

Do you record these?

Yes.

I press that before every meeting, and I still struggle to find it every single time. So I don't know what that says about the user interface of Zoom or what I'm told is called an ID10T error, which is an idiot error, which is probably the more likely explanation.

Welcome, everyone. Really glad you could all join us for the second in our Spotlight series. It was very much ProMedicus that was nominated and put forward, and for good reason. I don't want to prejudge anyone's perceptions or thoughts or insights on the company.

But I think one thing that clear to me at least, having, well, knowing the company reasonably well and also just reading through all the great notes that people shared, is that I think quality is the least interest-- Not least interesting, but probably the least debated thing about this company. I think when you boil it all down, it really comes down to valuation.

And again, I would very much, I should stress this right at the beginning, very much stress that I want anyone who has a different perspective on that to definitely push back. But I don't think when you look at this, you see a history of incredible growth, and very capital efficient growth, too. I've made the point several times over the years, but the kind of growth that they have is eye-watering.

But to be able to do that without any debt or equity capital and to pay out 50% of your earnings in dividends along the way, that is particularly rare. And even in the last, what is it?

Nine years or so, we're looking at a compound annual growth rate for the earnings per share, and there's been hardly virtually no share issuance,

about 36% per annum off a sales per share

growth rate of about 27%.

And of course, it's eating into a very large market, which up until not that long ago, was really dominated by some very sleepy incumbents, General Electric and the like, who had some pretty clunky sort of software that was packaged up with these very, very sophisticated scanners.

But perhaps the user experience wasn't as polished as it could be. And not just that, the user experience.

These image files are incredibly massive.

They take

a long time to render and to send and to view and to manipulate and all of this kind of stuff.

And I'm not going to pretend to understand the tech, but there's some server side, I guess, processing that occurs that makes that very, very, very effective as well. And so as we've seen this big structural shift from this sort of legacy way of doing things to this more new cloud native way of doing things,

ProMedicus has just exploded, and so has

Sectra, too. We'll get to them in a minute.

They're probably their most obvious competitor that they've got here.

And like a lot of things that we see when we're looking at technological adoption, there's sort of like a slow start.

But as that tech gets recognized more and more, as the social proof builds out, you see that adoption really start to kick off.

And because this is a very capital light business, which is,

I don't want to oversimplify it, but kind of plug and play for want of a better term here with their software. They can set things up pretty quickly and without much cost. So it's a big part of the reason as to why we've seen the earnings per share grow at a substantially higher rate than the sales per share, because the costs just aren't growing nearly as fast as the revenue is. And there's a long way to go.

There's a very, very long way to go.

So again, I don't want to sort of prejudge things here, but I feel as though that's the consensus

across the group. And it really comes back to, is it cheap? Now, things are always easy in hindsight.

When you look at what has happened with the shares, they are down a lot from the high. But I think most people would probably say that is less the market being skittish and scared and perhaps,

what's the word for it? Less objective, but probably more just the more rational move. And if there was anything irrational, it was ProMedicus trading at these nosebleed valuations.

Or maybe not. Maybe that's just me.

But of course, it does beg the question, when a company of such extreme quality

has a correction in its share price of near enough 60% or so, and

when a lot of the narrative around that is to do with a more general concern over software generally, and perhaps,

not insignificant, but not perhaps directly relevant factors such as, I don't know, a conflict in the Middle East.

You sort of look at all of that and go, well, this might be an opportunity.

Or maybe it's just a question of now things, you're looking at a great company, but at a reasonable price and perhaps on a bargain basement price that the share price correction might suggest. I don't know.

That's really what I want to get into here, other than just to sort of lay that out and speak of the valuation side of things.

We've had someone like Mike Brizzy, who sends his apologies, by the way, he can't make it tonight. But

he did a very detailed, what, 20-year DCF model, and came up with a case for value. Others like Dr.

Pete, more on the conservative side, still sees things as a little bit overvalued.

So there is a range there. And I should stress here, the goal isn't to force a consensus here today, but hopefully we can have a bit of a discussion, share a few more perspectives, talk through some different angles here, and you can all walk away perhaps a little bit more informed and a little bit more confident as to what you want to do, if indeed you want to do anything. Just for full disclosure,

I don't own any at the moment.

I don't say that as a brag because if I had just never sold any, I probably would be much better off even with the correction.

But I would very much like to get back in.

So this is of particular interest to me.

So I'll start there. I will actually give a special shout-out to Claude Walker, mate.

If I get you to unpin your-- Unpin.

Unmute and put your camera on For those who don't know Claude, me and Claude go way back.

We used to work at The Fool years ago together. We've done podcasts together.

Claude runs A Rich Life, which is a very highly recommended newsletter that provides all kinds of insights and share ideas.

So I really would encourage you to check that out.

But someone did suggest on the forums that next time we did this, that we rope in an outsider here. And when Prometicus came up, I thought, "Well, it's got to be Claude." Claude has been following this company for a long, long time.

I think it's safe to say he is a admirer of the business.

He'll be the first to tell you that me and him both bought on the same day back when it was 85 cents or something like that.

He was just a much-

Yeah

... better holder than what I was. So it's not quite the flex from my perspective that I wish it was.

But mate, and I'm going to stop rambling here in a second, otherwise I'm going to chew up a full hour or so.

High level thoughts. What has been your reaction with this share price fall? Do you see it as an opportunity?

Do you still see it, things coming back to normal?

What's your two cents?

I think that it's a combination of factors that's...

It's obviously pretty extreme that it's fallen. This is actually, I think, the biggest fall, in terms of percentage, that it's had from a peak since in 10 years or more.

Yeah.

There was a few times when it went down, I guess, by around 50% over the years.

Mm-hmm.

But this one's actually, whatever, almost 330 to
115 now.

Mm.

So it's more than 50%, put it that way.

Yeah.

So yeah, I'm pretty sure it is the biggest drawback or
whatever.

Actually, I just worked it out, 68.15%.

Yeah. So it is two thirds.

Yeah.

I was about to say two thirds, but I hadn't done the maths, so I didn't want to
claim it.

It's huge.

Yeah. So I think that's the biggest drawdown it's had since I've
been holding it. And,
for the first time in a long time during this
run up

to \$300, I sort of sold it down enough that it wasn't
my biggest position anymore. But it's still a high
conviction. It was still always a high conviction position.

I largely just rode it all the way up and then back down.

Mm-hmm.

So,

I definitely feel it emotionally, but I guess because I've already taken
out so much money out of the stock over the
years, I

feel like it doesn't owe me anything.

So I guess psychologically, I'm just like, "Yeah, yeah, whatever." I did

a lot of selling basically all last year,
really, because it spent the whole year pretty much above...

I think the whole year was above \$200, right?

Yep.

And \$250.

Look, I'm looking at my sales just so I can be consistent.

I started selling it at a...

If you look at all my sales, the last time I was selling it was a few years ago
in 2022, and then I didn't sell it for any for a very long
time.

Mm-hmm.

And then I started selling it again from \$150 in
2024. And yeah, just kept on selling very slowly,
little by little.

Yeah, I did too, but I sold much more aggressively, thinking I was very clever at
the time, by the way.

Yeah. In hindsight, yeah.

Actually, I didn't even get anywhere close to the peak.

It peaked at 330. The highest sell that I had was
315, and my average sell price must be closer to 250 or something like
that-

Mm

... in the last little while.

And I think the reason it got to \$300 and 250 and all that sort of
stuff is because we were just in a bull market generally.

We were in a time when,

once again, the

high quality software stocks had led the rebound.

They tend to be the main

tech companies that the superannuation funds,

et cetera,

tend to direct capital to. Now, don't forget, we've had some major...

