Q3 2022 Accuray Inc Earnings Call
April 27, 2022

CORPORATE PARTICIPANTS
Joshua H. Levine, Accuray Incorporated – CEO & Director
Suzanne Winter, Accuray Incorporated – President
Brandon "Brandy" Green, Accuray Incorporated – Interim Chief Financial Officer and Controller
Ken Mobeck, Accuray Incorporated – VP of Finance & Investor Relations

CONFERENCE CALL PARTICIPANTS
Brooks O'Neil, Lake Street Capital Markets
Marie Thibault, BTIG, LLC
Josh Jennings, M.D., Cowen
Frank Pinal, Jefferies LLC
Jason Wittes, Loop Capital Markets

PRESENTATION

Operator

Good afternoon and welcome to the Accuray Third Quarter Fiscal 2022 Financial Results Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

I would now like to turn the conference over to Ken Mobeck, Ken Mobeck, Vice President of Finance. Please go ahead.

Ken Mobeck, Accuray Incorporated – VP of Finance & Investor Relations

Thank you, Gary, and good afternoon, everyone. Welcome to Accuray's conference call to review financial results for the third quarter of fiscal year 2022, which ended March 31, 2022. During our call this afternoon, management will review recent corporate developments. Joining us on today's call are Josh Levine, Accuray's chief executive officer; Suzanne Winter, Accuray's president; and Brandy Green, Accuray's interim CFO and controller.

Before we begin, I would like to remind you that our call today includes forward-looking statements. Actual results may differ materially from those contemplated or implied by these forward-looking statements. Factors that could cause these results to differ materially are set forth in the press release we issued just after the market close this afternoon, as well as in our filings with the Securities and Exchange Commission. The forward-looking statements on this call are based on information available to us as of today's date, and we assume no obligation to update any forward-looking statements as a result of new information or future events, except to the extent required by applicable securities laws. Accordingly, you should not put undue reliance on any forward-looking statements.

A few housekeeping items for today's call. First, during the Q&A session we request that participants limit themselves to two questions and then re-queue with any follow ups. Second, all references we make to a

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

specific quarter in the prepared remarks are to our FISCAL year quarters. For example, statements regarding our "third quarter" refer to our FISCAL third quarter ended March 31, 2022. Additionally, there will be a supplemental slide deck to accompany this call, which can be accessed by going directly to Accuray's investor page at investors.accuray.com.

With that, let me turn the call over to Accuray's chief executive officer, Josh Levine. Josh?

Joshua H. Levine, Accuray Incorporated – Chief Executive Officer

Thanks, Ken, and thanks to everyone joining us on today's call. I'm joined today by Suzanne Winter, our president, and Brandy Green, our interim CFO.

Accuray's fiscal 2022 third quarter performance continues to reflect the healthy demand environment we are seeing globally, which has been primarily driven by strong interest in the most recent innovation upgrades on our Radixact® platform, like ClearRT™, our helical kVCT imaging system, and Synchrony®, our motion compensation and automated target tracking technology. These unique innovations and the resulting functionality improvements that they represent have made Radixact® a true workhorse product with leading-edge clinical case mix versatility. These functionality improvements have had strong year-over-year revenue growth impact for Accuray in Fiscal 2022. For the quarter, like many of our capital equipment peers, our operational results reflected the continuation of operational headwinds and associated costs from macro market factors, including global supply chain and logistics issues.

Brandy will be providing greater detail in her prepared remarks about the collective impact of these factors on the quarter's results. We believe Q4 will remain challenging in terms of the intensity of parts shortages and logistics headwinds, and we will continue to see pressure on service margins. With that said, our teams are working cross functionally to preserve production capacity and identify and mitigate risks to stay ahead of supply gaps that could impact production.

And now I'll turn the call over to Suzanne for some more details on commercial highlights during the quarter.

Suzanne Winter, Accuray Incorporated – President

Thank you, Josh.

We delivered solid top line performance for the quarter and our Q3 results represent our 6th consecutive quarter of delivering above expectations in both orders and revenue. Looking at our first nine months of FY22 we have delivered 14 percent growth in orders and 12 percent growth in revenue versus last year. We continue to see the strength of customer demand for both CyberKnife® S7™ and Radixact/TomoTherapy® platforms and the growing recognition by customers that Accuray technology provides a new standard of accuracy and precision compared with conventional C-arm linac systems.

