

ASX Announcement

PKS Holdings Limited (ASX: PKS)

Sydney, 28 February 2020

PKS update for the half-year ending 31 December 2019

PKS Holdings Limited (ASX: PKS: “PKS”) is pleased to announce a positive business update for the half-year ending 31 December 2019.

Half year highlights:

- Recurring revenue of \$1.7 million up 8.1% on 1H 2019
- Recurring revenue 91.5% of total revenue, up 10% from 81.5% 1H 2019
- Operational EBITDA of \$1.24 million. This represents a 65.7% margin
- Annual Recurring Revenue of \$3.47 million
- Net cash of \$4.2 million and no debt
- Profitability, gross margin and positive cash flow in line with budget expectations
- Agreement with PKS’ major channel partner, Abbott extended until April 2022 (with automatic 2-year extensions unless 6-months’ notice is given) with commercial terms renegotiated and licence fees increased
- Abbott partner licenses up 50% to 27 from the end of FY19
- Direct sales strategy for ANZ implemented with Sales Manager in place from early September
- New use cases for RippleDown in “early warning system” being trialed in Australian hospitals
- Agreement with ACT Pathology extended.

Half year financials

On 31 May 2019, PKS Holdings Limited (formerly QPro Holdings Limited) acquired 100% of DPP Holdings Limited, which owns 100% of the issued capital of Pacific Knowledge Systems Pty Ltd (“PKS Pty Ltd”).

Due to the acquisition, the financial results for the six months ended December 2019 include the results from operation from PKS Pty Ltd and as such are not comparable to the previous reporting period from 26 June 2018 to 31 December 2018.

For comparative purpose, the six months trading result of PKS Pty Ltd has been added to the comparative period and presented as follows:

REVENUE (\$'000)	H1 FY20	H1 FY19
Recurring Revenue	1,734,794	1,604,259
Non-Recurring Revenue	160,211	364,235
Total Revenue	1,895,005	1,968,494
Total Revenue including Other Income	1,899,330	2,042,257
Employee benefit expense	784,870	670,417
Sales and marketing cost	120,353	95,746
Professional Fees	109,769	40,454
Other Expenses	77,922	141,256
Capitalised software development	(438,164)	(175,008)
Operating EBITDA	1,243,580	1,269,392
Non-recurring expenses	106,521	2,223,390
Professional fees post listing expense	88,960	0
Post listing expense	345,178	0
EBITDA before options	703,199	(953,998)
Depreciation/Amortisation	229,866	38,140
Options/Performance rights (inc. staff)	93,397	0
Other expenses (non-cash)	38,774	(7,455)
Profit before tax	341,884	(984,683)

- Recurring revenue is up by 8.1% to \$1,735k
- As forecasted, non-recurring revenue is down 56% as our major channel partner Abbott requires less consulting and support services. They have become more self-sufficient in the marketing and implementation of RippleDown products, resulting in slightly lower consulting revenue
- Software development costs have increased due to the further development of RippleDown resulting in a higher capitalisation amount
- Employee benefit expense has increased due to the employment of a Sales Manager
- Non-recurring expenses in 1H 2019 includes one-off management payment of \$2m to previous owners.

PKS' growth strategy, as planned is focused on:

1. Direct sales

PKS has now appointed an ANZ Sales Manager to focus on increasing sales to direct customers in the ANZ region in the private and public pathology, as well as in the broader tertiary hospital setting.

2. Expansion

PKS is working closely with existing customers to extend the application and use cases of RippleDown to drive volume and revenue.

3. Channel Partner Development

PKS is working closely with the existing channel partners, in particular Abbott to increase the number of installations.

PKS has renegotiated and extended the agreement with Abbott as follows:

- The addition of a new volume based-license mechanism which measures the number of patient episodes and charges additional recurring licensing based on the total customer episodes;
- The increase in the commercial licensing pricing to address CPI since inception (April 2016);
- The addition of a commercial go to market revenue sharing regime where on joint sales led customer opportunities, the contract pricing will be shared between Abbott and PKS;
- Non-exclusive arrangements where Abbott agree PKS will be able to re-establish its direct sales force to work its own direct pipeline in certain areas and in conjunction with Abbott in others; and
- Extension of Term to 30 April 2022, with an automatic 2-year renewal period (subject to a 6-month notice period).

Abbott is increasing the number of installations at a faster rate with 9 new installations in the six-month period, bringing the total at the end of 2019 to 27.

4. Strategic synergistic acquisitions

PKS is actively pursuing synergistic acquisition opportunities. PKS is searching for opportunities in the healthcare technology arena for companies with:

- complementary technologies
- strong sales and key customer relationships in the hospital sector

- access to distribution channels beyond pathology and/or geographies where PKS is not directly present
- strong technology capabilities and cloud-based expertise.

5. Product roadmap

Research and Development to continuously expand and improve the functionality of RippleDown.

The technology road map includes:

- GUI enhancements
- Development of a microbiology module
- Development of a molecular diagnostic module
- Seeded knowledge bases
- Development of a cloud architecture.

This announcement is authorised by the CEO.

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For further information please contact:

Ron van der Pluijm
CEO PKS Holdings
Phone: 0427 498 615

Mike Hill, Chairman
PKS Holdings
Phone: 0421 056 691

About PKS

PKS is an Australian Healthcare company that works with health organisations around the world to better capture, manage and leverage their human expertise to improve the performance of their business and deliver better patient outcomes; reduce medical errors; deliver greater operational efficiencies; improve productivity; and deliver significant cost savings.

RippleDown enables any clinical domain expert – typically a pathologist or clinician – to automate their unique, human decision-making process at scale in order to provide real-time clinical analysis, interpretations and treatment recommendations. By aggregating and analysing all available patient information – including current and historical results – RippleDown is able to provide a holistic view of patients to generate the most comprehensive and patient-specific interpretations and recommendations.

RippleDown is managed by domain experts, not IT, enabling rules to be built quickly and easily to ensure the system remains updated and relevant.