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Q1 2014 Varian Medical Systems, Inc. Earnings Conference Call  
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PRESENTATION  
   
Operator  
Greetings, and welcome to the Varian Medical Systems first-quarter 2013 earnings results conference call. At this time, all participants  
are in a listen-only mode.  
(Operator Instructions)  
As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Spencer Sias, Vice President of Investor  
Relations and Corporate Communications for Varian Medical Systems. Thank you, Mr. Sias, you may now begin.  
   
Spencer Sias Varian Medical Systems, Inc. - VP, Corporate Communications and IR  
Thank you. Good afternoon, and welcome to Varian Medical Systems conference call for the first quarter of fiscal year 2014. With me are  
Dow Wilson, President and CEO; Elisha Finney, CFO; and Clarence Verhoef, our Corporate Controller. Dow and Elisha will summarize our  
results, then we'll take your questions following the presentation. To simplify our discussion, unless otherwise stated, all references to  
the quarter or year are fiscal quarters and fiscal years. Quarterly comparisons are for the first quarter of fiscal year 2014 versus the first  
quarter of fiscal year 2013.  
Please be advised that this presentation and discussion contains forward-looking statements. Our use of words and phrases such as  
outlook, could, believe, can, expect, will, hope, target, likely and similar expressions are intended to identify those statements which  
represent our current judgment of future performance, or other future matters. While we believe them to be reasonable based on  
information currently available to us, these statements are subject to risks and uncertainties that could cause actual results to differ  
materially.  
Some of the important risks related to our business are described in our first-quarter earnings release, and in our filings with the SEC. We  
assume no obligation to operate or revise the forward-looking statements in this presentation and discussion because of new  
information, future events, or otherwise. Before turning it over to Dow, we're reminding those who participate in Q&A following these  
prepared remarks, to limit yourself to one question and a follow-up, just to give all participants a chance to ask their question during the  
call. We thank you for helping with this. And now, here's Dow.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Good afternoon, and welcome. We are reporting results that we believe put us on track for hitting our revenue and earnings targets for  
the fiscal year. To summarize our financial results for the first quarter of fiscal year 2014 versus the year-ago period, revenues rose 5% to  
$712 million. Our gross margin grew by 60 basis points to 43.5%. Our operating margin remained about level, even after the significant  
step-up in our R&D investments, and our net earnings grew by 6% to $0.91 per diluted share.

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We had several positive developments subsequent to the close of the quarter. These included a big win for Oncology in Algeria, our  
announcement of an expanded agreement to supply an estimated $515 million in imaging components to Toshiba and a 510(k)  
clearance from the FDA for our ProBeam Proton Therapy System. I will focus now on the operational highlights of our businesses in the  
quarter.  
Oncology Systems grew gross orders by 5% to $533 million for the quarter, with the help of strong 13% order growth in North America,  
where we saw a broad-based increase in hospital purchasing activity. Hospitals accounted for the lion's share of our orders in North  
America. We booked $19 million in orders related to agreements with two large health systems in the US to supply a total of $50 million  
in equipment and services for their consolidated networks over the next several years. The remainder of these orders we booked over the  
terms of the agreements.  
Numerous takeouts of competitor software and hardware products, including several aging Siemens and TomoTherapy machines added  
to Oncology's growth in this market. New products, including our EDGE platform and upgrades for stereotactic radiosurgery also  
contributed to our orders growth in North America. Our newly introduced RapidPlan software for fast and high-quality knowledge-based  
treatment planning got off to a solid -- a good start with several orders, including one that was coupled with a replacement of a  
competitor's accelerator.  
We continue to see signs that the Affordable Care Act is causing decision-makers at treatment centers to sharpen their focus on both  
clinical efficacy and cost efficiency. Our Oncology product line is closely aligned with this focus, and we believe our competitive position is  
stronger than ever. During the quarter, health authorities in the US recommended lung cancer screening for people deemed to have a  
higher risk of developing this disease. This recommendation could result in earlier diagnosis for a large number of cases, that could be  
treated with long radiosurgery. We are hopeful that this prompts more centers in the US to acquire and use our radiosurgery products to  
help these patients.  
Turning to markets outside North America, gross orders were relatively flat in EMEA, where weak equipment purchases were offset by  
robust gains in our service business. The sales funnel in EMEA continues to look promising, despite delays that pushed potential deals in  
several nations outside the quarter. We believe our market share in this region is stable.  
In India, TrueBeam enjoyed continued success during the quarter with five wins, including a key placement in the National Oncology  
Center at Tata Memorial Hospital in Mumbai. As an aside, TrueBeam constituted more than 60% of total high energy machine orders in  
the quarter. We have now booked more than 1,000 orders for TrueBeam and completed more than 600 installations since its  
introduction in 2010.  
We had a big win after the close of the quarter in Algeria, where we have entered into an agreement to supply the Ministry of Health with  
$51 million in equipment and service for six centers over the next five years. We expect to book about half of this order during the second  
quarter, and the remainder has delivery sites and dates are set.  
In Asia, Oncology gross orders for the first quarter declined as a result of softness in both Japan and China. Lower purchasing activity,  
competitive pressure, negative currency fluctuations, and a tough year-ago comparison resulted in a significant decline in Japanese  
orders during the quarter. In China, the first quarter gross orders fell slightly versus the year-ago period, due to delays in purchasing  
decisions. We believe these decisions will be finalized later in the year. Both TrueBeam and UNIQUE have established firm footholds in  
the China market, and we believe they helped Varian to gain share there during the quarter.  
In Brazil, we had another quarter of strong order growth, even though we have not yet booked any orders from the tender we won for 80  
machines. We expect to book orders relating to this tender as sites and shipment schedules are set. In the meantime, clinicians have  
continued to show interest in upgrading purchases to deliver IMRT, which is now being formally reimbursed by private insurers, with the  
government likely to follow. In total, gross orders for Latin America and the rest of the world declined by 5% versus the year-ago quarter.  
Service represented a record 40% of Oncology gross orders in the quarter, and continue to be an important growth driver for the  
Company. The service business expanded by 15% during the quarter, with particularly strong growth in EMEA.

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Turning to X-Ray Products. The timing of order placements resulted in the first quarter gross orders decline of 19% to $108 million.  
Shortly after the close of the quarter we booked over $20 million in orders for panels and tubes. We saw strong demand for our new  
mammography and wireless panels and continued interest in our bundled panel and workstation solutions. Separately, we are  
announcing the execution of an expanded three-year agreement to supply an estimated $515 million of imaging components to Toshiba.  
Orders will be booked over the period of the agreement. As was announced earlier, we are adding 120,000 square feet to our production  
facility for manufacturing imaging components in Salt Lake City.  
Before leaving X-Ray Products, I want to take a moment to recognize the contribution of Bob Kluge, who is retiring in February from his  
role as head of Varian's X-Ray Products and Security and Inspection Products businesses. Bob built X-Ray Products' revenues from $95  
million in 1993 to $546 million at the end of 2013. We are indebted to Bob for his strategic vision, intelligent management, and  
consistent execution, that have propelled Varian to a leadership position in the global imaging industry. He set the stage for continued  
success and growth in our components businesses.  
At the same time, I'd like to take this opportunity to welcome Sunny Sanyal to Varian. Sunny, who is a former President of McKesson  
Provider Technologies will replace Bob, effective February 3. I am sure Sunny successfully build on the solid foundations laid by Bob.  
The Company's other category, which is comprised of the Security and Inspection Products businesses, the Varian Particle Therapy  
business, and the Ginzton Technology Center, recorded gross orders of $14 million in the first quarter. Varian Particle Therapy reached a  
major milestone after the quarter ended, when our ProBeam Proton Therapy System received 510(k) clearance. This sets the stage for  
commencement of patient treatments, when systems are fully commissioned.  
With this clearance, we believe Varian has the most advanced Proton System on the market. With our unique scanning beam technology,  
ProBeam has the capability to deliver intensity-modulated Proton Therapy, or IMPT, with the precision needed to capitalize on the power  
of protons. It also integrates some of Varian's most advanced technologies, including exciting elements of our TrueBeam user interface,  
as well as our image guidance and motion management tools. As it stands, we now have contracts to install our ProBeam system at  
several centers around the world, including four in the United States, one in Saudi Arabia, and one in Russia.  
Now, I will turn it over to Elisha.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Thanks, Dow, and hello, everyone. While Dow has already covered gross orders, I want to briefly talk about the constant currency growth  
rates for the quarter. Overall, currency exchange rates have virtually no effect on the Company's total order growth in the quarter.  
However, exchange rates had a significant impact within some of our regions. For example, the yen weakened significantly from the  
year-ago quarter, which resulted in Oncology gross orders in Asia being down 7% in dollars, and even with the year-ago quarter in  
constant currency. By contrast, currencies strengthened in Europe. Oncology's gross orders in EMEA increased 2% in dollars and fell 1%  
in constant currency. Oncology orders in our rest of world region declined by 5% in dollars, and by 1% in constant currency.  
The Company ended the quarter with a $2.8 billion backlog, down 1% from the year-ago quarter, including a roughly $50 million decline  
in Proton Therapy backlog. As a reminder, both gross and net orders are shown in the consolidated statement of earnings attached to  
our earnings release. First-quarter revenues for the total Company increased 5% in dollars and 6% in constant currency. Oncology  
posted a 3% gain in revenue during the quarter, with a significant increase in revenues outside of North America.  
Service revenues grew by 11% over the year-ago period, and represented a record 40% of Oncology revenue in the quarter. X-Ray  
Products posted first-quarter revenue growth of 9%, with both tubes and panels contributing about equally. Revenues from businesses  
in the Other category increased by $4 million, due to continued progress on our Scripps, Saudi, and Russia Proton Therapy projects.  
Total Company gross margin for the quarter was 43.5%, up 60 basis points from the year-ago quarter, with favorable product mix and  
lower quality cost in both of our major businesses. Oncology Systems gross margin improved by 1 point to 44.9%, helped by the  
continued growth in our service business, as well as improved quality cost. While we are pleased with the margin performance in the

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quarter, we continue to believe that Oncology can sustain long-term gross margins in the 43% to 44% range. X-Ray Products' gross  
margin for the quarter was up more than 0.5 point to 42.2%, due to improved quality cost in both tubes and panels. We continue to  
believe that this business can sustain long-term gross margins in the low 40% level.  
First-quarter SG&A expenses were $110 million, or 15% of revenues, a slight improvement as a percentage of revenue from the year-ago  
quarter, when we incurred a $4 million restructuring charge related to an enhanced retirement program. First-quarter R&D expenses  
were $58 million or 8% of revenues, up more than 1 point as a percentage of revenue, as we continue to invest in our global strategies  
and execute on our product roadmap.  
Moving down the income statement. First-quarter operating earnings totaled $142 million, up 3% from the year-ago quarter in dollars,  
and almost even with the year-ago quarter at 20% of revenue. Depreciation and amortization totaled $16 million for the quarter. The  
effective tax rate was up slightly from the year ago period to 31.2%. Fully diluted shares outstanding decreased from the year-ago  
quarter to 107.4 million, due to our ongoing share repurchase program. Diluted EPS was $0.91 for the quarter.  
Turning to the balance sheet. We ended the quarter with cash and cash equivalents of $971 million, debt of $481 million, and  
stockholders equity of $1.7 billion. DSO at 94, was up 7 days from the year-ago quarter with an approximate 10-day impact from the  
Proton Therapy business, where extended payments are not yet due, but revenue has been recognized under the percentage of  
completion method.  
First-quarter cash flow from operations was $43 million, lower then net income, primarily due to working capital increases in accounts  
receivable and inventory, versus the year-ago quarter. Primary uses of cash were approximately $155 million towards the repurchase of 2  
million shares of stock. At the end of the quarter, we had 6 million shares remaining under the existing repurchase authorization, that  
extends through calendar year 2014. Now I will turn it back to Dow for the outlook.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Thanks, Elisha. The Company is executing its marketing and operational strategies effectively, and we believe we are on track for hitting  
our fiscal year 2014 growth targets. For the fiscal year, we continue to believe that total Company revenues could increase by about 6%  
to 8% over the prior fiscal year.  
Net earnings per diluted share for the fiscal year could be in the range of $4.22 to $4.34. We expect total Company revenues for the  
second quarter of the fiscal year 2014 to be about equal to the year-ago quarter, when Proton revenues were high. Net earnings per  
diluted share for the second quarter could be in the range of $1 to $1.04. We are now ready for your questions.  
QUESTIONS AND ANSWERS  
   
Operator  
(Operator Instructions)  
Our first question comes from Jeff Johnson from Robert W Baird.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Dow, I was wondering if I could start with you. Two quick questions and then a follow-up for Elisha.  
For you, Dow, any update on the short-cycle business? Obviously, that was a shortfall last quarter. Maybe how that bounced back, if it did  
it all in the quarter.  
Also, an update maybe on tone that you are hearing from the hospitals. Obviously, the North American order number looked better this  
quarter, but do you think that's being driven by reimbursement? What are your conversations in the field telling you to follow through has  
been since the better reimbursement rates were finalize?

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Dow Wilson Varian Medical Systems, Inc. - President & CEO  
I'll answer the North America question first. The North American business is obviously very good. We are very pleased with that. 13%  
orders growth in North America. That's the strongest quarter we've had in over two years, so we like that a lot. As I mentioned in the  
script, we did see a couple large deals in the quarter, and we think that we will continue to see -- as the market consolidates, that we will  
continue to see some large orders.  
I'd say the short cycle business is about the same. I wouldn't say that has ticked up. We did see some nice edge in RapidPlan activity, so  
that's the good news.  
The new products are taking -- we did see some strong competitive takeouts. I think it's too early to tell whether this is -- I frankly don't  
think it's reimbursement driven. Maybe there was a little bit of pent-up demand as people watched Washington make some decisions,  
but I think it is still a little early to tell what the long-term impact is going to be.  
I guess our gut now is it's still in the mid-single digit growth scenario, which is better than we have done the last year or two, so we like  
that. The good news is, we still have a lot of product in the installed base that is aging. We've got 1,100 LINAC installed base in the US  
that is over 10 years old, so we can go after that.  
And then the other thing that we are curious to see how it impacts the market, it will be positive in the long-term, certainly, is this new  
lung screening mandate that has come down. Clearly, the earlier we can identify a lung lesion, the more appropriate it is for radiation.  
That will also have a positive impact on the configuration that we sell, because folks are going to want SBRT capable, motion managed  
capable machine.  
So that is kind of the tour of North America.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
That's helpful. When you say mid single-digit, you still see it that way from a growth perspective? Dow, you mean worldwide or you save  
that for US?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Right now for both.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
For both. Okay. Elisha, just a follow-up for you. On the gross to net adjustment in oncology, I think last quarter you talked about that  
typically being a 3% to 5% adjustment. This quarter it was about that, a little north of $40 million, bigger than we were thinking, so are  
we still seeing you take more out of the backlog on the oncology side, more cancellations. Was that than normal, or how do you explain  
that?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
No, Jeff. This is very normal for a quarter. We have about $40 million of dormancies and cancellations, the lion's share of that being  
within oncology systems, about a $5 million FX adjustment. 3% to 5% is a backlog that we typically would deliver, on about 95% of  
backlog. If you do the math, I think it's 1.3% or 1.4% of backlog right now, so we're in that range.  
Really, I think protons impacted at our backlog and protons is down $50 million. If that had been flat year over year, we would be well  
within the 1% of backlog range. That is very typical.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Would you give a net order for oncology, a net constant currency growth rate for the quarter? It looks like in the table we only get a  
reported, I believe.