The market is adopting the use of ultra-hypofractionated stereotactic body radiation and stereotactic radiosurgery, or SBRT/SRS treatments. We estimate that currently less than 20 percent of worldwide radiation therapy procedures are using ultra-hypofractionated treatments but that number is expected to grow significantly over the next several years. These treatments are changing the way radiation therapy is delivered to patients as it delivers a more powerful dose of radiotherapy in only 1 to 5 treatment sessions

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

versus 35 to 40 treatment sessions with conventional radiation therapy. This represents a paradigm change offering significant patient benefits and additional treatment options for providers and reduces overall healthcare costs with a focus on value over volume.

As discussed in previous earnings calls, the ability to deliver ultra-precise SBRT treatments varies substantially across commercially available radiation therapy platforms. Any error in the precision or accuracy of the treatment plan or delivery can have a significant impact on long term patient outcomes and their quality of life, especially given the higher dose delivered over fewer treatments. The ability to "see more" to distinguish tumor from healthy tissue enabled through superior ClearRT helical CT imaging in addition to the ability to adjust the treatment beam to the tumor or patient motion, continuously and in real-time, accomplish only with Synchrony technology are two capabilities that differentiate Accuray technology from the rest of the competitive radiation therapy platforms and, in combination with our latest product introduction for the Radixact platform, VOLO™ Ultra treatment planning, are being recognized as critical tools that provide clinicians the ability to deliver the highest precision and accuracy required for stereotactic radiosurgery and stereotactic body radiation therapy treatment planning and delivery.

The growing body of clinical evidence shows that Accuray technology is making a difference in long term patient outcomes, as we have seen in the results PACE-B trial for prostate cancer which showed 50 percent less bladder side effects for men treated with the CyberKnife. The TOMO-Breast trial also demonstrated a reduction in secondary effect on lung and cardiac function for women treated on the TomoTherapy platform for breast cancer versus those treated with conventional treatment. And most recently, the results of 10-year follow up data from the Cyberknife Center in Milan (Professor Romanelli, et al) showed durable pain relief after 10 years post treatment for patients suffering from trigeminal neuralgia. With over 20 years of clinical evidence, a growing body of studies now show the impact Accuray's ultra-precision technology has on patient outcomes years after treatment. And we continue to execute on our innovation roadmap that provides additional tools for clinicians to provide safe and effective therapy.

During the quarter, we introduced the neuro package at the Radiosurgery Society meeting in March. The new neuro package for the CyberKnife S7 platforms provides enhanced treatment planning capabilities for both the Precision treatment planning as well as provides access to the Brainlab Elements software further expanding the capabilities for neuro oncology customers.

A key performance metric we are using to gauge our performance in the market is our ability to win competitive bunkers. In the developed markets, including the US, Europe, Japan which is a replacement market and highly competitive, we continue to be successful unseating the incumbent linac manufacturer's installed base. While this may vary from quarter to quarter, in Q3 21 percent of our unit orders were replacing a COMPETITIVE system. Our competitive replacement performance in the first 3 quarters of FY22 has improved by 6 percentage points year over year for the same time period demonstrating that winning in competitive bunkers is growing contributor to our orders performance. In Emerging markets, like China and in Kenya, where we sold our first CyberKnife S7 system, the majority of system orders were to NEW radiation therapy customers allowing us to further our vision of expanding patient access to advanced radiotherapy care where previously it was unavailable.

Looking at our Regional Order performance, the America's region delivered 239 percent Orders YOY growth and the APAC region delivered 30 percent YOY order growth with China the major contributor offset by the EIMEA region which decreased 27 percent YOY mostly due to uncertainty which lengthened the sales cycle.

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

In Regional Revenue performance, demand for customer installations remains strong however the expected supply chain constraints tempered our ability to fulfill demand. However, I could not be more proud of our Operations and Sourcing team and their ability to navigate the challenges and execute a strong quarter and fulfill balanced regional revenue performance across our major regions with YOY growth in both the Americas region and non-China APAC regions.

