

Varian Reports Results for Second Quarter of Fiscal Year 2020; Withdraws 2020 Guidance

PALO ALTO, Calif., May 4, 2020 [/PRNewswire/](#) --

Second Quarter 2020 Summary

- Oncology Systems gross orders grew 1% in dollars or 2% in constant currency in the quarter; trailing twelve months gross orders grew 5% in dollars or 6% in constant currency
- 15 Ethos™ orders received, including 11 in North America, 3 in Europe and 1 in Asia-Pacific
- Two Proton orders awarded in Asia-Pacific
- Total company revenues grew 2% in dollars, or 3% in constant currency, to \$794 million; organic revenues declined 1%⁽¹⁾
- GAAP operating earnings declined 50% at 6.9% of revenues; non-GAAP operating earnings declined 14% at 12.9% of revenues
- GAAP net earnings per diluted share of \$0.47; non-GAAP net earnings per diluted share of \$0.85
- The company is withdrawing fiscal year 2020 guidance due to uncertainty surrounding the severity and duration of COVID-19

- (1) Excludes the year-over-year impact of foreign exchange rates and growth from CTSI and Interventional Solutions businesses

Varian (NYSE: VAR) today announced its second quarter fiscal year 2020 results.

"On behalf of everyone at Varian, I want to express our gratitude to all individuals on the frontlines dedicated to fighting this global pandemic. I also want to thank Varian employees worldwide who continue to focus on cancer patients receiving vital care during these turbulent times," said Dow Wilson, Chief Executive Officer of Varian. "While COVID-19 has created some unique challenges, our business has solid liquidity and is well-positioned strategically and organizationally to navigate through this challenging environment, continue to grow our market leadership, and deliver best-in-class solutions to cancer patients globally."

Summary

(Dollars and shares in millions, except per share amounts)						
	Q2 2020	Q2 2019	Y/Y	FY 2020 YTD	FY 2019 YTD	Y/Y
Revenues	\$ 794.5	\$ 779.4	2 %	\$ 1,623.4	\$ 1,520.4	7 %
Gross margin as a percentage of revenues	42.5 %	40.8 %	160 bps	43.4 %	41.7 %	170 bps
GAAP net earnings attributable						

attributable to Varian	\$ 43.2	\$ 88.6	(51) %	\$ 131.4	\$ 191.8	(32) %
GAAP net earnings per share - diluted	\$ 0.47	\$ 0.96	(51) %	\$ 1.43	\$ 2.09	(31) %
Net cash provided by operating activities	\$ 21.9	\$ (13.4)	263 %	\$ 134.5	\$ 127.5	5 %
Non-GAAP net earnings attributable to Varian (1)	\$ 77.6	\$ 96.2	(19) %	\$ 184.2	\$ 193.5	(5) %
Non-GAAP net earnings per share - diluted ⁽¹⁾	\$ 0.85	\$ 1.05	(19) %	\$ 2.01	\$ 2.10	(4) %
Shares used in computing GAAP and non-GAAP net earnings per diluted share	91.4	91.9		91.6	92.0	

(1) Non-GAAP net earnings and non-GAAP net earnings per diluted share are defined as GAAP net earnings and GAAP net earnings per diluted share adjusted to exclude the amortization of intangible assets and amortization of inventory step-up, acquisition and integration-related expenses or benefits, impairment charges, significant litigation charges or benefits, legal costs, gains and losses on equity investments, and significant non-recurring tax expense or benefits. Reconciliation of GAAP and non-GAAP financial measures can be found at the end of the press release.

The company ended the quarter with \$668 million in cash and cash equivalents and \$521 million in debt. Net cash provided by operating activities was \$22 million. During the quarter, the company invested \$40 million to repurchase three hundred and fifteen thousand shares of common stock.

Impact of COVID-19 Pandemic

The impact of the pandemic in the quarter has varied by region based on the stage of containment and government actions. The impact on revenues in the quarter was primarily due to timing delays associated with installations and acceptance of the company's products and solutions, as well as delays in the delivery of interventional oncology procedures. As shared in the March 9 press release, the preliminary impact from COVID-19 for the fiscal second quarter was limited to the Asia-Pacific geography. Between March 9 and the end of the quarter, the pandemic spread and impacted the company's operating performance in the Americas and EMEA (Europe, Middle East, India, and Africa)

geographies. The company estimates the operational delays after March 9 negatively impacted revenues in those two geographies by approximately \$30 million. This was partially offset by better performance across Asia-Pacific during the last three weeks of the quarter as China and South Korea began to recover from the pandemic.