In

hindsight, it's great to say this.

I'm definitely not claiming that I was saying this when it was

330, so I'm not claiming Harry Hindsight or anything.

That's why I told you about my selling.

I was just being like, "Oh, I don't know."

Mm.

But now in hindsight,

I think that

we had a confluence of factors that were leading to a really high multiple that

we're probably unlikely to see for maybe a long time,

or even ever again. But those factors were, if you look at the

big successful fund managers in Australia, that in what I

would dare say the era ending 2025, it's like Hyperion

Asset Management was a huge one, right?

Yeah.

And they're directing superannuation flows.

And not just them, there's a few others as well.

But those kind of...

Yeah. Hyperion did hold a lot of

high quality tech stocks, but also just for me, it just was buying

growth,

what I call growth mode, like growth-

Mm

... and momentum.

Growth at any- Not growth at... What's-- Growth at reasonable price or growth at any price?

Yeah.

Probably the latter. Yeah.

Exactly. So what I think,

now you saw in February,

Hyperion Asset Management has dramatically cut its exposure to software stocks as it attempts to stem the bleeding from what it describes as one of the toughest period in its 30-year history.

Mm.

Because all of this growth mode, it was like me,

very focused in

these kind of stocks, but they also had

WiseTech and a bunch of other ones.

I was trying to look it up quickly, but I couldn't find their holdings at least a year ago.

Mm.

But they have a lot of those ones.

And so,

some of those others-Have all been hit as well at the same time.

So now they're saying, "Right, we want lower exposure to these stocks." Well, if

Hyperion says, "Well, now we're cutting our percentage exposure to Pro

Medicus

because it's not growth mo anymore," then that means that the Pro

Medicus share price no longer benefits from

people pay their super, their super pays some of that money to Hyperion, and

Hyperion puts in a certain amount of that to PME.

Over time, a few funds like this have the ability to just

point a fire hose at what are, for their size, relatively illiquid

companies because half of Pro Medicus is held by the founders.

Yeah.

And then on top of that, you could probably account for another 10% of the company, if not more, in what I'd describe as rusted-on long-term holders. That they might be selling, but they're not selling a huge amount.

Yeah.

When a stock goes up this much, somebody can have literally taken as much money as they want out of it, and then they're just almost for sentimental reasons like, "Yeah, I'm not going to sell it all," kind of thing.

Which is, I think, kind of what happened to me, and then it just looks like I'm real smart, but actually I was just like, "Oh, this golden goose keeps laying eggs. Better not kill it."

Yeah. There's something in that.

And of course, then I look like a complete idiot when I was holding my shares at \$300 and now it's \$110 or whatever, and that's the price you pay for... Otherwise you end up selling the whole lot at \$5 basically.

Well, so let me ask you this then. That was then, this is now. Are you starting to get an itchy trigger finger or is it-

Yeah. I reckon that Pro Medicus right now is what I'd describe as probably the--

If I'd been waiting all of these years and just watching Pro Medicus go up and being like, "Oh, it's always too expensive, blah, blah, blah," and just never had

it in me to buy some because I thought that it was always expensive, now is probably the time when I'd be buying some.

Mm-hmm.

I definitely think that this is-- You can just look at the multiples.

If you just look at a chart of the PE multiple or whatever over time, it's come down massively from where it was a couple of years ago.

Yeah.

Well, a year ago, let's say.

And I think it's more reasonable, certainly. And I already had Pro Medicus, so it's already still been one of my biggest holdings consistently.

So it's not like the first one that I'm putting more money into.

But I do think during this sell-off,

there's probably two or three

software companies that I think are pretty high quality and pretty solid, and I'd

be happy to buy them. I do also think that the

reason to be slow-- If Pro Medicus keeps coming down,

it's probably getting close to the bit where I would actually put more money into it.

Mm-hmm.

But part of why I'm not is because

I just think that the outlook for Australia right now is

just absolutely negative. I just

don't think we're going to be in a bull market for any time soon kind of thing.

Mm-hmm.

And on top of that, Pro Medicus and all the software companies, they suffer from the thesis that AI's going to destroy software companies, and indeed, service companies generally.

It's not just software companies that AI is coming for, according

to the bulls in AI.

Mm-hmm.

And

I had a great conversation with

a friend of mine,

Rob Shears. Basically, he's saying publicly

he thinks

AI's going to cause a huge amount of white-collar job

losses in the next 18 months or so, and that

that is going to be something that weighs heavily on the

economy and causes high unemployment and then a recession, and

then a deflation.

Mm-hmm.

Which kind of puts him half agreeing with me and half

at odds with me, because I think, yeah, probably we do get a recession,

but I think it's because of this oil price stuff that's just suddenly gone

up 30% or whatever. And we-

Does that matter, though, to a company where most-

Yeah, it matters because-

... of its money comes from the US?

It matters-

It's non-discretionary.

It matters because

I don't think we're going to get a bull market anytime soon that's going to

be good for those high beta stocks.

When there's a sell-off, when there's a recession, when there's all of this

negativity, one thing that is almost always

happening is that the high beta stocks that go

up more in a bull market, they go
down more in a bear market. Now, the software companies have already
taken a beating from the AI worry. And actually,
as markets have been jittery, I guess, in March,
the software companies, a lot of them are kind of flat or even some of them up.
Another one I own shares in, Technology One, it's bounced since February
because it hit its
full-on worst bit of AI panic in February.

Mm.

And even though the market's been iffy since then, it was already
sold off so much that it's kind of flat since then.

Mm.

And so I do think there's a certain point where these software companies get cheap
enough that if the market
does sell off, they could start being seen at some point as a bit
of a safe position.

Mm.

But right now, because you have simultaneously this sociological
idea that they're going to get killed by AI-

Mm

... they're not a flight to safety.

So yes, that's why I say, in the next six months is
potentially-- The last time I bought Pro Medicus shares was
years ago. It was like 2020 or something, right?

Mm-hmm.

And it's grown a lot since then, and I was paying 37 then.

If I end up paying maybe

anywhere really around

a P/E ratio of 60 or something, it hardly gets lower

than that. Almost the lowest P/E ratio I've ever seen it trade on is 40 or whatever, and it's barely touched that-

Mm-hmm

...

in the year.

So let me--

I'll

I'll try and summarize that and then I'll come back to you, mate.

But I'll invite some other perspectives here as well.

But I think from

what I'm hearing there, great company, no concerns about it, probably around fair value. For you personally, you've already got a heavy weighting, so you're not looking to add more.

So it's not-

Well, I am, but I'm looking for the opportunities.

I want to buy it when it's at its kind of-

So-

I'm looking to h- I'm more greedy and trying to get it closer to the lows because I already have a lot.

Yeah.

If I didn't have any ProMedica shares at all,

yeah-

Yeah

... I'd probably be nibbling on it right now because-

Yeah

... I do think it will go down in the next six months.

But how can you pick the bottom exactly, right?

You don't know-

So it's more,

yeah, it's reasonably priced in your view, but there might be a-

Yeah. So-

... an opportunity to get it at an even better price.

If you accept you can't pick the cheapest price when you're looking for a company,

and you accept you would like to own this company, if you already own it, then

you're like, "Eh, well-

Mm

... I'll hold out and if

I see it bottom and then I might buy a little bit." And, yeah, I'll

probably miss out on buying much because I'll just be tepid and timid about it.

Mm-hmm.

But if you don't have any shares at all, you might be like, "All right, well, I'm

going to look to spend \$10,000 buying shares in

this over the next six months, and I'm going to put it in

\$1,000 a month or \$2,000 every two months," or whatever it is.

Yep.

