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Promedicus (PME)

Growth rate accelerating

Recommendation
Buy (Hold)
Price
$279.08
Target (12 months)
$330.00 (previously $260.00)

Sector

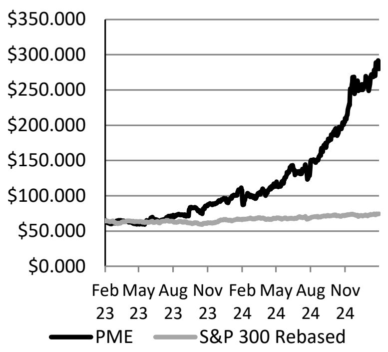
Healthcare Equipment and Services

Expected Return	
Capital growth	18.2%
Dividend yield	0.2%
Total expected return	18.4%
Company Data & Ratios	
Enterprise value	$29.1bn
Market cap	$29.0bn
Issued capital	104.5m
Free float	51%
Avg. daily val. (52wk)	$51m
12 month price range	$85.6 - $293.8

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	268.38	203.99	106.77
Absolute (%)	4.25	37.15	162.04
Rel market (%)	1.39	34.32	150.50

Absolute Price



SOURCE: IRESS

A small miss on earnings, outlook remains positive

PME reported 1H25 revenues of $97.2m relative to consensus of $100m hence a 2% miss at the top line. EBITDA $72.9m relative to market consensus of $75m. PME continues to stick to core business of Visage 7, workflow, archive and data migration services where demand for its offering is increasing despite price rises and an influx of approvals of AI tools in the radiology space (but little/no reimbursement). The ongoing shortage of radiologist is showing no sign of abating, hence the productivity improvements delivered by the Visage platform remain a fundamental driver.

PME continues to win good new business in its traditional client base of Academic Medical Centres and Independent Delivery Networks, however, the recent win at Duly Health is pivotal. Private radiology is the lowest margin work in the sector and for this reason there has been considerable consolidation. For PME to win an RFP in this space would have been unheard of up until now and in our view this is another affirmation of the value proposition.

Guidance and Outlook

No guidance, none expected. Revenues continue to be highly transparent. Recent devaluation of A$ expected to add c. $6m to FY25 revenues, majority of which will flow to earnings. The pipeline continues to be described as strong across all classes and this translates to more contract wins imminent. In our long coverage of the stock, this description has never waivered. By virtue of the recently announced contract wins, FY25/26 revenues remain highly transparent.

Investment View: Upgrade to Buy PT$330

The PME full stack solution continues to wipe the floor with competitors – 10 contract announcements in the LTM including two new academic medical centres clients. FY25/26 revenues upgraded by 4% and 2% respectively. In addition we expect further growth in the cardiology space with the first small scale implementation to take place in April 2025. Following earnings revisions we upgrade to Buy and price target $330.

Earnings Forecast

June Year End	FY24	FY25e	FY26e	FY27e
Revenues	161.5	222.0	312.8	391.8
EBITDA $m	119.6	168.3	249.7	312.2
NPAT (underlying) $m	82.8	116.9	173.9	218.0
NPAT (reported) $m	82.8	116.9	173.9	218.0
EPS underlying (cps)	79.1	111.9	166.5	208.7
EPS growth %	35%	42%	49%	25%
PER (x)	352.9	249.4	167.6	133.7
FCF yield (%)	0%	0%	1%	1%
EV/EBITDA (x)	242.3	172.1	116.0	92.8
Dividend (cps)	40.0	56.0	83.3	104.4
Franking	100%	100%	100%	100%
Yield %	0.1%	0.2%	0.3%	0.4%
ROE %	59%	63%	67%	63%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Unstoppable