Oncology Systems Segment

Oncology Systems revenues totaled \$761 million, up 2%. GAAP operating earnings were \$111 million, down 16%. Gross orders were \$773 million, up 1%. Gross orders in the Americas were down 3%, including North America down 1%. In EMEA, gross orders rose 11% driven by two large orders, in Russia and the United Kingdom. In Asia-Pacific, gross orders were down 5%. Gross orders globally were impacted by delays related to COVID-19.

Proton Solutions Segment

The company received two new system orders in Asia-Pacific in the quarter. Proton Solutions revenues totaled \$22 million, down 32%. Operating earnings benefited from higher service revenues which were offset by project mix.

Other Segment

Revenues for the Other segment were \$12 million. The Other segment is comprised of the Interventional Solutions business, including cryoablation, embolic microspheres, and microwave ablation. Additionally, it includes investments in cardiac radioablation.

Non-GAAP Adjustments

GAAP operating earnings and GAAP EPS included a \$41 million impairment of loan receivables from California Proton Therapy Center and a \$9 million benefit from the reversal of acquisition-related earnouts.

Guidance Withdrawn for Full Fiscal Year 2020

Since the previous update provided by the company on March 9, 2020, the severity of the COVID-19 pandemic has expanded globally and resulted in a shift in the macroeconomic environment. The uncertainty around the severity and duration of COVID-19 has impacted the company's ability to reliably estimate the financial impact of the pandemic for the balance of the fiscal year. As a result, the company is withdrawing its fiscal year 2020 guidance. Additionally, as a precautionary measure, the company has paused share buybacks to preserve liquidity.

Investor Conference Call

Varian Medical Systems is scheduled to conduct its second quarter fiscal year 2020 conference call at 1:30 p.m. Pacific Time today. To access the live webcast or replay of the call, visit the Investor Relations page on the company's website at www.varian.com/investors. To access the call via telephone, dial 1-877-869-3847 from inside the U.S. or 1-201-689-8261 from outside the U.S. The replay can be accessed by dialing 1-877-660-6853 from inside the U.S. or 1-201-612-7415 from outside the U.S. and entering conference ID 13700412. The teleconference replay will be available until 5:00 p.m. Pacific Time, Friday, May 8, 2020.

About Varian

At Varian, we envision a world without fear of cancer. For more than 70 years, we have developed, built and delivered innovative cancer care technologies and solutions for our clinical partners around the globe to help them treat millions of patients each year. With an Intelligent Cancer Care approach, we are harnessing advanced technologies like artificial intelligence, machine learning and data analytics to enhance cancer treatment and expand access to care. Our 10,000 employees across 70 locations keep the patient and our clinical partners at the center of our thinking as we power new victories in cancer care. Because, for cancer patients everywhere, their fight is our fight. For more information, visit <http://www.varian.com> and follow @VarianMedSys on Twitter.

Forward-Looking Statements

Except for historical information, this news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements concerning the company's future orders and the anticipated impact of the COVID-19 pandemic on our business; and any statements using the terms "could," "believe," "expect," "promising," "outlook," "should," "well-positioned," "will" or similar statements are forward-looking statements that involve risks and uncertainties that could cause the company's actual results to differ materially from those anticipated. Such risks and uncertainties include the future impact of the COVID-19 pandemic on our business, including but not limited to, the impact on our workforce, operations, supply chain, demand for our products and services, and our financial results and condition; our ability to successfully manage the challenges associated with the COVID-19

