Q1 FY23 Accuray Incorporated Earnings Call
November 2, 2022

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Josh Jennings, Cowen
Neil Chatterji, B. Riley
Sam Eiber, BTIG
Jason Wittes, Loop Capital

PRESENTATION

Operator

Good afternoon, and welcome to the Accuray First Quarter 2023 Financial Results Conference Call. All participants will be in listen-only mode. [Operator Instructions] after today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

Ken Mobeck, Accuray Incorporated – Vice President of Finance & Investor Relations

Thank you, (operator's name) and good afternoon, everyone. Welcome to Accuray's conference call to review financial results for the first quarter of fiscal year 2023, which ended September 30, 2022. During our call this afternoon management will review recent corporate developments. Joining us on today's call are:

Suzanne Winter – Accuray's President and Chief Executive Officer
Ali Pervaiz – Accuray's Chief Financial Officer

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

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specific quarter in the prepared remarks are to our FISCAL year quarters. For example, statements regarding our "first quarter" refer to our FISCAL first quarter ended September 30, 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, Suzanne Winter. Suzanne…

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thank you, Ken.

Good afternoon and thank you for joining the call.

I am proud of how the Accuray team delivered a solid first quarter of the fiscal year despite the challenging macroeconomic operating environment and as such we are reiterating fiscal year guidance on revenue and EBITDA.

I'll start this afternoon with a reminder of the long-term plan we laid out at the end of fiscal 2022 focused on growing our business faster than the market by delivering differentiated solutions to improve care and outcomes for all stakeholders, growing and improving our service business offerings, and finally enhancing margins and cash flow. In fiscal Q1, we have made significant progress in advancing that growth strategy. In the quarter, we introduced new innovative solutions from our investments in R&D and we continue to execute on our commitment to delivering a robust product pipeline of differentiated solutions which will deliver revenue, share growth and shareholder value over the next several years.

While we are early in execution of our plan we are already starting to see the impact. We recently attended the ASTRO show in San Antonio, Texas where it was wonderful to see the radiation oncology community getting nearly back to pre-Covid level attendance and evaluating new technologies. At the show, we launched VitalHold™*, an integrated and automated surface guided radiotherapy solution for breast cancer patients on the Radixact system. This development was the achievement of our partnership with C-RAD. VitalHold, in addition to Synchrony Adaptive delivery and ClearRT helical, ultra-high-quality imaging provides Radixact customers with the most comprehensive toolset to treat breast cancer. This is important because 1 in 8 women will be diagnosed with breast cancer in their lifetime and, as a result, breast cancer represents one of the highest procedure volumes in a typical radiation therapy department.

Additionally, At ASTRO, we demonstrated our newest innovation, ART*emis*** the online, adaptive capability in partnership with RaySearch, a leader in treatment planning and OIS systems. ART*emis* uses Radixact ClearRT™ helical, CT images with RaySearch's AI-powered algorithms to adapt the treatment plan to changes in the patient's condition that can occur BETWEEN treatment appointments. ART*emis* in combination with Accuray's proprietary, Synchrony® technology that corrects for changes DURING treatment delivery represents a powerful competitive advantage for Accuray and will be a critical tool for the delivery of shorter regiment treatments that deliver a treatment dose over 5 or less fractions.

As we execute our growth strategy, we've placed a high priority on key industry partnerships such as C-RAD, RaySearch, Brainlab, Limbus AI, all of which have substantially broadened our markets and have enabled us to provide best-in-class solutions to key medical centers globally. Earlier this month, we announced a new,

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global, commercial partnership with GE Healthcare. GE Healthcare, a global innovation leader with a strategic focus on personalized Oncology solutions chose Accuray because of its strong brand and leadership in precision radiation therapy. The agreement will allow both companies to advance personalized cancer care and offer solutions throughout the care pathway from precision diagnostics, precision treatment planning and delivery to precision monitoring post-treatment. Our joint goal is to leverage the expertise, commercial footprint and best in class technologies of both companies to advance care, expand global reach and reduce the time between cancer detection and treatment.

