



Q1 FY24 Accuray Incorporated Earnings Call

November 7, 2023

CORPORATE PARTICIPANTS

Suzanne Winter, Accuray Incorporated – President and Chief Executive Officer

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

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

CONFERENCE CALL PARTICIPANTS

Brandon Carney, B. Riley

Marie Thibault, BTIG

Josh Jennings, Cowen

Matthew Shi, Highbridge Capital Management

Young Li, Jefferies

Brooks O'Neil, Lake Street Capital Markets

Michael Greene, Neuberger Berman

Suraj Kalia, Oppenheimer

Jeff Bernstein, Silverberg Berstein Capital Management Group

PRESENTATION

Operator

Good afternoon and welcome to the Accuray's first quarter 2024 conference call. [Operator Instructions] Please note that this event is being recorded.

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

Jesse Chew, Accuray Incorporated – Chief Legal Officer

Thank you, operator, and good afternoon, everyone. Welcome to Accuray's conference call to review financial results for the first quarter of fiscal year 2024, which ended September 30th, 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

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 close this afternoon, as well as in our filings with the Securities and Exchange Commission. We based 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 two questions and then re-queue 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 "first quarter" refer to our FISCAL first quarter ended September 30th, 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.

Good afternoon and thank you for joining the call.

The Accuray team had a strong start to the fiscal year delivering on both Revenue and EBITDA in the quarter. We are making great progress towards our FY24 priorities, which include achieving above-market revenue growth through new product innovation and commercial execution, expanding margins and profitability through enhanced pricing and operating efficiencies, and competing more effectively by leveraging strategic partnerships in new product development and market access.

In the quarter we saw continued customer adoption of Accuray CyberKnife[®], Radixact[®] and TomoTherapy[®] platforms to enable advanced radiotherapy treatments like stereotactic radiosurgery and SBRT for patients around the world. This was driven by growth in demand for these treatment regimens, which require an extremely high degree of precision. Accuray systems are capable of delivering stereotactic radiotherapy treatments to targets anywhere in the body.

During the quarter, we grew global revenue by 8% year-over-year with product revenue growing 17% YOY demonstrating better than expected customer demand in our first quarter versus the same period last year. As a reminder, Revenue in radiation oncology, particularly in capital equipment, can vary from quarter to quarter but we are encouraged by the strong start in Q1. Order backlog at \$489M is robust representing greater than 2 times FY23 product revenue. This gives us confidence in our ability to deliver on our strategic goals of faster growth than the market and gaining share this fiscal year and beyond. We expanded our installed base of customers within the quarter to 1,040 systems representing 5% YOY growth. As we've discussed in the past, installed base growth is a critical key performance indicator for this long cycle business because it is directly linked to service contract revenue, which is initiated at the 13th month following an average warranty period. This service contract revenue continues annually for the subsequent 10 to 12 years and provides a long tail of recurring revenue. Additionally, installed customers also represent market opportunity for new feature upgrades as well as incremental services and support like advanced training which will further expand our service business. Finally, new order growth was also solid, outpacing product revenue shipments. While we don't guide on orders, we are very pleased to deliver to our 1.2 book to bill target. We see this as a strong metric to gauge future growth and grow our backlog.

In October, we participated in the American Society of Radiation Oncology conference (or ASTRO) where attendance was at historic highs with over 9,000 attendees from the radiation oncology community. We

ACCURAY

Deliver more.
Better. Faster.



