

# Radiological informatics

## A shining light

### Overweight

#### Highlighted companies

**Pro Medicus (PME) – ADD, A\$23.69 PT**  
Mkt Cap: A\$2.3bn  
Price: A\$23.36

**Volpara (VHT) – ADD, A\$2.02 PT**  
Mkt Cap: A\$328m  
Price: A\$1.77

**ImExHS (IME) – NOT RATED**  
Mkt Cap: A\$31m  
Price: A\$0.034

**Mach7 (M7T) – NOT RATED**  
Mkt Cap: A\$52m  
Price: A\$0.345

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Analyst(s) own shares in the following stock(s) mentioned in this report:

- Volpara
- ImExHS

- We have seen a significant increase in price/volumes in a number of ASX listed companies with direct radiological services/informatics exposure.
- We view a contributing factor to interest in the space is the use of Software-as-a-Service (SaaS) revenue models, which have created an easily trackable metric to which investors ascribe value amongst other factors such as growth rate, profitability and gross margins.
- We view this highly fragmented global market as increasingly investable with strong long-term drivers including artificial intelligence (AI) exposure, ageing populations, focus on better patient outcomes, and regulatory requirements for centralised patient records (EMR).
- Below we outline a brief snapshot of the market opportunity and highlight a number of ASX listed players in the market with exposure to the radiology /AI / SaaS trends, including a number of emerging players and companies under formal coverage.

### Strong underlying growth in image volumes

In our most recent initiation on PME, we reviewed the summary of a number of research papers to attempt to quantify the number of images (procedures) performed in key regions. Global market estimates for medical imaging analysis software is valued at roughly US\$2.4bn pa in 2016 and growing at an ~8% CAGR through to 2024. These growth rates are likely to be sustained by rapidly ageing populations (median age 29.7 years in 2014, growing to 37.9 years in 2050 – higher use of imaging and diagnostic services as populations age), increased focus on better patient outcomes (through faster and higher resolution image qualities), and mandated implementation of EMR systems to retain patient logs (90% of data contained in EMRs are medical imagery).

### What are we looking for?

Due to the nature of the technology and the SaaS business model, customers are typically signed on multi-year contracts underpinning significant future revenues. SaaS-based companies can be valued in a number of ways although the most common is its Annual Recurring Revenue (ARR) / market cap multiple. In reality, significantly more factors such as growth rate, contract length, retention rate, gross margins, cost base, and balance sheet strength also come into play.

### Who are the players?

We highlight four ASX listed companies with direct radiology exposure which we have either under formal coverage (**Pro Medicus** – PME / **Volpara** - VHT) or are keeping a close eye on (**ImExHS** - IME / **Mach7** - M7T). We outline these companies overleaf.

### Strong momentum continuing. Price and volumes on the rise

The sector has performed strongly over the last 12 months, doubling on an equal weight basis. The strong growth seen in PME and VHT over the last two years in particular has shined a light on the segment and its growth, which we think still has a number of years to play out. Refer to Figure 1.

