ACCURAY

Deliver more.
Better. Faster.

Q2 2022 Accuray Incorporated Earnings Call
January 26, 2022

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Michael Huag , Lake Street Capital Markets
Marie Thibault, BTIG, LLC,
Joshua Jennings, M.D., Cowen
Jason Wittes, Loop Capital Markets
Frank Pinal, Jefferies LLC

PRESENTATION

Operator

Good afternoon and welcome to the Accuray Second 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, 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 second quarter of fiscal year 2022, which ended December 31, 2021. 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 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 specific quarter in the prepared remarks are to our FISCAL year quarters. For example, statements regarding our "second quarter" refer to our FISCAL second quarter ended December 31, 2021. 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.accurate.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 second quarter performance continues to reflect the strong revenue momentum our business is generating, but also highlighted the operational headwinds and associated costs created by the COVID environment. Driving our accelerated revenue growth is the continued adoption of our new technology upgrades on the Radixact platform which are having a positive impact across all regions. Revenue in fiscal Q2 was $116.3 million, which represented 19.3% year-over-year growth. Gross order volume for the quarter was $85.4 million, which represented 13.3% year-over-year growth. Suzanne will provide more specifics regarding the regional performance details during her prepared remarks.

On the operational end of our business, like many companies across a broad range of industries, in Q2 we saw increasing pressures related to global supply chain headwinds and logistics constraints, and collectively these challenges had a negative impact on cost inputs to our income statement. Despite these impacts, our sourcing and production teams successfully mitigated many risks in these areas that allowed us to overachieve our production forecast which resulted in product revenue growth for the quarter of 45% versus prior year. Following our guiding principle of prioritizing patient continuity of care above all else, we also executed successfully in support of our commitments to maintaining availability and delivery of critical service parts for our installed base customers to ensure device uptime and patient treatment continuity. Brandy will be providing greater detail in her prepared remarks about the collective impact of service margins for the quarter which is where these impacts were most strongly felt. While service margins were impacted, the overall support and cross-functional teamwork that took place in the quarter was extraordinary and I'm extremely proud of our team and what they accomplished.

We believe Q3 and Q4 will remain challenging in terms of the intensity of parts shortages 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 at present we are maintaining line of sight to be able to fulfill our latest revenue forecast requirements. We will continue to prioritize and focus on our installed base customer needs to ensure that we have service parts at the necessary stocking levels, and in the right locations globally to maintain existing devices and minimize the risk of treatment disruption for patients.

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

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

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

Suzanne Winter, Accuray Incorporated – President

Thank you, Josh.

Despite the macroeconomic challenges, we have seen very strong demand within the quarter and are very pleased with our topline performance for the quarter and the first half. It represents our fifth consecutive quarter of delivering above expectations in both orders and revenue. These results demonstrate the strength of customer demand for both CyberKnife® S7™ and Radixact® TomoTherapy® platforms and the growing recognition by customers that our new product innovations provide a new standard of accuracy and precision needed for the growing trend of SBRT treatments. As we have discussed the growing use of Ultra hypofractionated treatments deliver a higher dose of radiotherapy over only 1 to 5 treatment sessions representing a paradigm change offering significant benefits for patients, providers, and healthcare costs. As we have discussed, delivering SBRT treatments can vary substantially across all commercially available linac platforms. Any error in the precision or accuracy of the treatment plan or delivery can have significant impact on long-term patient outcomes and the quality of life, especially given the higher dose over fewer fraction treatment paradigm. Our customers are telling us that ClearRT™ and Synchrony® on Radixact, and our latest product introduction, VOLO™ Ultra treatment planning, are becoming the standard of care and a critical requirement to deliver the highest quality assurance standards required for SRS and SBRT treatment planning and delivery. These new product introductions are driving our win rates, strengthening our average selling price and accelerating installations.

In our developed markets, where it is largely a replacement market, we have been successful in unseating the incumbent linac manufacturer installed base with approximately 25% of our global system orders replacing a competitive system. We have also been strategically focused on ensuring that we secure our own installed base and upgrade them to our latest performance platforms. In Q2 56% of orders represented a "trade in and trade up" to our latest CyberKnife S7 or Radixact performance platforms. The remaining orders were driven by emerging markets where radiation therapy is underpenetrated, the majority of system orders were sold to NEW customers allowing us to further our vision of expanding patient access to advanced radiotherapy care where previously it was unavailable.

