

# MACH7 TECHNOLOGIES LETTER TO SHAREHOLDERS



Dear Shareholders,

September 19, 2016

On behalf of the Board of Directors of Mach7 Technologies Limited (ASX:M7T), I am pleased to present you with an update on the Company's achievements and outline key factors that underpin our strategy for continued growth. The completion of the merger of 3D Medical and Mach7 Technologies has given us a global customer footprint with a market leading proprietary core business in Mach7 Enterprise Imaging Platform.

## During the last six months we:

- Launched strategic initiatives including marketing stand-alone clinical applications, rolling out a pay-per-use revenue model and introducing a cloud offering;
- Invested in initiatives that are expected to deliver shorter sales cycles, a stronger recurring revenue base, robust long-term revenue growth and financial predictability;
- Signed four new customers contributing >\$10 million in total revenue, and adding \$1.3 million (per annum) of revenue to our annual recurring revenue streams;
- Strengthened our patent portfolio with the award of a second US Patent covering any mobile device capturing images and video for use in a patient's electronic medical record – (Mach7 iModality); and
- Added to our sales capability through distribution agreements signed with major industry players in UK and Europe.

This being the first post merger update, I would like to provide you some industry background and elaborate on our market positioning to help you better understand the value proposition of Mach7 and the exciting prospects we see for the Company.

**Mach7 Enterprise Imaging Platform** enables customers to improve efficiencies in the diagnosis and treatment of patients and achieve cost savings. It is our core intellectual property and value proposition. To better understand this, consider the problems we work tirelessly to solve for our customers.

## Today's Problem - Lack of Interoperability

### Market Definition and Opportunity

Traditional medical informational technology systems that capture, store and communicate clinical media<sup>1</sup> have been designed around separate silos of data. Each of these silos resides in propriety databases unique to a vendor, modality<sup>2</sup> or clinical department making data sharing difficult. This severe limiting factor hampers efforts to improve healthcare delivery across hospitals and health systems, as enterprises are unable to share patient data across clinical workflows within and beyond their systems.

The current limitations result in medical IT systems comprising numerous, disparate legacy systems each often supported by a different software vendor. This generates significant operating costs and technological challenges for hospitals and health systems looking to consolidate patient data and enable interoperability across the enterprise. Not only does this problem exist for one department within a hospital, but it is also the single biggest roadblock to sharing patient electronic medical records (EMRs) across hospital groups and the development of a portable patient EMR.

<sup>1</sup> Clinical media describes all forms of image captured patient data including DICOM data (such as X-rays, MRI, CT, ultrasound), as well as non-DICOM data (such as ophthalmology images, pathology results, cardiology scans, wound care and dermatology images, voice and video files). Clinical media may include structured and unstructured data, common data formats such as JPEG and PDF and propriety data formats unique to a particular diagnostic imaging protocol.

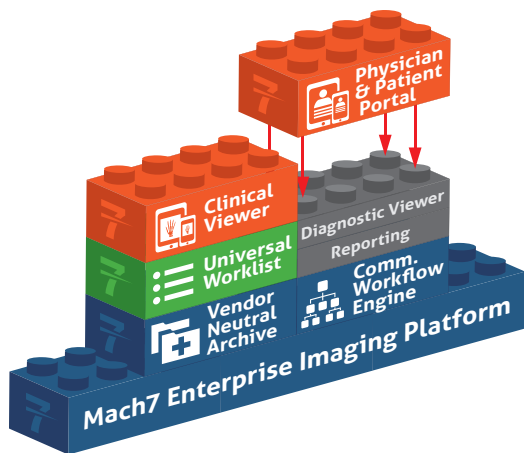
<sup>2</sup> A modality describes a diagnostic imaging acquisition device such as CT, MRI, X-ray, etc.

## Addressing the Lack of Interoperability

Leading healthcare providers have been looking to tackle these imaging IT problems by introducing an Enterprise Imaging Platform (EIP) which provides a vendor neutral solution for the management of all clinical media, regardless of source or format. The EIP approach enables the consolidation and intelligent communication and sharing of all clinical media into a single archive and interoperable framework, ensuring a complete and easily accessible view of the patient record.



