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Q4 and FY23 Accuray Incorporated Earnings Call
August 9, 2023

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Marie Thibault, BTIG
Josh Jennings, Cowen
Young Li, Jefferies
Aaron Wukmir, Lake Street Capital Markets

PRESENTATION

Operator

Hello, and welcome to the Accuray Fourth Quarter and Fiscal 2023 Financial Results Conference Call. Please note, this event is being recorded.

I would like now to turn the conference over to Jesse Chew, Senior Vice President and Chief Legal Officer. Please go ahead.

Jesse Chew, Accuray Incorporated – Senior Vice President, General Counsel and Corporate Secretary

Thank you, operator, and good afternoon, everyone. Welcome to Accuray's conference call to review financial results for the fourth quarter of fiscal year 2023, which ended June 30, 2023.

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; and 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 outlined in the press release we issued just after the market closed this afternoon as well as in our files with the Securities and Exchange Commission.

We base the forward-looking statements on this call on the information available to us as of today's date. 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 2

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questions and then requeue with any follow-ups. Second, all references to a specific quarter in the prepared remarks are to our fiscal year quarters.
For example, statements regarding our fourth quarter refer to our fiscal fourth quarter ended June 30, 2023. Additionally, there will be a supplemental slide deck to accompany this call, which you can access by going directly to Accuray's Investor Relations 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, Jesse, and thank you all for joining the call. Today, I will provide highlights from our fourth quarter and then reflect on my first year as CEO, both on our accomplishments and the areas of focus for FY'24 and beyond.

Our fourth quarter performance was strong with total company revenue growing 8% year-over-year. Notably, both product and services revenue contributed materially to the growth within the quarter, up 8% and 7% year-over-year, respectively. As we mentioned on last year's call, we believe that our service business is a huge long-term opportunity for both revenue and margin growth, and we are encouraged by what we have seen in the early stages of our plan.

From a region review, fourth quarter revenue growth was led by the Americas region with 28% year-over-year growth and the APAC region growing 9% year-over-year. EIMEA revenue grew 1% and Japan declined 7%, but was flat excluding the impact of foreign exchange.

Foreign exchange has significantly impacted our Q4 revenue, especially in Japan, in this quarter alone, foreign exchange had an overall negative $18 million impact to revenue. From a product view, in Q4, demand for the delivery of the Radixact® platform was strong with 40% growth in Radixact and TomoTherapy® System shipments compared to 1 year ago.

Customer reception continues to be strong for our latest innovations on the Radixact platform, including ClearRT™ kVCT imaging, Synchrony® real-time motion correction and VOLO™ Ultra treatment planning. Q4 order performance was solid with a book-to-bill ratio at 1.4. We are very pleased with these results as it means that we have booked more orders than we have shipped during the quarter and that we are building our backlog.

Orders growth in Q4 was led by APAC and EIMEA. APAC ended the year with 53% growth in orders booked followed by EIMEA with 12% growth year-over-year. Within the quarter, we also booked several strategic and multisystem orders from key institutions globally. The MedStar Health System at Georgetown purchased 2 new CyberKnife® S7™ Systems for their stereotactic radiosurgery and SBRT patient care.

Our fleet within the NYU Health System has significantly expanded with the purchase of 2 Radixact Systems that will be placed in their Winthrop University Hospital campus. The Bologna Bellaria Hospital in Italy is a highly influential academic center and recognized as one of the top neuro hospitals worldwide. They chose the CyberKnife S7 for their SRS/SBRT system over competitive systems. In India, Ganga Ram Hospital, a well-respected hospital in Delhi, purchased a Radixact System with ClearRT and Synchrony.

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And finally, we won a 2-system order at Macau Central Hospital for both the CyberKnife and Radixact Systems. The success in these highly competitive sales situations gives us further confidence that our innovative solutions are winning against competitive offerings. Further, these sites have the potential to become powerful references for new customers evaluating our innovative technology.

Ali will discuss more of the Q4 financials, but we saw product margins temporarily challenged this quarter, driven by deal mix and direct material inflation versus the prior year. Service margins also declined driven mainly by FX. However, we were encouraged to see the improved pricing actions we have put in place in FY'23 are starting to demonstrate impact as customers appreciate the value of our solutions.

Adjusted EBITDA grew 1% year-over-year however, it is very important to note that these results included a onetime unplanned Q4 bad debt reserve of $2 million resulting from the Genesis Care bankruptcy announcement. Without this reserve, Q4 adjusted EBITDA grew 40% year-over-year and put us well within our full year adjusted EBITDA guidance.

