



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: Pro Medicus

By TIM BOREHAM

**ASX Code:** PME

**Share price:** \$5.09; **Shares on issue:** 102,660,549; **Market cap:** \$522.5 million

**Chief executive officer:** Dr Sam Hupert

**Board:** Peter Kempen (chairman), Dr Sam Hupert, Anthony Glenning, Anthony Hall, Roderick Lyle

**Financials (year to June 30 2017):** revenue \$31.62 million (up 15 percent), net profit \$9.32 million (up 46 percent), cash \$22.78 million (up 33 percent), nil debt, dividend per share 4 cents (partly franked, previous period 3 cents)

**Major holders:** Dr Hupert 29.59 percent, Anthony Hall 29.55 percent, Commonwealth Bank 5.8 percent.

In a Game of Thrones moment, Pro Medicus chief Sam Hupert said this of the competitive and fragmented radiology imaging sector two years ago: "There are the quick and the dead in medical software and you don't want to be dead."

The company's got more history than the seven kingdoms combined: Doc Hupert and Anthony Hall founded Pro Medicus waaaay back in 1983, when digital imaging meant a rude finger from a lout in a Torana.

Over the years Pro Medicus has faced times even more perilous than kingdoms threatened by zombies and blood lusting psychopaths.

But unlike most of the GoT cast it's very much alive, a thriving exemplar of exported Australian medical technology with its suite of digital imaging and practice management products.

The company's products include Visage 7 imaging software and the Visage RIS (radiology information system) practice management tool for patient billing, scheduling and such).

The Visage Ease application allows clinicians to access their images anywhere (such as the golf course, not that we believe in stereotypes).

Visage 7 "enables organisations to consolidate the capabilities of what historically has required multiple viewers into a single customisable viewing platform."

### **A beautiful model**

About 70 percent of the company's \$31.6 million of annual revenue derives from the US, underpinned by 'take or pay' style contracts. This means the hospital or clinic pays for a minimum expected number of consultations, over the life of the five to seven year contracts.

"It's a software only model – there's no [capital expenditure] so as the number of transactions grow the top line grows, margins grow and that flows through to the bottom line," Dr Hupert says.

Pro Medicus' penetration of the US market is all the more notable given it competes with the likes of Siemens, Philips and Fuji.

The company's revenue model involves the clinic or hospital paying 70 to 90 percent of expected exam volumes for the year. The beauty is there is no ceiling on the number of transactions, with the client usually paying for more than expected.

Pro Medicus had its Alan Bond moment by buying Visage for \$5 million in 2009 – and then offloading Visage's unwanted research arm Amira for \$15 million.

As the moniker of the products suggest, the Visage acquisition was the foundation for the Visage business in its current guise.

### **Financials and performance**

Pro Medicus listed in September 2000 at \$1.15 apiece. Tellingly, its original base of 100 million shares is little different to today's, which means the company has not showered the market with confetti by way of dilutive share issues.

Even back then, the company was banging on about electronic health and how prescient that was (sadly, the prospectus contained no forward looking lottery number projections).

Pro Medicus chalked a record \$9.32 million net profit for the full year, 46 percent higher, outstripping 15 percent revenue growth to \$31.6 million.

While both US and Aussie revenues climbed around 28 percent, European revenue eased 58 percent, because of a chunky sale to a German hospital in the previous corresponding period.

“This was our most successful year by any measure,” Dr Hupert crows.

Because royalty revenues flow to an Australian entity that pays local tax, Pro Medicus franked its final dividend of 2.5 cents a share (the interim payout of 1.5 cents was unfranked).

Locally, Pro Medicus in March signed a chunky contract with Primary Health for the local radiology giant to use its Visage RIS software over five years.

Starting from this year, the deal is expected to boost annual revenues by 11 percent.

This year’s result will also reflect increased revenue from a July 2016 deal inked with the esteemed US Mayo Clinic.

“The pipeline is robust and our transaction model is working,” Doc Hupert says. “We continue to work on deals which we will find out about in coming months.”

Given the nature of the business, Pro Medicus pretty much knows it has \$115 million of contract revenue locked in over the next five years.

## **Currency capers**

Pro Medicus receives most of its revenues in US dollars and Euros and so broadly speaking is disadvantaged by a rising Australian dollar, which wiped \$550,000 from reported earnings.

Dr Hupert says the Australian dollar normally moves up or down with the US and the Euro consistently, but recently the Aussie battler has gained against the US but depreciated against the Euro.

“So even though we manage currency fluctuations via various mechanisms, the size and nature of the movements impacted us negatively at least in terms of unrealised proportions,” he says.

We’ll settle for the philosophy of erstwhile Cochlear chief executive officer Dr Chris Roberts: “Forex is what forex is.”

## **Dr Boreham’s diagnosis**

Pro Medicus touched \$6 a share in August last year, having traded at 90 cents two years previously and at a mere 38 cents five years ago.

Trading on a Domino's Pizza style earnings multiple of more than 60 times, Pro Medicus is an official inclusion in the "growth stock" cohort. This can get tricky, because investors judge management on its ability to increase profits, rather than just spouting blue sky promises.

The dividend is nice, but like Telstra's payout these days it's more a token of gratitude to shareholders than anything.

Given Hupert and Hall account for 60 percent of the register, they're largely paying themselves anyway.

In March the company announced a buy-back of 10 per cent of the share base, but management is yet to pull the trigger.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. His Alan Bond moment still awaits.***