were able to drive tremendous interest in our new product innovations designed to advance care in the premium segment of the market. We showcased our new VitalHold™ product which strengthens our product portfolio for the treatment of breast cancer, adding surface guided breast treatment capabilities to our current Radixact platform. This product comes from a successful development partnership with C-RAD. Additionally, we introduced Alliance Plus value added service and support solutions to help ensure customers maximize the clinical and operational potential of their equipment. Further we announced Accuray Financial Services which provides a full range of flexible financing options to customers for capital equipment acquisition. Finally, and most exciting, we unveiled our latest introduction for the Radixact, the CENOS™ online adaptive capability. CENOS leverages artificial intelligence (AI) to provide automatic contouring algorithms and remote, clinical collaboration capabilities for the specific patient cases where a there is an immediate need for a change in a treatment plan. Accuray's CENOS is designed to provide a faster and more practical approach to refining treatment plans compared with other industry offerings. CenOS was developed with our partnership with Limbus AI, a leading healthcare technology company that specializes in the creation of AI based algorithms to advance cancer care. With the addition of CENOS, we believe that the Radixact system is able to help ensure that treatments change, as patients change, to minimize dose to healthy tissue and personalize treatments. First, with Synchrony which is designed to track, detect, and correct treatment delivery due to motion that occurs DURING treatment. Second, with PreciseART® offline tools to manage changes to treatment plans needed BETWEEN treatment sessions. And now with the addition of CENOS online adaptive clinicians have the ability to modify a treatment plan ON THE DAY OF treatment based on patient changes detected on the daily imaging scan. We believe that our comprehensive Adaptive tool set including CENOS will be a key differentiator for Accuray Radixact versus competitive products and expect it to further increase our win rates and momentum for upgrading the aged TomoTherapy installed base. CENOS is 510K pending and we expect to have this product available for customer order in the spring of 2024.

Overall, in speaking and surveying the US radiation oncology community, it was clear that there was positive outlook backed by technology developments and emerging clinical data that demonstrate the curative impact of high precision, personalized radiation therapy. This gives us confidence that the long-term future for Radiation Oncology is very strong, despite some short-term headwinds due to higher installation costs and longer cycles that have delayed some projects in the US.

During the quarter, we also made significant progress in our second growth pillar of improving patient access in global segments where Radiation therapy is underpenetrated and where workflow and patient throughput is a critical priority to manage the large patient backlog.

In early October, we gained regulatory clearance for our domestic manufactured, Tomo® C platform focused on the Type B segment in China. This represents a key milestone for Accuray. This approval unlocks the ability for our China team to drive orders and build backlog in the Type B market segment which represents approximately \$600M in annual market opportunity. Shipments to customers are expected to occur in fiscal Q4 pending availability of the Precision treatment planning system. We believe Tomo C will become a major contributor to our China business as we now have access to the Type B market. The Type B market is the largest and fastest growing segment compared to the Type A segment where we have dominant market share today. Tomo C is differentiated as the only CT product with helical delivery available in China and we expect strong commercial execution from our China team.

Investor Relations Contacts

Ali Pervaiz
Accuray
(608) 824-2829
apervaiz@accuray.com

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

Deliver more.
Better. Faster.



You may also have heard that we announced at our Investor Day at ASTRO, the preliminary introduction of Helix™, our global value segment product at the Indian Cancer Congress meeting held last week in Mumbai, India. The introduction of Helix, which is designed and manufactured in Madison, Wisconsin, is another strong addition to our product portfolio to target this high potential, underserved market. With Tomo C and Helix, we now can compete in the growing global value market segment and double the addressable market potential with tailored product solutions that are designed for the unique needs of high potential emerging markets.

Within the quarter we were also proud to announce a strategic win at the Royal Marsden in the UK which we believe will further strengthen our brand. In our business, brand reputation is extremely important as customers make investments in technology and long-term partnerships that last for many years. The Royal Marsden is a global thought leader in radiation medicine and the Principal Investigator site for the PACE trials for prostate cancer. At ASTRO, the Royal Marsden team presented ground-breaking, 5 year follow up data from the PACE B trial that compared prostate cancer outcomes for 5 session SBRT treatment with conventional radiation therapy delivered in 20 sessions. These results are expected to have a significant clinical impact and drive adoption of SBRT as the NEW standard of care for low and intermediate risk prostate cancer based on its benefit to patients. This study essentially eliminates the burden of time and cost for 15 additional treatment sessions. The Royal Marsden just completed the purchase of their second Radixact System this year, adding to the 2 CyberKnife Systems currently in their equipment fleet. This represents just one of the wins which we believe are significant for Accuray because they demonstrate that clinical innovation powered by high precision technology is becoming essential to providing advanced care. Accuray technology is uniquely positioned to deliver Stereotactic radiosurgery and SBRT and is driving preference at top cancer centers around the world.