Finally, I was very pleased with the strong management of our balance sheet this quarter as we grew our cash position year-over-year and saw the second consecutive quarter of positive free cash flow generation. Free cash flow generation and strengthening our capital position remain a priority for our team.

Moving on to our full year performance and reflecting on my first year as CEO, I remain incredibly proud of what our teams accomplished and remain humbled by our mission. Throughout the year, I was able to visit with customers and employees from around the world. I was able to see firsthand the impact our solutions have on people treated with our products. I also saw the incredible talent and tireless dedication of our customer-facing teams that support our clinician partners to ensure the highest level of care.

Additionally, I am enormously proud of our organization and the progress we made this year against each of our strategic growth objectives. And as an organization, I believe we showed incredible resilience and resourcefulness that is the cornerstone of Accuray's culture as we drive our vision to expand the curative power of radiotherapy solutions to extend and improve lives of those diagnosed with cancer.

I believe we demonstrated the operational resilience expected from companies with much greater scale. We were able to navigate significant headwinds from supply chain, inflation, geopolitical pressures and an $18 million foreign exchange headwind to revenue. Excluding the impact of FX alone would have put us $10 million higher than the high end of our revenue guidance range, demonstrating strong underlying growth of the business.

Despite these challenges, we ended the year delivering multiple impressive accomplishments, including the highest revenue in the company's history. We surpassed the 1,000 system milestone installed globally, which grew our user base by 5% relative to FY '22, driving future recurring service revenue. In FY'23, we shipped from our factory in Madison, Wisconsin, 109 systems, the highest number of system shipments in the company history, representing 24% year-over-year unit growth.

Finally, we drove underlying adjusted EBITDA growth of 14% year-over-year with the exclusion of the GenesisCare reserve referred to earlier and generated positive free cash flow for the year. Execution by our team has been almost flawless this entire year, and I believe they've done an excellent job in this high-demand environment.

At the beginning of the year, I laid out 4 major pillars of our strategic growth plan. Our first pillar was growing revenue faster than the markets we compete in by driving innovative solutions to advanced radiotherapy. In FY'23, we executed several new product introductions that strengthened our portfolio and further differentiated Accuray technology.

Notably, VitalHold™ surface-guided radiotherapy for breast cancer treatments was introduced for the Radixact System at both ASTRO and ESTRO meetings to strong customer reception. With the addition of VitalHold to the Radixact platform, we now offer the most comprehensive solution for breast treatments, which typically represent the highest volume of patients treated in the radiation oncology department. I am also pleased to announce that we have received 510(k) approval for full commercialization in the U.S. and the ability to take orders for VitalHold in the European Union. Also, we advanced the Tomo® C product, which we jointly developed with our CNNC-Accuray joint venture, which we believe will allow us to compete fully in the Type B value segment of the China market.

As discussed, the Type B market represents a major opportunity for us and is the largest and fastest-growing segment within China with a potential for nearly 2,000 systems and over $3 billion in market potential over the next 5 years. Tomo C was successfully submitted for regulatory approval in November of last year, and was followed by targeted market introductions at 2 major medical conferences in Q4.

These events allowed us to introduce the Tomo C platform to key opinion leaders and created significant interest that we expect to capitalize on upon full commercialization during the second half of FY'24. These new products in combination with the CyberKnife S7 and strong demand for ClearRT imaging, Synchrony and VOLO Ultra on the Radixact System drove 9% full year growth in product revenue and 12% growth when you exclude the impact of FX.

We believe the market for radiotherapy systems grew in the low single-digit range over the course of FY'23 and that we gained share across all regions. EIMEA and Japan led with highest product revenue growth with 31% and 51% year-over-year, respectively, and non-China APAC at 2% growth. The Americas region grew 3% in FY'23 and ended the year with very strong growth in the second half. China product revenue declined 18% as a result of first half COVID lockdown but ended with positive growth in the second half versus the second half of FY '22.

Our next strategic pillar was expanding and growing our service business. We set out a multiyear plan to strengthen our service business, which represents a recurring revenue stream and margin expansion opportunity. Our service revenue has essentially been flat over the last decade and currently represents 48% of our global revenue.

In FY'23, our overall service revenue showed underlying positive growth of 5% when excluding the impact of foreign exchange, which is very encouraging. Service contract revenue growth is largely gated by the growth of our installed base.

In FY'23, we saw meaningful year-over-year growth in our global installed base of users growing 5% driven by 7% in the EIMEA region, 10% growth in Japan and 15% growth in the APAC region with strong installation activity in China. The U.S. continues to see radiotherapy capacity consolidation across the market and was the only subregion where we saw a decline in our installed base.