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Elisha Finney Varian Medical Systems, Inc. - CFO  
Constant currency is the same. The yen and the euro were almost an exact offset in both gross and net.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Fair enough. Thank you.  
   
Operator  
Thank you. Our next question comes from Steve Beuchaw from Morgan Stanley.  
   
Steve Beuchaw Morgan Stanley - Analyst  
One housekeeping question, sorry if I missed it. Could you give us the North American and international net order figures for oncology?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
No. What we gave was the geographic breakdown on gross orders. The lion's share of any impact of net impacts North America.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Okay. So the lion's share of the $40 million -- I'm sorry, $43 million, maybe 80%, 90% of that was on North America?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Correct.  
   
Steve Beuchaw Morgan Stanley - Analyst  
So we can get to the number that way. I wonder, Elisha, sorry, two questions for you. One, on gross margin, as you look at the quarter,  
clearly above what you have called out for the year, does it imply that there is maybe some upside to the view that the right number for  
the full year is $42 million for the full company and clearly there is an embedded question there, which is could you speak to the impact  
of what proton means for gross margins and operating margins over the balance of the year?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes. Steve, clearly, we were very pleased with the margin performance in both of our core businesses this quarter. That said, it is early in  
the fiscal year. We still have currencies moving around.  
What really helped both businesses this quarter was strong service in oncology, and we have lower quality cost in both our tubes, panels,  
and oncology business. We had a much higher percentage of revenue outside of North America, but that said, the revenues in our BRIC  
countries were down.  
So when I look at all of that together, obviously, we are pleased. The product cost reductions are coming through as we anticipated, but  
the geographic mix for the balance of the year could impact that. So at this early stage, I'm holding to that 43%, 44% for total oncology.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Okay. Thanks so much.  
   
Operator  
Thank you. Our next question comes from Amit Hazan from SunTrust Bank.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Maybe the first question on the service business, given it was a bigger percent this quarter, and continues to grow nicely. I'm just  
wondering if you can lay out for us, again, as we start out this new calendar year, how much visibility you have that the service business  
can continue to grow double digits.  
If you can walk me through some of the underlying factors you are seeing now, having grown double digits for quite some time, and also,

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if you can walk through what that means for service gross margin dynamics. If 50%-plus gross margin is sustainable for service, if it  
improves further?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Yes, I think the margin rate one is an easy one. We do believe that will continue. There's no reason to see that decrease at all.  
The number one analytic that we look at inside, is install base out of warranty. Our install base out of warranty in service continues to  
grow.  
I think as we sat on the call somewhere middle of last year, we basically have the TrueBeam coming out of warranty, one per workday  
this year, and that is driving our growth. We are seeing more TrueBeams come out of warranty, in particular outside of the US, so a lot of  
that early TrueBeam volume went into the US, and now we are kind of moving into the bubble outside of the US from an installed base  
out of warranty perspective.  
We are also seeing a richer contract mix that comes with that. The TrueBeam pricing is better, and we also -- the service team I think has  
done a very good job of going after software service agreements, as well as driving capture rates -- contract capture rates in the business.  
So we see this double-digit scenario in the service business continuing.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
All right. And the second question for me is on China. The tone has changed a lot since just last quarter, and it is within the same  
calendar year, really.  
So I'm just wondering if you can give us a little more color on what you think is going on in that country right now, in terms of orders? We  
saw GE comes through with some weak numbers, as well. And so are you seeing something change there, in terms of how they are  
looking at purchase of capital equipment and why you think it's towards the back end of the year?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
We have seen a slowing of purchasing activity in China. We think it is temporary. Our share was up in the quarter, as I mentioned, and  
we're pleased to see that. Our funnel is very strong in China, so we think it is just a timing issue.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
All right. Very good. Thanks.  
   
Operator  
Thank you. Our next question comes from Jeremy Feffer from Cantor Fitzgerald.  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
I wanted to -- first, just want to double check that $19 million of US orders to a couple hospitals. Were those new customers for you, or  
were those replacements of existing systems?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Let's see. I think it's a little bit of both. Both of these are consolidated customers, so there has been some acquisitions.  
I know the parent organizations were both Varian customers, but in their consolidation, there is some competitive equipment that they  
had consolidated in, that we will be replacing. That $19 million is the amount that we actually booked in the quarter.  
The deals were, together they were $50 million. As we get a little more visibility on the sites and the dates, we will be booking the other  
$31 million of those orders.

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Jeremy Feffer Cantor Fitzgerald - Analyst  
Okay. I wanted to come back to Japan. You mentioned you are seeing -- I mean, beyond the obvious, currency issues, you've mentioned a  
bit of a tougher competitive landscape. Can you provide a little more color there, and how you see that market developing over time?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
I think it is -- the way we kind of view it here is, we had a tough comp. We had a lot of accelerated purchases in Q1 of last year, with a little  
budget acceleration that they were doing in Japan.  
We also had some yen impact year-over-year, and so the market is soft. We still think the long-term growth in the market remains very,  
very good. Less than 30% of patients in Japan get radiation as part of their cancer therapy. In Western Europe and the US, that number is  
over 50%, 50% to 60%. We think that Japan remains of a good long-term growth market.  
We do have a lot of opportunities in the Melco installed base, which is gradually replacing -- for those of you don't know the history there,  
we bought that installed base a dozen years ago or so, and those products are coming to the end of their life, and we are seeing a nice  
replacement opportunity there.  
Over the last year, our share has been stable in Japan. We have a very high share there, and we think that will continue in the long-term.  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
Okay. Last one quickly. Any updates on proton reimbursement, now that you have ProBeam approval? Are you getting any thawing in the  
reimbursement?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
The hospital reimbursement rate went up, as part of the reimbursement package that was approved in December. Hospital proton  
reimbursement went up.  
Free standing reimbursement in protons is negotiated with each carrier. They typically kind of follow the federal hospital guideline in  
proton, so we think this is encouraging news. But it is not -- it still has to be negotiated center by center.  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
Okay. Thank you very much.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Carrier by carrier. Thanks.  
   
Operator  
Thank you. Our next question comes from Jason Wittes from Brean Capital.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Just two quick ones here. One, the US order rate, it sounds from what you said that the hospitals purchasing dynamics haven't really  
changed from the last few quarters, but the real driver this quarter was a big lump order. Is that the right way to think about it?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
In fact, no. It was only $19 million of that huge number, so we got a nice $50 million order, but we actually only booked $19 million of it.  
So we did see broad-based strengths in the US market. There might have been a little bit of timing, because people waiting for some  
certainty with the reimbursement decision. We have a little bit of pent-up demand.  
You heard me say our forecast on the year is that this market is going to be a mid-single-digit market. That would be great news for us.  
That has not been a mid-single market for a while, so we would love to see that stability, and we are thrilled with the start that we have in  
Q1, and our funnel looks pretty good.

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Jason Wittes Brean Capital, LLC - Analyst  
Okay. And then on China, just to clarify on that as well, it sounds like you are optimistic that you have a recovery, but it does sound like  
that will be -- it sounds like that will be more US-centric than I would have expected this year, though. If I think about the moving pieces,  
meaning the US looks a little stronger than it was an China. Looks like it's going to be back-end loaded. Is that a fair way to look at it?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
Stepping back at the highest level, I think the oncology business is in the mid-single-digit range. The imaging components business is in  
the double-digit range. Proton is the wild-card. With got a pretty good proton funnel, but our long-term growth in the mid to high  
single-digits is a pretty good forecast for what our markets are doing.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay. Great. Thank you very much.  
   
Operator  
Thank you. Our next question comes from Amit Bhalla from Citigroup.  
   
Amit Bhalla Citigroup - Analyst  
Dow, I am just trying to put the 2Q guidance with what you are saying about what is taking place in the regions. What is clear is that  
underlying your full-year guidance is China being back-end loaded. But your second-quarter guidance, can you walk through some of the  
moving parts? Clearly, it's coming in a little bit lighter than where we were expecting, both on top line and earnings.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Sure. For Q2, sales up 1% to 2%, and that's primarily driven by, the proton therapy business will be down significantly versus a year-ago  
quarter where we started recognizing revenue under both the Saudi and Russia projects, as well as significant Scripps revenue.  
In the second quarter, oncology, we are expecting, again, to be up in the low single-digit, x-ray up in the high single digits. With the  
second half going to really be driven above that level by the proton business, where we are continuing to make progress, but it is just not  
done at this point on financing. It is going well, from what we hear, but we won't be able to book revenue until that is completed on the  
Maryland project.  
   
Amit Bhalla Citigroup - Analyst  
And I guess a question for you, Elisha, on the product quality costs, that are coming in better. You mentioned that both in the oncology  
business, you mentioned it in the x-ray business. Can you put some quantification around that, and what exactly have you improved, and  
why can't that just continue straight on out?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Well, we just give variations in any given quarter. It relates to scrap, and warranty, and rework and, of course, retrofit costs. It was just a  
perfect storm, if you will, on the positive side this quarter.  
We are hoping that holds, but, again, it's just too early in the year to say that it's going to be that good for the remainder of the year. We  
always get quarterly fluctuations. But, again, very pleased with the performance in the quarter.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
It is a focus for us. Some of them come in lumps, which gives us some of issues with the predictability issue. But as far as yield and scrap  
goes, on the overall quality, it's a major initiative for us across the entire business.  
   
Amit Bhalla Citigroup - Analyst  
Okay. Thanks.

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Operator  
Thank you. Our next question comes from Anthony Petrone from Jefferies.  
   
Anthony Petrone Jefferies & Co. - Analyst  
A couple for you, Dow on oncology, one on x-ray, and just a numbers question for Elisha. You mentioned that EU orders were pushed out  
in fiscal 1Q to 2Q. I'm just wondering if you can maybe quantify that, for one.  
And then on the Toshiba contract, how does that stack up versus prior contracts? Is it a bigger contract? Is pricing favorable on that, and  
how additive is that to the x-ray outlook?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
First of all, coming to Europe, we did see strength in the southern Europe, which surprised us. That was not something we were  
expecting. The France thing and Italy were strong.  
We were expecting weakness in Northern Europe. We had a very large order last year in the UK, which I think we'll be explaining a little  
bit of that all year in Northern Europe. Central Europe was relatively flat. We had good performance in India, and our service business  
performed very well in Europe. So Northern Europe and Central Europe was where we were down and India and Southern Europe is  
where we were up.  
The Toshiba contract and the x-ray business, we are thrilled that, obviously, it has been a terrific partner, and really driven the growth in  
our x-ray components business for the last several years. The contract value-- the agreement value is about $515 million, which is up  
about 10% from the last time. So it's part of what gives us this confidence in calling a double-digit scenario in our components business.  
   
Anthony Petrone Jefferies & Co. - Analyst  
That's helpful. And then quickly for Elisha. You mentioned also in your prepared comments a $50 million decrease in proton therapy  
backlog, so maybe just a clarification on where that was, which order.  
And then on the $51 million emerging market deal that Dow referenced in his comments, is that similar pricing and margins relative to  
Brazil? Is that the way we should be thinking about that revenue?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
On the proton therapy backlog, really, it's the cumulative number over the last 12-month period, when I'm looking at  
quarter-over-quarter, and it is just simply because we are getting very close on some proton orders, but we have not yet booked those  
orders, because it hasn't met all of our order booking guidelines, and so we have been recording significant revenue over the last 12  
months, particularly as Scripps has progressed, and we have not booked an order over that period.  
Once an order is booked, that backlog should come back nicely for our proton therapy business. With respect to the Algeria deal that we  
mentioned, it is at significantly higher margins, and it is at significantly higher featured equipment with TrueBeam STX, and a lot more  
software content, so much higher than the Brazil margins.  
   
Anthony Petrone Jefferies & Co. - Analyst  
That's helpful. Thanks.  
   
Operator  
Thank you. Our next question comes from Tycho Peterson from JPMorgan.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Elisha, can you comment on the reclassification on the products and services for revenues at the bottom of the release? I'm just not  
entirely clear what drove that.

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Elisha Finney Varian Medical Systems, Inc. - CFO  
Sure. So we average, if you look at any given quarter, we average about $25 million in parts sales. Historically, we have put that into our  
products category and not talked about it as part of our service business. We just simply did a reclass because it is more consistent with  
our we talk about our service business to the Street. Also, how we monitor and look at performance in our product lines and businesses  
internally and, frankly, how incentive plans are structured, and just wanted to make sure we had all of that perfectly aligned. Simply a  
reclass of that $25 million a quarter roughly of parts businesses, which represents less than 10% of our total service business.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. And then on the margins, if we look this quarter, 6% earnings growth, 5% top line. I know you talked at the analyst day in  
December about 25 to 50 basis points of leverage per year.  
Why couldn't that be more? I understand supply chain is part of it, but there have to be other parts of the balance sheet where you can  
drive additional leverage. Can you maybe just talk to your level of commitment to driving leverage in the model?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Absolutely. For this fiscal year, and really what is driving, and we're going to be down maybe half a point roughly on operating margin,  
and that's driven by, really, the proton therapy business. We are expecting significant revenue out of protons this year.  
If you don't mind, I failed to answer Steve's second question, which was the margin on proton. If you take the total revenue for the year, it  
will be at roughly a 15% margin. As we mentioned, it will be somewhere between $100 million and $150 million of proton revenue,  
depending on the timing of projects.  
I just picked the mid-point at $125 million, so we do have between that 6% and 8% some significant variability, if you will, around the  
proton business. Secondly, on leverage, we have made a conscious decision to take the R&D up this year. It will go up about 1 full  
percentage point. That is just so that we can continue to execute on a very robust product line.  
So those two factors are what's driving it. If it weren't for the proton significant increase in sales, I believe we would be getting leverage in  
the P&L.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Last one. Dow, you called out software. Can you maybe give us a sense as to how much share you've got on that side of the market, and  
are you locking in hardware sales at this point with RapidPlan.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
As I mentioned on the call, we did see a conversion of the hardware socket with RapidPlan, so we were glad to see that. We think that  
there will be more of that. We did see a lot of pure software conversions of people converting either treatment planning or oncology  
information systems install base to either ARIA or Eclipse. That has been a multiyear trend.  
We think we've been winning more than we have been losing, and I'd say especially with the strength of RapidPlan coming out of Astro,  
we have got a nice lead in treatment planning, and with Rapid Plan, I think it is really hitting a chord with people. Whether you are the  
best at treatment planning or new in the business, RapidPlan is going to help you. I think customers are seeing that, and it is really  
driving the conversation for both software and hardware.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. One last quick one, if I can. The commentary on China before. As we think about the back half of this calendar year, are these going  
to be larger tenders, or is it a lot of singles and doubles?

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Dow Wilson Varian Medical Systems, Inc. - President & CEO  
There's always going to be the PLA tender, but otherwise, I don't think the structure of the market -- it might be consolidating a little bit,  
but I don't think at least at this point anything -- I don't see any material change in terms of structure of the China market. It happens  
customer at a time and province at a time.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. Thank you.  
   
Operator  
Thank you. Our next question comes from David Roman from Goldman Sachs.  
   