At ASTRO, we held a clinical session for Analysts and Investors where U.S. key opinion leaders discussed innovation and the future of radiotherapy. At the session, we announced support for clinical evidence generation that will help in three significant ways: one, driving the adoption of SBRT and SRS into clinical practice, two, demonstrating the impact of Accuray technology and finally, generate clinical data to assist with reimbursement. Key opinion leaders discussed plans for clinical registries using Accuray technology in prostate cancer, breast cancer and in neurofunctional care.

For the quarter, we delivered $96.5M in revenue driven by strong demand in Japan and EIMEA. Revenue for the quarter reflected a 10.5% increase in units YOY however we were unable to recognize 3 planned system shipments due to delivery delays of critical sub-components from a few suppliers. While supply chain conditions have generally improved, we continue to navigate and actively support a few key suppliers. However, our teams understand the issues and are proactively addressing short, mid and long term solutions until conditions improve. Additionally, as expected, China revenue was a headwind, down 55% YOY, primarily due to the impact of their zero COVID policy.

Despite the macro headwinds, underlying customer demand is strong. This is evidenced by improving demand trends we are seeing in orders. We booked 32 new system orders for Radixact® and the CyberKnife® S7™ driven by the Americas and APAC regions. Reported orders growth overall was flat but grew approximately 6.5% once adjusted for FX compared to the extraordinary quarter last year which grew approximately 38% due to pent-up demand following COVID. We continue to be encouraged by the commercial traction of new innovations like ClearRT, Synchrony and VOLO™ Ultra that are driving our trade-in trade-up win rates and capturing competitive bunkers, as 22% of our system orders came from displacing competitive systems.

Despite the impact on revenue in China due to their COVID lockdowns, we are encouraged to see signs of improved performance within the China market. China region orders grew 33% YOY lifted by wins with our current products in the Type B segment. In the Type A segment, we were pleased to see the reactivation of the Type A bidding after a long delay. Customers that were holding Type A licenses for the second round of bidding have successfully initiated their bidding processes allowing them to begin installation planning including 18 Accuray systems which we expect to see delivered over the first 3 quarters of calendar year 2023.

Finally, I am pleased with the significant progress our regulatory and operations teams have made to advance our JV, Type B product toward market clearance. I am pleased to announce that all product testing has been completed and our NMPA regulatory submission has been received by the agency 1 month ahead of expectations and is formally in process for review. Our JV partners are initiating targeted market introductions with a full launch beginning in the Spring of calendar year 2023.

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We continue to make progress on our Service growth agenda. This will be a transformational journey for our Service business over the next several years and we are already beginning to see improvements in service margin and expect to announce new service and support solutions in 2H of 2023.

Finally, our margin and profitability expansion plans have been activated. We have identified 3 pillars for our focus: First, pricing discipline to capture higher value for our innovations, second, reducing our product and service costs, and lastly, optimizing our operating expenses. Ali will speak more about our margin and profitability execution plans.

Overall, I am pleased with the performance of our teams within the quarter. I will now turn it over to Ali to discuss the financials.

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Thank you, Suzanne, and good afternoon, everyone. I'd like to start by thanking our Global cross-functional teams who executed with dedication to deliver a solid first quarter of fiscal 2023 despite ongoing global challenges including supply chain shortages, the Covid-19 lock down in China, the war in Ukraine, global inflationary pressure, and FX headwinds in our non-US markets.

Total revenue for the first quarter was $96.5 million dollars which was down 10% percent compared to the prior fiscal year mainly driven by supply chain constraints and a $5.8 million-dollar foreign exchange headwind on a constant currency basis.

Product revenue for the first quarter was $44.6 million dollars, which was down 15.4% from prior year and down 11.4% once adjusted for the impact of FX compared to tough comparisons in Q1 last year when product revenue grew 69% due to pent up demand after COVID delays. We were unable to ship 3 planned units in the quarter representing approximately $6M million dollars due to last minute shortages for critical components but were able to fulfill our customers demand in early October.

Service revenue for the quarter was $51.9 million dollars, which was down 5 percent from prior year but up 1.7% once adjusted for the impact of FX which had a $3.7M impact.

Gross orders for the first quarter were $69.8 million dollars, which was flat from prior year and up 6.5% or $4.7 million dollars once adjusted for the impact of FX.