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Our focus in the U.S. is a long-term approach, where we have focused our commercial investment with a goal of ensuring the highest level of service and customer satisfaction. For our older installed systems, specifically the early generation TomoTherapy Systems, our commercial strategy is set around working closely with these customers to offer compelling solutions and actively upgrading these legacy systems. We expect this will generate net positive growth in the U.S. IB in the coming years and become a tailwind to revenue growth and margin conversion.

Additionally, in FY'23, we captured more value for our services through improved pricing and enhanced offerings. What we're hearing from customers is that they continue to experience labor shortages and staff turnover since COVID. In FY'23, we added service and support offerings to address those pain points, including remote training courses and incremental on-site training, which contributed to incremental service revenue.

In Madison, Wisconsin, we're building a new state-of-the-art customer training center. And in Europe, we're investing in the innovation center in Genolier, Switzerland, where we will showcase both CyberKnife S7 and Radixact Systems. Those sites will provide the ideal environment to deliver high-value education and training solutions to customers from around the world starting in FY'24. We expect growth from the installed base and expanded value-added service and support solutions to drive top and bottom line impact over time.

The third pillar was expanding margin and profitability and improving our balance sheet. Last year, Ali and I laid out a multiyear, multifaceted plan to drive margin expansion and cost efficiencies with the goal of leaving no stone unturned. We made good progress against our goals with actions that helped us to navigate the impact of inflation, logistics costs and foreign exchange. In our service business, we improved full year service margins by 1% year-over-year, driven by improved service contract pricing, incremental service offerings and reducing full year parts consumption.

Product margins for the year declined 650 basis points versus last year, primarily driven by deal mix, direct material inflation and FX. However, we're encouraged to see an improvement in average system sales price associated with the inclusion of new product innovations like ClearRT, Synchrony and VOLO Ultra, allowing us to increase price and capture more of the value chain.

Additionally, despite year-over-year revenue and unit increase, we held operating expenses flat and removed many operating costs by driving process efficiencies and through restructuring actions. Additionally, we began the process of consolidating our facilities by reducing our footprint in higher-cost geographic areas while fueling investment in Madison which as of July 31, has become the new headquarter location for Accuray.

We're in the early innings of where we want to go, but we've made solid progress and our confidence that our continued execution of these margin and profitability expansion initiatives will take further shape and provide greater contribution over the coming years.

Strengthening our balance sheet and driving the highest return on capital remains just as big of a priority. In FY'23, we invested in key strategic priorities while improving our cash position and generating positive free cash flow for the full year. One major area of investment that aligns with our goal of simplifying and building a more durable business was transitioning the company to a new ERP system.

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This replaces our legacy system that was largely manual and old, dating back to Accuray's 2011 acquisition of the TomoTherapy business. The organizational effort has been a shining example of a focused all hands on deck endeavor. I'm proud to say that we remained on schedule, on budget and went live on August 1. This investment will empower our teams with better data and analytics to support more effective decision-making that is integral to building a mature and durable foundation for future growth.

Finally, in FY'23, we entered into several strategic partnerships to help us bring best-in-class solutions to the market faster, improve our sales funnel and enhance our win rate. We continued our strong partnership with RaySearch and treatment planning, oncology information and adaptive planning systems. We executed on our partnership with C-RAD for surface-guided radiation therapies for breast treatment.

Brainlab continues to be an important partner for neurosurgical solutions and data registries for the CyberKnife. And finally, our development partnership with Limbus AI will provide innovative online adaptive capabilities for our Precision® Treatment Planning System. We're also proud and excited to have entered into a commercial collaboration agreement with GE Healthcare to complement their precision oncology solutions.

Our partnership with GE Healthcare has been strong with regional teams actively driving customer strategies and positioning oncology solutions to the market. We set out to measure our success of this partnership with increased sales funnel and improved win rates. To date, the GE Healthcare partnership has driven an increase in our near-term FY'24 sales funnel and nearly $40 million of total short- and long-term opportunity pipeline.

Additionally, the partnership has positively influenced the win rate in several of the key Q4 wins mentioned earlier by more strongly positioning Accuray within the C-suite of health systems. The GE partnership continues to evolve and we expect the contribution to grow and impact.

In summary, we're proud of our FY'23 performance and the foundation we have set for future growth. We achieved strategic customer wins in the marketplace and [forged] key partnerships that improved our competitiveness. While we are early in our transformation, we end the year positioned to drive further growth, margin and profitability expansion and gained share over the coming years.

I will now turn it over to Ali, who will cover our financials.