Or even less, but the point is that I would just do it

slowly and then I reckon, yeah, so I think the most likely course of

events is

markets are just terrible for a while, and nothing's really moving up,

and probably quite a lot of stocks are going to go down in my opinion,

and potentially ProMedica's included.

And then,

if ProMedica's earnings continue to perform as they

have almost every earning season in the last 10

years. But I say almost every. Sometimes there could be some lumpy reason.

In the pandemic, things went down for one, things.

There's other-

Yeah

... times when they're a bit smaller.

They had more of a up and down because of the timing of contracts.

That's smoothing out a bit as they're getting bigger.

But the point is, if they actually just do a solid set of results,

it doesn't have to hit it out of the park.

If it just kind of starts to dispel the notion that AI's stopping the rollout-

Mm

... I think that then

it could

start becoming more of considered like a safe quality stock again.

Because people will be like they need to...

Before it can really go up, the market needs to reject this idea that they're screwed because of AI. And at the moment, the general consensus

is most software companies are, and all software companies are getting marked down, whether or not

AI's going to negatively affect them.

Like people-

Okay

... are just sidestepping it for that reason.

So that needs to die, and if that thesis starts dying, that's when I think it's probably close to the bottom or the short term.

Okay. That's great. Actually, that's something else I want to dig into.

But first, anyone else got anything to say in regard to any of that? Or I'm also very interested in what people think about AI. I've thrown my two cents in when others have had

the chance to speak first. But anyone else want to take the talking stick?

I'll put in that one of the things about investing in companies like ProMedica's, which, as you say, undisputed quality, is what timeframe you're looking at.

Yes.

If you are a truly long-term, meaning 10 plus years, is your sort of mental concept, and you're really looking for something that's just going on. All of this sort of little stuff is, like particularly the sudden drop in price, and it wasn't so much the drop in price, it was the ridiculousness of the escalation in price, which then dropped down to a more reasonable level.

Mm-hmm.

Then it got hit again with the AI issue.

Yep.

That, to me, is entry point. And

I must admit I doubled my holding around the current prices.

Yes.

And

that was a buy-up.

Yep.

Not a big buy-up, but a buy-up.

Yes.

And it was just like, eh, I understand the company well enough to know it's going to go on for a long time. It has a lot

of potential expansion.

So

for me, as I said, with a very long-term

mindset,

it's fine.

Yep.

Yeah.

Yep. I think you're right, Claire.

In 10 years' time, I don't think we'll be talk- Oh, gosh, let's hope this is true. I don't think we'll be talking much about the current conflict at the moment, and certainly the AI thing probably would've resolved itself.

So you make an excellent point. It really does depend, and I think Claude would be the first to acknowledge that there's strategic value in trying to get it at a lower price, but there's risk in that never coming and missing an opportunity that's right in front of you.

And it depends also on where your current weightings lie.

So that's an excellent point.

Anyone else?

Andrew, a question that I have that would affect my pricing, and it's based on your assumption upfront that there's ongoing leverage with growth.

I'm not sure there is. I don't know that you can get much beyond 50% margin. Net-

Net margin.

Yeah, yeah, yeah.

Right?

That's right. That's right.

Yeah.

So

I think it's likely that's coming down.

And if we go back to the big comparison between my valuation

and

Mike's valuation,

it was what's going to happen in 15 years, basically.

Right.

And I'm applying a big question mark to

what we can assume in 15 years, whereas Mike's going, "It's going

well in 15 years."

Yeah. Yep.

So I don't know about-If it was just me

misunderstanding your opening statement about the

ongoing leverage, do you think there's more there?

I think there's not. And I think if anything, that's coming down.

Yeah. Let me clarify. I was just making the observation that it has been-

It certainly has in the past.

Yes.

Yes.

Yeah.

Yes.

Definitely. I

think it's such an excellent point.

Who knows, right? None of us know. This is all guesstimations about

the future. But I always think that when you have to make

a

forecast, you at least want something where you don't need a

Herculean effort to be successful.

And I think this is very true when it comes to ProMedicus.

One, in terms of the multiple question, which we've talked about, and I'll raise some more on that later on, and I know you did that, Pete, with your valuation, which I align to philosophically.

But also the margins too, right? And I'm always very mindful of adding in a margin of safety. Not to say that it couldn't go higher or it couldn't be sustained, but it's probably, at least if nothing else, a useful exercise to ask that question.

What if net margins come back to 40%?

What if we start seeing more of a normalization between sales growth and earnings growth, and we don't see that continuing widening of the jaws? What if multiples normalize as well within all of that? What does that look...

I've got some stuff I'll just run through as a group exercise later on. But I think that's exactly the question.

I think that's exactly it. And I

don't want to speak for Mike, but I know he's mentioned it before, that particularly with DCFs, the value that is captured in the tail,

that is, the earnings, even though they're very heavily discounted the further out you go, when you go out 30-odd years, there's a lot to add into that. So you get these really weird things where...

And again, I'm not saying this is my expectation, but there is a version of reality where ProMedicus continues, it maintains its margins, it maintains its multiple.

It continues to, in fact, even see an acceleration in sales per share earnings growth, and just goes incredibly well.

In 20 years' time, the singularity is reached, and it goes to zero. Right?

Now, a stupid example, but just

if you were to do a DCF on those assumptions, which are incredibly bullish right up to that 15-year period, once you take everything away after that, and it's hard to do this verbally, but the maths basically says, well, gosh, there goes a quarter or 15%, something like that, of your valuation right there.

So, I think what you need to

do, and it's not an unreasonable thing just to think this, I probably lean this way, that it is not only going to do well for the foreseeable future, but at some more distant point in time, 10 or 15 years, still be on a strong footing.

Because even if things are great up to then, if all of a sudden the outlook looks very shady at that point in time, that's going to collapse the multiple, that's going to collapse the future earnings growth and earnings full stop, and that's going to change everything.

So it's what makes it a little bit tricky

with long-term valuations, is to be able not just look around a corner, but look around a corner that's actually rather a distance away. So that's an excellent point.

Yeah. Anyone else for anything?

Or more if you've got it, Pete, I don't want to cut you off.

I've got

questions or thoughts, really. So,

obviously,

the valuations on how long it can keep growing.

And one of the things I've been trying to improve

is, in answering that question in general for companies, is trying to understand the competitors and where, in this case, ProMedicus is versus its competitors.

And just

looking at the

Swedish company, Sectra.

ProMedicus is

specialized in the US and the academic kind of hospitals.

And I haven't done a lot of research on ProMedicus, but a question is, how much more runway have they got in the US in that category?

Because after that, I mean-

They can probably at least triple from here in the

US. But I think the last amount that they

said was maybe 15% or something like that.

But the

market is growing as well.

Right.

So,

yeah. Basically, by my

calculations, which I did whenever I looked at the results or whatever it was,

they could easily triple, and they still wouldn't have all the market share.

That just assumes that they end up getting to something like 60% market share or something like that.

Of just the academic?

No. Of the entire market.

But this-

Oh, yeah, you're mistaken when you think that...

When you said that they specialize in academic teaching hospitals,

that's outdated information. That would've been true to say five years ago, but-

Right

... they're smashing it in every single category now.

Yeah.

A big part of their growth over the last couple of years, or their really big

contracts have been,

what do they call them? Integrated Delivery Networks.

Yeah. IDNs.

IDNs. So if you look at their contract announcements, you'll see

they talk a bit more about IDNs in the recent ones, and those are

really big. Some of them are really big.

Right.

And they're selling them full stack.

So the question I'm trying to answer for myself is,

so Sectra has

focused in Europe before, and they have a lot of advantages in that

market. And their difference seems to be that they offer

more products. In this space, not

just radiology. And their

biggest growth market is the US

and they're migrating across to a more of a SaaS model.