China again delivered solid results with $26M in Orders and $21M in revenue despite the zero-COVID policy which is driving challenges for this region. We expect the stringent central government policies that restrict travel will slow our regulatory submission of our JV developed Type B product. However, we remain on track for market introduction at the main conferences in the Fall and are optimistic about the market reaction to the product features and ability to gain share in the Type B segment pending regulatory clearance.

In summary, we are advancing each of our strategic initiatives forward and our business fundamentals are strong. Our teams are executing despite the extremely challenging supply chain conditions in Q3 and while we cannot predict with full visibility when macroeconomic trends will improve we are mitigating the impact of inflation headwinds with increased pricing on our high, value new product introductions, like ClearRT on Radixact and increasing service contract pricing to partially mitigate the impact of increased inflation and logistics costs. We have been very effective at expediting product supply, pivoting to alternate sources of supply and designing in alternate components to ensure availability. On the logistics activity, with the assistance of our strategic partner DHL, we have instated process controls to ensure better impact on shipment costs while maintaining quality and responsiveness to customer needs. We believe early visibility to component shortages and proactively mitigating risk associated with long lead time parts or key sub-assemblies is a key success factor. As a result, I am confident that the actions we are taking to successfully navigate these supply chain and logistics headwinds will provide operational productivity once the macroeconomic environment improves.

In summary, we are advancing our innovation driven growth plan forward in all areas and expect continued customer demand for installations. Product revenue is growing from our increased investment in R&D growth initiatives with increased customer adoption of our unique platforms that provide providers with the mission-critical tools that are needed to provide ultra-precise SRS/SBRT and advanced patient care. As we look to the remainder of the year, we are maintaining our guidance for the full year at revenue range at $420-$430M and adjusted EBITDA of $15-$20M with the range defined by our ability to fulfill customer demand impacted by the ongoing macroeconomic and supply chain environment.

Now I would like to turn the call over to Brandy for her review of the financial details. Brandy?

Brandy Green, Accuray Incorporated – Interim Chief Financial Officer

Thank you, Suzanne, and good afternoon, everyone. Accuray has delivered a good quarter while continuing to navigate notable supply chain and logistics challenges. We are pleased with our ability to stay nimble during this changing environment.

Gross orders for the third quarter were $88.6 million dollars, a 4 percent sequential increase and a 1 percent increase over the prior year period from innovation-driven order momentum. As mentioned last quarter, we anticipate smaller year over year gross orders expansion for the second half of the fiscal year.

From a product mix perspective, we saw stronger demand for our CyberKnife platform accounting for 57 percent of gross order dollars for the quarter with the TomoTherapy platform accounting for the remaining 43 percent.

During the third quarter, we had approximately $2.0 million dollars of net cancellations which represents 2 percent of total new orders for the quarter as compared to $8 million dollar in the same period a year ago. We ended our third quarter with backlog of $580.4 million dollars, representing a decrease of 5 percent from March 31, 2021.

Now, turning to the income statement. Total revenue for the third quarter was $96.2 million dollars, representing a 6 percent decrease over prior year. For the first three quarters of 2022, revenue was $319.9 million dollars, up 12 percent over prior year representing strong customer demand from product innovation.

Product revenue for the quarter was $43.2 million dollars, a decrease of 9 percent compared to the prior year. For the first three quarters of 2022, Product revenue was up 30 percent as compared to the same period a year ago. Product demand remains strong, however supply chain constraints on key components drove delays in finished goods shipments for the quarter.

From a product mix perspective, CyberKnife accounted for approximately 22 percent of the revenue unit volume in the quarter, while the TomoTherapy platform accounted for the remaining 78 percent. As a reminder, the mix between Cyberknife and TomoTherapy varies from quarter to quarter. Historically on an annual basis, our product revenue mix has remained at approximately 30 percent CyberKnife and 70 percent TomoTherapy for the past several fiscal years related to product introductions on our TomoTherapy platform.

Service revenue for quarter was $53.0 million dollars, a decrease of 4 percent compared to the prior year primarily related to $1.5 million unfavorable foreign exchange impact.

Turning now to gross margin. Overall gross margin for the third quarter was 36.2 percent compared to 38.6 percent in the prior year.