Figure 1: Equal weight basket >100% growth and large volume



SOURCES: MORGANS

## Pro Medicus (PME)

**ADD recommendation, TP A\$23.69, Mkt Cap A\$2.4bn**

ARR = ~A\$42m pa @ 40% growth

TCV = ~A\$160m exam fees + ~A\$60m support fees

Multiple = 57.0x ARR

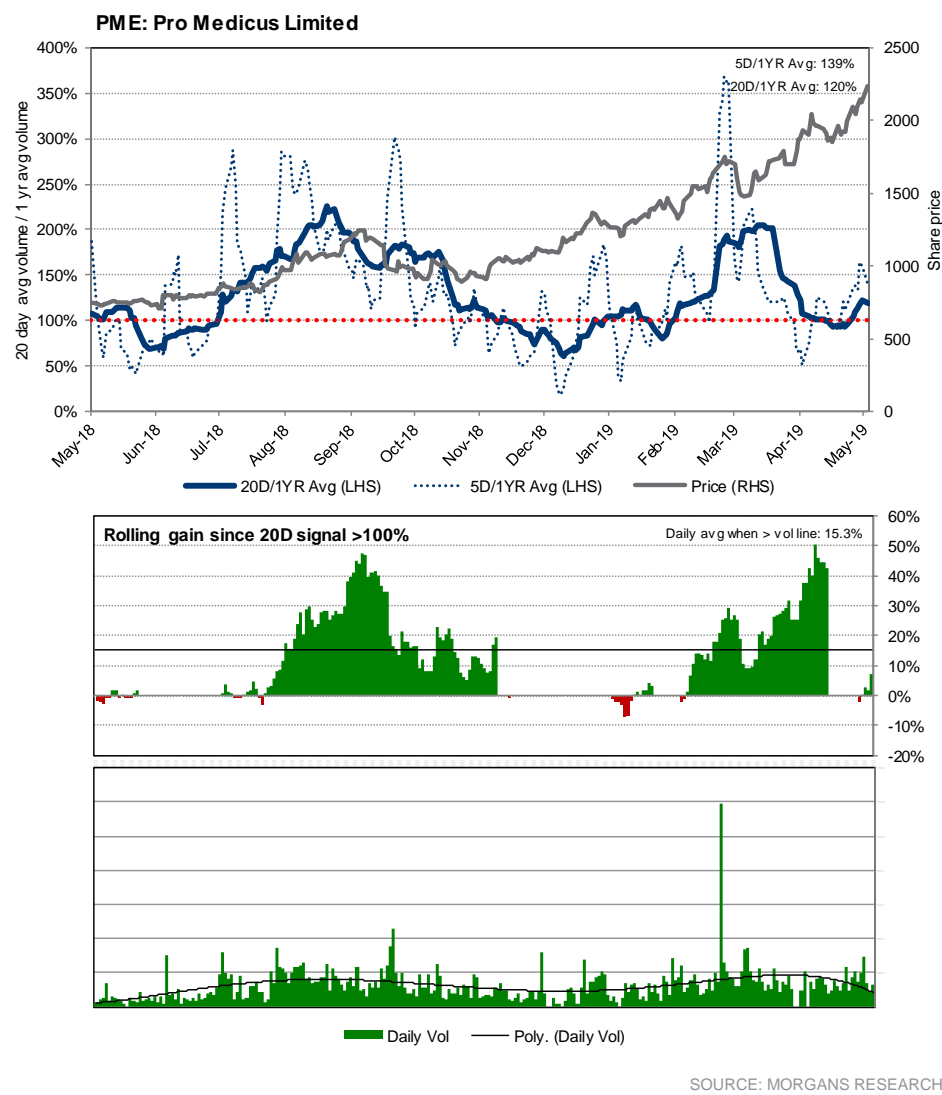
**Company description:** PME is a medical imaging software company and its core Visage product generates sales across North America (~70%), APAC (~25%), and Europe (~5%). The lead Visage product is a Picture Archiving Communication System (PACS) which, due to its server-side streaming technology, allows practitioners to view and diagnose medical images at significantly faster rates on all viewing modalities than competing products. Management believes the key advantages of the platform include speed, functionality and scalability. PME has demonstrated its ability to generate new business, winning 13 of its last 17 tenders in the US, with contracts signed worth A\$160m plus A\$60m in Radiological Information System (RIS) support revenue over the next five years.

We recently initiated coverage on PME. [Click here](#) for the full report.

