Varian Medical Systems, Inc. (VAR) CEO Dow Wilson on Q4 2019 Results - Earnings Call Transcript

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FQ4: 10-23-19 Earnings Summary

Press Release SEC *10-K*

EPS of $1.21 misses by $-0.00 | Revenue of $878.9M (9.64% Y/Y) beats by $20.43M

Earning Call Audio

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Varian Medical Systems, Inc. (NYSE:VAR) Q4 2019 Results Earnings Conference Call
October 23, 2019 4:30 PM ET

Company Participants

Michael Bruff - SVP, IR

Dow Wilson - President and CEO

Gary Bischoping - CFO

Conference Call Participants

Matt Taylor - UBS

Jason Bednar - Baird

Anthony Petrone - Jefferies

Tycho Peterson - JPMorgan

Operator

Greetings and welcome to the Varian Fourth Quarter Full Year 2019 Earnings Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host J. Michael Bruff, Senior Vice President of Investor Relations for Varian. Thank you Mr. Bruff, you may begin.

Michael Bruff

Thank you, operator. Good afternoon, everyone and welcome to Varian's fiscal fourth quarter and full year 2019 earnings call. Joining me today on the call are Varian's President and Chief Executive Officer, Dow Wilson; and Chief Financial Officer, Gary Bischoping. Dow will share his thoughts on our results and our long-term strategy, and Gary will cover our operating and financial results in more detail. After our prepared remarks, we will be happy to take your questions.

On the Varian Investor Relations website, you can find our fiscal fourth quarter and full year 2019 press release and earnings presentation, which are intended to provide additional perspective and details. A webcast of this call and any accompanying non-GAAP reconciliations are available on our website at www.varian.com/investorrs. Unless otherwise stated, all financial results discussed are non-GAAP. All references to EPS are to net earnings per diluted share. All growth rates are year-over-year, and any references to our orders are gross orders. All periods referred to are fiscal periods unless otherwise stated.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in today's earnings release, this conference call and our SEC filings. We do not undertake any obligation to update any forward-looking statement.

And with that, I'm pleased to turn it over to Dow for his comments.

Dow Wilson

Thanks, Mike and thank you everyone for joining us. Today, I'll share the key milestones we achieved this past quarter and year, and how they have contributed to our long-term growth and value creation strategy, as well as provide our outlook for the upcoming fiscal year.

Looking back, this is the second consecutive fiscal year Varian has reported double-digit revenue growth and 9% oncology orders growth. Our core business is strong than ever and being powered by our continuous innovation. As one proof point, our North American market delivered a strong growth quarter with 10% orders growth and trailing 12-months growth of 8% in the face of uncertainty around the alternative payment model. We were able to successfully manage through a tariff environment, executing and mitigating actions throughout the year and improving operating earnings as a percentage of revenues from 16.2% in the first quarter to 18.1% in the fourth quarter. We have strong momentum, executing our fourth quarter in our core businesses and our acquisitions are delivering on growth expectations. Our strategy is delivering value to patients, clinicians and our shareholders.

Now let me touch on our fourth quarter and full year performance. Total revenues of $879 million increased 10%. This was driven by robust oncology revenue growth of 8%. On a full year basis, total revenues of $3.2 billion grew 10%. Operating earnings of $159 million or 18.1% of revenues grew 13%. For the full year, operating earnings of $542 million or 16.8% of revenues grew 6%.

GAAP earnings per share of $0.97 declined 23%, while non-GAAP EPS of $1.21 grew 4%. For the full year, GAAP EPS of $3.38 grew 109% and non-GAAP EPS of $4.63 grew 5%.

Cash flows from operations were $118 million, up 9%. For the full year, cash flows from operations were $372 million, down 18%. In the fourth quarter, we are pleased to receive tariff exclusions from both the United States Trade Representative or USTR for component sourced from China and from China for tariffs imposed on medical linear accelerators. Gary will discuss the net impact of these exclusions in more detail.

Our progress towards becoming the global leader in multidisciplinary cancer care solutions is powered by our focus on executing on our four strategic enablers for customers and their patient: First, innovating in radiation therapy. Second, leveraging artificial intelligence, machine learning and cloud-based solutions. Third, growing emerging businesses and technologies. And fourth, improving operational, financial and capital efficiency.

First, let's review our progress on innovating in radiation therapy. We continue to widen the gap in the radiation therapy market with our innovation cycle, industry-leading net promoter score and new services offerings from Cancer Treatment Services International or CTSI, all of which are driving our sustained worldwide market share leadership. This was evidenced by our fourth quarter and 2019 orders revenues and unit volumes for hardware, software and services, all hitting new record highs. Our key growth markets of India and China continued to deliver strong growth both in the quarter and over the trailing 12 months. In China specifically, we're now seeing an uptick in incremental licenses and expect the momentum to continue into fiscal 2020. At ASTRO we had over 1,100 customers at our Users Meeting and unveiled multiple new innovations including Ethos therapy and multi-room ProBeam 360.