Product gross margin for the quarter was 34.3 percent compared to 41.6 percent in the prior year. During the quarter, per our JV accounting requirements, we deferred product gross margin on 6 systems sold during the quarter to our China joint venture that have not been transacted through to the end customer. We have 2 remaining systems deferred from prior quarters that we expect will transact through over the next two quarters. Additionally this quarter, we have experienced product cost inflation of approximately 1 percent contributing to margin headwinds. Excluding the gross margin deferral on these 6 deferred systems, our product gross margin for the quarter would have been 40.6 percent a slight decline from the same period a year ago.

Service gross margin for the quarter was 37.7 percent, compared to 35.9 percent in the prior year. Service parts stocking levels improved during the quarter even though outbound freight and logistics have remained a headwind. Net parts consumption related to our service contracts varies quarter to quarter and was lower by 3.1 million sequentially and approximately flat as compared to the same period a year ago. Additionally, service operational costs remained stable and flat sequentially and over the past three quarters.

Investor Relations Contacts

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

Moving down the income statement, operating expenses for the quarter were $35.1 million dollars, which was flat from the prior year. We have continued to monitor program costs, travel, marketing events and compensation costs in response to the pandemic.

Operating loss for the quarter was $0.3 million dollars compared to operating income of $4.4 million dollars in the prior year.

The operating impact of the China JV for the quarter was a gain of $1.9 million dollars, reported in our income statement as a single line item called, "Gain/loss on Equity Investment" right below our operating income line. As our China joint venture continues to ramp its operational and commercial activities, we expect that our share of the China JV's quarterly income or loss will continue to fluctuate in the near term. Adjusted EBITDA for the quarter was $5.4 million dollars, compared to $8.7 million dollars in the prior year period. The decrease in Adjusted EBITDA was primarily related to lower revenue, 6 China system product gross margin deferrals offset by the positive operating impact of $1.9M from the China JV equity investment. The reconciliation between GAAP net income and Adjusted EBITDA is described in our earnings release issued today.

Turning to the Balance Sheet. Total cash, cash equivalents and short-term restricted cash amounted to $98 million dollars, compared to $123 million dollars at the end of last quarter.

Net accounts receivable was $89 million dollars, up 9 percent sequentially and $19 million dollars from the same period last year due to back end loaded shipments. Our net inventory balance was $138 million dollars, up 11 percent sequentially and 1 percent from the same period last year due to accelerated purchases of certain critical, hard to source parts, and increased semi-finished goods awaiting key components for final shipment.

And with that, I'd like to hand the call back to Josh and Suzanne.

Joshua H. Levine, Accuray Incorporated – Chief Executive Officer

Thanks, Brandy. Concurrent with our fiscal Q3 earnings press release, we also put out a press release highlighting 2 important leadership transitions, one at the CEO level and the other at the CFO level. In that press release, we announced that I will be retiring as CEO and resigning as a director of the Accuray board effective at the end of this fiscal year ending June 30, 2022. Suzanne Winter, Accuray's President will lead the Company as the new CEO effective July 1, 2022. This transition is the culmination of a well-planned and thoughtful succession plan that began at the start of this fiscal year with Suzanne's promotion to President. I have come to know Suzanne as a strong strategic partner and a high impact, results oriented business leader over the past two and a half years, and I know the Company will be in good hands under her leadership. At this time, I also want to thank Brandy Green for the significant contributions she made during the period of time that she was in the Interim CFO role, essentially doing two jobs on a full-time basis. Her commitments to the Company and the personal sacrifices she made during this period deserve the highest recognition and thanks.

On a personal level, It's been a true privilege over the past nine and a half years to lead this organization. I've had the opportunity to work with great people at all levels within Accuray, and collectively focus our

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

efforts on ensuring that patients get the best radiation therapy treatments available. I am proud of the impact we have had on the lives of so many cancer patients around the world.

And now I'd like to turn this back over to Suzanne to discuss the CFO transition.

Suzanne Winter, Accuray Incorporated – President

Before I make final comments, I also want to announce today our incoming CFO, Ali Pervaiz. Ali came to Accuray 2 years ago having spent 15 years at GE Healthcare in the finance organization, including as Chief Financial Officer for GE's Diagnostic Imaging and Life Support Solutions business in the US. He brings strong operational experience in large, capital equipment, healthcare technology and has driven bold margin expansion and operational excellence initiatives during his tenure at GE.