pandemic; our ability to achieve expected synergies from acquisitions; risks associated with integrating recent acquisitions; global economic conditions and changes to trends for cancer treatment regionally; currency exchange rates and tax rates; the impact of the Tax Cuts and Jobs Act; the impact of the Affordable Health Care for America Act (including excise taxes on medical devices) and any further healthcare reforms (including changes to Medicare and Medicaid), and/or changes in third-party reimbursement levels; recent and potential future tariffs or a global trade war; demand for and delays in delivery of the company's products; the company's ability to develop, commercialize and deploy new products; the company's ability to meet Food and Drug Administration (FDA) and other regulatory requirements, regulations or procedures; changes in regulatory environments; risks associated with the company providing financing for the construction and start-up operations of particle therapy centers, challenges associated with commercializing the company's Proton Solutions business; challenges to public tender awards and the loss of such awards or other orders; the effect of adverse publicity; the company's reliance on sole or limited-source suppliers; the company's ability to maintain or increase margins; the impact of competitive products and pricing; the potential loss of key distributors or key personnel; challenges related to entering into new business lines; and the other risks listed from time to time in the company's filings with the Securities and Exchange Commission, which by this reference are incorporated herein. For additional information concerning factors that could cause actual results and events to differ materially from those projected herein, please refer to our Form 10-K for the year ended September 27, 2019 and subsequent Forms 8-K and 10-Q filed with the Securities and Exchange Commission. The company assumes no obligation to update or revise the forward-looking statements in this release because of new information, future events, or otherwise.

Varian has not filed its Form 10-Q for the period ended April 3, 2020. As a result, all financial results described here should be considered preliminary, and are subject to change to reflect any necessary adjustments, completion of purchase accounting, or changes in accounting estimates, that are identified prior to the time the company files the Form 10-Q.

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Varian Medical Systems, Inc. and Subsidiaries

Preliminary Condensed Consolidated Statements of Earnings

(Unaudited)

<i><u>(Dollars and shares in millions, except per share amounts)</u></i>	Q2 2020	Q2 2019	FY 2020 YTD	FY 2019 YTD
Gross orders	\$ 845.9	\$ 770.9	\$ 1,664.5	\$ 1,492.6
Oncology Systems	773.4	766.2	1,547.2	1,482.7
Proton Solutions	60.8	4.7	86.7	9.9
Other	11.7	—	30.6	—
Order backlog	3,286.0	3,117.9	3,286.0	3,117.9

Revenues	794.5	779.4	1,623.4	1,520.4
Oncology Systems	760.5	746.8	1,542.9	1,449.3
Proton Solutions	22.3	32.6	49.9	71.1
Other	11.7	—	30.6	—
Cost of revenues	457.3	461.2	919.4	886.1
Gross margin	337.2	318.2	704.0	634.3
<i>As a percentage of revenues</i>	42.5 %	40.8 %	43.4 %	41.7 %
Operating expenses				
Research and development	71.0	59.4	138.1	120.3
Selling, general and administrative	175.3	146.8	352.3	287.9
Impairment charges	40.5	—	40.5	—
Acquisition-related expenses (benefits)	(4.5)	2.2	8.2	4.6
Operating earnings	54.9	109.8	164.9	221.5
<i>As a percentage of revenues</i>	6.9 %	14.1 %	10.2 %	14.6 %
Interest income (expense)	(1.2)	3.0	(2.9)	5.7
Other income (expense), net	(0.9)	0.2	3.5	23.2
Earnings before taxes	52.8	113.0	165.5	250.4
Taxes on earnings	9.7	24.6	33.5	58.1
Net earnings	43.1	88.4	132.0	192.3
Less: Net earnings (loss) attributable to non-controlling interests	(0.1)	(0.2)	0.6	0.5
Net earnings attributable to Varian	\$ 43.2	\$ 88.6	\$ 131.4	\$ 191.8
Net earnings per share - basic	\$ 0.48	\$ 0.97	\$ 1.45	\$ 2.11
Net earnings per share - diluted	\$ 0.47	\$ 0.96	\$ 1.43	\$ 2.09
Shares used in the calculation of net earnings per share:				
Weighted average shares outstanding - basic	90.7	91.0	90.8	91.0

Weighted average shares
outstanding - diluted

91.4

91.9

91.6

92.0

Varian Medical Systems, Inc. and Subsidiaries
Preliminary Condensed Consolidated Balance Sheets
(Unaudited)

(In millions)	April 3, 2020	September 27, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 667.8	\$ 531.4
Trade and unbilled receivables, net	1,004.8	1,106.3
Inventories	604.0	551.5
Prepaid expenses and other current assets	224.3	206.2
Total current assets	2,500.9	2,395.4
Property, plant and equipment, net	341.9	311.5
Operating lease right-of-use assets	123.8	—
Goodwill	614.7	612.2
Intangible assets	281.6	300.7
Deferred tax assets	93.6	84.7
Other assets	387.4	397.2
Total assets	\$ 4,343.9	\$ 4,101.7
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 198.4	\$ 248.5
Accrued liabilities	433.2	459.5
Deferred revenues	798.1	766.0
Short-term borrowings	520.0	410.0
Total current liabilities	1,949.7	1,884.0