## Mach7 Enterprise Imaging Platform



Mach7 Enterprise Imaging Platform is the most advanced and full-featured image management platform available anywhere in the world today. The capabilities offered by the Platform has resulted in many renowned healthcare providers becoming Mach7 customers. These leading providers are implementing a transformational IT strategy that is displacing numerous legacy databases in favour of a single system that provides unprecedented functionality. Importantly, this single system provides significant cost savings as it displaces the accompanying costs for licencing, service and support from dozens of separate vendors. The team at Mach7 are proud to be working with some of the most respected healthcare groups in the world as they embark on implementing Mach7 Enterprise Imaging Platform, which is fast becoming the benchmark for healthcare data management.

## Market Opportunity

Looking at the cost savings benefit alone, the cost to healthcare providers for legacy systems that Mach7 Enterprise Imaging Platform is competing to displace is estimated to be USD\$736 million by 2020 . This is a significant addressable market for Mach7. Adding in the Enterprise Content Management segment, which is projected to grow to US\$715 million by 2019, and the total addressable market for Mach7 is well in excess of US\$1 billion.

*“Mach7 has been a cost-effective solution for Broward. We’ve done a study on the cost of storing DICOM and non-DICOM images, and the value proposition is there. We have better control of the data at a lower cost and high availability to leverage solutions that aren’t proprietary.”*

*Ronaldo Möntmann, VP of Information Technology  
Broward Health, Florida (USA), one of the ten largest healthcare  
systems in the U.S and a Mach7 customer since 2015.*

## 3D Medical Printing

Our wholly-owned subsidiary 3D Medical is focused on opportunities to utilise clinical media in the design and manufacture of bespoke 3D-printed medical solutions including medical implants, surgical planning aides and surgical consumables. The market for 3D-printed medical solutions is expected to benefit from significant global growth and 3D Medical is working hard to ensure that it has the requisite know-how and experience to exploit this market opportunity.



## Mach7 Marketing Strategy

We have commenced a series of strategic initiatives, in line with a long term strategy that is expected to deliver:

- **Shorter sales cycles;**
- **Stronger recurring revenue base to deliver regular cash flows;**
- **Robust long-term revenue growth; and**
- **Improved financial predictability.**

The evolution of this strategy is made possible by Mach7's industry recognized best-in-class technology that provides a **significant competitive advantage**. Mach7 has a unique opportunity to capture robust growth across the global market.

Recent strategic initiatives have already produced an increase in commercial requests for proposals by 39%, an increase in website traffic by 61%, and an increase in social media interactions by 151% compared to the month of July in the prior year. A summary of recent initiatives includes the following:

### 1. Product repositioning of clinical applications

Mach7 Enterprise Imaging Platform today provides a suite of clinical applications that plug into the platform in support of healthcare providers' clinical workflows. These clinical applications provide the ability to:

- Share and exchange medical images with other providers, family, and friends;
- View clinical images on mobile devices;
- Capture clinical data from mobile devices, and more.

To date, these clinical applications have been marketed to Mach7 Enterprise Imaging Platform customers as add-on solutions. Mach7 has had strong traction with these solutions as more than 65% of the Mach7 install base has either purchased or have returned to purchase these add-on clinical applications.

In recent weeks and in line with the longer term strategy, Mach7 has begun to market these clinical applications as stand-alone solutions across the global market. The increase in commercial requests for proposals, website traffic, and social media interactions has been directly impacted by the market response to the updated product positioning.



## 2. Pay-Per-Use revenue model

The rollout of a new revenue model aligned with our longer term strategy is underway. Traditional revenue models have delivered lumpy software license fees whereby a large portion of the contract is recognised as revenue up front and lump sum payments received upon achievement of certain milestones (such as software installation, training, data migration). We are transitioning to having a larger portion of revenue from a subscription model where clients pay-per-use. With this model, requirements on customers to outlay large capital fees are spread over a contract term which eases cash and budget constraints on the customer while generating improved Mach7 financial predictability and generating higher overall revenue numbers over the contract term as customers grow.