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Thank you, Suzanne, and good afternoon, everyone. I want to begin by thanking our global employees who executed tirelessly to deliver a strong fourth quarter and fiscal 2023 despite the macroeconomic headwinds faced in the year, including supply chain shortages, global inflationary pressure and unfavorable currency fluctuations in our non-U.S. markets.

Net revenue for the fourth quarter was $118 million, which was up 8% versus prior year. Net revenue on a constant currency basis for the fourth quarter was $120 million, which represents a 9% increase versus prior year. On a full year basis, total revenue was $448 million, which is up 4% from prior fiscal year.

On a constant currency basis, total revenue for the fiscal year was $465 million and represents an 8% increase versus prior fiscal year. As Suzanne mentioned earlier, foreign exchange headwinds had an $18 million negative impact on the top line in fiscal year '23. As a reminder, coming into fiscal year '23, we had provided a revenue guidance range from $447 million to $455 million and our revenue results adjusted for the impact of foreign exchange, exceeded the high end of that range by $10 million. This underscores how fiscal '23 was a successful year from an operational execution standpoint, and we are very pleased with where we finished on the top line.

We have our cross functional team to thank for this tremendous accomplishment of record revenue and unit shipments in the company's history in any fiscal year. Product revenue for the fourth quarter was $62 million, up 8% from the prior year and up 9% on a constant currency basis, representing system shipments of 29 units. On a full year basis, product revenue was $233 million, up 9% from the prior year. Full year product revenue adjusted for the impact of foreign exchange headwinds was $240 million, representing a 12% increase versus the prior year. Service revenue for the quarter was $56 million, up 7% from the prior year and up 9% once adjusted for the negative impact of foreign exchange.

On a full year basis, service revenue was $214 million, relatively flat when compared to the prior year. Full year service revenue adjusted for the impact of foreign exchange headwinds was $225 million, representing a 5% increase versus the prior year. Gross orders for the fourth quarter were approximately $88 million and represented a book-to-bill ratio of 1.4.

On a full year basis, gross orders were $311 million and represented a book-to-bill ratio of 1.3. As a reminder, our book-to-bill ratio is defined as gross orders for the period divided by product revenue for the period we believe the book-to-bill ratio is the right metric to ensure healthy growth of our backlog and to focus our teams to build profitable orders that will convert to revenue within 30 months.

Moving to the backlog. We ended the fourth quarter with a backlog of approximately $511 million, which is a 1% increase sequentially and 9% lower than the prior year due to 14 orders representing $34 million that aged beyond 30 months within the quarter, primarily related to customer timing.

In Q4, we had 7 orders aged back into revenue within the quarter, representing approximately $15 million of orders. Given the importance of the backlog to our business, we will continue to look for ways to simplify this metric further. Finally, we had no order cancellations in the quarter. Our overall gross margin for the quarter was 31.9% compared to 39.1% in the prior year, with the decline mainly driven by inflationary pressure of $3 million, which translates to approximately 2.5 points of gross margin pressure and approximately $2 million of foreign exchange, which translates to approximately 1.5 points of gross margin pressure with the remaining variance driven by deal mix.

On a full year basis, our overall gross margin was 34.4% compared to 37.2% in the prior year, with the decline mainly driven by the negative impact of foreign exchange, we had an $18 million impact on revenue, which translates to roughly 3 points of gross margin pressure and approximately $5 million of inflationary pressure, which translates to 1 point of gross margin pressure.

Our overall gross margin on a full year basis would have been above prior year by approximately 1.5 points, excluding the impact of inflation and foreign exchange. Operating expenses in the fourth quarter were $38.1 million, which included nonrecurring charges of approximately $0.4 million for restructuring and ERP-

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related expenditures and $2 million of unexpected bad debt reserve compared to $41 million in the fourth quarter of the prior fiscal year.

Excluding nonrecurring charges, total operating expenses were down 12% compared to the same period of the previous year. Operating expenses for the full year were $151.6 million, which included nonrecurring charges of $3.1 million for restructuring, $2.1 million of ERP-related expenditures and $2 million of unexpected bad debt reserve compared to $151.8 million in the prior fiscal year.

Excluding nonrecurring charges, total operating expenses were down [5%] versus prior year showcasing focused cost control as we continue to push our teams to prioritize return on investment. Operating income for the quarter was negative $0.5 million compared to $2 million in the prior year. Operating income for the full year was $2.4 million compared to $8.1 million in the prior fiscal year.