Looking at our regional performance, we had balanced execution across our 4 regions with standout performance in the Americas region which delivered the highest quarterly revenue for that region in our company's history. The region finishes the first half with 27% year-over-year order growth. Americas region orders at the half were split evenly between CyberKnife S7 and Radixact TomoTherapy platforms. 100% of Radixact orders included ClearRT and Synchrony capabilities in the configuration.

The Japan region continued strong orders performance with 23% year-over-year growth in Q2. Japan's installed base grew by 5.6% in Q2 and has achieved the #2 market share position. 40% of Q2 orders in Japan were a replacement of a competitive linac system demonstrating that ClearRT, Synchrony, and VOLO Ultra are creating a compelling value proposition to switch manufacturers.

The EIMEA region is our largest order region and in Q2 delivered 3% growth with strong emphasis on backlog revenue conversion growing revenue 47% for the quarter.

Finally, our APAC region posted solid results with China driving 83% Q2 year-over-year growth in orders and finishes the first half with 107% year-over-year growth in orders and 71% year-over-year revenue growth.

Investor Relations Contacts

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

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

At the ASTRO meeting, we successfully introduced VOLO Ultra treatment planning for the Radixact System. Since introduction, we've received 510(k) and CE Mark clearance and won 15 new orders for VOLO Ultra in Q2 and the first two global installations completed in December. Reception of ClearRT at ASTRO was excellent and during the quarter, we added 21 new orders for ClearRT bringing our total orders to 68 from only one year ago and we received 510(k) clearance.

Additionally we showed our online adaptive capabilities as a works in progress on the Radixact in conjunction with RaySearch, as well as the integration of the RayStation with CyberKnife. In partnership with Brainlab, we demonstrated the Brainlab Elements contouring capability with the CyberKnife, a combined solution that provides a powerful tool for Neurosurgeons. Our innovation strategy is strengthened by our commitment to "best-in-class" solutions through strategic partnerships.

In summary, we are very pleased with the strong 1st half topline performance. We are executing our vision of expanding the curative power of radiation therapy to improve patient outcomes and quality of life through investment in R&D and a continued cadence of meaningful innovation and new product introductions that allows us to play offence, gain share and strengthen the value of our solutions.

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

Brandy Green, Interim Chief Financial Officer

Thank you, Suzanne, and good afternoon, everyone. Accuray has delivered another strong quarter while navigating notable supply chain and logistics challenges. We are pleased with our ability to scale the company in this demanding environment.

Gross orders for the second quarter were $85.4 million dollars, an increase of $10 million dollars or 13 percent over the prior year period from strong innovation-driven order momentum. Looking ahead to the second half of this fiscal year, we anticipate smaller year over year gross orders expansion.

From a product mix perspective, the TomoTherapy platform accounted for approximately 66 percent of gross orders for the quarter and CyberKnife accounted for the remaining 34 percent.

During the second quarter, we had approximately $4.0 million dollars of net cancellations. And we ended our second quarter with backlog of $581.3 million dollars, a decrease of 3 percent from December 31, 2020 driven by increased order to revenue conversions.

Now turning to the income statement.

Total revenue for the second quarter was $116.3 million dollars, representing a 19 percent increase over prior year. Americas and EIMEA were the primary drivers of our revenue growth. For the first half of fiscal 2022, revenue was $223.7 million dollars, up 22 percent over prior year representing strong customer demand.

Product revenue for the quarter was $60.7 million dollars, an increase of 45 percent compared to the prior year.

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

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

From a product mix perspective, CyberKnife accounted for approximately 21 percent of the revenue unit volume in the quarter, while the TomoTherapy platform accounted for the remaining 79 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.

Service revenue for the quarter was $55.6 million dollars, flat as compared to the prior year.

Turning now to gross margin. Overall gross margin for the second quarter was 36.7 percent compared to 41.9 percent in the prior year.

Product gross margin for the quarter was 41.5 percent compared to 44.7 percent in the prior year. During the quarter, per our JV accounting requirements, we recognized deferred product gross margin on 1 system sold from a prior quarter to our China joint venture that has now been transacted through to the end customer. We have 2 remaining systems deferred from prior quarters that we expect will transact through to end customers in quarter 3. Including the timing difference on these 2 deferred systems, our product gross margin for the quarter would have been 44.2 percent.