## 4. Cloud offering

Mach7 is expecting to make available shortly all its solutions through both onsite deployments and Cloud managed services. The catalyst for the Cloud offering was driven by strong market interest and growing success in Cloud solutions within Australia in partnership with Telstra Health and in South Africa. Mach7's Cloud solutions are expected to be made available in Q4 of 2016 to the US market and will be heavily promoted at the industry keynote Radiological Society of North America (RSNA<sup>4</sup>) tradeshow in Chicago in November. The move to the Cloud is expected to complement our shifting revenue model to a pay-per-use model. We are already in discussions with existing customers who have shown interest in adopting this solution.

## 5. PACS Product

In response to an active PACS replacement market, complementing the EIP market and Mach7's suite of clinical applications, Mach7 plans to release a packaged PACS solution by partnering with visualisation solution providers. Commercial tenders and the sales funnel is actively growing with this strong replacement market.

## Electronic Medical Record (EMR) Platform for Clinical Media

Organizations such as Apple and Samsung have found success by winning customers through better technology and market positioning. Mach7 has a similar opportunity and long-term strategy to deliver leading edge solutions to every health system around the globe.

In the coming months, Mach7 will focus on delivering solutions to a broader market rather than to a limited number of high-value opportunities. Mach7's operations and go-to-market strategy is to target high volume recurring revenue opportunities that deliver solutions for managing, communicating, accessing, and sharing unstructured clinical media – the EMR Platform for Clinical Media. These recent initiatives are all designed to support the success of our longer-term strategy.

*“Mach7 Enterprise Imaging Platform enables us to take greater ownership of imaging data and significantly enhances our ability to share that data towards improving patient care.”*

*Dr. Keith Dreyer, Vice Chairman of Radiology Informatics, Massachusetts General Hospital (MGH)  
MGH is the original and largest teaching hospital of Harvard Medical School consistently ranked as one of the top hospitals in the USA and Mach7 customer since 2010.*

<sup>4</sup>The RSNA hosts the world's largest annual medical meeting starting the last Sunday of November in Chicago.

## Global Success

Leading healthcare providers from 11 countries around the world have selected Mach7 Enterprise Imaging Platform as the cornerstone of their image management IT strategy. Our customer base is rapidly growing and today we have installations in USA, Australia, India, Indonesia, Malaysia, Qatar, Saudi Arabia, Singapore, South Africa, UK, and Vietnam.



## Intellectual Property

Mach7's best-of-breed software has been awarded a number of US Patents including a recent patent award for mobile image capture – this covers any mobile device that can capture and upload imaging data into a patient's EMR. The award provides an additional proprietary advantage for Mach7 Enterprise Imaging Platform compared to any other competing software solution.

Mach7 has a number of other patent applications and filings pending and we look forward to announcing the details of these in due course.

## Validation of Product and Strategy

*Mach7 Enterprise Imaging Platform manages more than 1 billion medical images.*

Several of the world's leading healthcare delivery networks, hospitals and clinics have adopted Mach7 Enterprise Imaging Platform as the foundation for their clinical ecosystem. These customers provide credible reference sites to validate the sophistication, power and value proposition of our solution offering. Some of our key customers include:





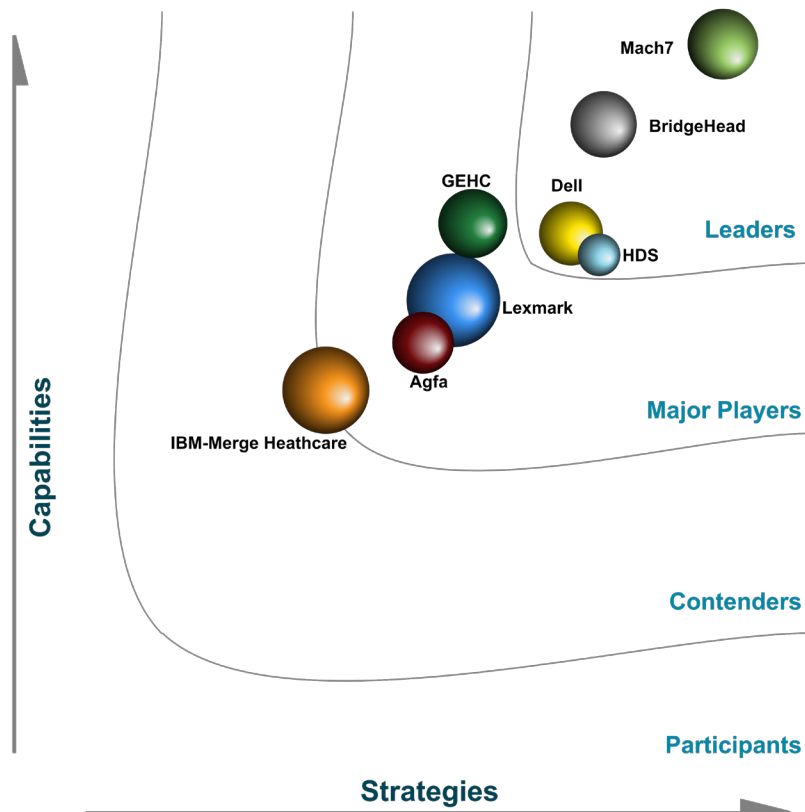
**Industry Accolades**

Since the initial commercial release of Mach7 Enterprise Imaging Platform in 2012, the Company has been recognised with a number of industry accolades and awards including:

- “No.1 Leader, U.S. Healthcare Provider VNA/AICA Unstructured Data Platforms for Integrated Care” IDC, Global Market Analyst (2016)
- “Asia Pacific Medical Imaging Informatics Company of the Year” Frost & Sullivan, Global Market Research and Consulting Firm (2015)
- “Global Enterprise Imaging Informatics Entrepreneurial Company of the Year” Frost & Sullivan (2012)

**IDC MarketScape: U.S. Healthcare Provider VNA/AICA Unstructured Data Platforms for Integrated Care Vendor Assessment**

The graph to the right from IDC shows how Mach7 rated higher than its peers in both technology capabilities (current functionality and services), and strategy (how well Mach7 product is expected to suit the needs to its customers over the next 3 – 5 years).<sup>5</sup>



*“The IDC report, which identifies Mach7 Technologies as a Leader in the VNA and AICA Platform space, focused on many variables including functionality and patient-centricity of the product, underlying technology, market knowledge and reach of the vendor, deployment capabilities, value relative to price, and customer references for the product.”*

*Judy Hanover  
Research Director, IDC Health Insights  
IDC is a global provider of market intelligence.*

<sup>5</sup> MarketScape: IDC MarketScape: U.S. Healthcare Provider VNA/AICA Unstructured Data Platforms for Integrated Care 2016 Vendor Assessment”, by Judy Hanover, May 2016, IDC

# Outlook

*“Mach7 is well positioned to capture strong market growth. Mach7 is a recognised market leader with an innovative technology and strategy capable of displacing and rattling the industry giants for years to come.”*

*Jef Williams*

*Paragon Consulting Partners, California (USA)*

*Health IT Consulting Leaders and Mach7 Implementation Partners*


We continue to focus on winning new customers, generating additional revenue streams and increasing our market share of the global enterprise imaging market. We are working to deliver exciting opportunities in 3D printing through our wholly owned subsidiary 3D Medical.

We believe recently implemented product and strategic initiatives, and recent wins are positive indicators that the Company is nearing profitability.

We will update you with contract wins from our sales pipeline of large enterprise customers and small to mid-sized customers using our new “light version” software innovations and pay-per-use pricing models.

I would personally like to thank you for your continued support as we build an industry leading, innovative and profitable company to improve patient care in the growing global healthcare market.

Yours faithfully,



**Damien Lim**  
Chairman