Unidentified Participant - Analyst  
This is actually Amy in for David Roman. Thank you for taking the question.  
I was just wondering, looking at your guidance for 2Q, and going through the numbers, that is getting me to an average growth rate in  
the back half of about 9.5% to 13.5% for both revenue and earnings. So could you just walk me through what you are seeing that gets you  
there that makes you confident that you can deliver that in the back half?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes. Again, this is going to be largely dependent on the timing of our proton therapy revenue, where we are going to see a huge increase  
in proton revenue once our customer gets the financing completed on the Maryland project. We're coming to the end on Scripps in terms  
of revenue recognition, but Russia, Saudi, and Maryland are all in the queue for the second half of this year, to have significant revenues  
with them.  
Again, that is really what is driving the topline growth above that midpoint that Dow talked about. If I just took our core businesses,  
again, oncology is going to grow in the low single-digit range, call it the 3% to 4% range. Our x-ray products topline should grow near  
the low double-digit range, with the balance coming from huge increases in proton.  
   
Unidentified Participant - Analyst  
Okay, great. And then maybe just as a follow-up, with so much of the revenue coming from proton in the back half, how are you thinking  
about gross margins? Especially, you were saying that you expect them to still reach that 42% number. So what are you seeing in the  
back half that gets you there on margins?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes. Again, we are seeing that the oncology and x-ray margins are going to hold well within the ranges that we have talked about. The  
proton gross margin is coming up from prior years, but the total proton business this year, we think will average around 15%.  
What that equates to is the FY13 total Company gross margin was 42.5%, and, again, should be down just slightly for the total business  
for this fiscal year. We have one more quarter of excise tax in oncology, and then the proton revenue at a much lower margin, driving that  
slight decline.  
   
Unidentified Participant - Analyst  
Okay, great. If I could just squeeze in one more quick one. I was wondering if you have any guidance around the share count for the full  
year for 2014?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
No, other than if you look historically, we've bought between 1 million and 2 million shares per quarter. We do have an existing  
authorization in place for calendar year 2014 for 6 million shares, so we look at this opportunistically, based on US cash, interest rates,  
share price, all of those things. But you should assume that we will continue to purchase through the balance of the year.

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Unidentified Participant - Analyst  
Okay, great. Thank you so much.  
   
Operator  
Thank you. Our next question comes from Toby Wann from Obsidian Research Group.  
   
Toby Wann Obsidian Research Group - Analyst  
Elisha, a quick question on the R&D and percent of revenue. Is it fair to assume that it's going to be about 8%, in that 8% range, on a  
go-forward basis, given the product pipeline that's coming up?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Well, again, we are seeing significant increases in the oncology R&D, but because of that proton revenue increase that I have been  
talking about, it should be about 7% of revenues both this year and last year. If you were to strip out the increase in proton revenue, yes, it  
would go up by about a point.  
   
Toby Wann Obsidian Research Group - Analyst  
Okay. That's helpful. And then cash balance in the US was of the $971 million, how much of that is outside of the US?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Most of it.  
   
Toby Wann Obsidian Research Group - Analyst  
Okay. Fair enough. That answer is precise enough for me. That will work That's all I have. (laughter)  
   
Operator  
Thank you. Our next question comes from Charley Jones from Barrington.  
   
Charley Jones Barrington Research Associates, Inc. - Analyst  
So I just wanted to start with market growth. I was wondering if -- you say your US growth is driven more by the market improving, or are  
you making some competitive inroads?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
I think our share is stable to up a hair. It's not up dramatically by any stretch, but our share has been at least what it has been historically,  
so I think most of this is, at least that we saw in Q1, is a pretty good market.  
We haven't seen Elekta's results yet, and we won't see them for another month or so, but that's kind of our gut. When you look at the last  
rolling 12 months, which is probably a better way to look at it, our share is stable to a hair up.  
   
Charley Jones Barrington Research Associates, Inc. - Analyst  
The reason for the question is, I'm thinking after the loss of Brazil, the change in reimbursement, maybe they would get aggressive, so I'm  
wondering if they've changed their behavior a little bit. As a follow-up to that, are you seeing tomotherapy at all anymore?  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
As I said, we did have some takeout of tomotherapy units in the quarter. They are still out there. They win a few, but I think RapidArc and  
volumetric arc therapy, from Elekta have also made it very tough for the competitive differentiation of tomotherapy. There was another  
piece to your question.  
   
Charley Jones Barrington Research Associates, Inc. - Analyst  
Just more on Elekta. (multiple speakers)

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Dow Wilson Varian Medical Systems, Inc. - President & CEO  
The overall pricing environment is good. We have seen stability in pricing.  
   
Charley Jones Barrington Research Associates, Inc. - Analyst  
If I could just squeeze one more in. In general, would you say US healthcare reform is kind of a non-issue as far as uncertainty within the  
purchasers? You've got better reimbursement for radiosurgery to boot.  
   
Dow Wilson Varian Medical Systems, Inc. - President & CEO  
The good news is the short-term environment look too bad. the reimbursement news, at least, stabilized the investment environment for  
people over the next year.  
I think there are some question about where it ends up in the 2016/2017 time period, as legislation drives to more accountable care  
organizations and things like that. And I think there is -- I think our customers still have some uncertainty about that. I think what we are  
seeing is a reinforcement of what our customers are looking for.  
They are looking for real clinical value. If you have got product that has a demonstrated clinical value, and can help drive efficiency, you  
win. So I think both radiation and Varian have a very good story in the value that we drive in healing patients.  
   
Charley Jones Barrington Research Associates, Inc. - Analyst  
Thanks for the questions.  
   
Operator  
Thank you. I will now turn the call back over to our speakers for closing comments.  
   
Spencer Sias Varian Medical Systems, Inc. - VP, Corporate Communications and IR  
Thank you for participating. A replay of this call can be heard on the Varian investor website at www.Varian.com/investor, where it will be  
archived for a year.  
To hear a telephone replay, please dial 877-660-6853 from inside the US or 201-612-7415 from outside the US and enter confirmation  
code, 424753. A telephone replay will be available through 5:00 PM Friday, January 24. Thank you.  
   
Operator  
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.  
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Amit Hazan SunTrust Bank - Analyst  
   
Jason Wittes Brean Capital, LLC - Analyst  
   
Toby Wann Obsidian Research Group - Analyst  
PRESENTATION  
   
Operator  
Greetings and welcome to the Varian Medical System's second-quarter FY14 earnings results conference call.  
(Operator Instructions)  
I would like to turn the conference over to Spencer Sias, Vice President, Investor Relations and Corporate Communications. Thank you,  
Mr. Sias; you may begin.  
   
Spencer Sias Varian Medical Systems Inc - VP IR and Corporate Communications  
Good afternoon, and welcome to Varian Medical System's conference call for the second quarter of FY14. With me are Dow Wilson,  
President and CEO; Elisha Finney, CFO; and Clarence Verhoef, our Corporate Controller. Dow and Elisha will summarize our results and  
then we'll take your questions following the presentation. To simplify our discussion, unless otherwise stated, all references to the  
quarter or (technical difficulty).  
Please be advised that this presentation and discussion contains forward-looking statements. Our use of words and phrases such as  
outlook, could, believe, can, expect, will, hope, target, likely, and similar expressions, are intended to identify those statements which  
represents our current judgements on future performance or other future matters. While we believe them to be reasonable based on  
information currently available to us, these statements are subject to risks and uncertainties that could cause actual results to differ  
materially.  
Some of the important risks relating to our business are described in our second-quarter earnings release and in our filings with the SEC.  
We assume no obligation to update or revise the forward-looking statements in this presentation and discussion because of new  
information, future events, or otherwise.  
Before turning it over to Dow, let me remind you that we are holding a mid-year review and webcast for investors in New York on  
Tuesday, May 6. Details are available on our IR site. Now, here is Dow.  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
Welcome. In the second quarter of 2014, we generated good order growth, revenues that came in slightly ahead of expectations, and  
solid margins before accounting for the settlement of patent litigation. If we could summarize our financial results for the second quarter  
versus the year-ago period : revenues rose 1% to $779 million. Our gross margin grew by nearly 60 basis points to 42.2%. Net earnings  
came in at $0.88 per diluted share, including a $0.16 per share charge related to the settlement of the seven-year patent dispute with  
the University of Pittsburgh regarding our Respiratory Gating Technology. And our quarter-ending backlog rose to $2.8 billion with the  
help of about $60 million in proton orders.  
Turning to operational highlights, Oncology systems grew its gross orders by 6% to $613 million, with strong gains in Latin America and  
Australia, 3% increases in both North America and EMEA, and a 3% decline in Asia where the weak yen offset constant currency growth

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of 3%. In North America, we see hospitals continuing to consolidate, and hospital administrators focussing increasingly on system  
purchases that enable cost-efficient quality care with the best clinical practices.  
This is our strong suit. As an example, we entered into two new multi-year agreements with large hospital systems to supply them with  
packages of accelerators, accessories, software, and services. Portions of these agreements were booked in the second quarter, and the  
remainder will be booked over the five- to seven-year terms of these agreements. We have more of these types of deals in the sales  
tunnel.  
In EMEA, we booked roughly half of the $51 million multi-machine Algerian order that we announced early in the second quarter. We  
also booked sizeable orders in Italy, Spain, and Switzerland. Subsequent to the close of the quarter, we exhibited at the ESTRO meeting  
in Vienna, where attendance was up and where we saw heavy booth traffic with a lot of interest in our Rapid Plan software and in  
radiosurgery solutions.  
In Asia, Japan had double-digit order growth with a key win in Hiroshima, and good replacement business from conversions of aging  
Siemens and Mitsubishi units. We grew gross orders slightly in China. In the meantime, interest in radio therapy is rising in other Asian  
markets, including Vietnam, the Philippines, and Myanmar.  
Growth in rest of world, including Latin America and Australia, was particularly strong during the quarter. In Brazil we received orders for  
several TrueBeam units, as well as some software systems which were outside of the 80-machine tender that we won earlier this year.  
We have not yet booked orders relating to this tender. Columbia, Bolivia, Peru, and Ecuador were also active during the quarter. We  
received numerous orders in this region for our cost-efficient, low energy unique accelerator with Rapid R capability.  
In Australia, we received a sizeable order from the Genesis Care Network that included 10 TrueBeams that will be delivered over the next  
three years. In total, TrueBeam comprised more than 60% of our high-energy accelerator orders during the quarter. This product has  
generated more than $2.5 billion in gross orders since its introduction just four years ago.  
Siemens' replacement business contributed to our oncology order growth in North America, EMEA, and Asia. This strategic partnership  
has gained momentum and is working well for our Business. Siemens conversions have accounted for more than $80 million in gross  
orders this year. We also landed new business in the Philippines working with Siemens. Thanks to their help, Varian will supply  
accelerators to the first three of eight planned new radio therapy centers at some of the country's leading hospitals.  
We also made good progress during the quarter with our EDGE radiosurgery offerings. We booked nearly 100 orders for EDGE upgrades  
and systems. We reached an important radiosurgery milestone during the quarter when Champalimaud in Portugal commenced the  
world's first treatments with our EDGE platform.  
Champalimaud's first EDGE radiosurgery patient was a 63-year-old woman with operable stage 1 non-small cell lung cancer. Physicians  
there also treated a 67-year-old man with two metastatic brain tumors. He received radiosurgery for both tumors in a single session that  
took less than 10 minutes. To our knowledge there isn't another system that matches the combined precision and treatment time of our  
EDGE radiosurgery platform. Henry Ford Hospital in Detroit recently became the first center in the United States to commence treating  
patients with EDGE radiosurgery.  
Turning to oncology services, we expanded gross orders in this part of the business by 11% during the quarter. Year to date, service orders  
represented almost 40% of the total oncology gross orders.  
As was reported earlier, we completed our acquisition of Velocity assets, including software designed to help clinicians make more  
informed treatment decisions by organizing patient data and making it available in one place. This acquisition supports our commitment  
to providing clinicians with tools for data-driven clinical decision-making. The Velocity software enables healthcare professionals to use  
oncology patient images and data to plan and assess treatments, collaborate with colleagues, and share clinical knowledge. We expect  
this will play an important part in the movement towards evidence-based medicine.

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I'm pleased to say that the skilled clinicians who developed this software are joining Varian to help develop and commercialize this  
product on a broader scale. This software is already in use at over 200 centers around the world, and we believe we can achieve faster  
and deeper market penetration for this product to our global sales, marketing, and service network.  
Let me turn to our new imaging component segment, which is comprised of our X-ray flat panel detectors, tubes, and security products.  
We consolidated these product lines into a single segment as a result of an organizational change that put them under the management  
of Sunny Sanyal, our new Imaging Components President.  
Gross orders for this segment increased 14% to $205 million, driven exclusively by very strong demand for our panels. As we mentioned  
on our last call, this business benefited to some extent from catch-up orders that slipped from the first to second quarter of this fiscal  
year. X-ray equipment manufacturers have designed our panels into a new [sealine] surgical imaging system, a new digital  
mammography system, and into a digital radiography system that was the winner of a sizeable public tender in India. As sales of these  
systems ramp up, they should contribute to the continued growth of our panel business.  
Gross orders for X-ray tubes and security products were soft compared to the year-ago quarter. Two purchases were slowed in part due  
to improved quality and life cycle. Demand for security products remains healthy, but competition and pricing pressure impacted the  
security business during the quarter.  
The Company's other category, which is comprised of the Varian Particle Therapy business and the Ginzton Technology Center, recorded  
gross orders of $60 million in the second quarter. The Varian Particle Therapy business booked two orders during the quarter: an  
approximately $50 million order for a new proton installation at Cincinnati Children's Hospital, and an approximately $10 million order  
from the Paul Scherrer Institute in Switzerland, for technology and equipment to support additional clinical research.  
Before closing on protons, I'm pleased to report that treatments are progressing at Scripps, where they have commissioned two rooms,  
and are treating as many as 36 patients a day for a range of diseases including prostate, lung, head and neck, and breast cancer.  
Average treatment time is 26 minutes with the fastest treatment session completed in just 10 minutes.  
Now I'll turn it over to Elisha.  
   