*PME's share price has increased 200% in the last 12 months.*

*Volumes continue to trade above its one-year average.*

**Figure 2: PME continues to rally with large deals being won with some of the world's largest hospital systems**



## Volpara Health Technologies (VHT)

**ADD recommendation, TP A\$2.02, Mkt Cap A\$328m**

ARR = NZ\$7.0m pa @ 86% growth

TCV = NZ\$15.8m @ 42% growth

Multiple = 44.7x ARR

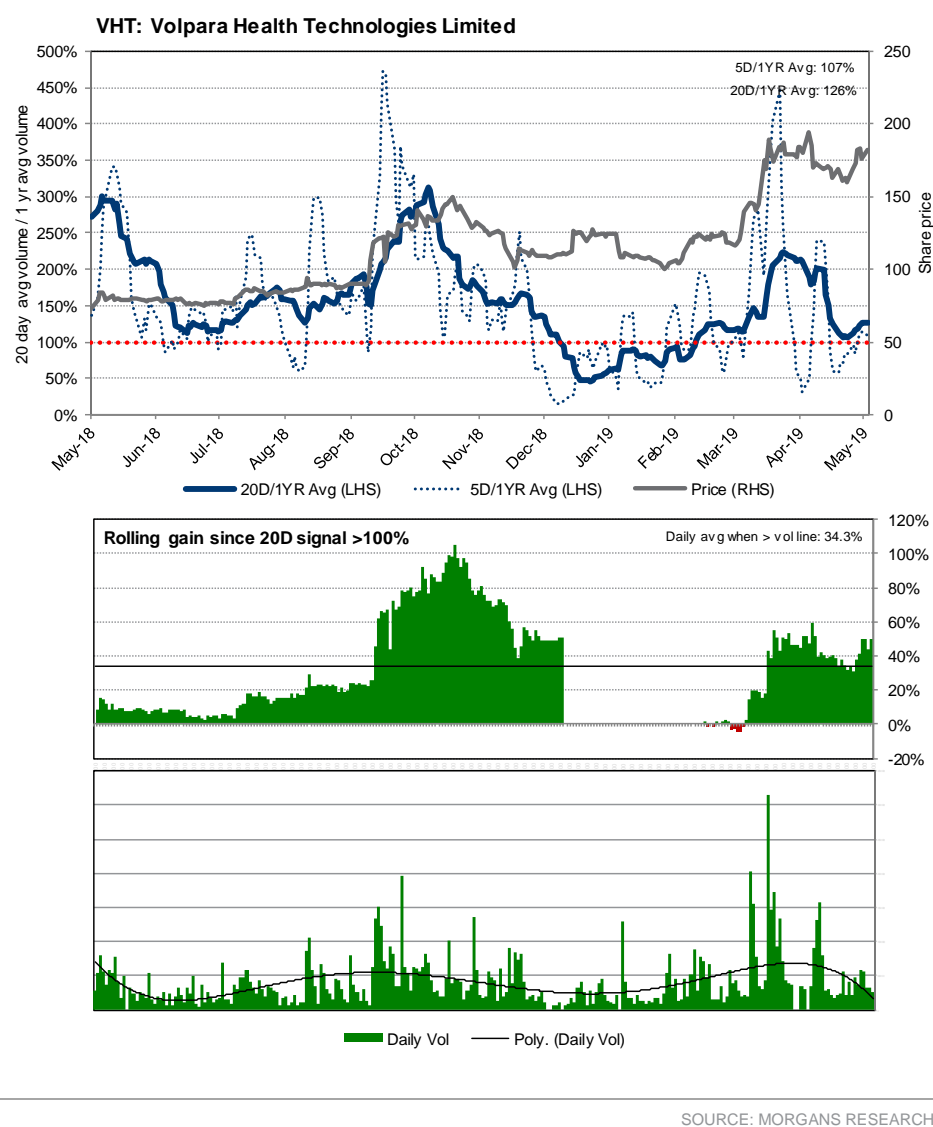
**Company description:** VHT is a digital health company offering a solution that improves clinical decision making for early detection of breast cancer. VHT's products are approved for sale in key regions and provide objective evidence that can be used by relevant specialists including the woman herself to make informed decisions about further screening. VHT's software product's underlying core technology has the ability to extract quantitative, standardised information from a digital mammogram, regardless of the supporting x-ray type, completely removing all information about the imaging process itself.

We have formally covered VHT since June 2016 and it has been one of our **key picks in the emerging healthcare space**. [Click here](#) for our most recent report.

VHT's share price has increased 150% in the last 12 months.

Volumes beginning to bounce off its one-year average with price beginning to rise again after the recent pull-back.