So,

I was trying to understand why

are they winning and when are they winning against

Pro Medicus?

And it's that kind of battle. And if we just

assume that it was the biggest threat

or to slow down the growth of Pro Medicus was their biggest

competitor,

Sectra, then

at what point does their growth

get kind of limited by that competitor or their margin?

Yeah.

Most likely the margin, right? And you have to assume at some point, there's levers to pull for Pro Medicus.

They can broaden out their products, which they're working on, but at some point it's going to have an impact.

So,

the question is, when does it have an impact on that growth profile, and how does it affect the valuation? If they end

up-

Why do you think that it's not impacting it now?

Well, it is, but Sectra's only

really, from my understanding, started to see significant growth in the

US in the last

few years, right?

Pro

Medicus doesn't have a lot of business in Europe.

So you've got a competitor that is broader products,

not as good margins, not as good growth, kind of owns the

European market.

Their biggest growth market now is the US.

They're coming in with broader products like genealogy and cardiology and so on.

So,

my question is really just to

understand how much of that is factored in when we

look at how long they can keep growing at the margins they're doing.

Yeah.

How it's going to impact it, right?

Claude, to your question about

do we think

it's not impacting them now, it's got to be a bigger impact though, in five years' time. They're picking off little bits of the market at the moment. So Steve's kind of saying at what point does that impact start to have a very significant effect?

I just categorically don't agree that there's any step up in competition that's happening right now.

There's been competition for Pro Medicus the entire-

But it's got to at some point, surely. It's got to.

That competition, they've got to start butting heads.

They've been butting heads the whole time.

I guess when I think of the-

They're chipping off little bits.

Yeah, but-

When they're only 10 to 15% of a market, they butt a lot less than when they're 20 or 30% of a market.

Yeah. Maybe up until this point there's just been so much blue water, clear water, whatever the phrase is that-

No. There's not been a single tender, I don't think there's been a single tender where Pro Medicus has been the only person trying to win the tender

in the entire-

That doesn't-

... history of the company.

That doesn't mean that competition's going to increase, though.

If these two companies get bigger and bigger,

then-

No, I'm not-

... the competition's got to increase.

It's certainly an assumption I have that I'm putting in there.

No, but that's what I'm saying. It's just simply not true that just because

Sectra's getting bigger, competition is increasing.

They've been competing the whole time.

Yeah. I've got to disagree on that one.

I think-

Not in the US market, I think

... as soon as they get bigger-

Yeah

... they get bigger, they're going to butt heads more.

I don't know. I've been talking to the Pro Medicus CEO for

a long time, and it's always been

competitive tenders. It's true, by the way, they do face

competition. It is true, of course, that competition from

Sectra and other players

means that Pro Medicus doesn't always win the tenders.

And that is true in the most recent half.

I was trying to remember if I even put it in my write-up,

because I was trying to look for the quote, but

I don't know if I actually quoted it, but I remember very

clearly from the webinar in the most recent results,

I asked

Dr. Hubbard the question that I almost always ask, which is,

"Tell me about the tenders you

lost and why you've lost them."

And sometimes, not this time, but sometimes

you get the best possible answer is, "We've won everything since you last asked that question, Claude." Which is brilliant, right?

And if that happens, and it's true, I'd say that used to happen a little bit more than it has in recent years. But

in the most recent results, they were like, "Yeah, we lost a few." So that's probably more than usual. I know I'm arguing against you here. But- ... this is evidence in favor of you.

He said, yes, in the most recent

results, the language was that, "Yeah, we lost a few," and that is more than usual because usually you get maybe, "We lost one or zero," is the most common thing. So that's in your favor.

Maybe there is more competition due to that.

However,

the understanding I had is actually, that's probably more likely because they're tendering for more things now. There's more tenders going up.

The nature of this market is that-

But isn't that the point? They're going to have to tender for more things.

So they're double the size, they're going to have to be tendering for more things.

So,

in one view of it, if you're measuring how much competition there is in how many tenders does Pro Medicus lose, then yes, I think that number will go up. But I would measure competition

in

not how many raw number absolute tenders does Pro Medicus lose,

but are they losing a higher or lower percentage

as before?

So the way that the market has gone is that

a company-... might

have never upgraded their system before, ever.

They might still be operating on the first system they would be, and there's more chance that that would be Sectra because they're an older company.

But also it could be any number of old companies, including

GE or Siemens or Fujifilm or whatever it was, like the ones that are just

losing. I

can't remember the status of all of those

legacy guys,

but they were the ones that really dropped the ball, generally speaking,

and

essentially have been almost not able to compete.

And so they're the ones where they're so hopeless,

and I don't know the exact name of the one that this happened to because

obviously, I guess to avoid strife,

ProMedicus has never told me. But there was one, and I don't think

it was Sectra, but there was one more legacy provider

that tendered against them, won on price, which is

the only reason, by the way, they've ever given me that they lost out, that it was

on price.

And,

then ProMedicus got them back a few years later.

So yeah. I guess I will, having talked it over,

agree that, yeah, I do think the competition here probably is getting a bit harder.

We've got a few measure points that I've given you then.

Yeah, maybe the number of the tender losses are going up a little bit.

I think

it's

segments, right?

From what I understand about Sectra, because they're a lower cost option and they sell more as a subscription.

Their new way to do with their SAS is as a subscription, not per transaction.

And they better suit more generalist hospitals and that because they get multiple products for a better price. And

so that's a certain segment. And then you've got

ProMedicus, which is... Okay, I don't disagree that

they're broadening out, but they focused on all the academic ones where they needed performance was the high thing.

But as they keep growing, they start to converge

and intersect in the middle. And Sectra's also trying to win some of those academic ones. Probably,

it's a bit harder. So

what we'll see is,

obviously ProMedicus wants to add to its products and it wants to go after some of the same segments Sectra has, but that's actually going to slow down the growth.

Even if they still win, their margins will probably get compressed because they'll be competing against someone who'll be underpricing them, right?

See, I don't think that's how it's going to show up

at all. The way it will show up, if there is more competition, is that they win

less, because they have been, four years, the most expensive product in the market by a long margin.

It's not a new thing at all that someone's

undercutting them. So that's the bit that I disagree with you on.

I could be convinced with your larger

argument, which is that they face more competition now than they did five years

ago. I reckon that there's actual

evidence for that, which I just told you the evidence I have for that, but I don't think there's any evidence for the idea that ProMedicus will be dropping their prices to try to compete on price because someone else is offering a cheaper price. Now, if that does happen, I think it's game over. The thesis is in the bin at that point.

Because

for 10 years, the entire reason they're as profitable as they are is because they're naming their price.

They don't care that Sectra or somebody else is cheaper than them because their product is so much better than Sectra's product that

it is an advantage for their clients to have Visage and

potentially the other products, but it's really Visage, which is the one that is the big advantage.

And the reason for that is because

radiologists' time is so important and so valuable, and there's a shortage of radiologists. So in terms of ways that the thesis dies,

I don't know. Ironically, one way AI could

potentially kill, I don't think this is going to happen, but ProMedicus, would be, what if AI makes, and ProMedicus itself and all of them get

so good at making radiologists

more effective, or that a large bit of it's actually just happening with pure AI, no human in the loop.

Then I think that's when it starts falling apart, because the real value that ProMedicus is exploiting, what allows it to charge so much more than its competitors, is because it's monetizing the fact

that it makes the radiologists so much more effective than the competing programs. And on top of that, the hospitals or the IDNs and stuff like that, they are also, to a degree, in a competition for radiologists.