Elisha Finney Varian Medical Systems Inc - CFO  
Hello, everyone.  
While Dow has already covered gross orders, I want to briefly talk about the constant currency growth rates for the quarter. In comparing  
quarter-over-quarter exchange rates, the weakening of the yen and the Aussie dollar was mostly offset by the strengthening of the euro  
and other currencies. Oncology growth orders increased 6% in dollars, and 7% in constant currency. Oncology's North American gross  
orders were up 3% in both dollars and constant currency.  
EMEA gross orders increased 3% in dollars and 1% in constant currency; and in Asia where the yen weakened by roughly 13% quarter over  
quarter, that region was down 3% in dollars, but up 3% in constant currency. Oncology gross orders in rest of world region including  
Latin America and Australia, rose by 71% in dollars, and 82% in constant currency.  
The company ended the quarter with a $2.8 billion backlog, up 2% from the year ago quarter. As a reminder, both gross and net orders  
are shown in the consolidated statement of earnings attached to our press release.  
Second quarter revenues for the total Company increased 1% in dollars, and 3% in constant currency. For the first half, total Company  
revenues were up 3% in dollars, and 5% in constant currency. Oncology systems posted a 4% gain in revenues during the quarter,  
bringing the revenue growth for the first half to 3%.  
Imaging components posted a second-quarter revenue gain of 2%, with double-digit growth in our flat panel products largely offset by  
declines in our security and inspection products. For the first half, imaging components revenues were up 4% from the year ago period,

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with similar headwinds from the security and inspection business. Revenues for the other category fell significantly from the year-ago  
quarter when we started to record revenue and the percentage of completion methods for both the Saudi and Russia proton therapy  
projects.  
Total Company gross margin for the quarter rose 57 basis points to 42.2%, driven by a smaller percentage of lower-margin proton  
revenue. Oncology systems gross margin equaled the year-ago quarter at 42.8%. For the first half, oncology's gross margin increased  
nearly half a point to 43.8%. The imaging components gross margin for the quarter declined by 80 basis points to 41.5%, due largely to  
pricing pressure in X-ray tubes, and volume declines in our security and inspection products. For the first half, imaging components gross  
margin fell 20 basis points to 41.4%.  
Second quarter SG&A expenses were $140 million or 18% of revenues, including a charge related to the $35 million patent litigation  
settlement. Let me take a moment to walk you through the accounting for this settlement. The settlement expense includes $5 million  
that was reserved in a prior year, and another $25 million or $0.16 per share expense that was booked to SG&A in the second quarter. An  
additional $5 million will be booked in our current third quarter on the balance sheet as a prepaid royalty that will be amortized over the  
next 2 1/2 years. The patent settlement added approximately 3 points to SG&A as a percent of revenues in the second quarter.  
SG&A was further impacted by about a $5 million increase in our bad debt reserve in the quarter, to reflect uncertainty in our ability to  
exchange our Venezuelan bolivar that we have collected into dollars. Second-quarter R&D expenses were $61 million, or 8% of revenues;  
up 1 point as a percentage of revenue with the year-ago quarter, as we continued to invest in our global strategies and execute on our  
product road map. For the first half, R&D expenses also rose 1 point as a percentage of revenues to 8%.  
Moving down the income statement, second-quarter operating earnings totalled $128 million, down 18% from the year-ago quarter. The  
patent litigation settlement reduced the operating margin by more than 3 points to 16.4% for the quarter. Depreciation and amortization  
totaled $15 million for the quarter, and $31 million for the first half. The effective tax rate fell slightly from the year-ago period to 27.6%,  
with about 0.5 point of benefit related to the patent settlement. Given the ongoing geographic mix shift of profits to outside North  
America, we now believe the tax rate for the full fiscal year will be approximately 28%.  
Fully diluted shares outstanding decreased from the year-ago quarter to 105.4 million, due largely to our ongoing share repurchase  
program. Diluted EPS was $0.88 for the second quarter, including the $0.16 per diluted share litigation settlement charge.  
Turning to the balance sheet, we ended the quarter with cash and cash equivalents of $939 million, debt of $469 million, and  
stockholders' equity of $1.7 billion. DSO, days sales outstanding, at 95 was up eight days from the year-ago quarter, with an approximate  
10-day impact from the proton therapy business, where deferred payment terms are not yet due, but revenue has been recognized under  
the percentage of completion method.  
Second quarter cash flow from operations was $126 million, significantly higher than net income, primarily due to working capital  
increases and accrued expenses and customer deposits. Primary uses of cash were $159 million toward the repurchase of 2 million  
shares of stock. At the end of the quarter, we had 4 million shares remaining under the existing repurchase authorization that extends  
through calendar year 2014.  
Now, back to Dow for the outlook.  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
Thanks, Elisha.  
The Company is continuing to execute well, and our businesses remain on track to reach our FY14 growth targets. For the fiscal year we  
continue to believe that total Company revenues could increase by about 6% to 8% over the prior fiscal year. We expect net earnings per  
diluted share for the fiscal year, including the $0.16 effect of the patent litigation settlement, to be in the range of $4.06 to $4.18. We  
expect total Company revenues for the third quarter of FY14 to increase in the range of 5% to 6%. We expect net earnings per diluted  
share for the third quarter to be in the range of $1.06 to $1.10.

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We're now ready for your questions.  
QUESTIONS AND ANSWERS  
   
Operator  
Thank you.  
(Operator instructions)  
Tycho Peterson of JPMorgan.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
On net orders, you guys came up a little bit light versus the street, 559 versus 583 I think. Can you maybe just talk through some of the  
dynamics there, and then Elisha, are you willing to break out net orders in oncology, North America versus international?  
   
Elisha Finney Varian Medical Systems Inc - CFO  
Tyco, we had two, what I would say, rather unusual items in the second quarter. First, because of the situation that I mentioned in  
Venezuela, we took roughly $5 million out of backlog relating to deals that we had previously booked there. As well as we had kind of an  
unusual, and what we believe to be, one-time cancellation in flat panel of another about $5 million from both the Chinese and a Korean  
customer.  
So if you -- that said, for the first half, typically if you look at it as a percentage of backlog, it's 3% to 5% in any given year, and if I look at  
the first half, we're about 4%, so if we assume the backlog will continue to grow throughout the year, I think for the full year we still have  
a shot at being at that 3% to 5% for the year.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
And any color on the North American versus international split of oncology net orders?  
   
Elisha Finney Varian Medical Systems Inc - CFO  
So net orders, yes, and I can walk you through this quickly. I'm just having to refer to my notes here. So for oncology the geographic split  
was 39% in North America, 61% in international.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
And then --.  
   
Elisha Finney Varian Medical Systems Inc - CFO  
Which is -- versus gross of 42%.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Net?  
   
Elisha Finney Varian Medical Systems Inc - CFO  
That was net.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
And then is the momentum picking up with Siemens, though? You commented on the conversion picking up? Is that driving most of the  
growth with oncology?

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Dow Wilson Varian Medical Systems Inc - President and CEO  
We commented last quarter that we felt very good after last quarter, and I would say that momentum is continuing and we're seeing  
good strength with Siemens globally, frankly. We like what we see there.  
You know, some of that was having the product ready. We finally got connectivity with the product, and that's good. And you know, I  
think we're doing a nice job selling there. Selling their hardware.  
But it's really kind of a story about the software coming together and completing that -- completing that capability in our ARIA product  
lines that connects to their old LANTIS installed base. That is all done now. We have some show [sites] where we can take people, proof  
statements and clinically, and I think that momentum is turning there.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. And last one given the guidance for next quarter year over year becomes a little more back end loaded. Can you comment on some  
of the gives and takes in the back half of the year? I know previously you talked about hoping for a recovery in China, so what are your  
thoughts on that and maybe some other drivers for the back half of the year recovery?  
   
Elisha Finney Varian Medical Systems Inc - CFO  
Sure. Tycho, the biggest driver is we have assumed that our Maryland proton deal we have been talking about this since the beginning of  
the fiscal year, it will be ready for equipment at the end of May, which doesn't give us a whole lot of leverage there, leeway there for Q3,  
so we moved that into our assumptions as into Q4.  
So that's really what's driving. If you look through the [pick] settlement and, my lawyers won't let me do the math for you, but if you do  
the math, you'll see that the guidance is essentially unchanged from the prior year. We simply moved Maryland into Q4 but the full year  
remains where it was.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. And, Dow, you're still confident in China getting better back half of the year?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
Our funnel remains very strong. We were positive it wasn't as big as we had hoped this last quarter. But it was still positive.  
We do believe we're getting some share in China. So that's good. But we do see a pretty strong second half in China.  
   
Tycho Peterson JPMorgan Chase & Co. - Analyst  
Okay. Thanks. I'll hop off.  
   
Operator  
David Roman of Goldman-Sachs. Please go ahead.  
   
David Roman Goldman Sachs - Analyst  
Thank you. Good afternoon, everyone.  
I wanted to maybe start with something that came up in your prepared remarks regarding Brazil. I don't know if -- I can't remember if you  
gave the exact number but you did talk about having some strong orders for proton that were outside of the 80-unit tender that you had  
won, and that you hadn't booked any orders on the tender.  
To what extent do you think that having the tender might be helping your access to some of the private market and your own ability to  
perform well in Brazil, versus just general strength in the end market and the fact that you're kind of already the market leader?

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Dow Wilson Varian Medical Systems Inc - President and CEO  
Let me start by saying we had a very good position in Brazil before the tender win. You know, we were far and away the market leader in  
that market. So we've always had a good position in Brazil.  
Winning the tender has certainly helped us, it has reinforced that leadership position so, you know, so I think there has been a little bit of  
a halo effect. This is the private market.  
I think our product is very well positioned. We've got a very good distribution for this team down in Brazil, and we think we're very well  
positioned for both the short term and the long term. I guess maybe what the question fielding from an investor point of view is the new  
tenders, both government and non-government are not effected by the MOH ministry of health pricing. So we're seeing good pricing on  
these other orders as well.  
   
David Roman Goldman Sachs - Analyst  
That maybe does tell us a follow-up which is just on pricing in general. Could you maybe give us some sense as to how pricing is trending  
globally?  
If I look at the gross margin which was I think pretty flat, it was just flat in the quarter, that would suggest to me that pricing is also pretty  
stable given you're shifting mix of businesses. But maybe you could just sort of help us understand pricing trends by region specifically in  
oncology?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
On the quarter, well on the half, for that matter, as well pricing has been stable. So our pricing is definitely holding and we're pleased  
about that.  
On the quarter, we did have -- our unit volume was up and our mix was a little more of a kind of an international mix. We had more  
unique than usual, and we had a little bit more of a kind of value segment mix order, but product to product, year over year, quarter over  
quarter, pricing is very stable.  
   
David Roman Goldman Sachs - Analyst  
And if I can sneak one more in here on the US, where I know that this market has seen some gyrations the past several quarters around  
uncertainty and reimbursement and it looked like things were kind of coming back last quarter, and I know you briefly talked about some  
of the issues around consolidation in the US where you thought it was a competitive advantage for Varian.  
Maybe just kind of update us on your latest thoughts regarding the US markets and maybe sort of help us draw a kind of a trend line to  
kind of transcend what's been some volatility over the past couple of quarters?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
Sure. You know, the good news is volatility measured in the last two quarters -- sorry, tongue in cheek here a little bit, measured in the  
last two quarters we've had good US market performance.  
And that's the, you know, for us the we (inaudible) it's been a tough market as you said, David. But our orders on the half were very good  
year to date. Gross orders are up 8%. Gross orders in the quarter were up 3%, as we said.  
Yes, the market is consolidating, and the freestanding clinic market is pretty quiet. But we are seeing the hospital market be pretty  
aggressive. Our -- in terms of outlook, the funnel looks good, and I would say we're looking for kind of mid single-digit market growth out  
of the US, and frankly that is a positive an outlook that we've had on that market in a long time.  
   
David Roman Goldman Sachs - Analyst  
Okay. Thank you very much.

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Operator  
Amit Hazan of Suntrust Bank.  
   
Amit Hazan SunTrust Bank - Analyst  
First I just want to go back to the difference between gross and net orders on the oncology side. I'm getting the number -- the printed  
number is about $54 million, which is actually a little bit bigger than normal.  
I know Elisha you touched on it in the prior question, but some that, what you touched on was not inside of oncology. And in particular if I  
apply majority of that to the net order for the North American line, I get a pretty weak North American order number -- net order number  
despite a really weak comp.  
   
Elisha Finney Varian Medical Systems Inc - CFO  
Yes, I mean most of the cancellations and dormancies, Amit, are in North America. We did have some in the international markets as I  
mentioned particularly in rest of world related to Venezuela this quarter, but you are going to get variability in any given quarter.  
I just want to come back to in terms of history, 3% to 5% of backlog is typically adjusted. You know, you just haven't seen it really up until  
this point for this year. But this is very typical to what we -- what we historically have seen. Every single year it has been 3% to 5%.  
   
Amit Hazan SunTrust Bank - Analyst  
Can you confirm what was the change or growth rate for net orders in North America?  
   
Elisha Finney Varian Medical Systems Inc - CFO  
It was down slightly, mid-single digits. And it was up in international markets. And then you get a lot of variability within the  
international markets.  
   
Amit Hazan SunTrust Bank - Analyst  
Okay. Thank you for that.  
And I want to ask a question about EDGE, and to one of your competitors. Just thinking through SRS in particular, but some of your  
EDGE related comments in the past couple quarters, seeing one of your big competitors miss numbers due to gamma knife weakness,  
I'm just wondering if you guys can shed a little bit of color on whether there is a direct link to the new reimbursement changes that there  
that happened at the end of last year, the extent of which we're seeing maybe a change in the marketplace where the traditional  
neurosurgeon call point for gamma knife type product is now being rolled into the oncology suite?  
Is that helping you at all? Just any color on what's happening on the SRS side where it just kind of looks from very short-term numbers  
that you might be gaining some share.  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
You know, I would say it is a combination of factors. You named a number of them. Certainly the reimbursement was helpful to get those  
on the same footing now is a big deal, if we were substantially lower than gamma knife reimbursement before or radiosurgery and those  
are now reimbursed at the same level. That is one help.  
Two, is clearly in the environment that we're in, administrators are particularly looking at making their purchases go farther, and when  
you look at the number of patients and indications they can treat with EDGE, versus what they can treat with gamma knife, especially  
with the single largest trend in radiation therapy being SDRT with lung, and liver and pancreas growing, having the flexibility and  
versatility of the EDGE is a big deal.  
And then last of all, EDGE is the, you know, as I said in the prepared remarks, it is a combination of the most precise and fastest delivery  
method to treat these indications, and it has, obviously, a throughput impact. It also has a patient impact.

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You know, these patients are sick and having to in some cases sit on a table half hour to an hour for a complex treatment. On EDGE, they  
can have that completed in 10, 15 minutes, and they're set to go. So I think it's really kind of a combination of all those factors and I do  
agree, I think we are seeing some momentum there with that product from a relative competition point of view.  
   
Amit Hazan SunTrust Bank - Analyst  
Okay. Thanks very much, guys.  
   
Operator  
Thank you. Jason Wittes from Brean Capital.  
   
Jason Wittes Brean Capital, LLC - Analyst  
I wanted to ask about gross margins and specifically, Dow, I know that when I spoke to you recently, you had discussed some investment  
being made in terms of your emerging market product offering and how that might translate into better gross margins in outer years.  
Can you just talk about the spend you're doing now and sort of how that might translate to the outer years margin improvement?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
I think from an R&D point of view we're kind of three significant areas where we're spending this increase in R&D. One is software. We  
think there is a big opportunity, we're the market leader in Eclipse, we continue to invest in algorithms in Eclipse, you are seeing things  
like Rapid Plan for us. That will continue.  
ARIA is a terrific product. We have had to make investments this last year for the Siemens connectivity and things like that. We continue  
to bring a lot of enhancements to that product, and look forward really to evolving that product in the infomatic space and in globalizing  
the product.  
So that's some of the investment there. And then for the rest of the product line, emerging markets are a big piece of our product line  
more and more, and that's where -- that is where we have a big chunk of our investment going that will yield products this year, next  
year, and beyond. So we're -- we're investing aggressively in those areas.  
As Elisha said on the call, we were pretty comfortable with where margin rates were on the quarter, and pricing is holding. We continue  
to invest a fair amount, as well, in operational programs to drive productivity across our business, and have made pretty good progress in  
-- on the variable cost of our tubing platform, as well as on our cost of quality in both our X-ray components business, as well as  
oncology.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay. But I guess what I was trying to get at was I thought there was some effort to bridge the gap between emerging markets and  
developed markets in terms of gross margins by product mix. Is that --?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
Absolutely, from a long-term point of view that is absolutely what we have got to do, and that's in terms of new products we want to  
deliver products that deliver what the customers want from a feature performance point of view, and match our requirements from a  
shareholder margin point of view, and so we are -- that is where a significant piece of our investment is going.  
   