Finally, I am deeply honored to have the opportunity to succeed Josh and lead Accuray into the next chapter and build on our vision of building a better future for patients that have been diagnosed with cancer or certain neurological disorders. I'd like to thank the entire, global and passionate Accuray team for their continued focus and commitment providing the highest level of service to the customers and patients we serve. We are executing our growth strategy and continuing to build a foundation for long-term sustainable revenue growth, margin expansion with increased value creation for all of our stakeholders.

QUESTION AND ANSWER SECTION

Operator: Our first question comes from Brooks O'Neil with Lake Street Capital Markets. Please go ahead.

Question – Brooks O'Neil: Good afternoon, everyone. I think the best way to say this is, congratulations to you all. I think this opens the door for everyone having a great future and I couldn't be more excited for the company and for each of you.

Answer – Joshua H. Levine: Thanks, Brooks.

Question – Brooks O'Neil: Sure. Sure. My first question, and my biggest question is, Suzanne, I don't know if you've thought a lot about it, maybe you have. But what would you say are the two or three biggest priorities you have as you assume the CEO job at Accuray?

Answer – Suzanne Winter: Thanks for the question, Brooks, and thank you. Yes, my priorities over the next 60 days are to ensure that we have a very smooth transition between Josh and myself. Then my priority is really building on the foundation that we have started to build and continue to strengthen our fundamentals.

We absolutely have to execute on the important milestones that we have, not only on our innovation pipeline, but all of our growth initiatives so that we finally deliver on our financial performance in preparation for going into FY23. And as we get further on and at our next earnings call, I will be laying out more of our growth plan and areas of focus for FY23 and beyond.

Question – Brooks O'Neil: Great. That's very helpful. And then I guess the second question, obviously concerns about the environment in China, given the lockdowns and the recent COVID experience there. Do you perceive any fundamental change in the overall demand picture for Accuray equipment over the

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

next few years? Or do you see the current situation as likely temporary or transitory and we'll get through this and move on with the program?

Answer – Suzanne Winter: We think it's temporary. And we have very close communication with our team on the ground and despite the, I think, stringent policy going on in Shanghai and potentially moving on to Beijing. I think the feeling on the ground is that it is temporary. Business is still being transacted and we're certainly seeing that.

We saw it this quarter with our orders and revenue performance. There may be some slowing in China expected in Q4, but in general we're on track for significant growth out of this sub-region for the year. We have customers also that have Type A licenses in hand that have already gone through the bidding process and the team feels confident these are going to go to revenue once some of the restrictions lift.

One of them is our -- some of our orders that are aging out that are in our backlog. But again, are underscored by licenses from the central government, but aging out of the backlog. We do have an impact on the NMPA regulatory submission for our Type B product. So that's slightly delayed just because we're waiting to get an inspector on site to complete the report so that we can submit to NMPA. But again, we see these as being temporary overall, and I think that's a good thing.

Answer – Joshua H. Levine: Hey, Brooks, I agree. I concur with everything Suzanne has said. If there's one thing we've learned over the last several years, we don't control the cadence and the timing of things in China, right? I mean, it's just it is what it is. I will tell you that I don't think there's been any change in the overall demand for our products.

And I think that while these things are -- they're frustrating from a delay and a timing standpoint. I would encourage our investors to realize that through three quarters of this year, we've got $60 million in incremental revenue in China that we didn't have, quite frankly, before we implemented the strategy, put the JV in place and started down the path strategically to be a bigger company in China. And obviously, not rely on that alone. But it is -- even with the delays and even with the frustrations, it is contributing in a meaningful way to the company's growth trajectory.

So the timing is the timing, we can't control what we can't control, but I don't think that we're in any different level of opportunity overall than we've been from the outset. And I think the future there for us is very, very bright.

Question – Brooks O'Neil: That's great. Thank you very much. And again, congratulations to you all.

Answer – Joshua H. Levine: Thanks, Brooks.

Question – Brooks O'Neil: Thank you.

Operator: The next question is from Marie Thibault with BTIG. Please go ahead.

Question – Marie Thibault: Hi. Good afternoon. Josh, congrats on your retirement, and thanks for the years of discussion and help to us over the years. And, Suzanne, congrats on the new role. We're looking forward to working with you.

