest it has ever been both in terms of quantity and quality, and we still believe this to be the case. Those opportunities that were in the pipeline then, have continued to progress through the sales cycle; we have not lost any. Some of these are looking at more than one product and there are those that have expressed a preference for Visage in the Cloud, so a good mix of opportunities. We have also seen a number of new opportunities emerge even during COVID-19, contrary to what most people would have expected so there is strong interest.

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In terms of market share, most people think of us only addressing the tier-one academic space because of our success in this segment, but we have a material number of clients that are not in the academic space and some of these are very large like Sutter Health and Mercy Health, with others like Ohio State University cutting across a number of segments. Whilst we have won the lion share of the key opportunities that have presented over the past 5 years, there are still plenty of opportunities out there, not just in the tier one space, but in many of the other segments we address, so we have by no means saturated the market. If anything, we are closer to the beginning of our journey than we are to the end.

10. Most of your recent news has been about the USA. Does this mean that you are concentrating less on Europe or is that just the way that things have turned out?

A: It's the way things have turned out. The US is not only the biggest market in the world, it is also currently the most active. Having said that, we do have opportunities in Europe and Australia, albeit these are longer-term than those in the US, but that does not mean these markets are not important to us, quite the opposite.

11. Can you give us an update on your rollout at recently announced clients, and what we can expect in terms of the timing of revenue flow from them?

A: We are on schedule despite not being able to travel due to COVID-19 restrictions. Ohio State University has just gone live, and that was done 100% remotely and we are continuing with Phase 2 of the Mass Gen Brigham rollout which should be complete by the end of the calendar year. Then there is Northwestern which is scheduled to go live early next calendar year. Depending on how things pan out with COVID, this could also potentially be done remotely, at least initially. So, we will continue to do remote implementations during COVID-19 and will be able to continue to do so post-COVID-19 as needed.

You have mentioned Artificial Intelligence in recent announcements. How are you progressing on that front? What further progress on AI technology can we expect from PME in the upcoming year?

A: We have made excellent progress over the past 12 months. We continue to build research/collaboration relationships via our AI Accelerator platform with many of our academic clients that have active AI programs in place. With Northwestern and Ohio State, we continue to grow our footprint in this space.

Our platform is ideally suited to display the output of AI-based image analysis, and we are positioning it as such so that third-party algorithms can be natively integrated into it. In addition, we are building more and more AI into our core product. And finally, we have submitted our breast

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density algorithm for FDA approval and are awaiting the outcome. So, we are active on multiple fronts when it comes to artificial intelligence.

In terms of revenue, we have always told the market that we believe material revenue from AI is still some time off, 12 to 18 months away, possibly longer. At his point in time, there is no reimbursement for using AI so working out who pays is something that needs to be worked through. Nonetheless, we have “multiple irons in the fire” so we believe we are ideally positioned to take advantage of AI as it becomes mainstream.

Thank you, Sam

Interviewer: Richard Allen

Oxygen Financial Public Relations

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