Jason Wittes Brean Capital, LLC - Analyst  
If I could just do one follow up in terms of the US market. You had mentioned that there was some consolidation, I think there was some  
other questions about it, but you also mentioned that the funnel was strong. Does that imply, you know, partially seeing in your  
guidance, as well, that there's going to be some back end loadness in terms of obviously A revenues but even order rates as well they're  
somewhat held back by some of the consolidation this quarter?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
As you know we don't guide to orders, and I will say that second half of last fiscal year we had a pretty good funnel and their results  
weren't that great. So I think part of what we're seeing is the yield on the funnel is good, so we continue to see a very good funnel. The

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yield on the funnel recently has been good. And I'll stick with the comment I made before, and that is we're kind of seeing market outlook  
in the for long-term, in the mid single-digit area.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Fair enough. Thank you very much, guys.  
   
Operator  
Toby Wann of Obsidian Research Group.  
   
Toby Wann Obsidian Research Group - Analyst  
Good afternoon, everybody. I wanted to ask quickly about rapid plan market adoption, how the pace of that, how that is being received,  
both domestically and across the globe?  
   
Dow Wilson Varian Medical Systems Inc - President and CEO  
You know, it's -- I think there is a lot of enthusiasm and excitement for the product. We showed it at ESTRO of course last year, as you  
know. It had its European introduction at ESTRO, very strong global interest.  
We ship the first units to customer here in eight weeks or so, and the official commercialization is this summer. So we've got lots of  
customers lined up for it.  
We think it is a game-changer and as a little color we will start with the prostate model and then head and neck follows very shortly after  
that, and then we're on to breast cancer models and other cancers. And, with the enthusiasm we're seeing from our customer base, both  
luminary and community and outside of the US, we think that this is -- this remains several hundred million dollar opportunity for us.  
   
Toby Wann Obsidian Research Group - Analyst  
Thank you.  
   
Operator  
We have no further questions at this time. I'd like to turn the floor back over to Mr. Sias for any closing remarks.  
   
Spencer Sias Varian Medical Systems Inc - VP IR and Corporate Communications  
Thank you very much. Thank you all for participating. A replay of this call can be heard on the Varian investor website at  
www.Varian.com/investor, where it will be archived for a year.  
For a telephone replay please dial 1-877-660-6853 from inside the US or 1-201-612-7415 from outside the US and enter confirmation  
code 13578961. Telephone replay will be available through 5:00 PM Friday, April 25. Thank you, again.  
   
Operator  
Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you  
for your participation.

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EDITED TRANSCRIPT  
Q3 2014 Varian Medical Systems Inc Earnings Call  
EVENT DATE/TIME: JULY 23, 2014 / 9:00PM GMT

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PRESENTATION  
   
Operator  
Greetings and welcome to the Varian Medical Systems third-quarter FY14 earnings results conference call. At this time, all participants  
are in a listen-only mode. A question-and-answer session will follow the formal presentation.  
(Operator Instructions)  
As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr. Spencer Sias, Vice President of  
Investor Relations. Please go ahead.  
   
Spencer Sias Varian Medical Systems, Inc. - VP, IR  
Thank you. Good afternoon and welcome to Varian Medical Systems' conference call for the third quarter of FY14.  
With me are Dow Wilson, President and CEO, Elisha Finney, CFO, and Clarence Verhoef, our Corporate Controller. Dow and Elisha will  
summarize our results and will take your questions following the presentation.  
To simplify our discussion, unless otherwise stated, all references to the quarter or year are fiscal quarters and fiscal years, quarterly  
comparisons for the third quarter of FY14 versus the third quarter of FY13, references to the year to date are for the first three quarters of  
the fiscal year.  
Please be advised that this presentation and discussion contains forward-looking statements. Our use of words and phrases such as  
outlook, believe, can, expect, will, hope, and similar expressions are intended to identify those statements which represents our current  
judgement on future performance or other future matters. While we believe them to be reasonable based on information currently  
available to us, these statements are subject to risks and uncertainties that could cause actual results to differ materially.  
Some of the important risks relating to our business are described in our third quarter earnings release and in our filings with the SEC.  
We assume no obligation to update or revise the forward-looking statements in this presentation and discussion because of new  
information, future events, or otherwise.  
And now, here is Dow.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Good afternoon and welcome.  
For the third quarter of 2014, we are reporting solid order growth for our Imaging Components and Proton businesses; some big wins in  
emerging markets, as well as weakness in Japan for our Oncology Systems business; a 4% increase in our orders backlog; revenue and

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gross margin gains in all of our business segments; and earnings in line with our expectations before the impairment of a portion of our  
existing investment in Augmenix.  
Compared to the year ago quarter, revenues for the Company rose 3%, to $748 million, and net earnings were $1.02 per diluted share.  
The impact of the approximately $8 million Augmenix impairment was about $0.06 per share.  
Oncology Systems gross orders came in at $620 million, down by 1%, despite strong wins in key emerging markets, including China,  
Latin America, and in parts of Eastern Europe. Orders for Oncology were up by 2% in EMEA, and about even in North America, and down  
by 6% in Asia, with a sharp decline in Japan, where we faced tough year-ago comparisons. Orders rose by 20% in China, where we  
believe we are gaining market share.  
For the BRIC countries in total, orders grew by more than 50% during the quarter. Our business in Latin America grew by more than 30%  
in the quarter. We continue to generate new orders in Brazil, but have not yet booked any from the 80 machine public tender conducted  
in the first quarter of this fiscal year.  
In EMEA, Varian was selected to supply 4 TrueBeam systems for the Beatson Cancer Centre in Glasgow and its planned new satellite  
center at nearby Munson's Hospital. We also had a key win in Germany, where a hospital group placed an order to replace 2 of their 8  
Siemens machines with TrueBeam systems. This group also ordered our Eclipse treatment planning software and our ARIA oncology  
information software to replace their LANTIS network. We continue to expand our business across Africa, with orders in Algeria, Morocco,  
Libya, Nigeria and South Africa.  
North America generated strong order growth for service and software, while equipment orders were soft during the quarter. We had a  
big win in Nebraska at the Buffet Cancer Center, which ordered our EDGE radiosurgery system, a TrueBeam system, as well as our  
treatment planning and oncology information software to replace competitive products.  
US hospitals, which today comprise about 90% of our North American equipment orders, received positive reimbursement news at the  
end of the quarter. CMS has proposed a modest overall 2% increase in rates for calendar year 2015. Hospital rates would rise for both  
radiotherapy and radiosurgery, and a proposed new bundled rate for radiosurgery remains equal, whether the treatment is delivered with  
a LINAC or a Cobalt unit. All those being equal, I expect that machine versatility and patient throughput will become more and more  
important for buyers of radiosurgery systems.  
As an aside, a study conducted at the University of Alabama, Birmingham shows that RapidArc radiosurgery is substantially more  
efficient and comparable in plan quality to a competitive Cobalt system for treatment of multiple brain metastases. This study has been  
published online and is slated to appear in the October issue of "Neurosurgery".  
We are generally pleased with the hospital reimbursement proposal, which we hope will lead to further reinplacement of older systems  
with newer higher throughput units that are capable of delivering both radiotherapy and radiosurgery. For freestanding clinics, CMS is  
proposing a policy change to exclude the radiation treatment vault as a direct expense in the rate calculation.  
Rate reductions for conventional 3-D radiotherapy, IMRT and SDRT would range between 2% to more than 6%. We expect that this  
proposed policy change will be the topic of debate between now and November, when CMS finalizes the rates for next year. We are  
partnering with others within the industry to advocate for reversal of this policy.  
Oncology Service was again a star performer, delivering another quarter of double-digit growth, with particularly strong performance in  
North America. Service represented about 40% of Oncology orders for the quarter and the year to date.  
On the product front, we made good progress during the quarter in our software business, which was particularly strong in North  
America. Orders ramped up for our full-scale solution that fully integrates our ARIA information system and our Eclipse treatment  
planning software in the cloud for hospitals and clinics of any size.

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Earlier today, we announced the deployment of FullScale at e+ CancerCare, a multi-site network of cancer clinics in the US. FullScale is  
also deployed at Vantage Oncology, a network of over 60 oncology centers. FullScale uses are delighted with the speed, flexibility,  
scalability and accessibility of their data on smart phones and tablets, as well as computers.  
At the annual meeting of the American Association of Physicists in Medicine, or AAPM, this week, we featured several products for  
quality assurance and sharing clinical knowledge through data analytics. We exhibited a new software tool called Machine Performance  
Check for automating tests to help confirm that our tubing system is operating within proper parameters. It completes 18 tests in just 5  
minutes and adds another level of competence for centers that are performing more and more sophisticated procedures.  
We also showed Cumulate, a cloud-based data management tool for quality assurance, as a works in progress. Clinicians will be able to  
use this tool to create templates for their QA processes, identify trends in QA data, and compare their machines' test performance to the  
average of machines at other treatment centers. By using tools like this, we expect clinicians will be able to enhance the consistency and  
efficiency of their treatment processes.  
Other products featured at the meeting included RapidPlan for knowledge-based treatment planning, our new Velocity tool for  
aggregating imaging and treatment data, and TrueBeam 2.0, which now includes enhanced image guidance and motion management  
capabilities to the TrueBeam platform.  
Among the presentations at AAPM was a talk by researchers from Champalimaud Center in Portugal and the Henry Ford center in  
Detroit confirming that our EDGE radiosurgery system can target cancerous tumors with sub millimeter accuracy. Their end-to-end  
testing showed that our efforts to integrate multiple subsystems can result in a high level of precision for certain radiosurgery cases.  
You may have seen a press release issued early in June about a 79-year-old patient who chose RapidArc radiosurgery rather than  
conventional surgery for his lung cancer. He got five treatments on our TrueBeam surgery unit and each session was completed in about  
10 minutes, a much easier alternative to surgery. It is both exciting and gratifying to all of us at Varian to see the dramatic improvements  
in treatment opportunities our innovations offer patients.  
Let me turn to our Imaging Components segment. Gross orders for this segment increased 12%, to $162 million, with strong growth in  
panels and tubes that was partially offset by soft demand for our security products. Gross orders grew in excess of 30% from our panel  
business. This included a contract with a large OEM in China for 1,000 panels that will be delivered over the next two years. Other x-ray  
equipment manufacturers are designing our panels into new imaging systems, setting the stage for continued growth in this product  
line.  
Healthy order growth in our x-ray tube product line was driven by our big OEM customers for use in CT scanners, general radiography,  
and mammography systems. We are now focused on targeting new OEMs to expand the market, and we shipped a number of new x-ray  
tubes for evaluation by these customers during the quarter. Our Imaging Components has built its backlog, as we have signed more  
long-term contracts for both panels and tubes.  
The company's Other category, which is comprised of the Varian Particle Therapy business and the Ginzton Technology Center, recorded  
gross orders of $57 million in the third quarter. During the quarter, our Proton team booked its third order of the fiscal year to supply our  
ProBeam Proton Therapy System to the National Taiwan University. The expected total value of the agreement is estimated to be about  
$100 million, including long-term operations and maintenance services. We continue to see strong customer interest and good  
momentum in this business, which has now booked nearly $120 million in gross orders so far this year.  
During the quarter, JPMorgan assumed $45 million of our approximately $125 million loan commitment to the Scripps Proton Project.  
We believe this is a mark of the growing confidence that the financial community has in our ProBeam proton solution.  
Scripps is continuing to expand the range of cancers that it is treating with this exciting technology and it has completed its first pediatric  
treatment on a 17-year-old patient from Provo, Utah. She has been afflicted with a tumor on her brain stem for 15 years. She had  
numerous surgeries to control the spread of the tumor, but doctors could not completely eradicate it, because it was too close to her

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brain stem. Further surgeries were not recommended, so she turned to proton therapy. Her hope is that the treatment ends -- her hope is  
that the treatment ends the tumor once and for all. We hope so, too.  
Now I'll turn it over to Elisha.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Thanks, Dow, and hello, everyone.  
While Dow has already covered gross orders, I'm going to briefly talk about the constant currency growth rates for the quarter. In  
comparing quarter-over-quarter exchange rates, the negative impact from the weakening of the yen was more than offset by a positive  
impact from the strengthening of the euro and other currencies. Oncology gross orders decreased 1% in dollars and 2% in constant  
currency. Oncology's North American gross orders were about even with the year ago quarter in dollars and in constant currency.  
EMEA gross orders increased 2% in dollars and declined 1% in constant currency. Asia, where we saw a quarter over quarter weakening  
of the yen, was down 6% in dollars and down 5% from the year ago quarter in constant currency. Oncology orders in rest of world region  
fell by 19% in dollars and 17% in constant currency, driven by a slowdown in Australia.  
Third quarter revenues for the total company increased 3% in dollars and 2% in constant currency. Year-to-date, total company revenues  
were also up 3% in dollars and 4% in constant currency. Oncology Systems posted a 3% gain in revenues during the quarter, consistent  
with year-to-date growth of 3%. For the quarter and year-to-date, Oncology Service comprised about 40% of Oncology revenue.  
Imaging Components posted a third quarter revenue gain of 2%, with double-digit growth in our flat panel products largely offset by a  
decline in our x-ray tube products. Revenues were impacted by improved CT tube quality that has enabled our largest customers to lower  
inventory levels and delay purchases. Year-to-date Imaging Components revenues were up 4% from the year-ago period, with  
double-digit growth in panels largely offset by declines in tubes and security and inspection products.  
Revenues in the Other category were up slightly from the year-ago quarter. Year-to-date revenues were down from the year-ago period,  
when we recorded higher revenues from multiple proton projects.  
Total company gross margin for the quarter was 43.3%, up 55 basis points from the year-ago quarter. Year-to-date total company gross  
margin was 43%, up 58 basis points. Oncology Systems gross margin was 44.1%, up 38 basis points from the year-ago quarter.  
Year-to-date Oncology Systems gross margin was 43.9%, up 44 basis points. These gains are largely due to a mix shift towards higher  
margin software and service, as well as improved quality costs.  
Imaging Components gross margin for the quarter was 42.2%, up 125 basis points from the year-ago quarter, with a shift to more higher  
margin panel sales and significant improvement in x-ray tubes quality costs. Year-to-date Imaging Components gross margin was 41.7%,  
up 29 basis points from the year-ago period, due largely to improved quality costs in our x-ray tube products.  
Third quarter SG&A expenses were $124 million, or 17% of revenues. This included an approximate $8 million non-cash charge for the  
impairment of a portion of our existing equity investment in Augmenix.  
As a reminder, we invested in and obtained an option to acquire Augmenix three years ago. Augmenix is today announcing additional  
financing from multiple investors and the expiration of our option. We recorded the impairment charge based on the current valuation of  
Augmenix. We continue to hold a minority interest in this company and see promise in their technology.  
The impairment charge increased SG&A as a percentage of revenue by one point. Year to date, including the patent litigation charge in  
the second quarter and the impairment charge in the third quarter, SG&A expenses were 17% of revenue. These unusual charges  
together increased SG&A as a percentage of revenue by 1.5 points.  
Third quarter R&D expenses were $57 million, or 8% of revenues, up 30 basis points as a percent of revenue from the year-ago quarter.

