

## CEO on Significant New contract

Open Briefing interview with CEO Sam Hupert



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### In this Open Briefing®, Sam discusses:

- Value and timing of A\$18 million Mayo contract
- Selection process and potential impact on Pro Medicus' market position
- Outlook for growth

### Record of interview:

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Pro Medicus Limited (ASX: PME) today announced a six-year, pay-per-transaction contract with Mayo Clinic in the US worth an estimated A\$18 million. Under the contract, Mayo will use Pro Medicus' Visage 7 technology enterprise-wide throughout Mayo Clinic's radiology departments. You've indicated that implementation will take 18 months, with the first phase starting in the second quarter of FY2017. Can you comment on the expected revenue flow from the contract over the implementation period, up until it begins to make a full revenue contribution?

#### CEO Sam Hupert

The way the contract is structured, we'll begin to get revenue for professional services early in FY2017, and that will continue until the first implementation, which is expected toward the end of the second quarter of FY2017. Then there will be a 12-month phase-in period, which is timed around the installation of another major Mayo IT project. During this period we'll begin receiving transaction revenue in addition to professional services fees but the minimums for the period are reduced to align with the roll-out timetable. If however Mayo exceeds those minimums during the phase-in period, we'll invoice them for those additional transactions. Thereafter, we'll have five years of revenue reflecting the full minimum transaction volumes.

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Mayo Clinic is one of the world's best known medical institutions, so this would have been a highly sought after contract in your industry. How did Mayo come across Visage, and can you comment on the selection process and why Mayo chose Visage?

#### CEO Sam Hupert

We'd had some attendance by Mayo physicians and IT leaders at our stands at various trade shows over the years, however whilst we can't be sure, we believe a major catalyst occurred about a year ago when a delegation of Mayo personnel attended a users' conference put on by a large electronic medical record (EMR) provider. One of the presentations at that conference was given by a radiologist who described his group's experiences installing an enterprise imaging solution and a key component of that solution was Visage.

Shortly after that, we were invited to participate in Mayo's "request for information" and subsequently its request for a proposal (RFP) for diagnostic imaging. So we think it was an existing client's endorsement, in amongst other things that helped get us to the starting line.

In terms of the process, I have to say that it was one of the most rigorous, in-depth, clinician-driven selection processes we have been part of. It involved numerous demonstrations to large groups of Mayo radiologists, culminating in the selection of two finalists, of which we were one. This was followed by a second round of product demonstrations, technical discussions, and extensive reference checks. This round was also largely driven by the clinicians, which we think is very much in line with the Mayo philosophy. It was a clinician-driven process from start to finish.

As for why we were chosen, we can only speculate but we think in the end it came down to the technology and Mayo's confidence that Visage could deal with the significant technical and clinical complexities of a group of its size and diversity.

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Visage 7 is to be coordinated to align with another significant IT roll-out at Mayo. To what extent will the Visage 7 installation be dependent on the work of other providers, and how might this impact the Visage 7 installation process?

#### **CEO Sam Hupert**

The other IT roll-out is a very substantial project. Clearly, if that's delayed for any reason, there is the possibility our roll-out could be affected. Having said that, third-party delays to our process in the past have usually been caused by data conversion issues and data conversion is part of a vendor neutral archive (VNA) installation. Given that Mayo already has a VNA in place – we believe it was arguably one of the first institutions to install one – we would not expect this issue to arise.

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The Mayo roll-out will overlap to some degree with the roll-out of Visage 7 under your recently announced A\$21 million contract with the Mercy Health System. How do the size and complexity of the two installations compare, and will the increased level of work require a significant increase in your US headcount?

#### **CEO Sam Hupert**

These are both very significant contracts for us, and while there are some similarities between the two institutions, in many ways they're different. In terms of the roll-out, Mercy already has a fully implemented EMR and VNA, so our roll-out is not as dependent on third parties. As I mentioned earlier, Mayo is doing a large-scale IT roll-out which will largely dictate the timing of its Visage 7 roll-out, and based on current plans, will take 18 months.

There will be some overlap in the projects, but we've worked on the two deals for some time, so we've been able to make sure we can cater for both of them in our resource planning and preparation. Having said that, we expect an increase in our US headcount incrementally purely because of the size of these projects, but it won't be a massive increase.

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Mayo is widely recognised for medical excellence, particularly in research and innovation. How might your winning of this contract enhance your profile in the North American market? How might it impact your current sales pipeline?

#### **CEO Sam Hupert**

Mayo is arguably one of the most recognised medical institutions in the US, if not the world, so winning this deal will most likely have a positive impact on our sales pipeline, exactly how much is hard to predict. However, we expect that most large institutions will at least consider us when putting out an RFP, which hopefully will translate to us getting to the starting line more often.

Then to some degree it's up to us, but having another key reference site will mean a lot, particularly to the academic/teaching hospitals and large health systems. It will confirm to them

that Visage can handle big and complex environments such as theirs, which I believe will have a further positive impact on the pipeline.

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Pro Medicus recently indicated that revenue growth for the financial year ended 30 June would be “robust”, albeit somewhat lower than the 66 percent revenue growth achieved in the first half. Has there been any change in your growth expectation for the year?

**CEO Sam Hupert**

Our accounts won't be finalised for six to eight weeks, but we remain on track with this expectation. As we pointed out, the first half included a relatively large capital sale that we did not expect to be replicated in the second half. And while the recent volatility in the exchange rate has had some impact, our underlying recurring revenue base has continued to grow, and our underlying performance and profit is in line with our expectations.

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You also recently confirmed that Pro Medicus would generate positive free cash flow for FY2016. Do you remain on track to achieve this goal?

**CEO Sam Hupert**

Yes, we remain on track. Cash flow has continued to increase in the second half, and free cash flow for the full year is expected to be positive.

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Pro Medicus has announced three major contracts in the US market in the last three months (including the A\$7 million Franciscan Missionaries of Our Lady Health System contract). Can you provide any insight into the earnings growth outlook for the company over the next couple of years, and what investors might expect in terms of shareholder returns?

**CEO Sam Hupert**

We know that, all things being equal, next year will be stronger than this year and the following year will be stronger again. This is based on the minimums in our transaction-based contracts, not to mention the inherent upside in each of these deals, including this latest one.

We're also starting to see the multiplier effect of a rapidly growing user base often referred to as the “network effect”. As a result, our pipeline remains strong despite having converted three big opportunities to deals in the last three months, so there is still the prospect of winning new contracts.

Importantly, we think we're at the beginning of our journey. North America is a big market and whilst we're ahead of where we thought we'd be just a few years ago, there's still plenty of opportunity ahead of us.

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Thank you Sam.

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For more information about Pro Medicus, visit [www.promedicus.com.au](http://www.promedicus.com.au) or call CEO Sam Hupert on (+61 3) 9429 8800.

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