During the quarter, I was also very pleased with our operational performance. We continue to drive margin improvement through commercial execution by gaining price for our innovations and by reducing costs through operational rigor and greater efficiencies across every area of our business. Last quarter, and at our investor day in October, we discussed cost optimization as a pillar in our profitability expansion plan. Last week, we announced a restructuring which included a 6% reduction of our workforce across the organization. While these decisions are always difficult, we are confident that these actions to simplify our organization in combination with improved processes from our investment in a new ERP system which went live during the current quarter will strengthen our position for the future and is in line with the plan we laid out last year when Ali and I took over. Additionally, we will focus investments in areas that are critical to our growth strategy like commercial and customer support resources to maximize our latest product innovations and to further drive our market position and customer adoption. These actions will put Accuray in the strongest position to navigate the macroenvironment, invest in strategic areas of revenue and margin growth and create long-term shareholder value.

Finally, in Q1 we further enhanced our executive team with the hiring of new leadership in R&D, Global Service Support and IT/Cybersecurity. These executives come with significant operating experience from such leading companies in our sector as Varian, GE Healthcare and ABB. We will be leveraging their leadership experience to further position the company to win and gain share through innovation and unparalleled service and support.

I will now turn it over to Ali, who will speak more about our financial performance.



Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Thank you, Suzanne, and good afternoon, everyone. I want to begin by thanking our Global employees and cross-functional teams, who executed with dedication to deliver a solid first quarter while also undergoing a full-scale ERP implementation which presented quite a few operational and reporting challenges as part of the go-live and data migration process. Despite these expected challenges and learning how to navigate a brand-new ERP environment, the teams worked around the clock to ensure a successful implementation, which we are all very proud of. Our new ERP system will be able to provide us with the right data-driven visibility to run the business in a more efficient and cost-effective manner.

Turning to the financials, net revenue for the first quarter was 104 million dollars, which was up 8% percent versus the prior year. Net Revenue on a constant currency basis for the first quarter was 103 million dollars, which represents a 6.5% increase versus the prior year.

Product revenue for the first quarter was 53 million dollars, up 17% from the prior year and up 15% on a constant currency basis representing system shipments of 24 units, which is a 14% increase versus the prior year.

Service revenue for the quarter was 51 million dollars, down 1% percent from the prior year and down 1% on a constant currency basis with an increase in contract revenue being offset by lower installation, training, and spare parts revenue which we expect to bounce back in Q2.

Product gross orders for the first quarter were approximately 64 million dollars and represented a book-to-bill ratio of 1.2. As a reminder, our book to bill ratio is defined as gross orders for the period divided by product revenue for the period. As Suzanne mentioned, we believe the book-to-bill ratio is the right metric to ensure healthy growth of our backlog and is also a good indicator of future business vitality.

Moving to the backlog, we ended the first quarter with an order backlog of approximately 489 million dollars, which represents greater than 2 years of FY23 product revenue. This reported backlog is 9% lower than the prior year due to 14 orders representing 31 million dollars that aged beyond 30 months which we do not include in our reported backlog. It is important to note that these orders aged out primarily related to customer timing and we fully expect these to convert to revenue in the coming quarters. In Q1, we had 4 previously aged out orders for approximately 9 million dollars contribute to product revenue. Finally, we had 4 orders cancellations of \$9 million dollars in the quarter all coming from the Japan region due to a termination of a distributor which we expect to win back through our existing distributors in the coming quarters.

Our overall gross margin for the quarter was 38.0 percent compared to 35.9 percent in the prior year, primarily due to lower parts consumption and associated freight expenses versus last year. Q1 gross margin was up 6.1pts versus the prior quarter primarily due to lower service parts consumption and freight. It's important to note that service parts consumption was lower in Q1 partially due to the timing of the ERP implementation within the quarter providing a one-time cost benefit in Q1 which we expect to be partially offset in Q2 and the second half of the year.

Operating expenses in the first quarter were 37.3 million dollars compared to 36.8 million dollars in the first quarter of the prior fiscal year.



Operating income for the quarter was 2.2 million dollars compared to operating loss of \$2.2 million dollars from the prior year.