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Year to date, R&D expenses were also 8% of revenue, up 90 basis points from the year-ago period, as we continue to invest in our global  
strategies and execute on our product road map.  
Moving down the income statement, third quarter operating earnings, including the impairment charge, totaled $143 million, or 19.1% of  
revenues. Year-to-date operating earnings as a percentage of revenues were 18.4%, down about 2 points from the year-ago period. The  
impairment charge, together with the patent litigation settlement in the second quarter, accounted for 1.5 points of the 2-point decline in  
the year-to-date operating margin.  
Depreciation and amortization totaled $15 million for the quarter and $46 million year-to-date. The effective tax rate was down 2 points  
from the year-ago quarter, to 25.5%. And year-to-date, the effective tax rate was down about 0.5 point, to 28.1%.  
Fully diluted shares outstanding decreased from the year-ago quarter to 104.9 million, due largely to our ongoing share repurchase  
program. Diluted earnings per share was $1.02 for the third quarter. The impairment charge negatively impacted EPS in the quarter by  
about $0.06.  
Turning to the balance sheet, we ended the quarter with cash and cash equivalents of $926 million, debt of $480 million, and  
stockholders' equity of $1.7 billion. DSO at 95 was up 11 days from the year-ago quarter, with an approximate 8-day impact from the  
proton therapy business, where deferred payment terms are not yet due but revenue has been recognized under the percentage of  
completion method.  
Third quarter cash flow from operations was $86 million, less than net income, primarily due to working capital increases in inventory  
and the payment of the Q2 patent litigation settlement. Primary uses of cash were $103 million for the repurchase of 1.25 million shares  
of stock. At the end of the quarter, we had 2.75 million shares remaining under the existing repurchase authorization that extends  
through calendar year 2014.  
Now I'll turn it back to Dow for the outlook.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Thanks, Elisha. We realize that our guidance range for Q4 is broad. The timing of our proton therapy projects is hard to predict and any  
one deal can have a significant impact on our financials in a given quarter. We expect total company revenues for the fourth quarter of  
FY14 to increase in the range of 7% to 15%, and we expect net earnings per diluted share for the fourth quarter to be in the range of $1.14  
to $1.29.  
We're now ready for your questions.  
QUESTIONS AND ANSWERS  
   
Operator  
Thank you.  
(Operator Instructions)  
Our first question comes from Jeff Johnson with Robert Baird. Please state your question.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Thank you. Good afternoon, guys. Can you hear me okay?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Hello, Jeff. Yes.

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Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Good. Elisha, wanted to start with you. Just on the SG&A line, I appreciate that the last couple quarters there's been some nonrecurring  
items in there. But if I exclude them, including the $8 million charges this quarter, it looks like your SG&A this quarter hit almost a  
five-year high as a percentage of revenue, definitely came in $7 million or $8 million hot relative to our expectations. So just wondering if  
you could give us any insight on those SG&A costs.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Sure. Jeff, we get a lot of variability in SG&A, from hedging and legal expenses. And I would guesstimate it's about 60% fixed, 40%  
variable. I think it's better to look at year-to-date. And if you come back to year-to-date as a percentage of revenue, if you exclude the  
impairment and you exclude the University of Pittsburgh charge, it's up 40 basis points.  
So that really was -- in our expectations for the year, as we've noted, both on R&D and SG&A, it's the year of investment. And so we are  
just expanding our global operations, and that's where those 40 basis points come from. But yes, if you look at any given quarter, you're  
going to get variability. I think really it was more a factor of we had some proton revenue move out of the quarter, and so as a percentage  
of revenue, it looks very high in Q3.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Okay. And that segues into my next question. On the proton side, at one point you had been talking about $100 million to $150 million in  
revenue this year. I think year-to-date, you've done $23 million. So hard to see, even if you book Maryland and flow some of that revenue  
through, that you hit those targets. So wondering maybe if you can address that, number one.  
And number two, if the Cyclotron is now in at Maryland, I thought in the past you guys had talked about you wouldn't install the  
Cyclotron unless financing was largely in place, or fully in place. And so just wondering what the hang up is still on either finance being in  
place there or that order officially being booked and those profits flowing through this year into the guidance. Thank you.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Sure. So Jeff, let me come back to your first question. So I think as of the last time, I had pegged it at about $125 million that we had built  
into our revenue expectations for the year. Come off that a little bit, just based on Q3, it's closer to call it $110 million, $115 million for the  
year. And you're absolutely right. There is a significant portion of this, $65 million, $70 million, hinging on Maryland.  
These tend to be very large projects. And if a customer's date moves on when they're ready for equipment, we then obviously slow down  
on building the inventory. That slows down the cost we've incurred, which slows down the revenue. So it's really just the timing of these  
can be very, very hard to predict. That said, it is just a matter of timing. We've had none of these proton deals fall apart. And we're feeling  
very confident about that business in general.  
In terms of Maryland, again, we continue to be -- we're working closely with APT, our customer there. They're making good progress.  
They have completed their equity financing, working with several large institutions on the debt. You know, banks just deal in documents.  
And it's the due diligence and the timing and the documentation. The timing is just so hard to predict. But we are absolutely committed  
to the viability of this project.  
We did deliver the Cyclotron. We have a large, almost $20 million non refundable down payment, as well as we've retained a security  
interest in the equipment. So again, we felt like it was the right thing to do to keep this project moving so that we can get this center out  
of the ground.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Thanks. And just last question. I wasn't going to ask it, but with the EPS change in the guidance by a few pennies coming down at the  
low end and JPMorgan taking that tranche of the Scripps debt out, if memory serves, that was some pretty high priced debt that you guys  
had financed and were getting the benefit of in interest income. Does that explain the change in guidance, or am I over reading that?

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Elisha Finney Varian Medical Systems, Inc. - CFO  
No. It's really just one quarter that's coming out. So it will have an impact. Hopefully, we're going to get to take that money that's  
syndicated and redeploy it to another proton project and get our 8%, 9% interest back. But Jeff, if I look at where we were originally, 422  
to 434, because we hit the midpoint in Q3, it was right where -- in the middle of where we expected to land. We just came off $0.02 on  
the high end to reflect that.  
And then we broadened the range for protons, just given as time goes on and we're incurring more cost, if these things slip out, it's just a  
bigger impact to revenue. So just gave ourselves a little more breathing room on the proton business. But it had nothing really to do with  
the debt syndication.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Understood. Thank you.  
   
Operator  
And next question comes from Tycho Peterson with JPMorgan. Please state your question.  
   
Unidentified Participant - Analyst  
This is actually Patrick dialing in for Tycho. Thanks for taking the question. Dow, you talked about the CMS proposed rates from earlier  
this month and noted throughput's going to become more important. We've also heard building discussion about clinical data. How you  
go about building clinical evidence on the different technologies to show Varian is the best option, and how important do you view this?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Well, I think first of all, from an overall reimbursement point of view, as I mentioned in the script, we're positive about the hospital side. I  
think that's pretty good momentum for our market. That freestanding side, as I mentioned, is again, we've got another year of pressure  
for freestanding, largely due to a change in how the vault is calculated as an expense. So between now and the final ruling on  
reimbursement, there will be a lot of activity around that, which we will join.  
In terms of clinical data, clinical data is very, very important. I think I mentioned the UAB paper that will be published here this next  
month on stereotactic radiosurgery in the brain. That will be a very nice paper for us. It will really demonstrate the efficiency and  
versatility of our machine, and equivalency in terms of clinical outcome relative to Cobalt-based brain radiosurgery. So we're optimistic  
about that.  
I think the growing body of evidence in lung cancer is a big deal. We continue to see that grow, literally, almost every day. And I think that  
will be a theme at ASTRO, both in the customer presentations, clinical presentations at the show, as well as some of the technologies  
that we're working on for the show.  
In proton therapy, one of the things that we're seeing is a nice demonstration, especially of the benefit of proton therapy in head and  
neck. That's an emerging application, with good clinical data forthcoming. And I think that will help boost some of the proton therapy  
efforts.  
   
Unidentified Participant - Analyst  
Thanks. And could you expand a bit more on China. I know you guys expected growth to see an uptick in the second half, and certainly  
saw that with the 20% growth number you mentioned. Maybe just talk through those dynamics and how you expect growth to trend  
going forward.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Sure. Maybe for just a second, I can step back to the overall emerging markets. Brazil, Russia, India, China, Africa for us, we're up 70% in  
the quarter and are up 20% year-to -date. The BRICA, now including Africa, is about 15% of our Oncology business. And as I said in the  
script, we've had double-digit growth this quarter in China, India, Eastern Europe, and Africa. Interesting in Africa, we had good orders  
performance in Morocco, Nigeria, South Africa and Libya. So we continue to see the continent move, which is encouraging. India was up

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50% for us on the quarter and 35% year-to-date. So that's a nice story, overall emerging markets.  
China itself, to get your question, we had a very good quarter. China orders were up 20%. The market appears to be recovering. We're  
continuing to make a pretty substantial commercialization effort in that market. So we began in earnest 15, 18 months ago. And we have  
a terrific team in place right now. And I think are really starting to make some nice headway in that market. As I mentioned, the market is  
recovering. And we also believe our share is improving in that market. And we're seeing some nice success in the tender business there in  
China, as well.  
   
Unidentified Participant - Analyst  
Great. Thank you.  
   
Operator  
Our next question comes from Steve Beuchaw with Morgan Stanley. Please state your question.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Hello. Good afternoon. Thanks for taking the questions, everyone. Dow, I wonder if you could just spend a minute talking about what  
you're hearing from customers in the US, particularly in hospitals, about large equipment spending. Software is doing well. Service is  
doing well. Equipment is not doing as well, and it's clearly a market issue. Can you give us a sense for what you're hearing from the  
hospitals about how they're thinking about budgets, how they're evolving, what the impact of ACA has been so far this year, and your  
general thoughts on the market in North America? Thanks.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
I'd say we continue to hear some of the things that we've talked about, continued consolidation of the market, people moving to more  
regional integration on the full provider side, hospital and non-hospital. So we're seeing regional consolidation there. I think we've talked  
about the fact that deals are getting larger and more complex as a result. It does slow down a little bit of the purchasing process.  
Freestanding market, as I mentioned in the script, is very quiet in an uncertain reimbursement environment. And I think that will  
continue.  
On the hospital side, still very bullish about radiation therapy. And the strong are investing and figuring out how to strengthen  
themselves. We see continued attention given to total cost of ownership. I think that underscores our capability. We have the most  
versatile machine out there. And as people look, especially at cost of lifecycle ownership of their radiation therapy, we're very favorably  
positioned.  
I'd say at a very high level, hospitals are looking very hard at their capital budgets. And there are a lot of conversations about where the  
budget goes. But I think still very favorable outlook in the hospital market towards radiation therapy.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Got it. That's really helpful. Actually piggybacking on your comment about large orders, Elisha, have you given people a sense, at this  
point, for how the backlog in Oncology has evolved in terms of what fraction of the backlog is comprised of these large multi-year orders?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Not really, Steve. We do have several orders that have been announced that we have not yet booked. Brazil, obviously, being the largest  
one. And there are several in North America, as well. So we have very strict order booking guidelines. So if it doesn't have a two-year  
delivery window, it doesn't go into backlog. And if it's contingent on financing, it doesn't go into backlog.  
You know, I think one thing, if you look at Oncology on a net basis in the quarter and year-to-date, up 2%. So slightly different. I think  
we've gotten through a lot of the removal of these freestanding cancer centers where we had that issue the last several quarters. But  
there is -- I just don't have it quantified, but we have several of these large deals that have not met the order booking guidelines, as of  
today.

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Steve Beuchaw Morgan Stanley - Analyst  
Got it. And Elisha, could we get the percentage of net Oncology orders that was North America?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
That was North America was up 6%, on a net basis.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Perfect. Thanks so much, everyone.  
   
Operator  
Our next question comes from David Roman with Goldman Sachs. Please state your question.  
   
David Roman Goldman Sachs - Analyst  
Thank you again. Good afternoon. I wanted to come back to the guidance, to make sure I understand what's implied in the 7% to 15%  
number for the fourth quarter. Am I reading this correctly, the 7% basically excludes that $65 million, and the 15% includes it? So it's  
basically the delta that I'm getting high to low.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes, David, roughly. But don't hold me to an absolute dollar amount. But yes, we will be at the high end if we get the Maryland deal. We  
will be towards the low end if we don't. So that's kind of how -- that's why we're putting this big -- it's just such a big number on a single  
deal that we felt like we had to give you the full range.  
   
David Roman Goldman Sachs - Analyst  
Perfectly understood. And then, just as you think about the low end of the range, you haven't put up a 7% growth number now in  
basically since the second quarter of FY13. What are you seeing in the business that gives you confidence in seeing that acceleration in  
the fourth quarter, ex proton, particularly when I look at the gross order numbers in the fourth quarter of last year being fairly sharply  
down year-over-year?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Well, again, I come back to it's just a detailed look at what's in backlog and the fact that our Service business continues to grow. Our flat  
panel business, which are short cycle businesses, which we saw very strong order growth in Q3 from both of those product lines. It's just  
coming back to what we expect to deliver out of backlog.  
Oncology, in terms of revenue, has been spot on this year from forecast on looking at the backlog and what the revenue is going to be. I  
hear you. I understand you. But what it means is it's still 4% for Oncology for the year. So it's not like we're seeing huge high single digit  
growth year-over-year. It's just how the quarters lay out.  
   
David Roman Goldman Sachs - Analyst  
Got it. And the last, just the Imaging business, because that's been a really strong franchise for you. And maybe you could just go into a  
little bit more detail on the comment you made about revenues impacted by, I think you said improved CT quality, and maybe just how  
we should think about that in the context of the business on a go forward basis, and if you think that's going to have any appreciable  
impact relative to the strong growth rates we've seen over the past several quarters.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Maybe I can talk about the overall business and Elisha can talk a little bit about the tube quality piece. Overall, first half of this year, we  
saw a little lighter growth rate. So we were really pleased to see the higher growth rate in the Imaging Components business this  
quarter. Tubes were up 14%, flat panel was up 34%. And then our Security was down quite substantially. So overall, we were up 12%. We  
continue to see digitization driving the flat panel piece, so we think that growth will continue.  
On the tube quality side, when there's improvements in tube quality, it tends to drive one-time or gradual one-time adjustments in order

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rates. And I think that's what we've seen from some of our big customers is as we've executed nice tube quality, it helps us on the margin  
rate side, but it causes things to slow down a little bit on the order rate side. And we might have another quarter of that, two quarters of  
that, as we go forward. But then I think we'll see it anniversary and move forward.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
And I would say the tubes are just lasting significantly longer. So I think we're building some customer loyalty and satisfaction. And as  
Dow said, the gross margin in the quarter was up 125 basis points, driven almost exclusively by -- and the tube margins were up, I think,  
5 points in the quarter. So it hurts us on the revenue line, but it comes back at the gross margin level.  
   
David Roman Goldman Sachs - Analyst  
Okay. That's helpful perspective. Thank you.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
And it makes us tough to compete with. It makes it tough to get out of there. So tube life is good.  
   
Operator  
Thank you. Our next question comes from Amit Hazan with SunTrust. Please state your question.  
   
Amit Hazan SunTrust Bank - Analyst  
Good afternoon, guys. Can you hear me okay?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Yes.  
   