Service gross margin for the quarter was 31.4 percent, compared to 39.8 percent in the prior year. Supply chain constraints discussed earlier have resulted in parts shortages and elevated costs within freight, logistics and service parts of $3.7 million dollars compared to prior year, and continues to be a big headwind. Additionally, parts consumption and operational costs were higher than planned primarily related to increased system installations and related travel associated with top line product growth. Excluding the impact of these supply chain additional costs, we estimate that our service gross margin for the second quarter would have been approximately 38.0 percent.

Moving down the income statement, operating expenses for the quarter were $38.6 million dollars, an increase of 6.0 million dollars or 18 percent from the prior year. The year-over-year increase in operating expenses was primarily related to travel, marketing events, and compensation costs from certain cash preservation actions taken in response to the pandemic. In addition, top line revenue growth resulted in increased commission costs for the period.

Operating income for the quarter was $4.0 million dollars compared to $8.2 million dollars in the prior year.

The operating impact of the China JV for the quarter was a loss of $0.8 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 $6.8 million dollars, up $1.4 million dollars sequentially, and compares to $13.5 million dollars in the prior year period. The reconciliation between GAAP net income and Adjusted EBITDA are described in our earnings release issued today.

Turning to the balance sheet. Total cash, cash equivalents and short-term restricted cash amounted to $123 million dollars, up $18 million dollars from strong collections, compared to $105 million dollars at the end of last quarter.

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

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

Net accounts receivable was $82 million dollars, down $8 million dollars sequentially and up $17 million dollars from the same period last year due to 19% revenue growth. Our net inventory balance was $124 million dollars, down $3 million dollars sequentially and $15 million dollars from Q2 of last year due to increased inventory turns and product demand.

With strong cash generation from improved balance sheet metrics, we paid $16 million dollars on our term loan and bank revolver during the quarter.

And with that, I'd like to hand the call back to Josh for an update on our fiscal 2022 financial outlook. Josh?

Joshua H. Levine, Accuray Incorporated – Chief Executive Officer

Thanks, Brandy. While we continue to see strong customer demand for our products and we believe we will continue to grow in excess of our addressable market rates for the global radiotherapy equipment and treatment planning market, given the imperfect visibility in terms of the current supply chain and logistics environment, we will be revising our full year financial guidance. Total revenue is being increased to an expected range of $420 million to $430 million compared to the prior range from the current $420 million to $427 million, which represents year over year growth at the midpoint of the range of 7% and reflects strong customer demand for our products. Adjusted EBITDA is now expected to range between $15 million to $20 million compared to the prior range of $33.0 million to $35.0 million. Near term supply chain outcomes could impact the revenue and/or EBITDA range estimates to the upside or downside.

And with that, operator, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session.

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

Question – Michael Haug: Good evening. This is Michael Haug filling in for Brooks O'Neil. Congrats on the quarter. Can you provide some details regarding the go-to market strategy of the China Type B product with its safe market introduction in the summer of calendar year 2022? Are you still on track with that deadline?

Answer – Suzanne Winter: Thanks for the question. Yes, we continue to be on track with the market introduction, starting in August at the HOSPEQ show and going through the fall. While we have seen COVID lockdowns in China, and we continue to do our testing prior to submission for regulatory, we are on track for our introduction to the market and we remain very optimistic about the ability to win market share in the Type B segment, which is growing, and of course, the largest part of the China market when we introduced that jointly developed product.

Question – Michael Haug: Okay, that's very helpful. And then can you touch upon more with the supply chain, what have you been doing and have you been able to do to resolve it? How long do you think that this issue will persist? And we are also in a tight labor market, are you being infected in any way with this? Or are the hospitals or outpatient centers being impacted in any way by this worker shortage?

Answer – Joshua H. Levine: So, I'll take the second part of that question first. Just – again, the COVID environment right now continues or remains very site-by-site or region-to-region variable is, kind of, the current status. I think that the Omicron variant has created some labor tightening and labor shortages in hospitals, but we have not seen any real significant headwind here as it relates to lack of access to institutions, our ability to get equipment installed on customer timing requirements. And so, again, we're, we're monitoring the situation closely, but I'd say on balance, we're still feeling pretty good about, again, access to facilities and maintaining reasonably tight time schedules and on-time schedules relative to equipment installation.