Adjusted EBITDA for the quarter was $5.2 million compared to $5.2 million for the prior year period. Adjusted EBITDA in the fourth quarter includes incremental bad debt reserve of approximately $2 million related to the unexpected U.S. bankruptcy of one of our customers, GenesisCare, who owns and operates 6 CyberKnife Systems and 8 TomoTherapy/Radixact Systems in the United States and filed for bankruptcy in Texas on June 1, 2023.

As of this date, GenesisCare owed Accuray approximately $2 million of past due amounts for annual service contracts related to their installed base of 14 Accuray systems. While we continue to work diligently to recoup the past due amounts, we reserved $2 million in Q4.

For the full year, adjusted EBITDA is $24 million without the unexpected impact related to the reserve for the GenesisCare bankruptcy adjusted EBITDA for FY'23 would have been $26 million and within our guidance range. We described the reconciliation between GAAP net income and adjusted EBITDA in our earnings release issued today.

Turning to the balance sheet. Total cash, cash equivalents and short-term restricted cash amounted to $90 million compared to $89 million at the end of last quarter. Net accounts receivable were approximately $75 million, down $3 million from last quarter. Our net inventory balance was $145 million, down $5 million from the prior quarter as we optimized working capital to improve our cash position.

In summary, FY'23 posed some significant challenges from a macro standpoint, despite these challenges, our team was able to deliver record revenue and unit volume for the company in its history. With this outcome, we delivered revenue of $448 million, which is within the guidance range.

Adjusting revenue for the impact of foreign exchange, we would have exceeded the high end of our guidance by $10 million with revenue of $465 million. This really illustrates the strong execution and performance the company was able to achieve in FY'23. From an adjusted EBITDA standpoint, had it not been for the unexpected bad debt reserve associated with the GenesisCare bankruptcy and continued deterioration of the Japanese yen in Q4, we would have finished with adjusted EBITDA over $26 million within our guidance, which again points to the strong fundamentals of the company.

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As I reflect on my first year as CFO, I'm extremely proud of the financial discipline and operating rigor we were able to put in place across our entire organization. The enormous efforts from all our teams played an integral role in achieving our strong results in fiscal '23.

Last year, Suzanne and I laid out a plan for the future of this company and I'm happy to say we are off to a very strong start with these ongoing efforts to improve our operating structure. Looking forward to FY'24, I firmly believe that the new product innovations we will introduce in the second half will position us nicely to drive an extended period of top line growth and profitability.

In addition, we will build upon the fundamentals established in FY'23 and while focusing on strengthening our balance sheet and making the right investments to provide further value for our shareholders and employees. 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 FY'24, we will enter the next phase of our transformation. Radiotherapy patient procedures are well on their way to returning to pre-COVID levels, but gaps in care continue to manifest. Cancer incidence continues to rise with an estimated 25 million cases by 2030.

Still 10 million will die from cancer annually and the disparity globally for access to radiotherapy treatment continues to present a challenge. Accuray's vision is to conquer cancer by helping to close the gap to cancer care globally. We will do this first by advancing care through solution innovation to address the biggest pain points in radiotherapy.

Second, drive patient access in the highest potential underserved markets so that all patients have access to the best therapy available. And finally, delight our customers with the highest level of operational performance and customer care and support regardless of where they are in their journey. FY'24 is an important year for Accuray as we anticipate the introduction of multiple growth drivers that will contribute to both top and bottom line over the coming years.

Our new product introduction cadence includes the full market introduction of the Tomo C System in China, introduction of the online adaptive capability for precision treatment planning and targeted market introduction of our new value segment product, which is designed for select high-potential emerging markets.

Additionally, we expect greater impact from the service growth initiatives and margin expansion and profitability actions, which we began in FY'23. Accordingly, for FY'24, we are guiding to a revenue range of $460 million to $470 million and an adjusted EBITDA range of $27 million to $30 million.

We expect flat to low single-digit growth in the first half of the year, followed by accelerating mid- to high single-digit growth in the second half of the year aligned with the introduction of our new product innovations. We believe these innovation growth drivers will enhance our solutions and set us up for strong future growth and margin conversion in the coming years.

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In closing, I'm proud of what we've accomplished this year and our prospects for FY'24 and beyond. We will continue to advance our strategic growth pillars into the next phase of execution so that we can advance our leadership position to become the new trusted partner of radiotherapy.

I invite you to join us for our Investor Day that will be held in conjunction with the American Society of Radiation Oncology in October to hear more about the next phases of Accuray's strategic growth over the coming years. I will now turn it back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator
We will now begin the question-and-answer session. [Operator Instructions] Our first question today will come from Josh Jennings of Cowen. Please go ahead.