In the oncology business, our worldwide net installed base of 8,496 units grew 439 units or 5% in the fiscal year. Each net new socket of course represents meaningful future revenues from software, services, upgrades and most importantly more patients’ lives touched. This year both Eclipse and TrueBeam Varian’s key radiotherapy solutions were recognized as category leaders by KLAS, an independent research firm specializing in monitoring and reporting on the performance of healthcare vendors.

Hardware revenues grew 8% for the quarter and 13% for the full year. We manufactured the 3,000 TrueBeam and received orders for over 200 systems in the fourth quarter. Fiscal year 2019 was a record year on both orders and revenues for TrueBeam. Halcyon orders grew 30% to 114 in the quarter, of which 65% were taken in emerging markets. We have now taken 398 orders of Halcyon since its May 2017 launch. The global installed base is now up to 116 systems with continued exceptional customer feedback. Halcyon sales have successfully ramped since launch and moving forward we will not provide specific Halcyon order and installed base details.

As mentioned earlier, Ethos therapy was unveiled in mid September at the ASTRO Trade Show in Chicago, during which over 450 customers received in depth workflow demonstrations, and over 7,000 trade show attendees were introduced to the new system. Ethos therapy unlocks the ability to deliver on-couch adaptive radiation therapy treatments, using artificial intelligence and multi-modality imaging in a standard 15 minute treatment time slot, enabling new possibilities in targeted personalized radiation therapy delivery.

During the quarter, we received 17 orders for Ethos including 11 new systems and six conversions in Europe and Australia highlighting strong demand and market excitement for the system. Ethos is CE Mark registered and 510 (k) pending. Orders from brachytherapy afterloaders grew over 40% to 112 in fiscal year 2019. Our global brachytherapy installed base is now 1,161 systems. Last year, we launched our new Bravos afterloader and the customer uptake has been extraordinary.

For example, this quarter, the Karolinska University Hospital Solna in Sweden, became the first Hospital in Scandinavia to deliver high dose rate brachytherapy treatments using the new Bravos afterloader. This integrated system is designed to improve the patient and clinical experience by simplifying brachytherapy treatment and providing greater workflow efficiency.

On the software front, we remain focused on investing in innovation to capitalize on evolving market needs with emphasis on efficient clinical workflow, systems integration and treatment planning quality to help close the current resource and the skills gap around the globe. This innovation has led to software growth of 12% for the quarter and 16% for the full year. This quarter Varian was selected to supply Eclipse Treatment Planning software and ARIA Oncology Information System to three radiotherapy centers in Serbia. The Varian solution will replace competitive solutions at three important luminary centers there. We also won our first big software tender in China this quarter at Tianjin Tumor Hospital that includes ARIA China Clinical Information platform, a localized software for China language and workflow.

Orders for HyperArc, our high definition radiotherapy solution for stereotactic radiosurgery grew double-digits in the quarter. We've now taken over 300 orders for HyperArc since its August 2017 launch. Orders for Eclipse MCO or Multi Criteria Optimization planning software grew double-digits in the quarter and we've now received over 1,400 MCO orders.

Our services revenues grew 7% for the quarter and 5% for the full year driven by our growing installed base. The strength of our services offerings was validated in IMV’s 2019 U.S. service track report, in which we ranked first in the industry in net promoter score. This score represents the likelihood that a customer would recommend a manufacturer to a colleague and we're honored once again to lead this customer loyalty metric with a score of 78% as compared with the nearest competitor at 25%.

Finally, we acquired CTSI in physical 2019 to further strengthen our core and power new technology enabled services. We are currently investing in the build out of these services that will drive mature market productivity and the emerging market adoption. CTSI is now successfully integrated into our Oncology Systems business. In our Proton Solutions business we took one new order in the fourth quarter for a total of four proton orders in the fiscal year. We now have a total of 82 proton orders under contract across 27 sites globally. 41 rooms are currently operational including 6 rooms which were handed over to clinical operations this quarter.

The New York Proton Center treated its first patients on Variance ProBeam Proton Therapy System. NYPC is New York State's first proton therapy facility and is a collaboration between Memorial Sloan Kettering Cancer Center, Montefiore Health System and Mount Sinai Health System. NYPC is anticipated to treat 1,400 patients annually, including pediatric patients, another highly complex disease size, delivering the most advanced form of cancer radiation treatment currently available.