So when you're this kind of big medical organization, you're very much listening to your head of radiology, about what he or she thinks is the best product from a clinical perspective. So the doctor in the loop is going to, one hopes, being like, "Yeah, I want to choose the product that's going to save the most lives."

And also it helps that this is also the one that I can diagnose from my iPad by the pool or whatever. So, the value that allows them to get those-

Golf course

... same margins.

I was going to say golf course too.

Yeah.

Yeah.

There's a stereotype, you've got to lean into it.

Yeah.

But either way, that's what allows those 50% margins.

If that mechanism breaks, then never mind about

lower growth or

anything. First of all, I don't think that will show up because

they would blow themselves up. ProMedicus would blow themselves

up if they were turn around and were like, "We really need to win this contract.

We'll cut our price to match Sectra." It's just not going to happen.

That's a really interesting take, Claude, that basically you're saying they're quality leader. They're a bit like Apple.

They're quality leader, and they're going to stick to that strategy.

For sure.

That's the mindset of the investors out there, and if they were to take a different tack, that's going to blow up

My thesis is blown up then.

Yeah.

It doesn't matter. I don't need to wait until, "Oh, s**t, we've had disappointing growth for five years."

Yeah.

If ProMedicus is like, "Hey, guess what?

We didn't lose any contracts on price this year because we dropped our prices." I'm straight out the door like, "It's been a great 10 years, guys."

Yeah.

But obviously, I don't think that that would happen while Stan's alive and in charge.

Mm.

But yeah, that could be how it ends one day.

Well, that then could be the limiting factor.

If they're going to hold onto margins, can they grow?

Yeah. We'll see.

Go back to the Apple-

Too soon, it'll come up

... and Microsoft, that you can get more of the market because you're going to be, in a sense, the lower quality option.

Mm.

And they're not going to choose that, but then it is hard to keep the growth going at such a high rate.

Exactly. So it should show up in them just not winning enough

contracts anymore. That should be how it shows up.

And that's why I track every single year the amount of contracts they're winning. And I don't expect every single segment, every single half-year segment.

Can I screen share?

Yeah. You should be able to.

Let's see. I might just be able to get up my-

Yeah, go to make you co-host.

My iPad.

While you're doing that, I'll try and frame that all up, because again, the point is not to reach consensus, but I really like how that was framed, really.

It's sort of like, who knows what is going to happen, right? We'll find out.

But I like

putting in place ahead of time

the things that break it, and rather than just

hoping, whatever. It's like we recognize that these are risks, and this is

definitely what I'll put in the report when I write all of this up.

But these are risks, and we will

see. If and when these dynamics start to play out,

it would, at the very least, I guess, prompt an investor, even a

very long-term investor, to go, "Right.

Well, I might need to revisit some assumptions here." Because if they are going to

lower prices

or they are going to face

because of increase in competition, or they're going to not lower prices and

just capture more of the market, it folds into to some of the assumptions.

Yeah.

Yeah.

Just to add, one of the things that I think tends to get lost in the discussion about tenders is that ProMedicus very determinedly went after the top 20-

Mm

...

of the big radiology schools in the States. And I started watching them when they picked up the Mayo Clinic.

Mm.

Because you get the Mayo Clinic, that is like you've got your badge-

Yeah

...

of quality.

Yeah.

And I've always been waiting to see how they develop in Europe, and I think they've just got Heidelberg, if I remember correctly. If they have, and I think they have, that is a very, very old, respected, incredibly important for Europe school.

Mm.

Right? So they've targeted where they want to pick up. They're picking up the really big ones.

I think they've got about 11 of the top 20 now in the US.

Mm.

And they are just huge.

Yeah.

The one they're bringing on now, and now they're going to the less, below the 20, but they're big.

Yeah.

The one that they're just bringing in-

To share my screen, I have to-

What it is, I agree, Claire. I'll let you share, Claude, but just while you do, I

think it's the always the no one got fired for hiring IBM

kind of schtick.

Yeah, exactly.

Yeah.

Yeah.

Go for it, Claude.

Oh, we lost him.

He's lost him.

He's given up. He's out.

He probably hit the wrong button.

Yeah.

Yes, probably.

Oh, here he is.

Oh, here he is, back again.

Yeah. I think that was the other thing,

just while Claude's getting himself set back up again.

I can't do it. I was trying to make it so I could share my

spreadsheet thing, but now it says, "Host disabled participant screen sharing."

Oh, did I?

I think that was just Donna. I don't know if you did it. I think it was Donna.

No, you should have co-host options.

Oh, there we go. Here we go.

Try that.

Yeah, now I can do it. Hold on.

Okay.

Where are we? All right.

All right, can you see that?

I can.

Yeah. So these are the contracts,
this list I've been creating for 10 years.

I'll probably

maybe just take you away from the notes.

But the colors, each color change refers to

a period. So, that purple period there,

that's

one year or whatever. I think that's actually...

Yeah, so that's two halves in that. I didn't do that very well.

Should've made this a different color.

But

yeah.

You can see, in this

last period that we've had, which is the yellow,

from July. January should be a different color.

But

from that chunk, that's the most recent half, and then that's

just a little one there, but we're still going pretty well in terms of if you look

at that,

they're just winning-

They're getting wider

... yeah, exactly. Those things are getting bigger. The white lines are renewals.

They don't count.

So yeah, you're just looking at the colored blocks, and that just gives you...

When I see this thing start to look like

not healthy, then that, to me, will be a

sign that yeah, it's probably the whole story's kind of peaked or

whatever.

Mm. Nice.

So

that's the early sign. Now, of course, there's more detail to what I just

said then. You have to check the actual values of the contracts and all

of that kind of stuff. There can be some that are so big they're worth four normal ones or something like that.

Mm.

So obviously, if you had one really big one but nothing else, you might be a little

bit worried, but not too worried. But if you just had two small ones, then yeah,

that'd be a weak half. And then if you saw two weak halves like that, I think that

that'd start being like, yeah, okay There's obviously

something's changed in terms of the competition.

But don't forget, the rate that they

win, it's not just a factor of how many you're losing.

In any given period, they seem to lose between one and

three, and the reasons they lose are

never that someone was like, "Oh, actually, someone's offering me a better deal,"

except when they're like, "Someone's offering me a cheaper deal." And that does

happen, and that's always going to happen,

because yeah, quite frankly, the amount that you pay

a radiologist in Colombia probably is not enough

to justify the expense of Visage or any of that stuff.

Which is why we've got on the ASX a listed company that has radiology software for Colombian

clinics. Because it's cheaper to just pay a radiologist to do twice as long work than it is to get

Visage. The linchpin on this whole thing is that radiologists are so expensive in the USA.

The way that the thesis dies

quickly is radiologists stop being expensive, because then,

yeah, you may as well use the other software that's just a little bit slower, a little bit worse. Because the radiologist is no longer this

demigod

or whatever.

Mm-hmm.

So that-

To that point, Claude, about the US health system,

my understanding is that it is slightly different in Europe.

So, an obstacle, Cleo, for your

thesis of them exploding in Europe is that it's

the way that they are

subsidized by governments is a lot less

generous-

Yes

... in Europe than it is in the US.

Oh, I wasn't going to say that they'd explode in Europe.

I'm saying that they are doing the right steps-

Yes. Yeah

... to get into it,

or to expand in Europe, because they're-

Yeah

... they're picking out the top of the trees, basically.

Yeah.

They're getting the very, very best, and they did the same in the US, as

I said. So-

Yeah. It's completely astute

... in academic circles, that works.

Yeah. But can it be as profitable in Europe, would be a question that I would have.

It would be a very different thing, I would imagine.

Yeah. They can't be as profitable in Europe.

Nothing's as profitable as-

As the US

... as the US.

Yeah.