Josh Jennings – Cowen

Hi. Good afternoon. Congratulations on the fourth quarter results and the full year results. Wanted to – to start, I know within your fiscal 2024 guidance, you don't guide to orders, but there are a lot of positive tailwinds in play from our perspective. But it was great to just hear about the sales funnel -- system sales funnel that -- where it stands today versus the beginning of last year. – where it stands today versus the beginning of last year. And maybe just a synopsis of some of the drivers of new order growth that are in place here as we enter into fiscal 2024.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thanks for the question, Josh. Yeah, we feel very strong about the new product innovations that we'll be introducing in FY 2024 in addition to just the continued customer demand for the Radixact innovations, including ClearRT and Synchrony and now VitalHold, which we now have the 510(k) approval. So we do expect that to positively impact our orders.

We saw great book to bill ratio in FY 2023. We expect to continue to see that and continue to grow our backlog. So the new product innovations overall, we feel very strongly. We talked a little bit about our partnership with GE Healthcare. That has had a positive impact in our sales funnel. So as we get a full year under our belt of that relationship in addition to our new product innovation, we think it's just going to be good news for the orders.

Josh Jennings – Cowen

Excellent. And maybe just to ask about the revenue guide relative to expectations for the radiation oncology market. You took share broadly in fiscal 2023. I know it's hard to currently to forecast market growth, but is the expectation here with that 3% to 5% revenue growth target that Accuray will take share again in fiscal 2024? Thanks for taking the questions.

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Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Yeah. Thanks for the question, Josh. And yes, we do expect to take share. We think the overall market, and while there isn't one good source for it, as we take a look at others results, we expect this to be a flat to low single-digit market.

Again, when we took a look at the overall guidance, Ali and I have been here now for a year, and we've done a deep dive into the business. And we've really gone into granularity of all of the drivers. Within the business, we think this is a realistic guidance. We have new product innovation that is occurring in the second half of the year. We have some product mix changes this year.

The Radixact was – really performed very well. That changed the product mix a little bit. And so as a result, we're taking these into account in setting the revenue guidance. And then in terms of the EBITDA guidance, same assumptions on the revenue range, but our range also includes parts consumption assumptions.

We made some good progress on reducing parts consumption, and we're assuming different productivity levels based on that range. And then the only other thing I would say is we are going to incur the cost of commercialization and new product introductions in the first half of the year that also impacts the revenue range from our first half to second half.

Josh Jennings – Cowen

Appreciate it.

Operator

Our next question comes from Young Li with Jefferies. Please go ahead.

Young Li – Jefferies

Hi. Great. Thanks for taking our questions and congrats on all the progress the team has made over the past year. I guess maybe to start on just the overall capital environment, the financial health of customers worldwide, some of the peer competitive companies in this space had some headwinds recently. Last quarter, you had some pushout of orders in the US. I guess, I'm just kind of wondering how has that macro environment changed this quarter and more recently? And what do you think about the outlook going forward as it relates to potentially longer selling cycles with more approvals?

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Great. Thanks for the question. I think it varies by region. And certainly, we're understanding the dynamics in each one of the regions. Just to talk about some of our competitor companies that have discussed their results. Some of their results really are based on supply chain issues that they've had to deal with. So on the one hand, we feel very good about the way we've handled the supply chain headwinds, especially in comparison to the market leader.

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But in terms of it being a signal to market demand, we still see procedures on the upswing. We see an increase in hypofractionation procedures, which we think is a good thing for our business and our technology as we're positioned. And at the same time, we're looking at those markets that are growing. And we do see the emerging markets like China. We do expect that to grow, which is part of why we want to compete in a bigger part of the market than just a premium segment, which we think is sort of low single-digit growth.

Again, I talked about the US market last time. I do think that, in general, customers are sweating their assets. They're holding on to them as long as possible. They have to fight hard to get capital prioritized within the hospital budget. But overall, I wouldn't say that that's going to be a major headwind.

Young Li – Jefferies

Okay. That's very helpful color. I guess maybe to follow up on China and Tomo C, wanted to hear the latest update with the regulators, how is the communication process going, confidence on the approval timing. And then maybe if you can talk a little bit about the second half fiscal '24 revenue impact. How much is in guidance for Radixact margin contribution?

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Great. And I'll start, and then I'll hand over to Ali to talk about margins. But in general, the conversation with the regulators in China has been very positive. We continue to supply them with additional information when asked. So I think we remain on track. One never knows how long the regulatory process is going to take, but there are no red flags in terms of there being a major delay.

So again, assuming what we have built into the guidance, we are expecting, at the midrange of our guidance, to have an approval by the end of the calendar year and have a second half impact to both orders and revenue, and then obviously, FY 2025 being a full year of Tomo C in the marketplace in China.