In the fourth quarter, we booked an order from Ohio State University to equip a new multi-room proton therapy center in Central Ohio with the ProBeam 360 system. This new proton facility is a collaboration between Ohio State University Comprehensive Cancer, Arthur James Cancer Hospital and Richard J. Solove Research Institute and Nationwide Children's Hospital. The facility will treat both adult and pediatric cancer patients and is scheduled for completion in early 2023.

Subsequent to the close of the quarter, we were selected by Penn Medicine to install, and additional Varian ProBeam 360 single-room configuration at their new cancer treatment center. The selection of Varian system as part of Penn Medicine's ongoing strategy is providing innovative technologies in the communities it serves through a multi-disciplinary cancer care model. Construction of the new center began in September 2019, with first patient treatments expected in 2021.

We're honored to be chosen as partners that these luminary institutions, providing innovative proton technologies that further advance clinical capabilities with particle therapy treatments.

At ASTRO, we launched the multi-room configuration for the ProBeam 360 proton therapy system. The ProBeam 360 system is the smallest multi-room system available today and offers an optimized human centered design, efficient patient workflow, superior total cost of ownership and the viable path to potential next-generation treatments such as FLASH therapy.

In October last year, we announced the formation of the FlashForward Consortium to study potentially groundbreaking ultrahigh dose rate cancer treatments with protons. FlashForward Consortium in efforts to understand the mechanism of action continued to gather steam. We have added numerous milestone achievements this past year, key results were presented at AACR, ASTRO, AAPM, PTCOG and ISRS annual meetings, all important trade shows in our industry. We demonstrated the first use of an integrated treatment planning and treatment delivery system for FLASH using protons. We also gained early insights into the biology of how FLASH works, including the impact on the immune system, the role of oxygen in normal tissue protection of ultrahigh dose rates and the impact of FLASH on both tumor and normal tissues in preclinical models.

The support from the academic and medical community has been encouraging as we look forward to bringing FLASH therapy to patients. We will continue to work with our partners worldwide to ensure a safe, integrated and effective treatment modality.

Second, let's turn for our progress in leveraging artificial intelligence, machine learning and cloud solutions. Artificial intelligence powers our new Ethos therapy system, enabling the use of multimodality images such as MR, PET, CT and daily iterative cone-beam CT images at the treatment console. Clinicians can now better visualize changes to anatomy, adopting a normal treatment slot, personalized dose and ultimately deliver better treatment to every patient. We've received an order for 60 Ethos therapy solutions for Amsterdam UMC in the Netherlands. This is just one of many exciting examples of luminary customers globally who has chosen Ethos. To further accelerate momentum, we have established an Adaptive Intelligence Consortium comprised of leading institutions globally who will be working to generate clinical and technical evidence showing the differentiation of the Ethos therapy.

Orders for RapidPlan, our individualized treatment planning software that was launched five years ago and is the first machine learning application in the field of radiation oncology grew double-digits in the quarter. We've now taken over 2,500 orders for RapidPlan to-date and installed over 1,800 licenses at 660 customer locations.

This year we made substantial progress in the deployment of Noona, our software application for managing patient symptoms and capturing patient reported outcomes in cancer care to our partnership with Tennessee Oncology. Noona is being deployed at over 30 centers across Tennessee and reaching over 20,000 new patients per year. Additionally, we are involved in 19 cancer programs in the State of Michigan through our partnership with Michigan Oncology Quality Consortium. Once deployed across 19 centers in Michigan, Noona will reach close to 22,000 additional new cancer cases per year.

Third, let's discuss emerging businesses and technologies. This fiscal year we made significant strides in growing our addressable market through acquisitions outside our core. We entered the fast rolling interventional oncology markets through the acquisitions of Endocare, Alicon and the asset purchase of Boston Scientific’s microspheres portfolio.

The interventional oncology market is expected to grow from $860 million this year to $1.1 billion in 2022. We see meaningful value creation opportunities between our businesses specifically through the combination -- through combination therapies and leveraging our software platforms that will touch more patients and maximize outcomes.

This month we showcased our Interventional Oncology Solutions at the symposium on Clinical Interventional Oncology in Miami, Florida. We remain deeply committed to the ongoing development of innovative treatment solutions for clinicians offering ablation and embolization services to patients. Interventional oncology revenues were [$70 million] in the fourth quarter of fiscal 2019. This is our second quarter reporting revenues from interventional oncology business under the other segment. Interventional oncology revenues represent sales for our cryoablation embolic microspheres and microwave ablation portfolio.

Additionally, we continue to invest in the development of our cardiac radioablation technology. We're building out a team and creating a clinical consortium to assist with our product development and clinical trial strategies. Overall, we are pleased with the company's performance in the fourth quarter and the full year.

I'll now turn it over to Gary, who will discuss our fourth strategic enabler and provide more context on the fourth quarter and full year financial results.