And that's because the US people are willing to

be ransomed like that.

Crazy.

Yeah. Any reasonable country would be like, "What are these Australian pirates doing?"

Mm-hmm.

You know.

Yeah. It is a mark against supposedly free markets there, isn't

it? But that's a deeper question.

And that's also why it's not big in Australia, right?

The Australian business is almost a separate...

The Australian business, yes, they do sell some Visage now for the private clinics where, yeah, the radiology private clinic stuff, they can charge.

I don't know what the exact rules are, but you're charging more money, so you make it worthwhile for yourself. That's where some Visage stuff makes sense, and some clinics that are more focused on that kind of work have gone with Visage for many years in Australia. But the majority, it's been on this different-- They're selling the radio information system to them, which is actually more like, I guess, some of Sectra's old products, and it's Australian specific, and I think they've managed to sell some in Canada. I can't remember. My memory could be wrong. But yeah, it's like it's never going to be as high margin.

You're never going to be able to charge those high prices.

You've got more competition and that kind of thing.

And I think that's the workflow. And then they've taken that information system in Australia, and they're selling that as the workflow in the US, or a version of that, and they're also selling the vendor neutral archive as a product in the US. But I think the only reason they're able to sell the workflow and the neutral archive thing is because a hospital or a system wants to just deal with one vendor, so they'll take the whole package.

The thing that gets them the win is the Visage viewer.

Nice. I am mindful of the time. Not that I want to rush this to a

premature conclusion, but I don't want to drag it out unnecessarily long. But the definite thing that's been

mentioned a couple of times that I'm just keen on others' thoughts on, because the other

really big discussion point with this is AI.

And

I guess there's two ways to look at it.

Well, I shouldn't be too judgmental, but to my way of thinking, there's the simplistic idea that anyone can spin up any kind of software with just a few vibe coded prompts, and away you go.

And

vibe coding's a thing, man, and it's crazy, but I don't know if we're at that stage yet. So I think some of that fear is overblown.

The other angle, though, to it is the...

And Mike, I think, was perhaps the first, or at least one of the first to point this out, was that it actually could be an incredible tailwind.

One of the things that AI needs is huge training sets, and ProMeticus has got them.

Now, as I understand, Claude, you might be able to clarify on this, but I don't think they've got full unfettered access to all de-anonymized image files that are there. But they do have collaborative agreements with various

hospitals and university type institutions where they can do that. And there's potential, or the argument goes, that there's potential for a bit of a positive flywheel effect here as well.

So more of an archive, better AI reasoning, and identification of potential issues, which leads to more use, which leads to more images, and so on and so forth.

There is that. The other way of looking at it is that, to your point earlier, Claude, is like, well-If the limiting factor here is very capable radiologists, but all of a sudden, I don't want to make any radiologists fall off their chairs, but if potentially there is a not too distant future where the machines just get so good at reading images that perhaps you don't need to be the crÃ©me de la crÃ©me of radiology to use

it, and all of a sudden, if I can point
an image recognition model or some combination of LLM and
machine learning and AI and all of that at a
system where the images are good enough and the data set is big enough
where it does limit potentially the pricing power or the
differentiation, that's something else to look at as well.

So I'm just really trying to sort of frame it all up there.

Did anyone want to throw in their two cents in regards specifically to AI?

Well, I think your last point there is like, that's the key risk, right?

Is if AI effectively makes 80% of radiologists
not required because it's more accurate and faster,
then-

Or the existing radiologists can do 50 times as much.

Yeah.

Yeah.

Well,

50 times as much is okay because they're charging per transaction.

Right.

But seems to be the edge they have at the moment is that
they're in demand because of how
fast their product is for the radiologists on the golf course.

Mm.

But if the radiologists,
there's hardly any of them, then most of it can be done by AI.

It's very different.

Yeah.

Yeah, so that's the...

Yeah, you can cut it up multiple ways. Yeah.

For sure. That's what I worry about, like in terms of how AI could wreck ProMedicus would be if you start having no human in the loop, then suddenly the time of the radiologists stop being worth so much money, at which point your competitive advantage, which saves time for radiologists, starts dropping pretty massively. Now, if you're the only person that can do that, then if it's still your software doing the scans and making it possible for fewer radiologists, you're kind of out because you're like, "Yeah, I guess we have to drop prices," but also we're just eating up everything at this point. It's like, you know, when-

Well, hopefully you're running the AI and you're just charging per transaction, which can really go-

Yeah, exactly. So there's one scenario where ProMedicus actually manages to be the person that makes or the company that makes that first leap and starts cannibalizing the entire market, destroying its own competitive advantage in the process. Which is probably the one where like, holy crowley, it actually is way better than we could have ever even imagined when we first bought it, and the luck continues.

Mm.

And if there's any decent human beings that are smart and have assembled a great team and maintained a team. Like I watched whether the employee options expire, right? They hardly ever expire.

It's like someone will leave literally because their wife is French and they need to leave, but they were never supposed to be here in Germany in the first place, and they just got sidetracked in this job for 10 years or whatever.

And now they're super rich and they're going to go and live their life because

these guys all got shares at like \$3 or \$5 or whatever.

So,

some people leave. But it's very low, the cancellation, so they've got a great team. So if there's anyone that I was going to back to try and be the people that managed to eat everyone else, then it would be these guys. But at the same time, I'm not saying it will be them.

And I do think, yeah, the thing that keeps me up at night is at what point do radiologists stop being this like huge bottleneck? Because that is what gives ProMedicus its profitability.

Yeah. Interesting. Anyone else?

Can I just make just a quick comment?

Yeah. G'day, Chris. Yeah, go for it.

So yeah, look, it strikes me that what we're talking about is a bit like self-driving cars.

I mean, self-driving car technology's been around for ages, hasn't it? Yeah.

Yeah.

And pretty much everybody understands that it's actually safer to let the vehicle drive than to let the average human being on the road.

And yet, is it here yet?

Mm.

It isn't really, is it? There's this trust barrier, isn't there-

Yes

... really, that is preventing government and authorities and probably a lot of other humans from preventing that going forward.

And again, it's like the accountants and the Xero example for AI, I think the radiologists are the guys that are kind of controlling this sector.

And I don't see hospitals in the US opening themselves up to legal liabilities-

Mm

... because they want to trust an AI to make a prediction for a model that isn't 2000% perfect. You know, like the-

Yeah

... the driverless cars. So I think there's a lot of conversation in AI about AI taking over the world. But I still don't see that the level of trust required for a lot of these applications is anywhere near there.

And I'm not sure whether it will be here in 5 or 10 or 15 years.

It's a very human thing, isn't it?

Yes.

And the technology kind of can be defeated by that human emotion.

That's such a good point, Chris. Yeah.

I see the... And it was

said earlier, for these models, for these AI predictive models to work well, they need really good datasets.

And ProMedicus, if they're a trusted partner with everybody that they're in bed with, if they are the kind of new kid with the new technology and they've got that trust, hospitals and medical facilities are going to stay with them.

Mm.

They're going to trust that the AI that ProMedicus implements, which they will, increasingly they'll implement in their processes.

PME are not going to cut themselves short and shoot themselves in

the foot by making a bad job of it.

Mm.

They'll bring it in when the predictive capabilities can enhance what they're already doing.

Mm.

There's going to be 100 startups that will go to a hospital and say, "We can do this." And we can do it 10 times cheaper, and we can be just as good. But the trust part is the key component which is missing, I think.

I suppose, yes.

So I think a lot of this AI is overblown.

And I think what I'm hearing here, and the really small amount of information I know about Promedica, I don't think their competitors or AI will escape the trust thing.