Adjusted EBITDA for the quarter was 6.5 million dollars compared to 1.9 million dollars from the prior year. 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 77 million dollars, compared to 90 million dollars at the end of last quarter with the decrease primarily driven by lower unit shipments compared to prior quarter. Net accounts receivable were approximately 77 million dollars, up 3 million from the prior quarter. Our net inventory balance was 150 million dollars, up 5 million dollars from the prior quarter due to lower shipments in Q1. Our teams are continuing to focus on optimizing working capital to improve our cash position.

In summary, we are pleased with our Q1 results and are reiterating our full year FY24 guidance range of \$460 - \$470M on revenue and \$27 - \$30 million on EBITDA. We expect first half revenue performance to be approximately 45% of the range of our guidance with a stronger second half as some of our new product introductions start to contribute to revenue. Given the timing of our new product introductions along with the restructuring actions we took in October that will contribute to lower OPEX in the second half, we expect our EBITDA performance in the first half of fiscal 2024 to equate to approximately 30% of the range of our guidance.

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.

I am very pleased with our Q1 results and our strong start to the year. We are now offering the broadest and most innovative product portfolio in our company's history and are poised to capitalize on promising clinical trends and opportunities in the competitive landscape. We have a defined revenue and margin expansion plan and we are executing. Finally, we have an incredible leadership team in place that I believe is second to none in the industry.

In closing, I would like to thank the entire Accuray team for the strong Q1 performance, the meaningful progress we have made against our strategic priorities and their ongoing dedication and passion to advancing our mission and creating value for all stakeholders.

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

QUESTION-AND-ANSWER SESSION

Operator

Our first question comes from Young Li with Jefferies.



Young Li – Jefferies

I guess to start, maybe just with guidance. I mean, very strong results this quarter, but you're holding guidance -- it's 1 quarter into the fiscal year. I just wanted to understand, I guess, the level of conservatism embedded in that guidance reiteration. And maybe if you can talk a little bit about what you're seeing for the order funnel into the rest of the year.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thanks for the question, Young. And yes. No, I think we've had a very strong start here in Q1, and I would say that we're cautiously optimistic. At the same time, we don't want to get too much ahead of ourselves. A couple of things that I think we're taking a look at is both U.S. and China. U.S., I think as we talked about here, there was some slowing and some extended sales cycles. And so we expect that that will improve in the back half of the year. And of course, some of the discussion in China from the anti-corruption campaign, we also expect to resolve itself in the back half of the year. But of course, we're taking a look at that. We will know more as we get into the first half of the year and take a look at our guidance. But I mean overall, we feel very good about our performance and the new products that we have introduced at ASTRO, the customer response and the momentum, as well as what we are seeing operationally in terms of our margin improvement. So I would say that we are taking a more conservative approach to how we take a look at guidance, and we will know more in the next quarter.

Young Li – Jefferies

Great. Very helpful. And I guess for my follow-up, maybe just on the China Tomo C opportunity. The approval came a few months earlier than expected. There's some numbers in the guidance. I guess I'm just kind of wondering if you can maybe talk a little bit more about the contribution this year, the plan for launch. And how has the tone been so far since approval?

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

The Tomo C is a very large growth catalyst for our business. We are very excited about the approval of the Tomo C. It did come in a little bit earlier than expected, which is fantastic. What that means is that now our China team can begin to take customer orders and build the backlog. And so they are doing that now. We've already had an internal launch ceremony in China where we had local Tianjin government officials. It was a very big event. And so I think there's a lot of anticipation and excitement around the product, partially because it's the only product in the Type B space that is domestic made that is a full CT helical delivery product. And so we believe the demand for the product is going to be strong.

So what we expect into Q2 and the back half of the year is, again, beginning to take orders for the Tomo C. And then, of course, from order to customer shipment, there are several months. And we expect that revenue will start to hit for Tomo C in Q4, and that's the shipments to customers. In the meantime, though, we will be shipping Tomo C to our partners so that they can start to begin building the product. We ship parts to our partner in Tianjin, and then they begin the manufacturing process and buildup of finished goods. So again, a lot of excitement around the approval of Tomo C. We think we'll have the opportunity to get great market traction as well as gain market share in the Type B space.



Operator

Our next question comes from Brooks O'Neil with Lake Street Capital Markets.

Brooks O'Neil – Lake Street Capital Markets

Congratulations on a terrific start to the year. I'll try to keep it to 2 questions. The first one is inflation is a huge topic globally. Can you just talk a little bit about the pricing environment and then maybe comment briefly about whether inflation in general is a positive or a negative for you in your business?