Gary Bischoping

Thanks, Dow, and hello, everyone. Our fourth strategic enabler of improving financial operational and capital efficiency requires maintaining a balance between growth, profitability and liquidity over time.

Let me start with growth. Companywide revenues were $879 million in the fourth quarter, up 10% or 11% in constant currency. Full year revenues of $3.2 billion were up 10% or 12% in constant currency. Organic revenues which excludes the year-over-year impact of FX and growth from the acquisitions of CTSI, Endocare, Alicon and Boston Scientific B portfolio grew 11%.

In oncology, revenues were $820 million up 8% or 9% in constant currency driven by robust growth across hardware, software and services. CTSI contributed $17 million revenues in the quarter. For the full year oncology revenues grew 11% or 13% in constant currency. Orders were $1.1 billion, up 7% year-on-year and in constant currency. For the full year orders grew 9% or 11% in constant currency to $3.4 billion. We ended the quarter with $3.1 billion in backlog, up 7%.

Our orders mix for the full year was approximately 48% in the Americas, 33% in EMEIA, and 19% in APAC and less than 1% from CTSI based on timing of acquisitions close in June 2019.

Taking a closer look at our oncology business results. In the Americas, revenues grew 2% in the quarter and 7% for the full year. Revenues in North America grew 3% in the quarter and 7% for the full year. Orders of $559 million grew 11% in the quarter, driven by strength across our portfolio, which is ideally positioned for a value-based care environment. The full year orders in the Americas grew 7% with 8% growth in North America.

In the quarter, we received a multiyear commitment for 10 TrueBeam systems, in-associate software from the University of Rochester. Approximately $11 million was booked in the fourth quarter. Also we received $25 million order from 21st Century Oncology for replacement of accelerators across their network.

In our Europe, Middle East, India and Africa geography, revenues grew 6% in the quarter and 13% for the year. Orders were $396 million in the quarter, increasing 10%. For the full year, orders grew 12%. Robust growth in EMEIA was driven in part by orders for 13 TrueBeam systems as part of the Tata Trusts Framework Agreement as well as regional performance in Southeast Europe and CTSI services.

Asia Pacific revenues grew 30% in the quarter and 14% for the full year. Orders were $182 million in the quarter, decreasing 9% for the full year, orders grew 9%. The challenging quarter in Japan was partially offset by growth in China, Southeast Asia and Korea. In China we remain the market leaders and continue to see strong demand for our entire portfolio of solutions, including 10 Halcyon orders in the fourth quarter. Our

Southeast Asia and Korea geography continue to be a growth driver. We've received orders for four VitalBeam systems in Korea and sold the first HyperArc system in Singapore and Hong Kong during the fourth quarter.

Our Proton Solutions business posted revenues of $42 million in the quarter, a decline of 9% compared with last year. For the full year, revenues were $144 million, down 3%.

Turning to profitability, total company gross margin of 45.2% of revenues increased 270 basis points, driven by our oncology business, where we continue to see solid revenue growth across the portfolio. For the full year, gross margin rate decreased 70 basis points to 43.1%. Oncology fourth quarter gross margin of 45.5% of revenues increased 160 basis points driven by advantage from tariff exclusion, increased Halcyon and software volume and increased services revenues from installed base growth and the CTSI acquisition.

Full year oncology gross margin decreased by 110 basis points to 44.4%, driven by tariffs impact, regional shift to emerging markets and higher software contract costs due to increased upgrade activity in fiscal 2019.

Looking at Proton Solutions, fourth quarter gross margin dollars were $11 million, up $2 million. Full year gross margin dollars were down 13%, primarily driven by timing of orders. Investments will continue to be a key driver of our long-term growth and value creation strategy. In the quarter, R&D investment of $65 million was up 9% at 7.4% of revenues. R&D expenses for the full year were $248 million, up 6% and representing 7% of revenues. R&D spend this year was driven by investments in software, adaptive radiotherapy/and other strategic innovation programs.

In the quarter SG&A expenses were $173 million or 19.6% of revenues, up 220 basis points as a percent of revenues, primarily driven by recent acquisitions, expenses triggered by the tariff benefit and the September 2019 ASTRO event, which did not occur in the fourth quarter of fiscal year 2018.

For the full year SG&A expenses were $601 million or 18.6% of revenues, up 40 basis points as a percent of revenues. The increase was primarily driven by recent acquisitions and having to ASTRO events in one fiscal year. Company operating earnings were $159 million or 18.1% of revenues, increasing 13%. For the full year, operating earnings were $542 million or 16.8% of revenues, increased 6%.

Turning to taxes. For the full year, our GAAP effective tax rate was 29.3% and our non-GAAP effective tax rate was 22.9%. The non-GAAP tax rate was higher than anticipated in our original guidance and primarily driven by updates to the estimated impact of the Global Intangible Low Tax Income or GILTI and Base Erosion and Anti-Abuse Tax or BEAT provisions of the Tax Cuts and Jobs Act. The negative impact to earnings per share related to the update in tax rate was approximately $0.08.