Your first question around supply chain and, kind of, current situation. I would say that it's not a stretch that every company in our space, and of course, across a range of industries are dealing with the same macroeconomic set of current impacts. Our sourcing and manufacturing teams are working hard at making sure that areas that we're feeling pressure in, we have good line of sight to, and we're being proactive in terms of trying to manage supply gaps. And at this point, again, they helped us at least in the quarter put from a product revenue growth standpoint, we actually over achieved the build plan for the quarter and the revenue plan we had internally.

For Q3 and Q4, I think, we believe that intensity of parts shortages will continue to be a factor. But again, we're looking to preserve production capacity and as I talked about, the teams are identifying and mitigating risks to try and stay ahead of the shortages. We're working at tightening the interaction from a supplier standpoint, looking for hard purchase order coverage on all critical parts, stretching those out to 12 months, where we can do it, supporting key suppliers by helping them to source raw components.

And lastly, early identification of parts and critical components where it looks like we're going to be short and taking advantage of being able to escalate those early in terms of visibility to be able to try to get ahead of them. So, I'd say on balance, those are the those are the primary levers were operating to.

Again, we've got a heavy bias as it stands for the business overall to make sure we're taking care of installed base customers. So, the bias prioritization really is towards fulfillment, making sure that service parts are available and being delivered and trying to manage the costs related to that as tightly as we can without impacting customers.

Question – Michael Haug: Got it. Thank you very much. Congrats on the quarter.

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

Question – Marie Thibault: Hi, thank you for taking the questions and congrats on a really strong revenue and order book this quarter. I wanted to ask a follow-up here on the supply chain. The macro headwinds has certainly been a concern for a while and I recall last quarter, it sounded like the team is working very hard, but things have remained on track. Just curious what sort of changed in the last couple of months. Did it have anything to do with a record revenue and a very strong order book and kind of working through some of your inventory, did that lead to some of it? And are there things you can do outside of some of these supply chain costs to, kind of, offset some of the headwinds there? Thanks.

Answer – Joshua Levine: Yes Marie. So, again, to your point, we had we had a strong quarter from revenue standpoint and I'd say shipments – not unlike many capital equipment companies – shipments aren't usually linear, throughout the quarter and we typically see more heavily weighted shipments of product going to revenue towards the latter part of the quarter. We saw an increase in intensity of shortages and supply chain shortages as we got deeper into the quarter in Q2. It actually accelerated, I think, in December, especially at a level and at a rate that I'm not sure anybody could have been prepared for.

With that said, we have line of sight right now, I talked a little bit about, in my answer to the previous question, some of the things and the levers were operating to with regards to providing more predictability for the production side of the house, so that they know what – and have line of sight to being able to close gaps that are being escalated and visible sooner than later in the quarter.

So, I'd say we're doing, for a company our size, we're doing a lot and we're being pretty effective at it, and we're trying to get ahead of this. And again, I don't I don't know that it's possible for anybody to predict what will happen. We're assuming that we're going to continue to see strain and pressure on the supply chain side of this, probably through the end of this fiscal year, so Q3, Q4, and that right now, we're maintaining a line of sight to be able to fulfill and do everything we can to fulfill our latest revenue forecast requirements. So, I mean that's really kind of the story at this point.

Question – Marie Thibault: Yes, that's all understood, Josh, and I certainly respect the challenges your team's working through. I guess I'll ask my follow-up here on the revenue guidance increase. Nice to see it go upwards, but certainly, you beat expectations by great handling, I think, by more than more than $10 million or so about $13 million or so versus consensus. It looks like you're already more than halfway to that revenue for it for the fiscal year. Curious how you're thinking about cadence and perhaps if there's any conservatism built in for COVID or other headwinds. And thanks for taking the question.

Answer – Suzanne Winter: You're right, the demand has been very strong in the first half, it probably was front-loaded in terms of the momentum that we are seeing. I think we're being cautious driving through the uncertainty of the supply chain challenges here in the back half of the year. But I can tell you demand is very strong and that hasn't been the issue. We also have a sizable backlog with customer orders and installation readiness and a desire to complete installation, which is why we've raised the guidance on the high end. But it is a wider range just because of the uncertainty around supply chain. So, assuming we're able to navigate like we have in the first two quarters, you know, we'll be at the higher end of that range.

