

**ASX ANNOUNCEMENT: 11 February 2011****CEO on H1 Results & Outlook**

Open Briefing with CEO Sam Hupert

Pro Medicus Limited  
450 Swan Street  
Richmond, Victoria 3121**In this Open Briefing<sup>®</sup>, CEO Sam Hupert discusses**

- Reasons for lower than expected sales, which heavily impacted earnings
- New product issues now resolved, positioned to regain sales momentum
- Cash buffer remains adequate for foreseeable future

**Open Briefing interview:****[openbriefing.com](http://openbriefing.com)**

Pro Medicus Limited today indicated that net profit before tax for the first half ended 31 December 2010 was likely to be around \$0.9 million, down 44 percent from the previous corresponding period. You've attributed the profit decline to lower than expected revenue of \$7.6 million, down 11 percent. While revenue has been impacted by the stronger Australian dollar, you've also said that even on a constant currency basis, revenue has been below expectations. To what extent was this due to external factors such as slower growth or increased competition in your markets, and to what extent to internal factors such as product or service issues?

**CEO Sam Hupert**

There was a mix of the two. Among the external factors, some of our markets, in particular the US, and to a lesser degree Europe and the UK, have still not recovered from the GFC. Diagnostic Imaging in the US has also been hard hit by new healthcare legislation and reduced insurance and government rebates. And in Europe we're seeing the same thing: governments cutting back spending. Whilst this is also happening in Australia external factors haven't been as big an influence.

The major internal factor was that we've released a fair amount of new product and it took a lot longer than we originally planned to get it fully up and running at our early adopter sites. Some of the sales growth we anticipated depended on the availability of key reference sites, which was delayed by some early product issues. With a couple of strong reference sites now operating smoothly, we believe we've turned the corner with our new products, particularly here in Australia.

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Will recovery of sales momentum require significant investment? What is the expected time line for regaining traction in your markets?

**CEO Sam Hupert**

We've already made a substantial investment in new product, including our new radiology information system (RIS), which is a re-invention of our practice management, billing and scheduling systems, and in integrating Visage Imaging's picture archive communication system (PACS) and 3D advanced visualisation products into our product set.

The new RIS product which we anticipate will be released later this month has been very well received by the clients we've shown it to and at trade shows. Not only is it a step change in technology compared with what else is in the market, product support and enhancements will require significantly fewer resources, providing us with potential benefits in ongoing development and maintenance costs.

We believe that we now need to regain sales momentum, particularly for the Visage products, which require a slightly different skill set to implement and support the new product set. We're working on that, and expect it to be largely cost neutral given we're looking at a change in the mix of staff skills, rather than significant additions. While there will be some cost increases as our opportunities grow, they should be covered by revenue growth.

In Australia, given the new reference sites are now up and running and given we're progressing on getting the right implementation and servicing skill set in place, we think we're well positioned to start regaining momentum. Having strong reference sites has always been a major factor in the success of our traditional products in Australia. We think that will be the case for our new products as well.

In the US we have a growing number of opportunities in the pipeline. They are taking longer to realise than expected particularly with radiologists tending to delay capital expenditure in a tougher environment in relation to rebates but we're hopeful some of those opportunities will result in sales in the nearer term.

Certainly we're looking for better sales results within the next six to 12 months.

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You've indicated that cash in hand would be around \$3.1 million as at the end of December, down from \$3.8 million as at the end of June. Do you have adequate balance sheet capacity to fund the recovery of the business in the nearer term?

**CEO Sam Hupert**

Yes. It's worth noting that our operating cash flow improved slightly in the first half in spite of the dip in earnings. Given we've substantially overcome the inevitable teething problems associated with the new product release and are now adjusting our skills mix to better match our current needs, we believe our existing cash reserves are adequate.

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In the second half of the 2010 financial year, there were signs that the Visage Imaging products were starting to gain traction, particularly in the Australian market. Can you

comment on the relative performance of these products in your three key regions in the first half? Has your bullish long-term outlook for these products changed?

**CEO Sam Hupert**

As I mentioned, we had some implementation and servicing issues with those initial product sales here in Australia but we're hopeful that's now behind us.

In Europe and the US the sales process is taking longer and that reflects the after-effects of the GFC and the fact that every government is trying to drive down healthcare costs. Nevertheless, spending on radiology can't stop forever because the rate of technology change is too great. Eventually spending will return.

Certainly we remain bullish about the products for this reason. Our new products, including the Visage products, are technology leaders in their class as witnessed by the Frost & Sullivan award for medical innovation we won late last year in North America. They are all about increasing the efficiency and accuracy of diagnostic information and ultimately contributing to a reduction in healthcare costs.

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Last year you suspended the interim dividend to conserve cash as you bedded down the Visage Imaging acquisition, but you reinstated payments with a final dividend of 2 cents. What is the outlook for dividends given the unexpectedly weak first half?

**CEO Sam Hupert**

We can't comment on the dividend outlook ahead of the release of our audited first half results towards the end of this month. I would note however that the board has always been conservative in relation to the amount of cash we retain on our balance sheet.

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Thank you Sam.

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

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