Talking about the economy for the moment, it strikes me that no matter how rich or how poor, number one, you need to eat, and number two, you need medical support, don't you? You need healthcare facilities.

You're not going to put off a scan because the economy's in a recession if you can avoid it.

Well, this is kind of it, yeah. And so you need those two things. You can do without a lot of things, but you need those two things. So if there's two survivors when an economy goes bad, there's two industries that are at least going to be in the top few, for sure. Guaranteed, yeah?

Yeah.

And if in Europe and here and parts of America, a lot of that health investment is government-driven, then they find the money.

The money is there, yeah? So the economy, I think is... I agree with Claude that I think there's quite possibly going to be a high risk of a recession.

But I'm not willing to believe that it's going to affect this kind of opportunity.

Interesting.

I think it's just a matter of time before the ship turns, and all this momentum and conversation about AI is going to start coming back the other direction.

And I think companies like PME, like Xero as well, I think they have data. They're already using AI.

They have that trust already. Then if they're good business managers, which they obviously are historically, I don't see them failing too easily.

I think it's such an excellent point, Chris. Two things can be true.

It may actually be that in the very, if not now, but very soon, that AI is just demonstrably better.

But culturally, I don't know if we're ready for that yet.

And I'm always reminded of the idea that, it goes back years, and I forget who said it.

I'm going to draw a blank, but the idea that science progresses one funeral at a time. You almost need the old guard to die out before the new generation sort of comes through with a more open mind or just more willingness to embrace new technologies.

And it's very easy to say in the comfort of your armchair, but when push comes to

shove and there's a very serious health consequence you're facing, you might, at least for a lot of us for a long time yet, feel a lot more comfortable knowing that a radiologist has also looked at it. And actually, another thing I remember here, too, and I think this is still true, but

it used to be the case with... Chess has always been one of these great testing fields for AI. And obviously, computers started beating humans a long time ago.

But the tippity top of the pyramid is the human using an AI is always better than just an AI.

In other words,

that might still be the case here as well, where it's like, yeah, but the AI is really, really, really good. However, in combination with a very experienced radiologist, that's even better.

So I think that's an excellent point.

Or self-driving cars.

Once every couple of years, there's a road accident in the US where a self-driving vehicle has an accident-

Yeah

... there's some technology failure or something, and someone gets killed.

Yep.

And we all know that.

We all know that.

Yep.

We know already about hallucinations, AI hallucinations.

Mm-hmm.

So we know already it's fallible. It can make mistakes.

Yep.

And then I'm going to walk into a hospital and I'm going to get a scan, and the doctor or the surgeon is going to tell me, "Oh, I had the scans evaluated by an AI model, and here's what it said."

Mm.

I'm going to believe that?

I'm not so sure that would be the case.

You might want to sanity check, yeah. Yep.

No, I think that's excellent.

I don't see radiologists going anywhere anytime soon.

Yeah.

I think we'll always need them.

Yeah. There's

potential phases to it,

even if you make the assumption that we very much do go to a world where everyone's completely trusting in the AI because it's just that good and the cultural shift has happened. That could be

10, 20 years away. I don't know. And there could be a hell of a lot of growth in the meantime, where it first acts as a tailwind before it acts as a potential headwind.

Well, the health industry is still using fax machines.

Yeah. It's so true.

They don't move all that fast.

And pages. And pages.

Oh, yeah.

Yeah. Yep.

Yes.

If you want steady as she goes, that's what you'll get.

What are we looking at here?

I don't know. I don't know.

Oh, I thought that might've been you, Brian.

I'm guessing it's... No, it's not.

I'm guessing-

Claude's on mute

... it's Claude's screen, is it?

Yeah. I think so. He's on mute.

That's all right.

Do you want to say something, Claude?

Yeah. Sorry. I was just getting this ready to show you.

Go for it.

First of all,

this is the P/E ratio, just the trailing P/E ratio of Promedicus over the last 10 years.

And first of all, up here where there's a gap, it's because the CapIQ chart won't-

Go to 300

... chart over 300. It literally went off the chart.

Yeah.

I should've been selling before then.

Where's the sign?

When the P/E ratio got so high it broke the CapIQ chart.

That was the sign. I should've used that better.

It's all so obvious in hindsight.

Like the hard rule. "No, we're not doing over 300 P/E.

Get out of here."

That'll never happen.

Not meaningful.

Yeah.

So anyway, but that's it. It got so high, just like Cleo was saying previously. Part of it was just, it was high. It came down.

It was a bit of a bubble.

Mm-hmm.

And then, so-

I want to just-

The outlook has come down though. That's a huge count.

I totally-

It hasn't been this low since 2017. This is why I'm bang on my thesis on the game.

Here's my pushback on that, Clay, and this is more devil's advocate than firm conviction.

Mm.

But there is also the... It was, and in some ways is, relatively small on the global med tech kind of stage, and companies that are small and growing rapidly off a low base are likely to get these very elevated P/Es.

You're never going to see a General Electric on a P/E of 100.

Beg your pardon. That wasn't P/E, that was estimated next 12 months P/E, by the way, that I was-

Okay. Yeah.

And it's just an observation, so it's not to discount the possibility of a mean reversion in the historical P/E ratio range, it's just that there is, I think, and I'd really welcome some pushback, the observation that large companies don't sustainably trade at those levels for a very long time.

Yeah.

Because trees don't grow to the sky.

Yeah.

And so this is my struggle with it, because

I can be pretty bullish on earnings growth and

survivability and robustness and opportunity, and I'm actually

fully signed up to that. What always gets me with it is that if we go back

to a P/E of 40, now I would say a P/E of 40 is

historically elevated, and companies that are consistently growing their

earnings for a very long period of time around 20% per

annum would probably, again, on average over long

periods of time, probably be sort of around that

ballpark. And when you start playing around with some of these models,

and again, just my personal preference, I sort of have gone the way that

Pete has here, is that that's the real needle mover on

trying to determine value. If you sustain or the

current P/E or you just put a very low, or sorry, a

relatively high floor on that P/E, I think the case for value becomes

really, really, really easy, but at the same time, it blows it out of the water

if earnings growth is fantastic, margins are fantastic-

Yeah

... competition's not there, but we go to a P/E of 50, because don't forget we're

at 85 at the moment.

Yeah. I just want to clarify for anyone watching this, we are not talking about

price to statutory earnings because they got this huge gain from

their holding in 4DX in the most recent results.

Yes. Right.

So we're talking about, in this particular occasion, we're talking about underlying

earnings, which are a lot lower than statutory earnings.

Sure. Yep.

But we'll appreciate that when the, if they lose a bunch of money on their 4DX position in the next half, their statutory earnings will be in the toilet.

Yeah.

Which is another reason why I'm like, "Yeah, maybe wait," because I could see it getting worse before it gets better for the share price.

And also, yeah, everyone knows me as someone who's bullish ProMedicus, but I'm bullish ProMedicus because I've consistently said, "Yeah, I'd keep it in my portfolio." I wouldn't sell at all, basically.

That doesn't mean I always think it's a buy, and even now, it's not like I have this as an official recommendation or anything.

I think it's probably in the top of a buy zone now, but it is still expensive, yeah. But at a certain point, yes, I do think at a certain point when we're talking about this company, it does get cheap, because I do think it probably has at least another five, 10 years of growth in it.

But-

Mm

... the thing that worries me the most is what we discussed regarding AI changing the supply and demand imbalance with radiologists.

Yeah. Nice. So one thing I just wanted to show here before we start to wind it down, and I'll ask for some closing thoughts, but I just, I know just from feedback, talking to a lot of people, I think it's the valuation side of things that intimidates people, and understandably so, particularly when you do more advanced models. So I just remind people that for whatever it's worth, and it might not be worth much, but on the blog if you go to

strawman.com/blog/valuation, there's a

very, very simple basic tool I've written here as well.