As discussed in our prior earning's call, our book to bill ratio which is defined as gross orders divided by product revenue was 1.6 in the first quarter which was at a healthy level compared to the industry standard of 1.2-1.3. We are making excellent progress and our teams continue to focus on booking orders that are expected to convert to revenue in a more time efficient manner prior to 30-months.

Moving to backlog, as a reminder we report product order backlog which is 30 months or younger. We ended the first quarter with backlog of approximately $538 million dollars which is 10.7% lower than prior year due to $51M million dollars of order backlog that aged beyond 30 months within the quarter mainly driven by customer installation delays. We had minimal cancellations with only one unit cancelled at $1.5 million dollars and $3.5 million dollars of FX and other adjustments. Our global commercial teams are focused on converting all orders

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regardless of time in the backlog to revenue. In Q1, this resulted in $5.9M of orders converting to revenue within the quarter that had aged-out previously.

Our overall gross margin for the quarter was 35.9 percent compared to 36.8 percent in the prior year which is a decrease of 90 basis points driven by unfavorable product mix, continued product cost inflation and service FX impact which was partially offset by improved service margins which signal that our pricing and cost discipline actions are taking shape in the service business.

Operating expenses for the quarter were $36.8 million dollars compared to $37.1 million dollars in the prior year showing good cost control as we continue to push our teams to drive cost discipline and be focused on return on investment.

Operating income for the quarter was minus $(2.2) million dollars compared to $2.4 million dollars from prior year.

Adjusted EBITDA for the quarter was $1.9 million dollars compared to $5.4 million in the prior year primarily due to lower revenue which had an impact of $5.8M on the topline and higher than expected FX impact particularly in Japan and EIMEA. 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 $81 million dollars, compared to $88.7 million dollars at the end of last quarter. Net accounts receivable were $77 million dollars down $17 million dollars from last quarter as we had strong collections performance. Our net inventory balance was $153 million dollars up $27 million dollars from prior year as we have built up our inventory to navigate through the ongoing supply chain challenges to fulfill our customer demand while ensuring healthy service stocking levels.

As Suzanne had mentioned earlier, we've activated our margin expansion plans that are focused on 3 critical areas. First area is pricing discipline to capture the right value for our innovations. We've aligned our commercial team's incentive plans to focus on capturing value and margin on incoming orders and have armed them with the tools to ensure the right profitability levels. Within the Service organization, we're adjusting pricing on service contracts that are up for renewal and working on enhanced offerings to accommodate the needs of our customers specifically in the areas of training and installation.

The second area is to focus on reducing our overall product costs. Our sourcing organization is working with key suppliers to drive productivity on high-cost parts and our engineering teams are focused on cost down projects some in partnership with our JV partner. Additionally, the teams are focused on lowering our overall inbound and outbound logistics costs. We believe the reduced costs with these focused projects will also improve service margins in the coming quarters.

Lastly, we are optimizing our operating expenses by ensuring we are getting the right return on the investments we are making in the business and are re-looking at all our direct and in-direct spend and have identified key areas of opportunity. We are confident that taking these actions will get us back on track to pre-COVID margin levels.

It is important to note that we have recently amended our credit facility for Q2 and the remainder of FY23 to provide us more flexibility as we position ourselves for accelerated growth and investment while taking into account the headwinds of the current supply chain and foreign exchange environment.

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As both Suzanne and I had highlighted earlier, Supply Chain constraints and the headwinds associated with foreign exchange are the two biggest factors that have impacted our business performance in Q1. While we are doing everything we can to manage through the supply chain challenges and the current foreign exchange environment, FX impacts alone were a $5.8M negative impact to our top-line compared to where exchanges rates were last year in our non-US markets. We are reiterating our full year guidance and will closely monitor the impact of macroeconomic trends particularly FX.

Those are our key financial highlights, and with that, I'd like to hand the call back to Suzanne.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thank you, Ali.

In summary, I'd like to thank our teams for their unwavering support of our customers so they can provide the highest level of care to patients. We expect to continue to navigate the uncertainty of the macroeconomic and geopolitical conditions and reiterate guidance with expected revenue in the range of $447M - $455M and adjusted EBITDA of a range of $26M - $30M.