Amit Hazan SunTrust Bank - Analyst  
Great. Let me maybe just start with a softer one first. I want to maybe ask on the software in US market share side in particular -- I want  
to be a bit careful on how I ask it, because I know every company likes to say they're gaining share, that oncology is really no exception to  
that -- but I want to try to understand if what you're doing on the software side and on the Oncology IT side, maybe in particular  
FullScale and maybe RapidArc, things like that, new offerings, if that's visibly helped you gain system market share at all yet, be it  
competitive conversions or green shield units, and if you -- how you see that going forward, as well. How important of a factor is that in  
the market right now?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
You know, I'd say it's helping us. We've always had a very strong position in treatment planning. Our introduction of RapidArc really  
strengthened that business five years ago. The continued strength of our algorithms, of our capabilities in treatment planning is a nice  
differentiator for us in the marketplace. And we're demonstrating leadership there for sure.  
The ability to deliver the physician prescription. Physician puts a prescription in there, and then they just want to know that it happens.  
The Q8 happens, the delivery happens, and then the record and verify and interaction with the EMR all happens the way it's supposed to.  
That's really what the physician wants to hear about. That's all seamless and integrated. And I think we've got a very good position there.  
And I think that we are starting to see -- I think we've always had some benefit in treatment planning, and we're starting to see some  
benefit from our oncology information system, our ARIA product, as well, as it impacts hardware sales.  
So as I said in the script, we think our share in North America is up a little bit. So to answer your question directly, I think that's a part of  
it. FullScale, people really like the virtualization of FullScale Going to the private cloud is a big deal. We've seen that in some of our large  
accounts. We're starting to see that in the next tier of accounts, folks with 5 to 15 centers. The early adoption of FullScale has been folks  
that have, customers that have more than a dozen accelerators. And what we've seen is that virtualization is driving up productivity story,  
an upgradability story.  
And I think we've got a nice position. We've launched the product in China. It's not just helping us in the US. It's helping us outside of the  
US. And we've got teams across the globe getting very excited about it and customers, I think, are taking notice.

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Amit Hazan SunTrust Bank - Analyst  
Just two more quick questions. One, to follow up on the orders comment in North America. I asked a similar question last quarter, and I  
think it's pretty important to ask it again. For Oncology orders in North America, if I remove the Service component from the quarter, it  
implies the non-service side, the unit side, would be down way into the double digits on what frankly was another not so hard comp. So  
just trying to put that in context with your commentary, especially intra-quarter, that you're seeing signs of recovery in the North  
American market. It just does not seem to be the case in any way from the numbers that you're reporting on the actual Systems side. So  
I'm just trying to reconcile that commentary, especially in your slide presentation, with what you're actually putting up in terms of unit --  
implied unit numbers in the North American market.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes. So Amit, let me bring you back year-to-date. Again, I think it's more reflective of what's going on in the market, and you get such  
volatility in any given quarter. Year-to-date, North America is up 5%, international is up 2%. So it is true that the Service year-to-date is  
up in the low teens, so 13%, which means the rest of oncology is down 1 to 2%. Service is driving the growth. So yes, the rest of the  
business is down, but nowhere near double-digit. It's 1% or 2% year-to-date.  
   
Amit Hazan SunTrust Bank - Analyst  
Okay. Fair enough. And then the last one, I feel like I have to ask this question at this point. I've followed you guys a long time. I think  
during that time, in terms of your ability to forecast revenue and earnings and then hitting or beating those targets, I've kind of witnessed  
what I would -- a rather significant change between the Varian of several years ago that literally never missed a number and the Varian of  
today that I think has missed at least one number in more than half of the last quarters in the last couple years.  
I realize there's a lot of things going on there. There's huge FX factor out there that's out of your control that has hurt you in quarters in  
the last couple years. But I think maybe it's the proper time just to ask you what do you think has changed within the Company to cause  
that, and what you are doing maybe to change that to be able to forecast more accurately and go back to maybe the Varian of old?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes. And I don't want to come across defensive, but I'm going to just start with, we hit the high end of our range in Q1. We hit the high  
end of our range in Q2. We hit the midpoint of our range in Q3. So year-to-date, let's call it $0.01 off from the range that we've given.  
In a word, Amit, it's proton. As the revenue starts to come to fruition in these proton deals, it is almost impossible on the timing. So that's  
why we're trying to guide with and without proton. It is just extremely difficult to predict with accuracy. So I hear you. The sales miss was  
entirely proton in the third quarter, and again, why we're putting this broad range on Q4 and the year.  
There's no change in how we're forecasting. The business is bigger, it's complex. We have more software, which means we're trying to tie  
in acceptance. It's just the nature of the beast. But our forecasting, we try and go into as absolute much detail as we can.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
I'd just echo that. The core business, our processes haven't change. If anything, they've improved. And to Elisha's timing issue, if LINAC  
moves one day outside of the quarter, that's basically $0.01 a share for us. I think we've done a really good job of managing our overall  
earnings and EPS forecasting. The revenue forecasting, with protons, is where it gets tough. And that's where we had the miss this  
quarter.  
   
Amit Hazan SunTrust Bank - Analyst  
Fair enough. I appreciate the commentary. Thanks, guys.  
   
Operator  
Thank you. Our next question comes from Anthony Petrone with Jefferies. Please state your question.

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Anthony Petrone Jefferies & Co. - Analyst  
Thanks, guys, and good afternoon. How are you, Dow? I'm just to start on Oncology for a second there. Dow, your comments last quarter  
talking about large orders that were initially signed with hospitals in the US, some of those LINACs potentially could have booked this  
quarter and next quarter. I'm just wondering if there's an update on -- actually, if there was any orders that were signed in the fiscal  
second quarter that were booked this quarter and how should we be thinking about that for the fourth quarter?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
You know, I think, as we mentioned last quarter, we continue to see large orders. And yes, we do see some move from quarter to quarter.  
But I think at this point now, it's equal. What moved from last quarter into this quarter moves from this quarter into next quarter,  
different ones. So we do look at every one of these very hard. But I'd say in any given quarter, depending on the size of an order, it can  
move the number around. And we don't guide to orders. And it's maybe made the predictability of orders forecasting a little bit tougher.  
But we do continue to see large orders. These large orders contain complex equipment with multiple year deliveries and a little more  
complexity on that side of the order, as people consolidate a couple years worth of purchases together, and then across multiple sites. So  
we are seeing that in any given quarter, it maybe goes one direction or the other.  
I think at this point, at least coming into Q4, yes, there were some orders that we thought we would've booked at the end of Q3. We'd  
have loved to have them. They're going to happen in Q4. Are those going to be incremental to our number in Q4? I couldn't look you in  
the eye and tell you one way or the other.  
   
Anthony Petrone Jefferies & Co. - Analyst  
Right. Right. And maybe just a quick follow-up on that and then move over to proton. So is it safe to say your book-to-bill clearly has  
extended here the book-to-bill cycle, but is there any number around by how much that's actually extended?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
You know, I think it's hard to tell because of the continued globalization of the business. I'd say in the US, we probably are seeing the  
book-to-bill extend a little bit. But outside of the US, it's a tender driven business. Once the tender's done, people want their equipment. I  
haven't done the analytics, but I'd say on balance, it probably hasn't changed that much. Elisha, anything to that?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
No. I think that's it.  
   
Anthony Petrone Jefferies & Co. - Analyst  
And just to round out with proton, just to stay that, on the lumpiness. Maybe Dow and/or Elisha, can you maybe go into a little bit as to  
actually where you're actually seeing the delays. I know these are complicated construction projects. These project delays, are they  
financial delays or maybe something else that we're just not seeing from the outside looking in?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
No, it just has to do with the timing of the projects. So if a date gets delayed when they're ready for equipment by a quarter, then we're  
not going to build as much inventory quite as fast, and so we're not incurring the cost. If we're waiting on a gantry that we purchased to  
be delivered to go into our cost structure and that gantry hits in one quarter versus the other -- it's those -- it's just everything about  
proton is small number, great big dollar. And it just moves us from one quarter to the next.  
   
Anthony Petrone Jefferies & Co. - Analyst  
And last one on proton, and I'll jump back in, is as we've been hearing a lot about single vault systems, and you guys had the FDA  
approval for ProBeam. So how is that playing out there in the marketplace? Is there more of a discussion on price and are some of these  
contracts maybe slowing down because they're considering single vault units, et cetera? But maybe a little bit of color over there would  
be helpful. Thanks.

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Dow Wilson Varian Medical Systems, Inc. - President, CEO  
We've had a pretty good year so far. We've booked three systems this year. We're competing on a large number of projects. So we  
continue to feel pretty bullish that the proton business can be a $200 million to $300 million business for us.  
There's noise about compact machines. We have our own probing compact machine. We've got several customers looking at that  
machine. It has several advantages. It's the only compact machine on the market with full 360-degree rotational gantry capability. And  
it's got the best intensity modulated proton therapy capability which, over at the PT Cog, the proton therapy meeting in Shanghai last  
month, that was all the news. It felt a little bit like 2000, 2001 and IMRT. And we feel very good about our position with that capability.  
And the short version is the feedback from customers is multi-room or single room, don't want to do proton therapy without scan beam  
capability. And so we feel great about our position there. We have not seen a lot of growth in that compact room market yet. There's  
others that have got some early share, maybe a year or two ago. But there hasn't been a big increase in recent orders, because people  
want scan beam technology. And until there's a scan beam option in that market, it's not going to grow. And that's why we feel very good  
about our position. We do have scan beam capability with that probing compact product. And we are in discussions with a few customers  
about -- worldwide about taking on that product.  
   
Anthony Petrone Jefferies & Co. - Analyst  
Thank you.  
   
Operator  
Our next question comes from Vijay Kumar with ISI Group. Please state your question.  
   
Vijay Kumar ISI Group - Analyst  
Hello, guys. Thanks for taking my question. I guess my first one, Dow, you guys have been talking about this replacement cycle in the US.  
So can you just sort of talk to us, because I think some of the signs that we are seeing, you're seeing utilization pick up. I think some of the  
commentary from hospitals are sounding more positive. They do feel like the purse strings are loosening up. If these trends were to play  
out, do you feel like the replacement cycle is finally going to happen and can we get more comfortable, more positive on the timing?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
You know, I think the challenge is the freestanding market. The hospital replacement market, I think as we said, that now 90% of our  
Oncology orders is the US hospital market. The freestanding centers as a percentage of installed base, it's a strong third of the US  
installed base. And they are not replacing. That replacement market is very, very quiet.  
And until we see some movement there, I think -- the good news is the hospital market is moving, and we're seeing some nice action on  
the hospital side. But that's not enough to offset the one third of the installed base that's the freestanding market. And that one third is,  
at least at this point, very quiet replacement cycle. I think for that to happen, we'd need to see some movement in reimbursements. And  
as I mentioned in the call, that's why there's a lot of consensus and activity going on around getting this vault calculation back in the  
reimbursement scenario for freestanding customers.  
   
Vijay Kumar ISI Group - Analyst  
That was helpful. And maybe one for Elisha. You guys have probably been one of the most balanced cap allocator, very shareholder  
friendly. You've done all the actions right. And so I guess, if you're looking at this new environment, Elisha, to Dow's point, if the  
freestanding centers remain anemic, what else can you do from a balance sheet capability? Like have you guys thought about traditional  
avenues if (inaudible) create shareholder value?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Vijay, I'm not exactly where sure you're going with this. We are using our balance sheet strategically to go in and offer financing. It's on a  
fairly limited basis. We don't want to go crazy with this. But when we can win business by offering terms in a zero interest rate  
environment, we are doing that.

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I think we've got the ability to step up a lot more in terms of our proton financing. I don't know that we'll do like we did at Scripps on our  
first one, where we essentially financed it all until it was built, or the vast majority. But I do anticipate that we're going to participate in  
these proton projects, to some extent, going forward.  
We'll continue to spend more than our cash flow from operations in the US on share repurchase. We buy 1 million to 2 million shares per  
quarter. And I think you should expect that, at least in the short term, that should continue. But if you were going with us, I don't think  
we're going to actually buy or invest in customer centers and then be competing with our other customers.  
   
Vijay Kumar ISI Group - Analyst  
Got it. And maybe if I could sneak one last one in. On the tax rate, Elisha, what are your thoughts in longer-term tax structure?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Well, we've been able to bring the tax rate down over the last several years by, I don't know, 50 to 100 basis points a year. Right now, it's  
going to kind of depend in the short term on whether this R&D tax credit gets extended or not. But as we are selling more international,  
all things equal, that helps on the tax rate. So I think for the fiscal year, we'll be around 28%. If I look back several years ago, we were in  
the low to mid 30s. So we're ticking down, as we become more and more international, all things equal.  
   
Vijay Kumar ISI Group - Analyst  
Thanks, guys.  
   
Operator  
Our next question comes from Jason Wittes with Brean Capital. Please state your question.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Hello. Thanks for fitting me in. Wanted to ask again about just proton revenues and recognition. I think what you said earlier was roughly  
beginning of the year, you were thinking about $100 million to $150 million of proton revenue this year. And I think, assuming we get  
Maryland, it's going to fall in the $110 million to $115 million range. Does that mean that the roughly $20 million to $25 million or so  
revenues that we should have seen this year was just getting pushed into next year, mainly because of project delays and things like  
that? Is that the right way to think about it?  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Yes.  
   
Jason Wittes Brean Capital, LLC - Analyst  
And specifically, which projects? I assume everything that's ongoing right now has seen some kind of small delay, and that's what's  
contributing to this?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
We've got 8 or 9 in the backlog, and I'd say 4 or 5 are impacting the number.  
   
Jason Wittes Brean Capital, LLC - Analyst  
4 and 5 that are basically started construction.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Yes, started to recognize revenue.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay. And then it sounds like with some refinancing from Scripps, you can use that for other projects, and perhaps even like a Maryland,  
use that to push -- get them over the gap, in terms of financing and then finally recognize revenues. Is that a reasonable assumption to  
look at it that way?

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Elisha Finney Varian Medical Systems, Inc. - CFO  
That is a distinct possibility. And I think you should assume that we will likely be in the facility at some level. But not -- I don't expect, at  
this point, that we would be a majority participant.  
   
Jason Wittes Brean Capital, LLC - Analyst  
But it sounds like that would be enough potentially to bridge them over the gap and allow you to recognize revenue, or hopefully.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Hopefully.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Hopefully. Fair enough. And then I just wanted to ask -- I think your commentary was pretty accurate, or pretty much in line with  
everybody else's thinking in terms of reimbursement. The hospitals look like they're up slightly. The freestanding clinics again took a hit. I  
guess the question is, I assume that will basically stall anything going on at the freestanding clinics in terms of purchasing until things  
are decided in November. But also, do we have a risk --  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
Jason, the only thing I'd say is I don't know that it stalls anything, because it's already stalled.  
   
Jason Wittes Brean Capital, LLC - Analyst  
I was going to put that distinction in. That's a fair -- I agree with that. But curious if there's something in the backlog that could  
potentially be written down, as we saw at the beginning of last year -- or the end of last year. Just because there may be a big contract in  
there that could be impacted by --  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
We look at it very hard every quarter now. We're very comfortable with our order booking guidelines.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
I can't predict cancellations. That's just something we have to take as they come.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Fair enough. And then just one last question on proton. There was a question about single room centers, which appear to be emerging. I  
guess, if you looked over the next two years, do you see them playing an important role in the market itself, or do you still think that the  
focus is going to be in the larger 3 to 5 room centers?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
I think the focus is going to be, to link this to a previous question, is going to be can you demonstrate the clinical evidence of the  
advantage of this proton therapy. And to really get that, you need good intensity modulated proton therapy. And therefore, you've got to  
have scan beam technology. And that's what people are going to be looking at.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay. That's fair. I appreciate that. Okay. Thanks a lot guys. I appreciate it.  
   
Spencer Sias Varian Medical Systems, Inc. - VP, IR  
We have time for one more question. We're over the top. But I'm sorry we couldn't get to everybody. But this will be the last question.  
   
Operator  
Thank you. Your final question for today comes from Jeremy Feffer with Cantor Fitzgerald. Please state your question.

