

ASX ANNOUNCEMENT: 26 August 2011**CEO on Outlook**

Open Briefing with CEO Sam Hupert

Pro Medicus Limited
450 Swan Street
Richmond, Victoria 3121**In this Open Briefing® Sam discusses:**

- Expected turnaround after weak 2011 performance
- Outlook for new products due for launch in 2012
- Free cash flow to increase as new product sales take off

Open Briefing interview:**openbriefing.com**

Pro Medicus Limited today reported net profit after tax of \$0.50 million for the year ended 30 June 2011, down from \$3.92 million for the previous year, on revenue of \$13.97 million, down 27 percent. In the second half Pro Medicus booked a loss of \$0.15 million on revenue of \$6.44 million, down 39 percent. What were the reasons for the weaker performance in the second half and will 2011 mark the bottom of the earnings cycle?

CEO Sam Hupert

In the second half there were a number of factors that meant we recorded the weakest half we've ever had. There was a weaker sales cycle across our markets and we saw a significant swing against us with the strong Australian dollar given we now earn a lot of our revenue in Euros and US dollars. We also had some one-off costs in the second half as well as a higher amortisation charge reflecting our recent product development investment.

But we believe we're turning the corner. We won't have the one-off costs, currency isn't working against us in the same way it did in the second half, and we see some light at the end of the tunnel in terms of future sales. So 2011 should mark the bottom of our earnings cycle.

openbriefing.com

To what extent has Pro Medicus lost market share and what is your strategy to regain share in an environment where government spending is being cut back and economic growth is subdued in your key markets?

CEO Sam Hupert

We believe we've lost a little market share in Australia. Partly that has to do with our new radiology information system (RIS) product which has been delayed. It also took a little longer than expected for us to bed down the new Visage technology in Australia and that created a hiatus. In Europe and America, our direct sales were coming off a much smaller base: we don't think we've lost market share there, and we're hoping to gain a much greater share in the coming years.

Certainly the environment is tough globally. Governments all over the world are trying to control the cost of health and the problem has become more acute as budgets have been cut. Longer term we think this will help us because governments will start looking for greater efficiencies, which favours our product, and importantly, for alternatives to the major providers.

As for the US, this appears to be the most badly affected market – it's never really recovered from the GFC. The European market has been dependent on government spending through large hospitals but we're starting to see some break-away groups forming in niche markets, particularly in MRI and after-hours imaging services, and that's a good opportunity for us. It will take time to penetrate these markets but we think we're well positioned to do that.

openbriefing.com

What were the reasons for delaying the launch of the new Pro Medicus RIS into the current financial year? When will the product be launched and how will you position it in the market?

CEO Sam Hupert

The delay was largely due to aspects of the project management that were not optimal, but which have now been addressed. We've re-focused on the development areas that must be in place for the product launch, rather than features that could form part of a second version of the product. We now expect to launch the RIS in the current half.

Our new RIS is based on new technology with inherent flexibility and functionality that current products don't have, marking it as a "next generation" product. Importantly, it has been designed from the ground up to be used in multiple countries and in multiple languages, which means following its launch it can be quickly rolled out in our various markets, particularly in Europe. Also, the new RIS product and our Visage 7 product will be fully integrated and we expect them to eventually be seen as modules of the one product set.

openbriefing.com

What has been the total investment in the new RIS and what are the expected investment returns?

CEO Sam Hupert

The investment has been in the multiple millions, which we anticipated. We see the return on this investment coming from two or three areas over and above our traditional user base. The new RIS is ideal for very large, complex institutions such as public hospitals. A key strength of its design is its flexibility – we can put it into varied markets without altering the source code base. It's also highly modular so we can use parts of it to address market segments that don't need the full functionality, which includes teleradiology, after hours

reporting and remote distribution. That should help us gain greater penetration in our various markets.

We also think it will pay dividends in terms of our cost base as it will be far easier for us to support and maintain the product.

openbriefing.com

Pro Medicus booked a loss of \$0.81 million in its Australian operations in 2011, versus profit of \$5.14 million in the previous year. Revenue was \$6.60 million, down 39 percent. Previously you indicated that you had strong reference sites in operation in Australia for your Visage advanced visualisation and 3-D products and that this would lead to growth in sales. What were the specific factors that drove Australia into a loss and what is the outlook for sales in the nearer term?