Long-term lease liabilities	100.4	—
Other long-term liabilities	423.1	440.1
Total liabilities	<u>2,473.2</u>	<u>2,324.1</u>
Equity:		
Varian stockholders' equity:		
Common stock	90.7	90.8
Capital in excess of par value	878.2	845.6
Retained earnings	993.7	934.0
Accumulated other comprehensive loss	(101.8)	(102.1)
Total Varian stockholders' equity	<u>1,860.8</u>	<u>1,768.3</u>
Non-controlling interests	9.9	9.3
Total equity	<u>1,870.7</u>	<u>1,777.6</u>
Total liabilities and equity	<u>\$ 4,343.9</u>	<u>\$ 4,101.7</u>

Discussion of Non-GAAP Financial Measures

This press release includes the following non-GAAP financial measures derived from our Condensed Consolidated Statements of Earnings: organic revenue growth, non-GAAP operating earnings, non-GAAP net earnings and non-GAAP net earnings per diluted share. We define organic revenue growth as revenue growth less the impact of revenue growth from our CTSI and Interventional Solutions businesses and adjusted for the impact of foreign exchange. We define non-GAAP operating earnings as operating earnings excluding amortization of intangible assets and amortization of inventory step-up, acquisition and integration-related expenses or benefits, impairment charges, significant litigation charges or benefits and legal costs. These measures are not presented in accordance with, nor are they a substitute for U.S. generally accepted accounting principles, or GAAP. In addition, these measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes. The non-GAAP financial measures should not be considered in isolation from measures of financial performance prepared in accordance with GAAP. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. We have provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. We have not provided a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis due to the potential significant variability and limited visibility of the excluded items discussed below.

We utilize a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of our business, in making operating decisions, forecasting and planning for future periods, and determining payments under compensation programs. We consider the use of the non-GAAP measures to be helpful in assessing the performance of the ongoing operations of our business. We believe that disclosing non-GAAP financial measures provides useful supplemental data that, while not a substitute for financial measures prepared in accordance with GAAP, allows for greater transparency in the review of our financial and operational performance. We also believe that disclosing non-GAAP financial measures provides useful information to investors and others in understanding and evaluating our operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Non-GAAP operating earnings and non-GAAP net

earnings exclude the following items, except for gain and losses on equity investments, and significant non-recurring tax expense or benefit, which are only excluded from non-GAAP net earnings:

Amortization of intangible assets and amortization of inventory step-up: We do not acquire businesses and assets on a predictable cycle. The amount of purchase price allocated to intangible assets, the step-up of inventory values, and the term of amortization can vary significantly and are unique to each acquisition or purchase. We believe that excluding amortization of intangible assets and amortization of inventory step-up allows the users of our financial statements to better review and understand the historic and current results of our operations, and also facilitates comparisons to peer companies.

Acquisition and integration-related expenses or benefits: We incur expenses or benefits with respect to certain items associated with our acquisitions, such as transaction costs, hedging gains and losses, changes in the fair value of contingent consideration liabilities, gains or expenses on settlement of pre-existing relationships, integration costs, and breakup fees. We exclude such expenses or benefits as they are related to acquisitions and have no direct correlation to the operations of our on-going business.

Impairment charges: We incur impairment charges that result from events, which arise from unforeseen circumstances and/or often occur outside of the ordinary course of our on-going business. Although these events are reflected in our GAAP financials, these unique transactions may limit the comparability of our on-going operations with prior and future periods.

Significant litigation charges or benefits and legal costs: We may incur charges or benefits as well as legal costs from time to time related to litigation and other contingencies. We exclude these charges or benefits, when significant, as well as legal costs associated with significant legal matters, because we do not believe they are reflective of on-going business and operating results.

Gains and losses on equity investments: We may incur gains and losses from our equity investments in privately-held companies. We do not trade equity investments, and we do not plan on these investments for the funding of ongoing operations. We exclude such gains and losses because we do not believe they are reflective of our core business.