Answer – Suzanne Winter: Thank you, Marie.

Question – Marie Thibault: Yes. I wanted to start here maybe on the demand environment, you mentioned a healthy demand environment globally and then broken out sort of by geography, sounds like Americas and APAC have been very strong, but a little bit of uncertainty in EMEA. I wonder if you could dig into each of those a little bit more. I know you just gave us a lot of detail on China, but some of those other geographies as well.

Answer – Suzanne Winter: Yes. I mean, I think, again, we're seeing the strength in the Americas, partly due to the investment that we've made in our commercial infrastructure in the U.S. We are seeing very strong pipelines for demand and customer demand for some of the new products that we've introduced. So we're encouraged by that. Again, China has been very, very strong for us, and we continue to see strength there. Japan has been strong for us. And year-to-date, they're up 10 percent from an order standpoint. I think the EIMEA, the European area has been a little tempered in their growth. I think it's not because there is a lack of activity, but I think the sales cycles have been increasing and partially due, I think, to some of the unstable environment as a result of Russia, Ukraine and just some conservatism in making capital equipment purchases.

Question – Marie Thibault: Okay. That's helpful. And then, maybe my follow-up here on supply chain headwinds. You certainly talked to us about this last quarter, and it sounds like, indeed, the constraints are impacting some ability to meet demand. Do you have a way to size the sort of impact from that constraint here in the fiscal third? What you imagine it might be in the fiscal fourth and whether your visibility allows you to look beyond kind of midyear and how long some of these headwinds might last? I understand that's very difficult, but I appreciate any insights there. Thank you.

Answer – Suzanne Winter: Yes, I'll start and then I'll hand it over to Brandy. But I think that we, obviously, we saw some challenges in Q3. We expect they'll be similar in Q4, and we think we're going to see them through the end of the calendar year, at which time we think that the supply chain will start to catch up. And just in terms of mitigating inflation, there are obviously things that we are doing to mitigate inflation, but we actually think that we'll start to see relief in the second half of our fiscal year as we will start phasing in new material from new lower-cost suppliers. And we also think we'll get some sourcing productivity in the second half of the year. So that's at least the time frame of what we're expecting. And then, I'll have Brandy give a little bit more color.

Answer – Brandy Green: Yes. I think, Suzanne, you said it very well. We've seen between 1 percent and 2 percent inflation. If you look at a year-over-year 5 percent inflation on some of our parts costs. But as far as supply challenges, I think Suzanne is absolutely right that we do expect to see relief in the back half of FY23.

Question – Marie Thibault: Thank you.

Operator: The next question is from Josh Jennings with Cowen. Please go ahead.

Question – Josh Jennings: Hi. Thanks for taking the questions and I have to pitch in my congratulations, Josh, to your retirement, and look, good luck to the next chapter. And Suzanne and Ali, congratulations on your

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

new positions. It's great news, and we're looking forward to tracking the progress of Accuray under your leadership.

Wanted to ask two follow-ups on China and the first one, just being on age outs. Brandy, I think you talked a little bit about some aging dynamics. I apologize I just didn't catch them fully. But if you could review those. And then, just help us understand how we should be thinking about age outs, particularly in the China market over the next 12 to 24 months? May be a little bit murky with everything that's going with COVID in the near-term, but it'd be great to get an update there.

And then also, I think just to review, I just wanted to get clarification on how Type B systems manufactured by the China JV, how orders and revenues flow through the A&L reporting, the P&L, but also the new order reporting. I just want to be clear in terms of because we're getting closer to the finish line here. I know it's pushed out a little bit, but that would be great. And just one follow-up after.

Answer – Suzanne Winter: Okay. So Josh, let me take your second question first, which is more on the timing on the type B product and just from what we can sort of see at this point. It takes between 10 to 12 months to get NMPA approval once we submit. Again, we need the COVID lockdown to lift before we can get that final registration.

So at this point, we are thinking that orders and revenue will start to show probably Q4 of fiscal year '23, a year from now. Now, that being said, we are still proceeding and on track to do a market introduction in the fall of this year. So late August calendar year 2022 at the major shows in China so that at least the system will be introduced to the marketplace, people can start budgeting and putting it in their sales process, but we can't take an order or ship for revenue until we get NMPA approval. So we're expecting the contribution Q4 of next year.