Figure 1 - 1H25 Result Overview

Summary Income Statement A$m	Actual 1H24	Actual 2H24	Actual 1H25	% Change vs 1H24	Forecast 1H25	% Difference vs Actual	Commentary
Revenues from product sales	74.1	87.4	97.2	31%	94.0	3%	See separate analysis in figure 2
Gross profit	73.9	86.9	97.0	31%	93.1		
GP margin	100%	99%	99%	-1%	99%		
Salaries and wages	14.9	15.5	17.2	15%	18.2		S&W expanded as more tech staff added to expand capability
Other costs	6.6	4.6	7.0	5%	7.5		Incease vs 2H24 due to timing on RSNA spend, but still remarkably low as % rev
Opex	21.5	20.1	24.1	12%	25.7	6%	Huge leverage to incremental revenues
Opex as % of revenues	29.0%	23.0%	24.8%		27.4%		In overall terms, opex remains very well controlled as a % of revenues
EBITDA	**52.4**	**67.2**	**72.9**	**39%**	**67.3**	8%	Revenues +$3m than expected and opex $1.6m lower than expected
EBITDA margin	71%	77%	75%		72%		
D&A	4.4	4.1	3.2		4.4		Surprisingly low D&A
EBIT	**48.0**	**63.1**	**69.8**	45%	**62.9**	11%	
EBIT margin	64.8%	72.2%	71.8%		66.9%		Large improvement in margin vs pcp, however, flt with 2H24.
NPAT - reported	36.2	46.5	51.8	43%	45.8	13%	
EFPOWA (m)	103.6	104.7	104.4		104.4		
EPS	35.0	44.5	49.6	42%	43.8		Solid growth over both pcp and prior sequential period
Dividend	18.0	22.0	25.0	39%	23.0		Payout ratio remains at ~50%.
Free cash flow per share	27.0	49.0	46.0	70%			Growth in FCF well above EPS growth

SOURCE: COMPANY DATA, BELL POTTER SECURITIES

Overall themes driving core business growth remain in place. Speed to load (of images), radiologist burn out, shortages in radiologists, productivity gains, advanced imaging capability, seamless implementation, cloud suitability, scalability and streamlining of radiology complexity.

PME announced its first ever application in cardiology will go live from April 2025 at one of its smaller existing clients. Pricing 2x higher than for general radiology and while volumes are lower, this event represents an important step in the company's development being the first move outside of the traditional radiology buyer. While cardiology is ~20% of the size of the broader radiology market in volume, the pricing is more attractive and the cost of roll out is no different to radiology.

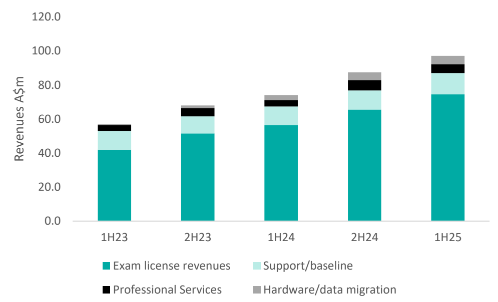
Figure 2 - Revenue analysis by category

$m	1H24 Actual	2H24 Actual	1H25 Actual	% change vs 1H24	1H25 Forecast	% change vs forecast	Commentary
Exam license revenues	56.4	65.6	74.5	32%	75.0	-1%	~10% organic growth with new business representing the remainder
Support/baseline	11.0	11.2	12.5	13%	11.0	14%	Renewals and upgrades to the PACS business in Australia
Professional Services	3.8	6.1	5.3	37%	5.0	5%	In line
Hardware/data migration	2.9	4.5	4.9	70%	3.0	65%	Better than expected as data migrations vary from client to client
Total	**74.1**	**87.4**	**97.2**	**31%**	**94.0**	3%	Overall revenues 3% ahead of forecast

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The highest margin exam revenue now represents 76% of revenues (1H24: 76%). Baseline revenues which are largely earned in Australia from the PACS business increased due to re-contracting of key clients at improved rates.