GAAP EPS was $0.97 and non-GAAP EPS was $1.21 with related diluted share count of 91.7 million shares in the quarter. We are pleased to note that our acquisitions performed above our business case expectations in the fourth quarter. For the full year, GAAP EPS was $3.38, and non-GAAP EPS was $4.63, up 5%.

As Dow mentioned, we are very pleased to receive two tariff exclusions in the fourth quarter. The exclusions had a $21 million benefit to revenues, a $4 million benefit to cost of revenues and triggered a $2 million expense due to receiving the exclusion in China. The net benefit to operating earnings was $23 million or $0.19 on a non-GAAP earnings per share basis.

The net benefit was mostly offset by the increase in tax rate previously mentioned and expenses related to annual discretionary contributions to U.S. based foundations that independently fund research and training. Additionally, operational spend in our core businesses came in above expectations although this higher spend was partially offset by early momentum in our recent acquisitions.

Incrementally, the company did not record approximately $11 million of potential tariff refund in the fourth quarter due to timing of recognition. We expect to recognize this benefit in fiscal 2020.

Turning to the balance sheet and liquidity, we ended the year with cash and cash equivalents of $531 million and $412 million in debt. Cash flows from operations were $372 million for the fiscal year, down 18% due to higher working capital to support product transitions and growth. Oncology DSO was 109 days in the year, 7 days higher than last year due to strong revenue momentum.

In addition to R&D other investments in the quarter included $14 million in CapEx and $32 million to repurchase shares of our stock. As of the end of the year, we had 2.2 million shares remaining under our existing share repurchase authorization.

I will now turn it back over to Dow, who will discuss our fiscal year 2020 annual guidance.

Dow Wilson

Thanks, Gary. Before turning to guidance, I'd like to share with you the changes announced regarding our leadership team. Earlier this year we combined the recently acquired businesses of Endocare, Alicon, and the microsphere and bland embolic bead assets from Boston Scientific to create our Interventional Oncology Solutions business under the Chief Growth Officer putting to Kolleen Kennedy, President Proton Solutions and Chief Growth Officer. Based on the success of the integration and the robust performance by our Interventional Oncology Solutions business, it’s a right time to move this new business from the incubation stage under the Chief Growth Office. Effective December 31, 2019, Gary Bischoping, currently Senior Vice President Finance and Chief Finance Officer, will take down a new role as President Interventional Oncology Solutions. Mike Bruff, currently, Senior Vice President of Finance and Investor Relations will succeed Gary as Senior Vice President Finance and Chief Financial Officer. Both executives will report directly to me. Kolleen will continue in the role as President Proton Solutions and Chief Growth Officer, in which capacity she will focus on incubating emerging technologies including FLASH therapy and cardiac radioablation as well as leading our acquisition integration office. As Varian continues to evolve and grow, our deep bench of leadership capabilities across the organization will help propel our business to success in both the near and long-term.

And now, looking forward to fiscal year 2020, our guidance continues to consider the projected market growth and momentum of our products and solutions in the market. Our fiscal year 2020 guidance considers the recently announced tariff exclusions from both China and U.S. trade representative. Expecting to continue our strong operational performance, the company plans to invest in our growth initiatives, including: driving core performance, the company plans to invest in our growth initiatives, including: driving core business growth in China, fueling growth of our recent acquisitions by building out global sales and distribution capacity and touching more patients by ramping research and development investments in technology enabled services, FLASH technology, our Noona patient reported outcome offering and cloud-based software. Continuing to invest in meaningful innovation, go-to-market capabilities and scalable infrastructure is aligned with our commitment to drive long-term growth for shareholders.

After careful consideration of these assumptions, we expect the following for fiscal year 2020:

Revenue of $3.5 billion to $3.6 billion, representing growth of 9% to 12%. Non-GAAP operating earnings as a percentage of revenues of 17.5% to 18.5%. Non-GAAP earnings per share of $5.30 to $5.45. Cash flows from operations of $450 million to $500 million. The guidance assumes a non-GAAP effective tax rate of 22.5% to 23.5% and a weighted-average diluted share count of $92 million. The guidance also assumes currency rates as of the beginning of fiscal year 2020, includes acquisitions announced to-date and includes the expected impact of all currently enacted tariffs.

Thank you. And now let's go to Q&A. Operator?

Question-And-Answer Session

Operator

[Operator Instructions]. Our first question is from Matt Taylor, UBS. Please proceed with your question.

Matt Taylor

So, I think the question is probably most top of mind for folks is, you had very strong order here in the quarter where I think a lot of investors expected that there to could be some uncertainty in the U.S. Can you talk a little bit about the dynamics that drove that order growth to be so strong especially in North America?