Question – Josh Jennings: That's great. Do you mind -- sorry to interrupt -- but just to refresh us on just some of the ASP metrics we should be baking into our model because one of the things we're trying to do is just give accurate credit in our forecast for this China JV officially and just wanted to make sure we were doing it appropriately and having the right numbers in our models. But particularly ASP assumptions and just making sure that Accuray would capture that full ASP in the new order update, as well as on the revenue line when those orders are converted, installed and converted to revenue.

Answer – Joshua H. Levine: Josh, you know what, we really haven't been for a variety of reasons, mostly competitive reasons, we haven't been very forthcoming with target price point, target ASP information. I think we would feel comfortable in getting a little further downstream closer to better clarity around the understanding of NMPA approval timelines. We will be -- once we have approval, we will be ready to start producing product very, very quickly. And so, there's no lag there.

But I think for competitive reasons, it would be our opportunity or our best approach to kind of keep that close to the vest so that competitors are not having a chance to do something with regards to a pre-emptive kind of discussion in any way. And so, as soon as we're there, you'll have the best information to be able to build out your models, I promise.

Question – Josh Jennings: Understood. Thank you for that. Thanks, Josh.

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

Answer – Suzanne Winter:
And then, Josh, for the first part of your question, which was timing on the age outs. I think that's a bit murky at this point. But again, the good news is we know of our customers that have their licenses in hand. We know who has gone through the bidding process. And so, once things open up, I think we'll get an idea of quarterly phasing and be able to help more with your models.

Question – Josh Jennings: Great. And just in terms of thinking about age outs, I mean those age outs will convert right to revenue, correct?

Answer – Suzanne Winter: Correct.

Question – Josh Jennings: And they will not impact the backlog, right?

Answer – Suzanne Winter: That's correct. That's right.

Question – Josh Jennings: And then lastly, just as we -- I can't believe we're going to be in May next week. But ASTRO is right around the corner in just a few months, but just wanted to level set our team's expectations, and we're getting more and more excited about online adaptive and all the work that you're doing with RaySearch and internally. But just any level set in terms of expectations on the update for progress on adaptive at ASTRO this year? Thanks for taking all the question.

Answer – Suzanne Winter: Yes. Thanks for that question. Actually, we're within weeks of going to ESTRO in Copenhagen. So that's the European meeting and then ASTRO in the fall. And at ASTRO we're excited because we are going to be showing in partnership with RaySearch, a sneak preview of our online adaptive using the ClearRT as input. So we're already booked out for that meeting as well. So we're excited about the response. And so, we'll be talking about our online adaptive. At the same time, we also have a very full agenda of clinical abstracts that are going to be shown. We have over 79 abstracts that are using Accuray technology that are going to be presented at this European meeting. So excited about that.

And then, in preparation for ASTRO, where we'll be doing another product introduction at that point of our partnership with C-RAD in our breast package, which we think is going to put us in a very, very strong position to have the most comprehensive breast package in the marketplace, as well as, again, discussing more about our online adaptive.

So two important shows coming up. Thanks for the question.

Question – Josh Jennings: Thanks, Suzanne. And Josh, we'll miss you at ASTRO this year.

Answer – Joshua H. Levine: Thanks, Josh.

Operator: The next question is from Frank Pinal with Jefferies. Please go ahead.

Question – Frank Pinal: Hi, everyone. First, Josh, congrats on retiring. You'll be missed. Best of luck on the next endeavor. And Suzanne, congrats. Look forward to working together.

Ken Mobeck
Accuray
(408)789-4281
kmobeck@accuray.com

Aman Patel, CFA
ICR-Westwicke
(443) 450-4191
aman.patel@westwicke.com

I guess two for me. Just picking up on the China opportunities, how would you size the financial impact of the pushout on Type B for the fiscal year? And is there an opportunity to sort of catch up there in the future, just given what the demand landscape looks like? And I have a follow-up on the macro question after that.

Answer – Suzanne Winter: Yes, I think that's a great question. I think there is opportunity to catch up. And I say that because we're going to do a market launch and we're still on track to do the market launch. So hopefully, we'll be driving some pent-up demand and influencing customers' purchase decisions so that when we get the approval, we'll be able to fulfill and book the orders.