Figure 3 - Revenue analysis by period and category



SOURCE: COMPANY DATA

Figure 4 - FY25 Revenue Bridge

FY25 projection	Service	Implementation	Exam	Baseline	P. Services	Total
2H24 run rate annualised			131.1	-	-	131.1
Annualised uplift - mergers, organic growth			12.2	-	-	12.2
Incremental revenues from part period instals						
Memorial Sloane Kettering			2.0	-	-	2.0
Baylor Scott White (live from Sept 24)			8.0	-	-	8.0
South shore			1.0	-	-	1.0
OHSU	Full Stack	Sep-24	1.2	-	-	1.2
Consulting Radiology	Full Stack	Sep-24	0.5	-	-	0.5
Nationwide	Full Stack	Jan-25	4.0	-	1.5	5.5
Nicklaus Childrens	Full Stack	Jan-25	2.0	-	1.2	3.2
Moffit Cancer Centre	Full Stack	Feb-25	3.0	-	1.0	4.0
US Radiology Specialists	Full Stack	Jan-25	3.5	-	1.5	5.0
Mercy Renewal (estimated incremental rev	Full Stack	Nov-24	4.0	-	-	4.0
Langone upgrade	Archive and Workflow	Jan-25	1.5		1.0	2.5
Trinity Health - negligable impact in FY25	**Full Stack**	**Jul-25**	**-**	**-**	**-**	**-**
Duly Health	Full Stack	Jun-25	-		3.9	3.9
Duke University	Archive extension	Jun-25	-		2.7	2.7
U. Kentucky	Full stack	Jun-25	-		4.2	4.2
Bay Care	Full Stack	Sep-25	-		-	-
Baseline			-	25.0	-	25.0
Other new work			-	-	-	-
Currency A$/US$0.62			3.0	-	3.0	6.0
			177.0	25.0	20.0	222.0

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

No revenues from the Trinity contract in FY25. The staged roll out will be largely completed within 1H26 (installations & data migration) with exam revenues commencing from part way through the period increasing to the full run rate by end CY26.

Figure 5 - Earnings changes

	2025			2026			2027		
	New	Old	% change	New	Old	% change	New	Old	change
Revenues	222.0	213.0	4.2%	312.8	305.1	2.5%	391.8	382.6	2.4%
EBITDA	168.3	159.4	5.6%	249.7	242.2	3.1%	312.2	303.8	2.8%
NPAT	116.9	108.9	7.3%	173.9	166.9	4.2%	218.0	210.3	3.6%
EPS	111.9	104.3	7.3%	166.5	159.8	4.2%	208.7	201.4	3.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Weaker A$ adds an estimated $6m (1H25 average A$/US$0.655 weakening to US$0.622) to 2H25 revenues, most of which flows through to earnings.

2H25 implementation schedule appears very full. PME will continue to add headcount but does not require a hiring spree to service the Trinity contract. 2H25 EBIT margin expected to be maintained at current levels.

Looking forward to FY26, 2H25 exam revenues already annualising at c. $205m before the revenue impact of the Trinity contract and the normal 10% organic growth driven through client M&A and volume growth. Trinity is expected to add c$30m in exam revenues once fully implemented. We remain very comfortable with the FY26 revenue growth of c. 41%.

Valuation is increased by 26% to $330/share. We see no stopping the current momentum in new contract wins with margins more likely to grow as hospitals begrudgingly adopt the Visage despite its premium price, due to the absence of any viable alternative to meet productivity requirements.

Pro medicus

Pro medicus is a leading diagnostic imaging SaaS provider. It's leading product is the Visage 7 Enterprise Viewer (the Visage Viewer). It is an essential component of a modern PACS with its main advantage being speed. Using this system the radiologist is able to view medical images from all major modalities at lightning fast speed including prior exams. Visage 7 is the fastest, most versatile viewing software on the market and it is the key reason why Pro medicus has been successful in winning numerous high profile hospital contracts in the US, ahead of some of the largest global names in the industry. In more recent times it has added its Workflow tool and Archive tool which facilitates efficient, secure cloud storage.

The speed with which images are able to be viewed is achieved using thin streaming technology which avoids completely the need to compress and send large imaging files to a local desktop for viewing and reporting. As far as we are aware Pro medicus is the only group with thin streaming technology for viewing all medical imaging modalities in radiology.