And so, really nothing to

say here other than play around with whatever numbers you've done.

And what I've done here is I've just extrapolated, I said before that the nine-year CAGR for earnings has been about 36%,

so I just extrapolated that forward for the base case, gave it a P/E of

40. I only went out five years, and I discounted it all back by 10%.

There's more notes down here if you want to dig into that.

But that tells you a share price of around \$127.

What I like about this is as well you can sort of go to more aggressive, so here

I've assumed 40% growth, and more conservative, which I've knocked it back to 20%,

and you can come up with various numbers.

I always think it's a mistake to sort of try and necessarily

hang your hat on one particular thing.

But something like this will at least, I think when you play around with it, you'll

at least get a sense of what needs to sort of go right.

And with this you can actually give these various scenarios different weightings to

sort of see where it lands. And this probably informs my view a little bit, because

when I sort of start doing this, I get to that sort of level of,

without trying to be overly precise, that we are in the ballpark

of fair value if you take the assumption that the business is

likely to move forward pretty well from here for the foreseeable future.

If that's not true, then of course all bets are off.

But I just point that out there if you did want to have a little bit of a play

around with it. I know most people will watch this as a recording or read the

notes. But just go to that and have a little play around with it,

because I often see this where people will make a argument

purely based on, "Yes, but it's a really good company and it's going to grow very well." It's like, great But you can still try and quantify that growth and then try and work out what the market is likely to ascribe, in terms of a multiple to that growth.

You can just get some interesting sort of outcomes there.

So I'll

put that out there. Any other comments, though?

I'll stop sharing that now.

No, I need to split. Thank you.

No worries, Brian. Thanks for joining.

Yeah. Any closing thoughts? Where, I mean-

The thing that I get out of this discussion is it makes me realize that

I probably like this stock at current

prices more than some other stocks I

own that are similar size positions in my portfolio.

Yep.

Because

I have more

confidence that they will

emerge out the other side of what I do still think is going to be a tough

period for a lot of stocks, including probably this one.

Mm.

But yeah, because I have more confidence in...

Yeah, basically, I think there's probably other companies that are more

at risk,

just because they're not growing as quickly, they don't have such good dynamics.

They're not in healthcare. Their clients are more liable to pause spending or

something like that.

Balance sheet not as good, or yeah.

Yeah.

Yeah.

Or whatever it is. Also just, these guys are well respected, they're very high integrity leaders. They do have a long history of telling the truth and doing-

Oh, actually, Claude-

... stuff like that

... on that point, one of the other things that came up when I was just reviewing some of the notes that have been put on Straw Man, one of the comments that came up, it might have been you, Cleo.

Just find my notes here. But there is the question of succession.

So without trying to

go down another rabbit hole too deeply, I'll just invite any comments that anyone might have on succession.

I'll start with you, Claude, because I know you know we've spoken to Sam a lot.

If he was to just pull up stumps tomorrow and say, "I'm done, I'm buying a power yacht, and I'm going to go sail the Caribbean," would that be a thesis breaker in and of itself, or-

It wouldn't be a thesis breaker, but it would be super relevant.

It would be so annoying if Sam left right now while things were rough.

Yeah.

Because almost automatically for me, Sam stepping down would be a negative.

I don't know if I would sell every-

At these current prices, I definitely wouldn't start selling because it's, for me, kind of closer to a buy.

Yeah.

Also, I don't think he would leave it when it's about to go off a cliff.

You want to go out on a high.

He owns 25%. But-

Yeah

... at the same time,

there are two things you worry about when a CEO leaves.

One is that they're a bit of a rat and that they're going to sell a bunch of shares and the company's about to go off a cliff.

Mm-hmm.

And most people, I think, underestimate the percentages of how often that happens.

Mm-hmm.

And even when it happens and they get holding the bag, they're like, "Oh, no, I'm sure he didn't know that that was going to happen."

That's my take usually.

Yeah.

That's who I was quoting. Yeah.

Very

overly forgiving.

I'm like, no, they knew it was

coming, and they sold and quit because they didn't want to deal with the pain.

Yeah.

I don't think that there's any chance that Sam would do that.

Mm.

But I do think that the company will suffer from

the lack of his leadership. He stepped down as CEO many years ago, and the company languished.

Yeah.

And it didn't start taking off again until he came back,
essentially.

Yep.

So he definitely is a smart guy and a hard worker and an honest operator
and someone who has the trust of many, many, many people.

And when you're like that, you're like a bloody wizard.

You can make massive things happen because so many smart people in
institutions all around the world, from little old me
writing about his stock in Australia to some head of radiology
in
Mayo Clinic.

Mm.

He's got this huge influence in the world.

It's

the real version of a wizard, basically.

Mm.

And so, yeah, you could lose the wizard. Yeah, the company's less valuable now.

Yeah. Good point. Anyone else?

All right. Listen, I might wrap it up here.

But gosh, this is a really good discussion. I really enjoyed this.

I'm going to give special points to Cleo for easily having the best office, and

I am very jealous of your setup there.

That lamp is very cool. As are those-

Are those like a kind of famous lamps or something?

That's the kind of thing-

Yeah.

Yeah.

Yeah.

Unmute yourself. You got to tell us about it.

You're on mute, Cleo.

No, can't hear you.

There we go.

There we go.

That's a Tiffany-like lamp, but

I think it is made in Australia.

Yeah. Cool.

A very long time ago.

Yeah.

It's very old.

Yeah, it's designer.

Yeah. So, yeah. I think it's a Tiffany knockoff that was made

here.

So.

It's very cool.

I'm sitting behind an IKEA lamp, so I'm not going to show you that.

Yeah. So listen, I just want to say thank you very

much, and thanks for Claude for coming from the outside and joining us.

I know you follow it closely, mate, so I appreciate your

thoughts.

Yeah, thanks for having me.

And-

I'm sorry if I went on too much, but it was great to have such a different discussion about it. I've talked about the stock a million times, and yeah, it goes in a slightly different direction when you have different people asking you questions.

Hey, honestly-

Thank you, everyone. Thanks for that. You made me think about it more deeply.

That's the value prop of

Straw Man, really. It really comes down to that.

It's just trying to talk each other out of things or at least get a different perspective. So I think we've been successful on that front.

So what happens from here,

so I wasn't able to line up an interview.

Maybe Claude, if you've got an in and you want to give Sam a nudge, I would love to have him on. But it's a bit hard to do because he is so much in demand. But normally we would do that as part of what I like to do for this Stock Spotlight series.

But assuming-

We managed to get him on the Baby Giants podcast.

That was when he wasn't so well-known way back then.

But-

It wasn't me that organized that, though.

I might still be able to organize it another time.

There's a bottle of wine in it for you if you can.

Yeah, I'll put it... I'll

think about it. But yeah, that's a good idea.

It'd be good to have him at a Straw Man meeting.

I don't know, though, if he'll do it now.

He's so-

Look, I wouldn't

hold my breath. But look, so if we can, great, even if it happens afterwards.

But my next step after this will then, I'll try and sort of summarize this.

I'll take the transcript and throw it all into an AI model and then

knock off all the rough edges and hopefully produce something that sort of tries to distill this discussion, all of the stuff on the platform, and

all of the insights gathered down into something that's a little bit more useful and practical. And yeah, I'll let everyone just get back on with their lives other than just to say one final thank you so much for your time, and I hope you enjoy the rest of your evening.

Thank you.

Thanks, Andrew. Thanks, Claude.

Thanks, guys.

Thanks, everybody. That was great.

Bye.

Cheers.