Question – Marie Thibault: Thank you Suzanne.

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

Question – Josh Jennings: Hi, good afternoon. Thanks for taking the questions. First one is just on the new order growth pace in the first half of fiscal 2022.

It significantly outpaced the market rate and seemingly have gained share. Just wanted to ask about the sustainability of the share gain trajectory. And I guess specifically, clearly, the new technology launches like ClearRT and Synchrony on Radixact and some very early innings on VOLO. Are you seeing a nice ASP lift that's helping on the new order growth results for one? And then two, are you seeing any benefit from any disruption from the Varian and Siemens merger? Any details you can share just around the share gains you've enjoyed in the first half and the sustainability and any color on those two elements that I pointed out? Thanks.

Answer – Suzanne Winter: Yes. There's no question that the new product innovation is driving our win rates and driving our order momentum, and we are also seeing a price lift on those products that include the latest innovations like ClearRT, like Synchrony, like VOLO Ultra. And so we do expect that as we continue to innovate across both platforms that we'll be able to see some price gain on the on the configurations, and that really reinforces our strategy of increasing our spend in R&D on meaningful product innovation to help continue to differentiate accurate technology from competition.

In terms of the Siemens-Varian, I think that we haven't seen a big change from previous the earnings call. We do believe that that merger, it probably has a stronger benefit for the Siemens DI business versus really pulling any business over to Varian. However, I think their platform is based on conventional linear accelerator technology and I think as the trends toward SBRT and the need for better imaging, better motion tracking, and adaptive delivery, like Synchrony, they're going to be challenged in terms of the runway for that platform. And we see that as an opportunity for Accuray technology. We're positioned very nicely to gain share.

Question – Josh Jennings: Thanks. OK.

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

Question – Jason Wittes: Hi, thanks for the questions. So, if I look at your EBITDA guidance, it looks like the reduction is entirely due to the shortages and I guess if I'm teasing it out, it looks like specifically to service gross margin, not necessarily the product gross margin, am I thinking about that correctly?

Answer – Joshua Levine: Yes. It's the impacts from a cost input standpoint, Jason, were very definitely more strongly felt on the service margin side. A combination of inflationary costs related to higher price, either prices related to inventory we're purchasing to support production, early buys, commitments to longer purchase order, hard purchase order requirements, but also higher logistics costs, higher freight, for sure.

And especially in the area of service, the replaceable parts network in our service organization.
We supply our existing installed base through a network of regional stocking locations. There are 37 of them around the world. So, at any given point in time, we've got a lot of parts inventory in a lot of different locations around the world and making sure that we have what we need at the stocking levels that we need it and where they need to be from a geographic orientation perspective created certainly incremental freight costs for us from an expediting standpoint in the quarter.

Question – Jason Wittes: Okay, Got it. So, I mean, with those comments, it sounds like on the product side, at least, the margins have been a little more stable and more closely aligned with historic ranges.

Answer – Joshua Levine: Yes.

Question – Jason Wittes: Is there a catch up there or is that just logistically?

Answer – Joshua Levine: I'm sorry –

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

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

Question – Jason Wittes: No, I was going to ask is that probably going to be sustainable? Or is there is there a catch up to be had there in terms of is there some risk there and those gross margins as well over time?

Answer – Joshua Levine: I think if you go back to the prepared remarks that Brandy walked through, one of the things that from an impact standpoint that we're seeing some quarter-to-quarter variability with is the accounting treatment related to the China JV. And we are – we aren't depending on when in the quarter the device is shipped, and when they're installed or sold through, if you will, to the end user at the time of shipment, we basically take the revenue and the costs and the deferred – the margin is deferred until the China JV sells through to the end user. And so it isn't always on 100% guaranteed that we'll have in the same quarter those activities taking place. So, there is going to be some quarter-to-quarter variability, Jason, with regards to product margin based on some of those impacts. But I don't think that we're looking at and we're not expecting dramatic fall-offs here or headwinds on the product margin side.

Answer – Suzanne Winter: That is exactly right.

Question – Jason Wittes: That's very helpful. And then my last question related to all this in terms of - if I heard correctly, I think you did say that – you did raise topline guidance, which is great. I mean, obviously you had a very strong quarter and the second half doesn't look - doesn't initially carry the entire upside through. Did I hear you correctly when you said there's also potentially some supply constraints and just placing units for the rest of the year and i.e., potentially on revenue?