Dow Wilson

Yes, I think there's a number of factors here, Matt. First of all, we're very pleased, as you heard on the call our 12 months North America oncology orders grew from 6% to 8% on very strong growth in the quarter. A number of factors. One, I think everybody kind of overestimates the impact of these things a little bit in the short-term. As we said last quarter, we thought we had a very good funnel coming into the quarter. Second, I'd say overall, our portfolio is very well positioned for a value based market. So I think we've got the best portfolio, room for expensive niche products is not exactly the best position. We saw some Ethos volume and that's global, that's not U.S. impact, I want to make that point. We saw the good U.S. volume despite not having Ethos yet to sell, we don't have 510(k) approval should see it towards the late end of this year, maybe early in January and that's good. So funnel remains strong, product portfolio is great and I think the portfolio is very well lined up for the market and maybe the last thing I would add is you heard that really outstanding results of our software business both in the quarter and the year. That is very much at this point developed market growth. We are starting to see, you heard me mention the nice order in China, it’s the biggest software order we've ever received in China. So we've localized that product. Yes, I mean speaking Chinese is one thing but getting the right workflow and the right interfaces and responding to the customer needs in China is a big deal as well and I really like what the team has done there. So think that product is positioned for continued growth both in developed and developing markets.

Matt Taylor

Maybe, if I can just ask one follow up on the orders. It was nice to see Ethos pretty strong out of the gate there. Can you talk about the funnel for that, any reception or feedback that you got when you launched it at ASTRO and how we should expect that to resonate and take off in this kind of environment?

Dow Wilson

The ASTRO launch was terrific. We just launched it as I said in the call middle of September. So we kind of had really only five or six weeks to fill it in the quarter. We're not selling it yet in China or the U.S. I’d just say excitement across both academic and community segments is very high, so we're hitting both markets. We had at ASTRO 450 customers went through the Ethos station, our team is still in recovery as we had really great participation especially by the -- by our first couple of sites, Herlev Hospital treated the first sites. They're now doing 20, 25 patients a day and a mix of both adaptive patients and non-adaptive patients. But it's an ideal device for adaptation in this APM environment. So I think that's the momentum that we're looking to out of the product in the U.S. once we get 510(k) approval.

Operator

Our next question is from Jason Bednar, Baird. Please proceed with your question.

Jason Bednar

I just wanted to offer first congrats to Gary and Mike on their new upcoming roles here. Then, I guess starting here first maybe to follow up to Matt’s question there on Ethos, just fully acknowledging, understanding where maybe a little over a month into the launch. But as you kind of contemplate the potential I mean do you see this as may be following the Halcyon or the TrueBeam adoption curve more closely or somewhere in between, just as you think out not just over the next couple quarters but as you look out over the next few years, I mean where does that slot in from an adoption curve standpoint?

Dow Wilson

I wish I could tell you, Jason, because they keep surprising me. When you heard we say in the call, it started with TrueBeam. And we had a record quarter on TrueBeam and then on top of TrueBeam, we had a record quarter on Halcyon, and now on top of Halcyon, we're launching Ethos. So, we're pretty bullish about it. We got these 11 orders plus 6 upgrades. So, it’s going to disrupt the adaptive niche, but I think it's focused on a segment of the market where it's really meaningful, and I think we will start to see penetration into that community hospital market. So, for us, we're really selling the portfolio and I think Ethos is going to democratize, a really important technology and make available in a standard treatment slot.

And then of course, when you add it all up, at the end of the day, what we really like and I think you're starting to see that, I mean we had 5% growth on the total installed base number of sockets. So, well over 8,500 sockets, 429 incremental new sockets on the year. So, we're just not replacing stuff, we're getting new range of sockets, growing the pie, and that's for us what matters most, which is why we're disclosing that number to investors, so they can watch what happens to our overall installed base growth.

Jason Bednar

Yes. That's helpful. And then just to brief follow-up, I mean as we look at APAC order number in the quarter and look out over the next couple of quarters here, in the first half of fiscal '20, is that something that we should be mindful of, maybe do we still have some tough Japanese order comps that we will have go through in the next couple quarters or do you see this is more of a temporary down tick in the order growth for that region?

Dow Wilson

I'll just keep you focused on a trailing 12. Our trailing 12 overall Asia has been 11% constant currency growth. Yes, we didn't have that greater quarter in Japan, offset largely by pretty strong performance in our Southeast Asia, Korea market and then China was very solid for us on the quarter. As I said in the remarks, we are starting to see some pull down of the China quota. So, that's going to be upside on the market. But especially market like Japan, it's lumpy. We had better quarters there recently, so that's good news as opposed to kind of last year where we had several -- not so great quarters in a row, but trailing 12, 6 in Japan, very strong double-digit growth in China, and starting to see some of that China market, some of that go-to-market pull down.