So as a result, part of our guidance in the first half is that China, for the most part, remains flat from a revenue standpoint, but then strong double-digit growth in the second half. And then from a margin standpoint, same sort of...

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Yeah. I mean I think just – overall, just going back to the full guidance, just like Suzanne had mentioned in her prepared remarks that we expect low single-digit in the first half in terms of just overall growth and then we see mid- to high in the second half.

And then when it pertains to our overall margin, we're exiting fiscal year 2023 with product margin that is certainly challenged, and those dynamics are primarily driven by the impact of foreign exchange. They're driven by the impact of inflation, which is unfortunately here to stay at least in the near term. And so we think product margins are probably going to continue to be challenged, at least in the near term, while our teams continue to focus on margin expansion to really change the trend on that.

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The highlight for us has really been our service margin, which has actually been up 1 point year-over-year. And we think that's really what's going to help really lead our margin expansion effort in fiscal year 2024 and beyond.

Young Li – Jefferies

All right. Thank you very much.

Operator

Our next question comes from Marie Thibault of BTIG. Please go ahead.
Marie Thibault – BTIG

Hi. Appreciate you taking the questions tonight. Wanted to ask one as a follow-up on FX. I certainly heard your full year remarks on $18 million in headwind from FX this year. I recall the first half was about $12 million. Could you – I maybe missed it, could you tell us what it was in this fiscal fourth quarter? And then as part and parcel of that, wanted to try to understand the adjusted EBITDA guide for fiscal 2024. If I add back that bad debt, you would have come in at about $26 million for this year. So it certainly makes the range you've set out for fiscal 2024 look quite achievable given the progress you've made in the past. So wanted to try to understand that metric a little bit better.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Sure. Yeah. Ali can likely assist with this.

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Yeah, Marie. So – and you're right. The total impact of foreign exchange on revenue in fiscal year 2023 was $18 million. In Q4, specifically, that was $1.8 million. And then as it pertains to the bad debt reserve related to GenesisCare, you're right. If we add that back, we would have been at $26 million. So that certainly points to good operational performance.

As we go into fiscal year 2024, our guide, like Suzanne mentioned, is $27 million to $30 million. And I mean, I think there's just a lot of different dynamics that are going to contribute to that, right? From a revenue standpoint, we are going to see increased volume. That increased volume is going to come with product that has a lower margin associated with it as we penetrate the value segment. So we're not going to see that much of a lift. We are going to see the volume, but we're not necessarily going to see that in terms of incremental EBITDA dollars in the same way that we have seen historically.

And then really, I think what's going to help us drive EBITDA within the guidance range that we had suggested is really going to be around our service business and our parts consumption and driving productivity around our parts consumption, just like Suzanne had mentioned.

We have enjoyed roughly, I'd say, productivity from fiscal year 2022 to 2023 in our overall parts consumption as our installed base has increased, and we expect something similar going into fiscal year 2024. And I think that's really kind of where we think where we're going to get some more tailwind from an EBITDA standpoint.

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Suzanne Winter, Accuray Incorporated – Chief Executive Officer

And let me just add to that, too, Marie. Just a little bit about the volume and the product mix. So we're excited by the number of units that we shipped this year, just significant growth, 24%. We're also really excited about our IB growth, and that is going to drive the recurring future service revenue. So even though we may not see the service revenue in FY 2024, it is something that is going to continue to be accretive in our service business moving forward.

Marie Thibault – BTIG

Okay. That's really helpful. I appreciate that detail both of you. Wanted to follow up here on China. In other parts of med tech, we've seen that as China has reopened post-COVID, there's been kind of a rebound in the recovery in procedures and installs and things like that. Wanted to hear if that was a dynamic here as you ended your fiscal fourth quarter and whether we might see some tailwinds from that on the Type A side in China. Thanks for taking the question.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Yeah, I think – yeah. Thanks, Marie. Yeah. No, I think we ended the second half of this year with China being in positive territory, at least from a product revenue standpoint. And we think going into the first half, there's going to be some pent-up demand for the Type B product, but we are going to continue to maintain the Type A business.

But then again, in the second half, that's when we think we'll be able to fulfill the pent-up demand to really drive the growth rate for the year for China. So China overall was down for us last year, but it actually grew in its service revenue. So they were just wildly installing new systems, which was great. Their installed base grew, that's driving their service revenue. So that was really important, but product revenue was down primarily because of the lockdowns in the first half. So we'll see a little bit of a dynamic. I do think they're coming back, but we are going to see this first half, second half sort of waiting for the Tomo C to get cleared.