The key benefit to clients is far greater efficiency with radiology. This occurs at several levels:

- Retirement of multiple PACS systems – legacy PACS are frequently limited by download speed and the type of files able to be viewed. The Visage Viewer is not only faster but is capable of viewing all forms from complex 3D reconstructions, to 2D stills and video;
- Large increases in radiologist efficiency causing clearance of reporting backlogs; and
- Improved patient care through timely reporting with better quality. When the radiologist isn't distracted by having to wait for files, more time is available for accurate reporting.

Pro medicus won its first major US client in 2013 and since then there have been a steady stream of new client wins.

The overall market for PACS services is valued at US$2 billion US annually. The company estimates is it has 7% market share based on volume of exams reviewed.

Pro medicus capitalises approximately $7.0m of development cost annually but these are amortised over 5 years, consequently earnings are supported by equally strong growth in free cash flow.

In addition to Visage, Pro medicus also has a traditional PACS/RIS system which has client based predominantly in Australia.

Risk Areas

- The key threat to earnings is from evolution in technology which may render the Visage platform obsolete.
- Earnings are also threatened by cheaper alternatives to Visage, delivering an adequate service.
- Earnings growth is dependent upon a small group core technology developers, most of whom are based in Berlin, Germany. In the event that core members of the team (or the whole team) leaves the company, these individuals would be difficult to replace.
- Reimbursement approval for AI technology in diagnostic imaging.

Promedicus
as at 13 February 2025

Recommendation	Buy
Price	$279.08
Target (12 months)	$330.00

Table 1 - Financial summary

Profit & Loss (A$m)	FY23	FY24	FY25e	FY26e	FY27e
Year Ending June					
Net revenue from product sales	125.0	161.5	222.0	312.8	391.8
Revenue growth	*34%*	*29%*	*37%*	*41%*	*25%*
COGS	(0.5)	(0.3)	(2.2)	(3.1)	(3.9)
Gross profit	124.4	161.2	219.8	309.7	387.8
GP margin	100%	100%	99%	99%	99%
Opex	32.9	41.6	51.5	59.9	75.6
EBITDA	91.6	119.6	168.3	249.7	312.2
EBITDA margin	73%	74%	76%	80%	80%
D&A charge	(7.9)	(8.5)	(6.4)	(6.4)	(6.0)
EBIT	83.7	111.1	162.0	243.3	306.2
margin	67%	69%	73%	78%	78%
Net interest income	2.4	5.4	5.0	5.1	5.2
Pre tax profit	86.1	116.5	167.0	248.4	311.4
Tax expense	(25.5)	(33.7)	(50.1)	(74.5)	(93.4)
NPAT- normalised	60.6	82.8	116.9	173.9	218.0
Net abnormal items	-	-	-	-	-
Reported NPAT	60.6	82.8	116.9	173.9	218.0

Cashflow (A$m)	FY23	FY24	FY25e	FY26e	FY27e
EBITDA	91.6	119.6	168.3	249.7	312.2
Working capital movement	-5.5	1.3	-18.0	-23.4	-18.3
Net interest	2.1	4.7	5.0	5.1	5.2
Tax paid	-23.5	-38.9	-50.1	-74.5	-93.4
Operating cash flow	64.7	86.8	105.2	156.9	205.7
Maintenance capex	-0.3	-0.3	-0.2	-0.2	-0.2
Capitalised development cost	-6.1	-6.4	-7.0	-7.0	-7.0
Free cash flow	58.3	80.1	98.0	149.7	198.5
Change in financial assets	-3.4	-7.5	0.0	0.0	0.0
Dividends paid	-26.1	-36.5	-49.1	-67.1	-95.8
Change in cash held	28.8	36.1	49.0	82.6	102.7
Cash at beginning of period	63.7	91.2	124.0	172.9	255.5
FX adjustment	0.1	0.0	0.0	0.0	0.0
Cash at year end	**91.2**	**124.0**	**172.9**	**255.5**	**358.2**