From a share standpoint in Japan and China, we remain in very solid position. So, at least from a competitiveness point of view, that's hanging in there just fine, even growing.

Operator

Our next question is from Anthony Petrone, Jefferies. Please proceed with your question.

Anthony Petrone

I'm actually Dow going to start one just with guidance. Guidance was ahead of our expectation both in reported revenue and constant currency growth and there's a number of moving parts in there. So as you look at fiscal 2020, how much of the guidance reflects; one, the tariff reversal both on the top and bottom-line; and then how much is from the interventional oncology rollout? And then I have a couple of follow ups.

Dow Wilson

It's a good question. Anthony we will walk you through it in detail. Let me kind of start with and I'll turn over to Gary for the details. We're actually very pleased with the orders growth so the P&L starts there and the orders have been terrific as you know and I'd say they're broad based. So we're especially seeing them in accretive parts of portfolio Halcyon, software, services et cetera. The organic part of the business is booming. So when you look at the year-over-year from an operating earning points of view, if we start fiscal year '19 at $542 million, we think there's almost $100 million of year-over-year organic investment. And kind of with that as a introduction, let me turn it over to Gary to give you a complete walk on the earnings guidance.

Gary Bischoping

Yes, what I would say just to clarify that point, from a year-over-year basis there is over $100 million of organic operating margin accretion, right?

Dow Wilson

Tariffs, 100 million reported.

Gary Bischoping

Tariffs ex-acquisitions, right. And so to Dow's point that's revenue growth and inside of that revenue growth what you're seeing on the margin line is, you're seeing that software growth now growing faster than the hardware right and that's pulling through more margin dollars. You're seeing the installed base growth now pulling through the services part of the P&L whish is also at a higher margin. As we referenced on the call we've got Halcyon now banging through the P&L, 116 of them installed out there in the field. You're now starting to see the accretion from that in the margin. So that strong growth coupled with starting to see the accretion from that in the margin. So that strong growth coupled with margin expansion out of the core business in addition to the fact that on the VPS side, on the proton side, we are now seeing the services business grow as we get more rooms installed in clinic and get to that one year period. So you're seeing the portfolio unveil itself in the core and really now you can see you with the tariffs kind of out of the noise you can see the operating performance of the company. And with that we also have the tariffs impact as you mentioned. So all of that stacks up to what we think is the right place to guide and deliver in the P&L. All -- we're doing all that Anthony delivering that guidance while making significant investments in ongoing innovation to maintain the growth in the company over the medium to long-term. Building out the acquisitions, further investments in China to grow, right, our ability to drive more out of the R&D portfolio that Chris is running and operating. So to summarize we think this is pragmatic guidance, the growth is being driven by the core as well as the acquisitions that are off to a good start, and we have a significant investment on the acquisition side as well.

Anthony Petrone

And just two quick follow ups from me. One on just the CMS oncology bundle. We're I guess about a week or so a little bit more away from the final rule. I mean do you guys have any sort of opinions or expectations into the final rule? And then just Dow, you mentioned China order flow for next year that I guess I can think your comment was even the back -- the last quarter you could see some contribution but as we look in the fiscal '20 what is the expectation for order flow in China specifically off of the Class A and B licenses. Thanks again.

Dow Wilson

Yes, on the reimbursements side, I'd say, we don't really have anything to update you on. I think we're pretty thorough. There is some posted comments on our investor website on kind of where we see things. So, I don't know if there is much of an update. Obviously, we were very pleased with the performance of the business and the portfolio and especially in the U.S. this quarter, it shows you the strength of the hardware and software businesses together. New acquisitions are also hitting in both U.S. and non-U.S. markets as well. I'd say China, we don't guide to China orders number. We do have tougher comps in that market because we have had very strong double-digit growth over 2019. I think we'll remain very strong there. So, funnel looks good. We are excited about Halcyon 2.0. So, we have got some good Halcyon 1.0 momentum in China and we should get that regulatory approval coming soon. And then of course we will have Ethos launch mid-year, next year, may be late in the year, but the -- depending on how fast we can get that through. But we -- it remains our second largest market, very important market to us. We continue to invest in the team, have an outstanding team in China that's really executing and we like what we see.

Operator

Our next question is from Tycho Peterson, JPMorgan Chase and Company. Please proceed with your question.

Tycho Peterson

I want to start with the kind of interventional move here. And do you have kind of critical mass in the portfolio now or how do you think about opportunities to kind of further build that out through M&A? And can you actually quantify what the revenue contribution is in guidance? I didn't hear that in the answer to Anthony’s question.