CEO Sam Hupert

The factors I mentioned earlier, such as one-off costs and higher amortisation, contributed to the loss, as did the drop in new sales, which was partly due to the delay in the new RIS technology. There were also issues with the way Visage reference sites were implemented which delayed new sales. These issues are now resolved and the product is performing well.

Our Australian operations also took the biggest hit in terms of exchange losses as we have significant foreign currency reserves which were re-valued due the stronger Australian dollar. These losses were booked to our Australian operations and had the effect of reducing local earnings by over \$1 million.

We think we're now over the worst. When we launch the new RIS technology we'll not only start to regain market share but also create a base to generate dual product sales which will definitely help with sales going forward.

openbriefing.com

In North America you booked a loss of \$0.49 million, an improvement on a loss of \$2.10 million in the previous year. Revenue was \$3.26 million, down 14 percent. You've indicated you restructured your US-based sales team during 2011. How has your US sales model changed and how is the restructure expected to contribute to improved sales and earnings?

CEO Sam Hupert

In US dollar terms, our sales were roughly commensurate with the prior year. Which we think is a good result in a tough environment. One positive has been that we've broadened the product set to address a much larger percentage of the market, increasing the magnitude of each sale in dollar terms. Previously, sales of the Visage product were primarily as an add-on to other company's products.

We've restructured more than just the US sales team. The way the US operations have been run hasn't been optimal and we've effected a number of changes, including changes to senior management and reductions in the cost base. These initiatives are already producing positive results, and we expect to see further momentum coming out of the US in 2012.

openbriefing.com

In Europe Pro Medicus booked profit of \$1.90 million, down from \$2.39 million, on sales of \$8.5 million, down 15 percent, suggesting a sharp fall in margins. What is the outlook for margins and do you expect the European operations to remain profitable going forward?

CEO Sam Hupert

In 2011 our sales in Europe increased due to a strong performance in our OEM division and in sales of third-party products that have our technology embedded in them. We also saw strong sales of Amira, our research bioscience product. European sales in the past have largely been through OEM arrangements. We're now in the process of moving more to a direct sales model which is how we operate in the US and Australia. This will allow us to achieve much higher margins for our products as there will be no middleman involved. We're confident our sales momentum will build this financial year and that we'll remain profitable in Europe.

openbriefing.com

Pro Medicus booked operating cash flow of \$6.25 million in 2011, down from \$6.84 million in the previous year. After investment, including \$4.00 million on product development, free cash flow was \$2.18 million, up from \$0.30 million. What is the expected level of ongoing investment in product development once the new RIS is released and in which specific areas will it be targeted?

CEO Sam Hupert

We've invested very heavily over the last few years in product development, in both our new RIS, which is yet to yield any direct return, and our Visage products, which will give us much broader market coverage. We believe R&D has peaked, but we don't see a sharp drop-off this year. Nevertheless R&D spending relative to revenue should decrease as revenue increases in the next 6 to 12 months. Longer term, with our major products in the market, R&D spending should trend down.

openbriefing.com

Cash in hand was \$3.26 million as at the end of June, down from \$3.79 million a year earlier. Is this an adequate buffer as you seek to regain market share and turn around earnings?

CEO Sam Hupert

We believe our current cash buffer is adequate and we have a number of sales opportunities close to fruition that once realised will help to increase our cash reserves. We don't see any significant additional expenditure to launch our new products and gain market penetration. There has already been a lot of industry interest in both our new RIS and in Visage 7 and we're confident that demand will be strong once the products are released.

openbriefing.com

Pro Medicus did not declare a dividend during the last financial year. What is the outlook for dividends with the business in a turnaround phase?

CEO Sam Hupert

Our aim is to pay dividends to shareholders where this is appropriate having regard to our cash levels. Obviously we've sought to conserve our cash through 2011, and for at least a period of time this will remain one of our priorities.

openbriefing.com

Thank you Sam.

For more information about Pro Medicus Limited, visit www.promedicus.com or call Sam Hupert on +61 3 9429 8800

For previous Open Briefings with Pro Medicus, or to receive future Open Briefings by email, please visit openbriefing.com

DISCLAIMER: Orient Capital Pty Ltd has taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.