The market opportunity for Type B, as you know, is very attractive. And over the next five years, we think there'll be over 1,500 systems that are going to go into the Type B market. And the growth rate within that segment alone, we think is 12 percent to 15 percent. So, we're really excited about the potential for this product within the marketplace. And again, we can't get through the regulatory process fast enough.

Question – Frank Pinal: Great. Thank you for that. And then, we're hearing a bunch of companies at this point, most recently this morning with Integra, comment on FX headwinds that they're higher than expected even a few weeks ago. And we are seeing changes in expectations around guidance. And I'm curious what you are seeing at this point, how it's impacting the company and how you expect that to play into guidance for the balance of the year. Thanks.

Answer – Brandy Green: Yes. So on the FX front, I mean, overall, we're not seeing a lot of FX headwinds. We are definitely seeing some in our revenue, but not to a material impact. We have a hedging program in place, so that hedges our balance sheet pretty effectively. So at this point, we feel fairly covered. Now, that's not to say that currency is changing out there, and we're monitoring it and looking at ways to mitigate.

Answer – Suzanne Winter: But we're not changing our guidance. We are maintaining our guidance as from a top line and an EBITDA perspective.

Question – Frank Pinal: Great. Thank you. Appreciate it.

Operator: The next question is from Jason Wittes with Loop Capital. Please go ahead.

Question – Jason Wittes: Hi, thanks for the questions. And yes, Josh, congratulations on your retirement. Job well done. I think you're leaving the company in a really interesting point. And Suzanne, look forward to continue working for you and Ali as well. So, with that said, I just did want to ask a couple of questions.

First, if I could just review what you mentioned about China. Specifically, what was the contribution from China this quarter? And roughly how much is left in the backlog related to China orders?

Answer – Suzanne Winter: I'll start with the contribution. We did $26 million in revenue.

Answer – Brandy Green: That's right. And $20 million in orders. And just from a backlog perspective --

Answer – Suzanne Winter: We have about $70 million remaining in our Type A for China in our backlog.

Question – Jason Wittes: Great, very helpful. And then, you noted, you commented that Class B is probably at the current timeline, I think, Q4 of fiscal '23 is the outlook in terms of when you anticipate approval. Is that a change from your thinking prior last quarter? And it sounds like that's been impacted by the COVID lockdowns?

Answer – Suzanne Winter: It's definitely been impacted by the COVID lockdown. We've got one more step to go through before we can submit for NMPA approval, and that is really to get our notified body on site to finalize the report. And really since before the Olympics, before the shutdown really for the Olympics, we had been waiting for that final report. So yes, it is pushed out about a quarter in terms of when we expect to be able to submit for NMPA approval. However, as we said, we remain on track in terms of when we're going to introduce this to the marketplace. So that has not changed.

Question – Jason Wittes: Okay. That's helpful. I understand. And then you mentioned it's still a little cloudy in terms of some of the cost inputs. You've made some changes. But based on your guidance on EBITDA, at least, it sounds like the outlook has -- you have made some adjustments otherwise the outlook is kind of in line with what you were thinking last quarter. Is that the right way to think about it?

Answer – Brandy Green: Yes, that's right. That is exactly right. That is why we're maintaining our guidance at $15 million to $20 million.

Question – Jason Wittes: All right. Great. Wonderful. I'll jump back in queue Thank you very much.

Answer – Brandy Green: Thank you.

Operator: This concludes our question-and-answer session. I would like to in the conference back over to Suzanne Winter for any closing remarks,

Suzanne Winter, Accuray Incorporated – President

Thank you operator.

In closing, as I look to become CEO in the next 60 days, I am excited by the momentum we see from global customer demand and expect to finish our fiscal year growing materially faster than the market, despite the headwinds caused by supply chain. Together with the Accuray management team and all of our colleagues and partners, I look forward to building on the strong foundation we have put in place that will drive further benefits as macroeconomic conditions improve. I believe that we are extremely well positioned going to grow our top line, expand margins and to create value for shareholders as well as all the patients and customers we serve.

We look forward to speaking with you again in August for our fiscal fourth quarter and full year earnings release.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.