Ali Pervaiz, Accuray Incorporated – Chief Financial Officer

Brooks, thanks for the question. I would tell you in general, in terms of inflation, we're certainly seeing that the supplier price increases have slowed down. I think that being said, we did see about a \$2.5 million headwind related to inflation that hit our P&L this particular quarter. So it's certainly not eased up for us. We do have quite a few specialty supply parts that go into our products that certainly have more exposure to inflation. So it is definitely a topic that still remains for us, and we continue to monitor it really closely.

Brooks O'Neil – Lake Street Capital Markets

Great. So my second question is, a couple of years ago, there was tremendous excitement about reimbursement changes that seemed to recognize both the patient and the provider benefits of your high-dose radiation therapy. Could you guys just give us a quick update on the state of any discussions about moving reimbursement in that patient and provider-friendly direction or not at this point?

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

So we had our Investor Day at ASTRO. We had a couple of speakers that kind of gave the state of the state in the U.S. on where RO-APM was and what some of the changes are in reimbursement. And the RO-APM, as you know, was sort of put on hold, and we were waiting to see if there would be any movement. And the positive movement is that ASTRO has come up with their own reimbursement model which they are proposing that actually does take into account exactly making equity between shorter duration treatments like SBRT compared to conventional treatments so that the U.S. hospitals are not losing money by going to a more advanced care, which is the, again, the shorter duration treatments, which is better for the patient, better for the healthcare system overall. So that is a legislative process. So it probably will still take 1 year plus to be able to go through. But at least there's alignment from the industry, the ASTRO Industry Conference, and it's basically their design. So we are very hopeful not only in getting this through the legislative process, but also the signal that it sends to U.S. customers that this is the movement and it is toward the shorter duration treatments. And we see that as a positive thing for our technology.

Brooks O'Neil – Lake Street Capital Markets

Absolutely. Makes sense. Looking forward to the rest of the year.



Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thanks, Brooks.

Operator

Our next question comes from Neil Chatterji with B. Riley.

Brandon Carney – B. Riley

This is Brandon Carney on for Neil. Congratulations on the strong quarter. I guess just first, maybe can you provide any update on the pending application for the Cenos online adaptive solution? And can you talk about any key feedback that you've received since the introduction at ASTRO?

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

Thanks for the question. We had a lot of momentum and interest for Cenos. And we showed it for the first time in some private demos at the ASTRO conference, and I will tell you that the feedback was excellent. And we had a number of demonstrations, sign-ups, and we were standing room only, and they were all booked up really by the end of the first day. So we take that as a very positive sign. Now we went into the show with Cenos' 510(k) pending. Our expectations, just based on time lines, is that that will be available to order sometime in Q3 with shipments in the summertime. But the feedback was very positive. First of all, again, another tool to be able to make radiation therapy treatments more precise by adjusting to patient changes and this one being an online adaptive tool. Now there are adaptive tools that are out there in the marketplace, but they require a lot of resources. They require additional treatment time. And so really, we learned a lot from the feedback from the existing offerings on what to do differently in Cenos and what to improve upon. So that was the kind of feedback that we got from customers. So we're really excited about its ability to make a difference in patient care, but also differentiate the Radixact platform.

Brandon Carney – B. Riley

That's helpful. I guess, and then maybe I can just ask for you to comment on the market potential for Helix in India and what kind of uptake you expect there.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

I just want to make sure I heard you. The market potential for India?

Brandon Carney – B. Riley

Yes. Yes.

Suzanne Winter, Accuray Incorporated – Chief Executive Officer

So in India, we see that as another target site for value segment product, and that is with the introduction of the Helix. We think this is a product that is uniquely tailored for that value segment within India. And we think

ACCURAY

Deliver more.
Better. Faster.



the opportunity is approximately \$100 million to \$150 million annually. And so we are going to be taking a look at the high-potential, high-growth emerging markets where Helix can do very well compared to competitive offerings. So we are excited about this being sort of our next focus after China.

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

This concludes our earnings call. We look forward to speaking with you again in February for our fiscal 2024 second-quarter earnings release.

Operator

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