Marie Thibault – BTIG

Very encouraging. Thanks so much.

Operator

The next question comes from Aaron Wukmir of Lake Street Capital Markets. Go ahead.

Aaron Wukmir – Lake Street Capital Markets

Hey, good afternoon, everyone. This is Aaron on the line for Brooks. I want to just talk a little bit about – actually, just to get your view on the supply chain challenges that have sort of been impacting you in the past couple of quarters. How long do you see these as sort of a constraint? And what can we sort of expect going forward with these challenges?

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Yeah, hi, Aaron. Thanks for the question. I don't think it's too dissimilar from what we've discussed in the past. We have certainly seen supply chain improve in certain elements, but we continue to play whack-a-mole with a few problematic suppliers. And it's just taking up a lot of our time to be able to make sure that they have what they need to be successful. So kudos to our operations teams that are working with our suppliers to make sure that we have what we need.

That's kind of where you saw the inventory build happen last year. And I would anticipate perhaps maybe a little bit more of an inventory build as we continue to secure parts early on, just to make sure that we don't run into any challenges from a supply chain perspective. Just we want to be – we want to try and come ahead of that as much as possible.

Aaron Wukmir – Lake Street Capital Markets

Great. Okay. Very helpful. That's going to be it for me. Congrats on the progress.

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Thank you.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thanks, Aaron.

Operator

Our next question comes from Neil Chatterji of B. Riley. Please go ahead.

Neil Chatterji – B. Riley

Hey, guys. Good afternoon. Thanks for taking the questions. I mean maybe just sticking with the top line guidance for fiscal 2024. Just want to make sure I kind of understand any of the – all the kind of puts and takes here. Is China and the Tomo C products kind of leads midyear is that kind of the big driver of that maybe softer first half, stronger second half dynamic? And then how should we think about any of the benefits of these various partnerships you have, whether it's GE or Brainlab or VitalHold clearance. Maybe just any more color around some of those dynamics.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Yeah. Thanks for the question, Neil. Yeah, so let me just talk through a little bit of the assumptions on the revenue. We expect growth from all the regions except for APAC in the first half.

We expect that to be flat to maybe single-digit growth. We do expect that the other regions are going to benefit from VitalHold being cleared. We expect in Japan, VitalHold will get – Shonin approval hopefully by JASTRO, which is in the November timeframe. That's what we're expecting. So the assumptions that we built

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in to the revenue range is that we begin to see the impact of VitalHold on revenue shipments. We expect all regions to grow, but really in the first half with the exception of China, APAC, and then second half growth driven by APAC, China.

And Tomo approval, we're expecting at the midrange by the end of the year and then the lower and higher range being either longer or better than that expectation. We expect FX and supply chain to remain the same as we ended FY 2023. So again, anything worsening is at the low end, anything better is at the high end.

And we're expecting very high unit growth again, but we're also managing these product mix trends more towards the Radixact and then ultimately, adding the Tomo C, and we expect service growth. So those are all built into our midrange assumption.

Neil Chatterji – B. Riley

Great. Maybe just one follow-up. I mean you talked about the new ERP system and kind of the better kind of analytics with that. Maybe just if you could elaborate what kind of impact you would expect to see from that as we progress to fiscal 2024.

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Yeah. Neil, good question. And I think we're going to continue to learn as we sort of close the first quarter with the SAP implementation. But I mean, I think it's just better insight for our region teams to be able to understand better customer profitability, understand profitability at a deeper level from a channel perspective so that we can just make better decisions from a pricing perspective, right?

So I think it is just going to give us more visibility that's just been very, very manual to get to in current state. So I think that's one piece. I think it's going to be very beneficial for our supply chain and operations teams to be able to understand kind of what the impact is of product COGS and where to focus our efforts where we think we're going to get the most bang for our buck. So I think that's going to be helpful.

It's going to be very helpful for my FP&A team to be able to – make sure that we understand where are we spending our OpEx dollars. Not that we don't have that visibility today. It's just going to provide that visibility at a much deeper level, which just comes with a lot of manual work today. So it's just going to drive a lot of efficiencies. I don't think that's going to happen overnight. It's going to take several quarters to be able to get there. But really, we think that's the value in the implementation.

Neil Chatterji – B. Riley

Great. Thanks. That's it for me.

Operator

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

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Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thank you, operator. This concludes our earnings call. We look forward to speaking with you again in October for our fiscal 2024 first quarter earnings release, and I again invite you to join us for our Investor Day that will be held in conjunction with the Society of Radiation Oncology in October to hear more about the next phases of our strategic growth over the coming years. Thank you.

Operator

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

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