Dow Wilson

Yes, sure. Gary, go forward.

Gary Bischoping

Yes. I think we have got a good start to the portfolio as well. I would say Tycho with what we've acquired we're working our way to delivering on the go-to-market investment in interventional oncology to be able to represent that portfolio and specifically the embolic bead business that we just got from our Boston Scientific asset acquisition.

One of the biggest things that we see going forward from opportunity perspective is software, that really enable us to differentiate the portfolio going forward, coupled with what we've acquired and we'll continue. That’s part of the investments that I outlined in my earlier comments.

So, looking forward to getting in there and driving that portfolio over time and it’s something where IOs probably were, RT was kind of two decades ago and we're positioned well to go drive that marketplace.

Dow Wilson

Yes, in terms of some of the investments we're making there, I think Gary alluded to it, but the Alicon product is largely a Chinese product. It's looking for global distribution. The Endocare product is largely a U.S. product that's looking for global distribution, and Boston Scientific product has some global distribution that we've got it now, since it was an asset purchase we got to build that capability. So, we really like the growth dynamic in the business, the margin rates are very, very good and we've got some investments to make in 2020 from kind of a selling and administrative point of view, building infrastructure and get a lot of feet on the street to sell the product and that will be our big focus. We think that's a really good grower for us looking forward.

Gary Bischoping

Yes, Tycho on your guidance question, we did outline that organic -- in our guidance that we gave organic year-on-year. So that's excluding currency and excluding the acquisitions, organic year-on-year revenue growth to 7% to 9%. So you can see in there kind of 200 to 300 basis points of a combined net impact from currency and the acquisitions.

Tycho Peterson

Okay, and then on the tariff dynamic, why is it only 11 million in the refund instead of the 48 million?

Gary Bischoping

Yes, let me walk you through that and clarify kind of the whole walk from where we were because -- and again, I'm going to talk about gross tariff impact, right. The gross tariff impact that we talked about at the outset was $55 million. Through our operational actions, as well as some of the tariff remaining, there is about $29 million that would be available for a refund, right. Now just remember the things we did on the supply chain available for a refund, right. Now just remember the things we did on the supply chain side, things we did around the legal entity structure, we avoided about $13 million of tariffs and then there's about $12 million of remaining tariffs. So again $55 million down to $29 million, that's the gross amount of tariff available for refund.

Now, I'd also remind everybody that we had some tariffs impact in Q4 of fiscal year '18. So you take that $29 million you add another $4 million from the available refund from fiscal year '18, now you get a total available refund pool, if you will, of $33 million. Of that $33 million what we did with our import-export agencies that we work through to import our products into China, we received some documentation from them that gave us comfort around booking that from an accounting perspective. However, there were some -- it's just a matter of timing of when we got the approval. There were some we didn't get that documentation from. So we did not recognize about $11 million of that $33 million in fiscal year '19. So that gets you down to $22 million. Just to be fully transparent, the last piece that we -- is running through in the P&L in Q4 from this, is that we received the exclusion on the 17th of September, that gives us a couple of weeks to shift stuff in, to be transparent about versus our guidance, we had $4 million, right, of avoidance relative to our guidance because we actually didn't incur the tariff post the exclusion date. So that gives you up to a benefit in the P&L as outlined of $25 million and then as we worked through the process we used advisors to help us work through the China tariff exclusion process and that costs us $2 million. So $25 million and that's down to $23 million inside of fiscal year '19 specifically in the fourth quarter and then that $11 million I alluded to that we did not have the actual documentation for to post that in FY '19, we'll get that in fiscal year '20. Does that clarify Tycho?

Tycho Peterson

Yes. That's helpful. And then last one for Dow on the bundle, is your base case expectation for proton to be included or excluded from the APM in the event that there is no exemption, what do you expect the impact on orders revenue and profitability for proton to be?

Dow Wilson

All I can really tell you is the proposed rule was pretty dramatic for proton therapy. There has been a chorus from the community. We're hopeful that it's changed. And at this point, your guess is as good as mine.

Operator

[Operator Instructions]. There are no further questions at this time and I will now turn the call back over to Dow Wilson for closing remarks.

Dow Wilson

Thank you, operator. In closing, we're excited to finish the year with very solid performance and have tremendous momentum, as we enter the next Fiscal Year. We're pleased that our core business is very strong. Our recent acquisitions are delivering above growth expectations and we received important tariff exclusion. Our long-term growth and value creation strategy is working and delivering growth for our shareholders. I hope you will join us at Varian's Investor Day on November 15th to New York City to learn more. As always, in everything we do, we remain committed to innovating and investing in new technologies and driving toward the ultimate victory, a world without fear of cancer. Thanks for joining us today.

Operator

This concludes today's conference. You may disconnect your lines this time. Thank you from your participation.