We remain encouraged by the growing customer demand for Accuray technologies and our robust product pipeline and remain optimistic about market trends that favor Accuray technology and where we are positioned to win and take market share. As an organization we are strengthening our fundamentals, advancing key growth catalysts in China and creating new, strategic partnerships like our partnership with GE Healthcare all of which we believe will create long term and meaningful value for patients, healthcare providers, employees and our shareholders.

I will now turn it back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator

Today's first question comes from Brooks O'Neil with Lake Street Capital. Please go ahead.

Question – Brooks O'Neil

Hi. This is Charlie Montang on for Brooks O'Neil. Just a couple of quick questions from me. My first one is when do you think the GE partnership can contribute to revenue and do you think GE can help with hospital accounts or do you need to integrate more products to generate a meaningful revenue?

Answer – Suzanne Winter

Great. Thank you for the question. We are very excited with our GE partnership. And while it is early in the partnership, we do think in the short-term that we will be able to deliver a differentiated solution from precision diagnostics to precision treatment delivery.

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Together, I think we will have better visibility within the marketplace for our solutions. They obviously have very strong commercial muscle. So we will have the ability to team more of the market and greater customer access by leveraging the relationships that they have on the IDM level, on the government level.

So in the short-term, key performance indicators that we are going to be looking for is an increase in our order funnel growth, the development of some key strategic reference places as well as just ongoing operating mechanisms.

And then long-term we should start to see it as financial. And we should have an opportunity, I think, to look for more opportunities for synergy and joint solution development.

Question – Charlie Montang

Okay, great. Thank you. And then my last question is, you guys recently issued a press release with the submission of Tomo in China. When is the expected approval and can you say when you expect initial orders to contribute to revenue?

Answer – Suzanne Winter

Yes, thank you for the question. We are very enthusiastic about the fact that things are starting to move in China as this was an area that we were waiting to complete the submission for our JV developed made in China Type B product and so the fact that, it is in the regulatory process is very exciting.

Now typical process there and of course we can never predict a regulatory process, but it is probably 12-months historically. And so what we would be expecting is 12-months from now, we would have regulatory clearance to be able to take orders and be able to be in a shipping position.

Question – Charlie Montang

Okay. Thank you. That is it for me and congrats on a great quarter.

Answer – Suzanne Winter

Thank you.

Operator

The next question comes from Josh Jennings with Cowen. Please go ahead.

Question – Josh Jennings

Hi. Good evening. Thanks for taking the questions. I wanted to just follow-up with a multilayer question on the GE partnership. I wanted to better understand, I guess, the process for both Accuray and GE. Were you both looking for partners on the other side of the radiation oncology imaging sense. And the reason I ask, it just seems like a big validating signal that GE has decided to partner with Accuray.

And then secondarily, one of the, I guess, competitive risks of the Siemens - Varian combination clearly has been the potential for that entity to leapfrog a competition with the integration of advanced imaging platforms into radiation oncology systems.

And so wanted to just better understand what is on the table. I know we talked a little bit about this at ASTRO, but I mean, is it everything from MRI integration to improving the current, ClearRT imaging to full diagnostic grade to functional imaging and incorporating that into Accuray's platforms and work in terms of is that what we should be thinking about in terms of R&D collaborations and that they could produce longer term? Thanks for taking the questions.

Answer – Suzanne Winter

Thanks for the question, Josh. Just to kind of peel back the two parts of your question. From GE Healthcare standpoint, I think one of the strategies that they are looking at is to have a strategic area of peer pathway that they are focused on and oncology is one of those areas.

And so they chose to partner with Accuray, because we have an outstanding brand in the premium high-performance markets in terms of sub millimeter precision. They see the clinical trend to our shorter duration treatment.

And I think they see also an opportunity for to shorten the time between diagnostics to treatments. And so together here we are two U.S. based companies happen to be in Wisconsin, which is fantastic. And so we have the opportunity in the short-term for a commercial collaboration.

So I think at a minimum it is presenting a - like one company, one face solution to our customers for those customers that are building comprehensive cancer centers that are looking for both diagnostic imaging and treatment delivery. I think, it also allows us to work with key opinion leaders to see how we do shorten that time between treatment and from diagnostic to treatment.

Longer term, I think there is opportunity for sure they are a global leader in imaging. Imaging is becoming much more important in radiation therapy. That is why we are seeing such a great uptick from ClearRT to help with the planning.