Significant non-recurring tax expense or benefit: We may incur a significant tax expense or benefit as a result of tax legislation and/or a change in judgment about the need for a valuation allowance that are generally unrelated to the level of business activity in the period in which these tax effects are reported. We exclude such expenses or benefits from our non-GAAP net earnings because we believe they do not accurately reflect the underlying performance of our continuing business operations.

We apply our GAAP consolidated effective tax rate to our non-GAAP financial measures, other than when the underlying item has a materially different tax treatment.

The following tables reconcile GAAP and non-GAAP financial measures:

Varian Medical Systems, Inc. and Subsidiaries

Reconciliation of Preliminary Revenue Growth and Organic Revenue Growth Financial Measures

(Unaudited)

<i>(Dollars in millions)</i>	Q2 2020	Q2 2019	Percent Change	Impact from Acquisitions	Impact from Foreign Exchange	Organic Growth
Total revenues	\$ 794.5	\$ 779.4	2 %	(4) %	1 %	(1) %

Varian Medical Systems, Inc. and Subsidiaries

Reconciliation of Preliminary GAAP and Non-GAAP Financial Measures

(Unaudited)

<i>(Dollars and shares in millions, except per share amounts)</i>	Q2 2020	Q2 2019	FY 2020 YTD	FY 2019 YTD
Non-GAAP adjustments				
Amortization of intangible assets and inventory step-up ⁽¹⁾	\$ 9.1	\$ 6.1	\$ 18.9	\$ 10.3
Acquisition-related expenses (benefits) ⁽²⁾	(4.5)	2.2	8.2	4.6
Impairment charges ⁽³⁾	40.5	—	40.5	—
Litigation charge and legal costs	2.7	0.8	4.8	1.7
Total non-GAAP adjustments to operating earnings	47.8	9.1	72.4	16.6
(Gain) loss on equity investments ⁽⁴⁾	—	0.2	(1.4)	(21.8)
Tax effects of non-GAAP adjustments	(13.4)	(1.7)	(16.6)	2.1
Significant effects of tax legislation ⁽⁵⁾	—	—	(1.6)	2.3
Changes in deferred tax related to an acquisition ⁽⁶⁾	—	—	—	2.5
Total net earnings impact from non-GAAP adjustments	\$ 34.4	\$ 7.6	\$ 52.8	\$ 1.7
Operating earnings reconciliation				
GAAP operating earnings	\$ 54.9	\$ 109.8	\$ 164.9	\$ 221.5
Total operating earnings impact from non-GAAP adjustments	47.8	9.1	72.4	16.6
Non-GAAP operating earnings	\$ 102.7	\$ 118.9	\$ 237.3	\$ 238.1
Net earnings and net earnings per diluted share reconciliation				
GAAP net earnings attributable to Varian	\$ 43.2	\$ 88.6	\$ 131.4	\$ 191.8
Total net earnings impact from non-GAAP adjustments	34.4	7.6	52.8	1.7
Non-GAAP net earnings attributable to Varian	\$ 77.6	\$ 96.2	\$ 184.2	\$ 193.5
GAAP net earnings per share - diluted	\$ 0.47	\$ 0.96	\$ 1.43	\$ 2.09

Non-GAAP net earnings per share - diluted	\$ 0.85	\$ 1.05	\$ 2.01	\$ 2.10
Shares used in computing GAAP and non-GAAP net earnings per diluted share	91.4	91.9	91.6	92.0

- (1) Includes \$2.0 million, \$2.9 million, \$4.2 million, and \$4.8 million respectively, in cost of revenues for the periods presented.
- (2) Includes the release of \$8.9 million in contingent consideration earnout liabilities in the second quarter of fiscal year 2020 and an \$8.8 million change in the fair value of a contingent consideration in the year-to-date period 2020.
- (3) Includes a \$40.5 million impairment of loans receivable from CPTC in the second quarter of fiscal year 2020.
- (4) Represents the gain on sale of our equity investment in Augmenix in the year-to-date period 2019.
- (5) Represents the tax effect of a change in law related to the U.S. Tax Cuts and Jobs Act.
- (6) Represents the charge to income tax expense due to the increase of a valuation allowance as a result of an acquisition.

SOURCE Varian

<http://investors.varian.com/2020-05-04-Varian-Reports-Results-for-Second-Quarter-of-Fiscal-Year-2020-Withdraws-2020-Guidance>