Answer – Joshua Levine: No, I mean, the supply chain variable here is really the one key element to how high up is going to be if you want to call it that for us.

Question – Jason Wittes: Yes.

Answer – Joshua Levine: Again, we – right now, we believe we've got line of sight from a production capacity standpoint, in terms of the game plan to be able to get to our forecasted revenue and so – that's tied to the revised guidance.

So, as we stand right now, I think, again, it's not without a lot of effort on a lot of people's parts from a product sourcing and production standpoint. But, again, we feel pretty good about where we sit right now on the revenue side.

Question – Jason Wittes: Great. Thank you. I'll jump back in queue.

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

Question – Frank Pinal: Hello, can you hear me?

Operator: Yes, Frank, you're on.

Question – Frank Pinal: Great. Sorry about that, guys. So, quick one for me. I guess, first, congrats on a really nice quarter. Strong beat on the topline. I'm just sort of wondering, I guess, number one, on the CMS RO bundle, I know, it's a little bit early in the implementation of that, but I'm wondering what you're seeing at this point, are reimbursements sort of in line with what you're expecting? Or – and do you expect any sort of ASP pressures, just kind of looking ahead, I guess, more broadly across the industry? I guess that's my first question. Just have a follow-up to that.

Answer – Suzanne Winter: Thanks for the question, Frank. We're disappointed that it was further delayed in implementation and got wrapped into some infrastructure initiatives in December. That being said, it probably provided some additional breathing room for providers, a little bit more time to prepare for the changes. The reality is, though, what we are seeing is the key trends are still the same. There's an emphasis on value and outcomes over volume, regardless of the timing of the CMS decision. There are other drivers in the marketplace. For example, the commercial private payers are really already there. The biggest payers with two-thirds of covered lives have already changed toward a reimbursement that favors the hypofractionation.

Additionally, just the aged equipment of the installed base in the U.S. and the need to upgrade the older technology to newer performance technology to be able to provide ultra-hypofractionated treatments is still a growth catalyst. So, we're nicely positioned to capitalize on these trends. We're working very closely with ASTRO and AdvaMed to ensure that when the reimbursement rolls out that it's optimized to support SBRT.

Question – Frank Pinal: Great. And – just really quickly – just to follow-up to that, I have another one. On ASPs, do you sort of expect your competitors to start working down pricing or do you expect that to more or less stay the same just based on that reimbursement change?

Answer – Suzanne Winter: I think it's too early to tell at this time, Frank. We're certainly very sensitive to what competitive move may happen in the marketplace. We are just going to focus on differentiating our technology and the value it brings and price appropriately.

Question – Frank Pinal: Great. Thank you. And just one last one on essential tremor and epilepsy. You guys touched on that during Analyst Day. That's obviously a potentially expansive market. I'm just wondering if you put any brackets around the potential market size, entry, milestones, et cetera, at this point?

Answer – Suzanne Winter: We have not, but we will be introducing - formally introducing - our partnership with Brainlab at the Radiosurgery Society Meeting in March. So, that'll be the first time I think that we come to market together in that partnership. And again, that provides treatment planning that is more familiar to the neurosurgeon. But I think as we move forward, we'll be able to speak more about the market potential in those areas.

Question – Frank Pinal: Great. Thank you very much.

Operator: This concludes our question and answer session. I would like to turn the conference back over to Josh Levine for any closing remarks.

Joshua H. Levine, Accuray Incorporated – Chief Executive Officer

Thank you operator. I'd like to thank the entire Accuray team for their continued focus and commitment to great commercial and operational execution in the face of the challenging environment we find ourselves

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

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

in. Despite the head winds we highlighted this afternoon, the clinical impact related to our most recent product innovations have resulted in vastly improved strategic positioning for our technology and customer demand, as you heard from Suzanne, remains very, very high.

While we're not pleased with the impacts to the margins and profitability right now, we believe we are making the right actions and taking the right actions to ensure that we're improving and hardening critical internal processes that will make Accuray a stronger company on the other side of the current supply chain challenges, which will drive positive cost product productivity improvements over time. And we look forward to speaking with you all again in April for our fiscal third quarter earnings release. Thank you very much.

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