I don't think it will ever do away completely with the SIM products, which is where diagnostic imaging and GE Healthcare products reside. But certainly, I think there is an exchange of technology that as this commercial partnership progresses is an opportunity for synergy.

Question – Josh Jennings

Thanks again.

Operator

Your next question comes from Neil Chatterji with B. Riley. Please go ahead.

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Question – Neil Chatterji

Hi guys, thanks for taking the question. I guess congrats on getting the China JV registration submitted. Just curious on your view in terms of just any kind of geo geopolitical risk with China and any potential for that to slow down the regulatory process or does having the domestic partner and see and kind of help shield you from that. And then I have one follow up.

Answer – Suzanne Winter

Thanks for the question, Neil. Obviously, we are watching that very closely. I think the good news and part of our competitive advantage is that we do have a JV partner that is based in China that is a state-owned entity partially.

And that we think gives us an advantage even in the midst of geopolitical conditions, whether it will help us in the regulatory submission process, unclear. We certainly will be watching that, but I think it does give us the opportunity to hedge a little bit of what is happening.

Question – Neil Chatterji

Got it, that is helpful color. And then, just in terms of the - you kind of talked about the partnership strategy and that kind of aiding the kind of the customer relationships. Just kind of curious, if we can get maybe an update on the status of the Limbus AI partnership for automated contouring. And whether that integrated offering still remains on track for kind of an early 2023 launch and then what the expectations are for that.

Answer – Suzanne Winter

Yep. No, thank you for the question. Yes. I think even coming out of ASTRO, the importance of being able to correct for changes that happen with the patient is becoming very important, especially in these shorter duration treatments. You got to get it right because they are more powerful treatments over fewer fractions, fewer appointments.

And so we do have a partnership with RaySearch. RaySearch is a leader in treatment planning. They also have a very strong AI backed algorithm for treatment planning. And so we have decided to put best of breed technologies together with them in order to bring this to market as quickly as possible.

So we did show both in our booth and in the RaySearch booth, a demonstration of this at ASTRO. And we are continuing the development and we are expecting and again, we have regulatory approval, so always difficult to judge, but we are expecting in the summertime of 2023 to have the ability hopefully to do a full market launch and be a not shipment position.

Question – Neil Chatterji

And sorry, I was kind of asking specifically on Limbus AI.

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Answer – Suzanne Winter

Yes. So Limbus AI is another partnership that we have. So outside of what we are doing with RaySearch, we are also looking for an on the online adaptive capability on our own precision treatment planning systems. So that will follow what we introduce with RaySearch. So what we are trying to do is give our customers as many options as possible.

If their preference is to go with RaySearch, then they have an option. If their preference is to stay with Accuray's Precision Treatment planning, they also will have an online adaptive platform. So I would say that is going to lag. And I would just say probably anywhere from three to six months from the RaySearch introduction.

Question – Neil Chatterji

Great. Thank you.

Operator

The next question comes from Marie Thibault with BTIG. Please go ahead.

Question – Marie Thibault

Hey good afternoon Suzanne and Ali. This is Sam Eiber on for Marie. Thanks for taking the questions. Maybe just following-up on some of these partnerships here multiple ones ongoing at the moment. I guess how significant of a differentiator could some of these be in driving competitive wins or faster trade-in and trade-ups? Is it something that could have the same impact that Synchrony and ClearRT had when those initially rolled out?

Answer – Suzanne Winter

Thank you for the question. Yes, I think that the partnership that we have with C-RAD, for example, which we introduced at ASTRO is now providing us VitalHold, which is a breast cancer package.

Now, I would say that that is very important to driving trade-in and trade-up and new systems. And it has been something that our customers have been asking for, especially on the Radixact. And so what it does is improve the versatility now of the Radixact System even more because breast cancer patients are about 25% to 30% of a typical radiation therapy department.

So it is a very high percentage of the patients that come through the door and so being able to have this solution in addition to ClearRT and Synchrony is now really creating a true workhorse solution for patients that have simple cases to very complex.

So we are very encouraged by that. I think with every one of our partnership, we are looking to have it add our ability to access for customers, increase the versatility of our systems and also deliver a differentiated value proposition.