**Figure 3: VHT – rallying on ARR growth and strong regulatory tailwinds**



## ImExHS (IME)

**NOT RATED, Mkt Cap A\$31m**

ARR = A\$4.5m pa @ 113% growth

TCV = A\$20.6m @ 343% growth

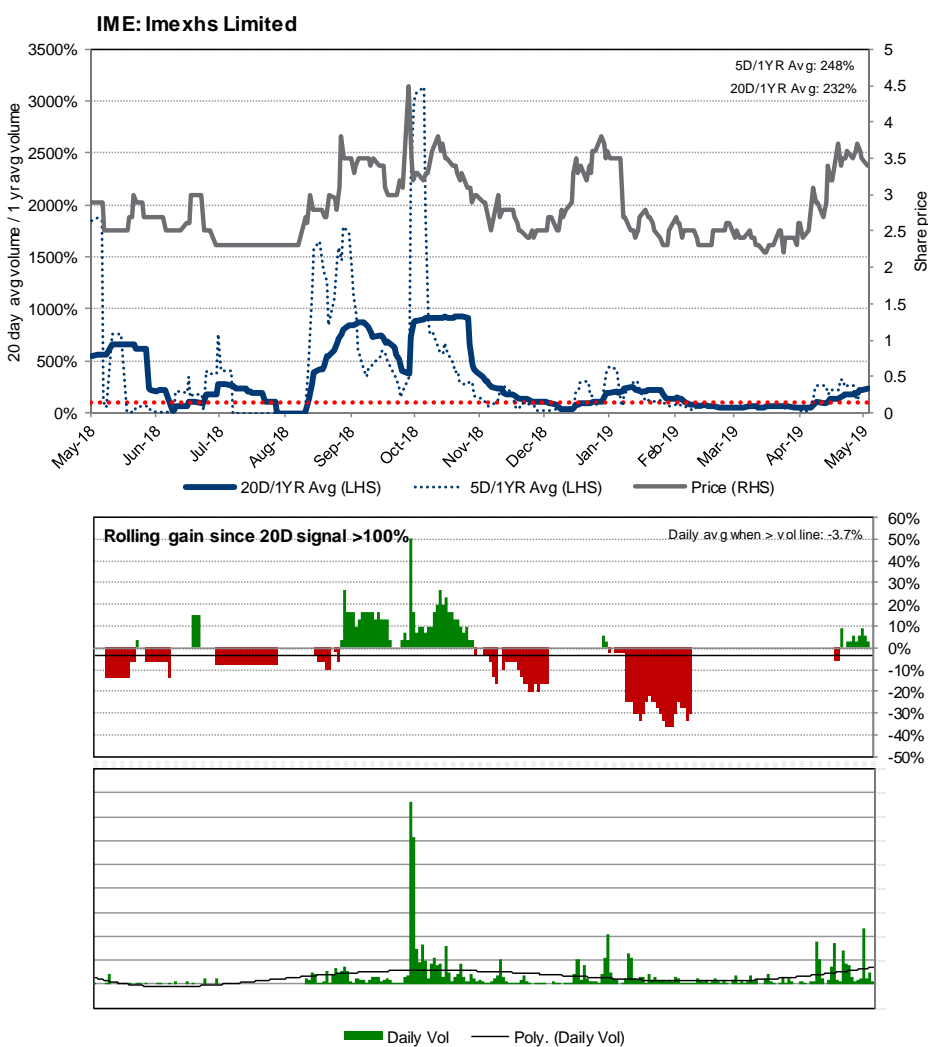
Multiple = 6.8x ARR

**Company description:** IME is a global imaging Software as a Service (SaaS) and ancillary solutions provider. Founded in 2012, IMEXHS is known for its innovation in the imaging services market, offering flexible and scalable imaging solutions via its Hiruko branded suite of solutions for next generation Picture Archiving and Communications System (PACS) and integrated Radiology Imaging System (RIS). The Hiruko system is completely cloud based, vendor neutral and zero footprint with no need for installed software. Enhanced features such as a fully web-based voice recognition option and a zero footprint DICOM viewer are some of its advanced features. In addition to PACS and RIS, imaging technology and management systems can be provided on a Platform as a Service (PaaS) basis when packaged with equipment. The IMEXHS products are designed to increase productivity and save money for users, with a scalable platform that is configured for the future, while enhancing patient outcomes.

IME's share price has increased 40% since reverse takeover @ 2.5c in August 2018.

Low daily average volumes but starting to pick up significantly in the last month. Currently trading >200% of average annual volumes.