Balance Sheet (A$m)	FY23	FY24	FY25e	FY26e	FY27e
Cash	91.2	124.0	172.9	255.5	358.2
Receivables	39.9	48.1	69.4	97.7	122.4
Short term securities	30.2	31.5	31.5	31.5	31.5
Other current assets	2.4	3.1	3.1	3.1	3.1
Property, Plant and Equipment	0.5	0.5	0.4	0.3	0.2
Non current financial assets	-	7.3	7.3	7.3	7.3
Intangible assets	21.3	20.0	21.5	23.0	24.5
Other assets	16.5	22.8	22.2	21.6	21.4
Total assets	202.1	257.4	328.4	440.2	568.7
Trade payables	6.8	10.2	10.3	12.0	15.1
Income tax payable	1.9	2.1	2.1	2.1	2.1
Deferred revenues	36.0	42.9	45.9	48.9	51.9
Deferred tax liability	7.8	7.7	7.7	7.7	7.7
Provisions	4.3	4.4	4.6	4.9	5.1
Total Liabilities	63.3	69.7	73.0	77.9	84.3
Net Assets	138.7	187.7	255.4	362.2	484.4
Share capital	2.0	23.7	23.7	23.7	23.7
Retained earnings	127.1	173.3	241.1	347.9	470.1
Reserves	9.6	(9.3)	(9.4)	(9.4)	(9.4)
Shareholders Equity	138.7	187.7	255.4	362.2	484.4

Valuation Ratios (A$m)	FY23	FY24	FY25e	FY26e	FY27e
Reported EPS (cps)	58.5	79.1	111.9	166.5	208.7
Normalised EPS (cps)	58.5	79.1	111.9	166.5	208.7
EPS growth (%)	36%	35%	42%	49%	25%
PE(x)	**476.9**	**352.9**	**249.4**	**167.6**	**133.7**
EV/EBITDA (x)	316.5	242.3	172.1	116.0	92.8
EV/EBIT (x)	346.3	260.9	178.9	119.1	94.6
NTA (cps)	101.5	144.1	207.5	308.3	423.9
P/NTA (x)	274.9	193.7	134.5	90.5	65.8
Book Value (cps)	133.9	179.7	244.5	346.8	463.8
Price/Book (x)	208.4	155.3	114.1	80.5	60.2
DPS (cps)	30	40	56	83	104
Payout ratio %	51%	51%	50%	50%	50%
Dividend Yield %	0.1%	0.1%	0.2%	0.3%	0.4%
Franking %	100.0%	100%	100%	100%	100%
FCF yield %	0.2%	0.3%	0.3%	0.5%	0.7%
Net debt/Equity	0%	0%	0%	0%	0%
Net debt/Assets	0%	0%	0%	0%	0%
Gearing	net cash	net cash	net cash	net cash	net cash
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Interest cover (x)	n/a	n/a	n/a	n/a	n/a

Segment revenues	FY23	FY24	FY25e	FY26e	FY27e
North America	104.5	140.5	200.0	291.8	370.8
Australia	15.9	16.9	17.0	16.0	16.0
Europe	4.6	4.1	5.0	5.0	5.0
	125.0	161.5	222.0	312.8	391.8

Interim Results	1H24	2H24	1H25	2H25e
Net revenue from product sales	74.1	87.4	97.2	125.1
Revenue growth	30.3%	28.4%	0.0%	0.0%
Total revenues	74.1	87.4	97.2	125.1
Opex	21.5	20.1	24.1	27.3
EBITDA	52.4	67.2	72.9	95.4
Margin	70.7%	76.9%	75.0%	76.3%
D&A	(4.4)	(4.1)	(3.2)	(3.2)
EBIT	48.0	63.1	69.8	92.2
EBIT margin	64.8%	72.2%	71.8%	0.0%
NPAT	**36.2**	**46.5**	**51.8**	**65.0**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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