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Question – Sam Eiber

Got it. Really helpful there, Suzanne. Maybe I can just ask one more in the order environment. Another strong quarter here from a gross order standpoint. I guess maybe how that works on a geography standpoint any areas of relative strength or weakness in the quarter here?

Answer – Suzanne Winter

Yes. I mean, I would say in this quarter, we saw the strength in orders really coming out of the U.S. and the APAC region, specifically China which was very nice to see. I would say we are watching region-by-region to sort of see the impact of some of the market dynamics.

I would say the only thing that we started to see a little bit in the U.S. is from a revenue standpoint, it seems like there were some U.S. customers that were delayed by a quarter, on some of the installations that they were seeing, primarily because they were seeing their own supply chain challenges during the installation as well as higher costs of construction.

And again, it is not that demand stopped if by any means. The demand is very strong. But I think that it was slowing some of the installation timeline. So that is something that we are going to continue to watch as we move forward to see, if it is a temporary solution.

Now, I will say there were some late breaking news in the U.S. on the RO-APM, which is again the new reimbursement model. And that looks like CMS is making a very strong statement that, it said, it is very much alive and that it is going to happen. So I do think that that may have some impact in the U.S. market. So I'm excited to see that, but we will wait to see how that plays out.

Question – Sam Eiber

Great. Thanks for taking the questions.

Operator

Your next question comes from Jason Wittes with Loop Capital. Please go ahead.

Question – Jason Wittes

Hi, thanks for taking the questions. First off, it is encouraging to hear the order rates picked up in China. Can you give us a sense of how much China is in the backlog and kind of what your outlook is in terms of when those might be placed and actually recognizes revenue?

Answer – Suzanne Winter

Yes. So we did say in the script just without giving specific numbers, but what is public information is, who has been successful in getting through the bidding process. And so we know that there are 18 systems customers that were holding Type A licenses that once they get that approval to successfully get through the bidding process.

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We should be able to recognize that revenue over the next several quarters. We don't have specific times at this point, because it is sort of hot off the press. But that is a very strong sign of our ability to get clarity in terms of their revenue trajectory.

Question – Jason Wittes

Okay. That is helpful. And You also mentioned, I think, on some of the OpEx focused comments. Two things, one, it sounds like you are putting in more - you are not necessarily discounting, but you are going to put in more strict protocols for sales, meaning I imagine there is some variance that it sounds like you might be tightening. Am I reading that correctly?

And then secondly, in terms of service margins, I think you also said that that is something you are going to focus on. Would that be internally focused meaning just greater efficiencies and consolidation internally or is that also related to pricing?

Answer – Suzanne Winter

Yes. So it is a little bit of both, and I will let Ali comment.

Answer – Ali Pervaiz

Yes. No, thanks for the question. So I think number one on the OpEx piece, you will see that we actually had a pretty good finish on OpEx. And it is because we are continuing to drive a lot of cost discipline with our teams.

As you know we are in a pretty volatile macroeconomic environment, and so we just want to make sure that we are scrubbing all of our costs both direct and indirect to make sure that anything that we are making assessment in has the right return. So that is it on the OpEx side.

And then on the service margin side, it is a little bit of both Jason. I think, on the top line, we are making sure that our offerings are getting the right pricing. We are also intending on introducing a couple of new offerings, which we think will help us from a margin standpoint.

But then more importantly on the service side, there is quite a bit of cost. So we are just making sure that we are being efficient with all of that cost, specifically when it comes to parts consumption and then also taking a look at our fuel engineer utilization.

Question – Jason Wittes

Okay, great. That is helpful as well. And then maybe just a quick follow up on the GE relationship. I guess I wasn't sure, it might have been stated before in the release, but is there also R&D collaboration or is this strictly focused on distribution.

Answer – Suzanne Winter

At this point it is the commercial agreement, that is primarily in the short-term focused on distribution.

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Question – Jason Wittes

Got it. Thanks a lot.

Operator

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

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

I want to thank everyone for your attendance on the call. This concludes our earnings call. We look forward to speaking with you all again in January for our fiscal 2023 second quarter earnings release.

Operator

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

*510(k) pending. VitalHold is not available for sale in the USA. It is not CE marked and availability is subject to regulatory clearance or approval in some markets
**Works in progress

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