**Figure 4: IME – gathering momentum as ARR growth continues in LATAM and expansion of platform to ROW**



SOURCE: MORGANS RESEARCH

## Mach7 Technologies (M7T)

**NOT RATED, Mkt Cap A\$52m**

ARR = A\$7.6 pa @ 50% growth

TCV = N/A (not supplied)

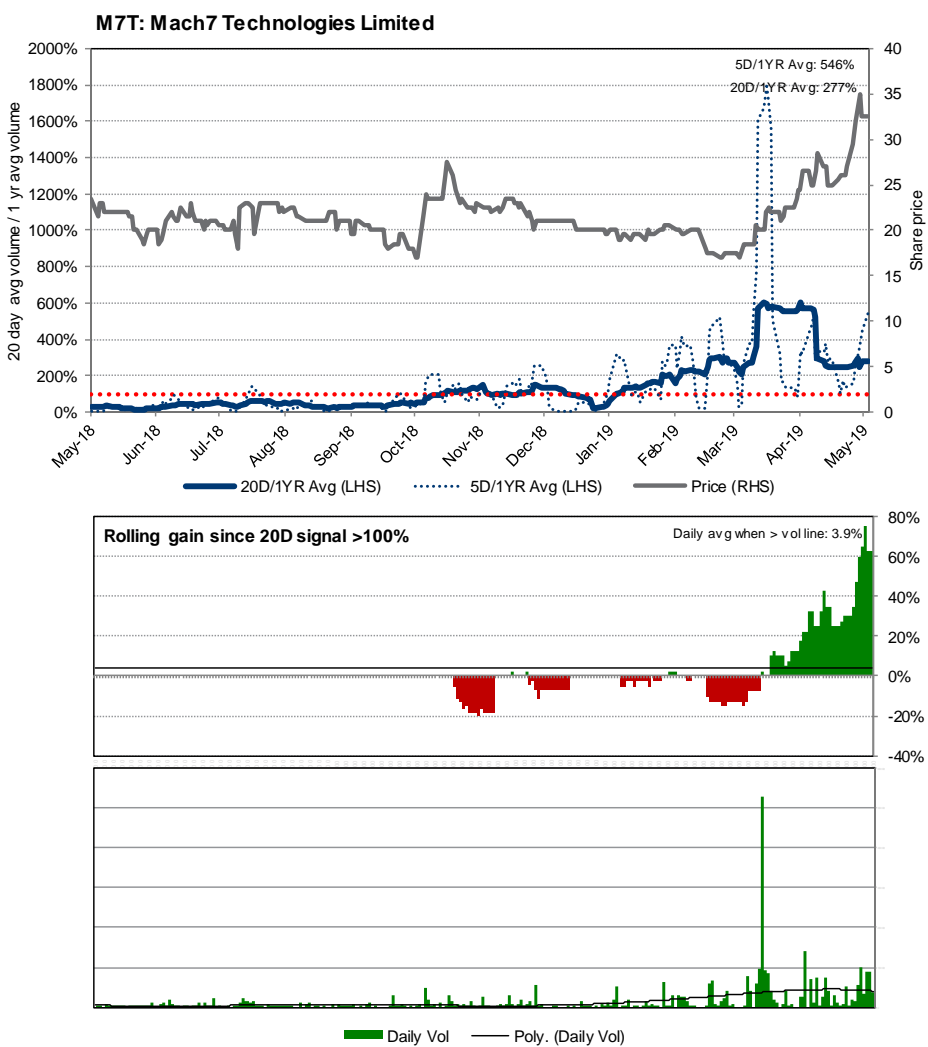
Multiple = 6.8x ARR

**Company description:** M7T develops innovative data management solutions that create a clear and complete view of the patient to inform diagnosis, reduce care delivery delays and costs, and improve patient outcomes. Mach7’s enterprise imaging platform provides a vendor neutral foundation for unstructured data consolidation and communication to power interoperability and enables healthcare enterprises to build their best-of-breed clinical ecosystems. Mach7’s sophisticated workflow tools, advanced clinical viewing and optimised vendor neutral archiving solutions unlock silos of legacy systems empowering healthcare providers to own, access and share patient data without boundaries.

M7T’s share price has increased 38% in the last 12 months.

Low daily average volumes but starting to pick up significantly over the last four months. Currently trading >550% of average annual volumes.

**Figure 5: M7T – recent rally on back of large PACS deal with Sentara Healthcare**



SOURCE: MORGANS RESEARCH

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