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Jeremy Feffer Cantor Fitzgerald - Analyst  
Good afternoon, guys. Thank you for squeezing me in. Most of my questions have been answered. I will just ask this one. A follow-up to a  
previous question about Service versus Systems within Oncology. You mentioned System's been down. Is that more units, or comment a  
little bit on the pricing dynamics going on.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
It's really more a reflection of units. The pricing is a hard question to answer, because for instance, if it's a TrueBeam versus a unique, it's  
very, very different pricing. But I would say apples-to-apples machine-to-machine pricing is holding.  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
And you can see that in the margin rate.  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
Okay. And sorry, I'll squeeze last one in. You talked about this obviously is an investment year. I know we're not talking about 2015  
guidance just yet. I'm just wondering how we think about, I guess in general terms, margin performance going forward. Can we expect  
small bits of leverage, obviously correcting for variations in proton, but just in the core business, can we expect a little margin expansion  
over time?  
   
Dow Wilson Varian Medical Systems, Inc. - President, CEO  
We'll see in 90 days. (Laughter)  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
I want to know now.  
   
Elisha Finney Varian Medical Systems, Inc. - CFO  
Not guidance, Jeremy, but I said we're going to try and manage the business to get a small amount of leverage. We're kind of at the top  
when it comes to our EBIT margin relative to the medical device space. But we are going to manage for incremental improvement,  
generally by growing corporate expenses slower than we grow the top line.  
   
Jeremy Feffer Cantor Fitzgerald - Analyst  
Okay. Appreciate that. Thank you very much.  
   
Spencer Sias Varian Medical Systems, Inc. - VP, IR  
Thanks, all. Thank you for participating. A replay of this call can be heard on the Varian investor website, at www.varian.com/investor.  
It'll be archived there for a year. To hear a telephone replay, dial 1-877-660-6853 from inside the US, or 201-612-7415 from outside the  
US, and enter confirmation code 13585004. The telephone replay will be available through 5 PM Friday, July 25. Thanks very much.  
   
Operator  
Thank you all. You may disconnect. Have a great evening.  
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reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

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PRESENTATION  
   
Operator  
Greetings and welcome to the Varian Medical Systems Fourth Quarter FY14 Earnings Results Conference Call.  
(Operator Instructions)  
As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Spencer Sias, Vice  
President of Investor Relations. Thank you, Mr. Sias, you may begin.  
   
Spencer Sias Varian Medical Systems - VP IR  
Thank you. Good afternoon and welcome to Varian Medical Systems Conference Call for the Fourth Quarter of FY14. With me are Dow  
Wilson, President and CEO, Elisha Finney, CFO, and Clarence Verhoef, our Corporate Controller. Dow and Elisha will summarize our  
results and will take your questions following the presentation. To simplify our discussion, unless otherwise stated, all references to the  
quarter or year are fiscal quarters and fiscal years.  
Quarterly comparisons are for the fourth quarter of FY14 versus the fourth quarter of FY13. Please be advised that this presentation and  
discussion contains forward-looking statements. Our use of words and phrases such as outlook, believe, expect, will, and similar  
expressions are intended to identify those statements which represents our current judgment on future performance or other future  
matters.  
While we believe them to be reasonable based on information currently available to us, these statements are subject to risks and  
uncertainties that could cause actual results to differ materially. Some of the important risks relating to our business are described in our  
fourth quarter earnings release and in our filings with the SEC. We assume no obligation to update or revise the forward-looking  
statements in this presentation and discussion because of new information, future events, or otherwise.  
As a reminder, please mark your calendars that Varian will be hosting its annual year-end meeting for investors at the Westin Grand  
Central hotel in New York from 11:30 AM until 1 PM on November 5. Details are posted on our Investor Relations website. We hope to see  
you there. Now, here is Dow.  
   
Dow Wilson Varian Medical Systems - President, CEO  
Thanks, Spencer, and welcome, everyone. We are reporting mixed results for the fourth quarter of 2014 with strong gross orders growth,  
but earnings that fell short of our expectations for two primary reasons. Earnings were $1.02 per diluted share. We did not book the  
Maryland Proton Therapy Center Project, which would've added $0.17 per diluted share, and we had $0.09 per share diluted share  
impact from an unusually high increase in our tax rate. Elisha will explain this in more detail later. Now, let me summarize the rest of the  
quarter.

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We are reporting strong gross orders growth in our Oncology Systems business with several major wins in North America and Europe and  
continued double-digit strength in emerging markets; healthy order growth, but flat revenues in our Imaging Components business;  
total Company backlog of 10% at $3.2 billion, including an 8% gain in our core businesses; revenues of $812 million up 5% from the  
year-ago quarter; gross margins down in Oncology Systems and up in Imaging Components and continued investment in R&D and SG&A  
to support our product roadmap and global expansion.  
Oncology Systems gross orders grew 9% to $918 million for the quarter. Gross orders for Oncology grew 11% in North America, aided by  
multi-system network wins at several customers. We also saw one of the strongest ever quarters in Canada. Performance in North  
America was helped by the sale of integrated systems combining linear accelerator software and stereotactic radiotherapy and  
radiosurgery offerings.  
Our Oncology gross orders grew 4% in EMEA during the quarter, with significant wins in the UK, Switzerland, France, Germany, and Italy.  
We were particularly strong in the UK where we were selected to supply eight TrueBeams and a full suite of software to Guy's and St.  
Thomas Hospital in London. Just a year after the UK National Health Systems supply chain ordered 20 TrueBeams, we received an order  
for a further 10 TrueBeams, demonstrating the strong demand for this system among the country's hospitals.  
We also saw orders for our first two Edge radiosurgery systems in the UK, which will be installed at the Clatterbridge Centre for Oncology  
near Liverpool. Other highlights in our EMEA region included orders for our first two TrueBeams in Bulgaria and 12 TrueBeams ordered  
by a large customer in India. Our team in India generated strong gross order growth for the quarter and for the year.  
Total orders for BRICA territories, including Brazil, Russia, India, China, and Africa grew by about 35% during the quarter, with particular  
strength in Brazil and India. BRICA orders were up by 25% for the year. In Brazil, we booked more than $30 million of the major Brazilian  
Ministry of Health tender that we were awarded a year ago, helping the Latin America region to grow by more than 60% during the  
quarter.  
Even without orders from the Brazil tender, gross orders for Latin America were up by 10%. We continue to make progress in China with  
strong unit volume growth and a mix shift toward lower cost units in hospitals that are striving for more cost-efficient care. Our global  
oncology service business continued to see double-digit growth with gross orders increasing 11% for the quarter and 12% for the full year.  
Overall machine volume rose significantly during the quarter, which will expand our installed base and set the stage for continued  
growth. Service was 40% of the total oncology revenue for both the quarter and the year. It's been trending up as a percentage of total  
oncology business and we expect that this will continue. Software was a highlight of our exhibit this year at ASTRO in September where  
we featured new cloud-based software and data analytics tools that we believe create the opportunity to double our software business  
over the next few years.  
We believe data analytics is the next frontier for our software business. Our customers are excited about the potential of mining their  
data for better decision-making and improved clinical outcomes. We had more than 900 attendees at our users meeting at ASTRO and  
there was tremendous interest in our new software tools. These products included FullScale, our cloud-based oncology information  
system for remotely managing clinical information and treatment planning data with greater cost efficiency.  
We recorded more than $20 million in gross orders during the year for this product. InSightive Analytics, our new interactive dashboard  
that enables clinicians to aggregate, organize, and present data from their operations for more informed decision-making. Customer  
interest in this product at ASTRO was tremendous. Velocity, for consolidating and compiling historical patient images and treatment  
data from numerous sources to guide clinicians in the next treatment decision for the patient.  
And RapidPlan, our knowledge-based treatment planning tool for enhancing the quality and efficiency of treatment planning. Orders for  
this product were up sharply in the fourth quarter. Each of these products is priced at over $100,000.  
Let me turn now to our imaging components segment. Gross orders for this segment increased 16% to $234 million. This was driven  
mainly by a more than $40 million order for security and inspection products that we expect to deliver over the next two years.

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Orders for our x-ray tubes grew in mid-single digits in the quarter, but were down for the year. We continue to push for new OEM  
customers during the quarter, while working to broaden the range of tubes we can offer, as well as the markets we serve. Panel gross  
orders were up in low double-digits for the fiscal year, but down for the quarter versus a tough year-ago comparison. During the quarter,  
we made our first shipments of integrated panels and software for our veterinary imaging system.  
The Company's other category, which is comprised of the Varian Particle Therapy business and the Ginzton Technology Center, recorded  
gross orders of $3 million in the fourth quarter. For the full year, gross orders for this segment were $120 million, up substantially from  
the previous year. Customer financing of the Maryland Proton project was not sufficiently completed to enable us to book an order for  
that project during the quarter.  
We expect to book this deal when customer financing is completed and we will announce it at the appropriate time. As of the end of the  
year, our backlog included booked orders for proton therapy projects in Saudi Arabia, Russia, Cincinnati, Taiwan, and the Paul Scherrer  
Institute in Switzerland. The Scripps installation in San Diego is essentially complete and is now generating service revenue. In addition  
to Maryland, proton contracts not yet financed or booked include proton centers in Atlanta and in Dallas. Now, I'll turn it over to Elisha.  
   
Elisha Finney Varian Medical Systems - CFO  
Thanks, Dow. Following Dow's lead, I'm going to begin with a little more detail on the two significant items that impacted earnings in the  
quarter. As Dow mentioned, we did not book an order for the Maryland Proton Therapy Center because our customers' financing was not  
sufficiently completed by fiscal year end. Consequently, we did not record an estimated $70 million in revenue for the project in the  
quarter, which would have added about $0.17 per share to our earnings.  
Earnings for the quarter were negatively impacted by about $0.09 per diluted share, as a result of an increase in the annual effective tax  
rate. For the first three quarters of the fiscal year, our estimated annual tax rate was about 28%. We ended the year with a rate closer to  
30% with the full impact of the change resulting in a 6 point increase in the fourth quarter tax rate.  
The increase in the tax rate was caused by two primary factors. First, the dollar strengthened significantly right at the end of September,  
which led to a currency fluctuation impact on our taxes of approximately $0.06 per diluted share. Secondly, taxes were also about $0.03  
per diluted share higher than anticipated because the Maryland project was not booked. With that, let me begin my normal  
walk-through of the constant currency growth rates, as well as the P&L and balance sheet for the quarter.  
Currency exchange rates had virtually no impact on overall growth orders and revenues versus the year-ago quarter, principally because  
the euro and yen offset each other. Oncology gross orders for the quarter increased 9% in both dollars and constant currency. Oncology's  
North American gross orders were up 11% in dollars and up 12% in constant currency. EMEA gross orders increased 4% in dollars and 2%  
in constant currency due to the strengthening of the euro quarter-over-quarter.  
Asia, where we saw a slight weakening of the yen, was down 3% in dollars and down 1% in constant currency. Oncology gross orders in  
the small rest of world market grew by about 45% in dollars and constant currency. Turning to the P&L, fourth quarter revenues for the  
total Company increased 5% in both dollars and constant currency and for the full-year, total Company revenues were up 4% in both  
dollars and constant currency.  
Oncology Systems posted a 6% increase in revenues during the quarter with revenues split roughly 47% in North America and 53%  
outside North America. For the full-year, Oncology revenues rose 4% to $2.3 billion with a similar geographic split. Service revenues rose  
11% in the quarter and 9% for the year, accounting for 40% of total Oncology revenues. Imaging components posted fourth quarter  
revenue equal to the year-ago period with 6% gains in flat panels offset by declines in the x-ray tube and security and inspection  
products.  
For the year, Imaging Components revenues increased 3% with 9% growth in panels, partially offset by declines in tubes and security and  
inspection products. Revenues in the Other category increased by 30% to $22 million for the quarter. Annual revenues were $45 million,  
down 6% from the prior year. Total Company gross margin for the quarter was 41.9%, down 79 basis points from the year-ago quarter,

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largely due to a higher mix of proton business.  
For the full year, total Company gross margin was 42.7%, up 22 basis points from the last year. Oncology Systems' fourth quarter gross  
margin was 42.6%, down 36 basis points from the year-ago period, due largely to product and geographic mix. For the full year,  
Oncology Systems gross margin was 43.6%, up 23 basis points from last fiscal year, with favorable product mix. Imaging Components  
gross margin for the quarter was 43.7%, up 88 basis points from the year-ago period, due to higher panel volumes, product cost  
reductions, and improved cost of quality.  
For the full year, Imaging Components' gross margin was 42.2%, up 43 basis points from last year, with a higher mix of panel shipments,  
as well as productivity gains in tubes. Fourth quarter SG&A expenses were $122 million or 15% of revenues, up more than 0.5 point from  
the year-ago quarter, due to our continued investments to expand our global infrastructure. We also incurred higher sales and bonus  
incentives associated with the strong orders growth.  
For the year, SG&A expenses rose 1.5 points to 16% of revenues with about 1 point of the increase due to the University of Pittsburg  
patent litigation settlement and the impairment of a portion of our investment in Augmenix. Fourth quarter R&D expenses were $59  
million or 7% of revenues even as a percentage of revenue with the year-ago quarter. For the full year, R&D expenses were $235 million  
or 8% of revenue, up more than 0.5 point as a percent of revenue as we continue to invest in our product roadmap.  
Fourth quarter operating earnings totaled $159 million or nearly 20% of revenues, down a little more than 1 point due to the lower gross  
margin and higher SG&A spending. For the full fiscal year, the operating margin was 19% of revenues, down 2 points from the previous  
year with 1 point due to the [UPitt] and Augmenix charges. The other 1 point decline in operating margin for the year was due to higher  
spending in R&D and SG&A to support global growth consistent with our year of investment strategy.  
Depreciation and amortization totaled $18 million for the quarter and $64 million for the fiscal year. The effective tax rate for the fiscal  
year was 29.7%, which led to a 33.9% tax rate for the fourth quarter. Fully diluted shares outstanding decreased from the year-ago  
quarter to 103.5 million, due largely to our ongoing share repurchase program. Diluted EPS was $1.02 for the fourth quarter and $3.83  
for the fiscal year, including a $0.22 impact from the patent settlement and Augmenix impairments.  
Turning to the balance sheet, we ended the quarter with cash and cash equivalents of $849 million, debt of $438 million, and  
stockholders' equity of $1.6 billion. DSO at 85 was equal to the year-ago quarter and improved 10 days from the third quarter with strong  
collections and higher revenues. Fourth quarter cash flow from operations was about $200 million, significantly higher than net income,  
due to working capital improvements.  
Year-to-date cash flow from operations was about $456 million. The primary use of cash was $210 million toward the repurchase of 2.5  
million shares of stock. At the end of the quarter, we have 6 million shares remaining under the existing repurchase authorization that  
extends through calendar year 2015. Now, I'll turn it back over to Dow for the outlook.  
   
Dow Wilson Varian Medical Systems - President, CEO  
Thanks, Elisha. FY14 was a year of investment aimed to stimulate long-term top line growth for the Company and we've made good  
progress. We're focusing now on restoring our more normal operating expense levels to maintain margins and improve earnings growth.  
In the first quarter of FY15, we expect to take a restructuring charge of an estimated $13 million or $0.09 per diluted share to realign and  
reduce our staff levels through programs including an enhanced retirement plan.  
For FY15, we expect revenues for our Oncology Systems and Imaging Components businesses, as well as proton orders currently in  
backlog to grow in the range of 5% to 6%. Including the $0.09 per diluted share restructuring charge, earnings for the Company should  
be in the range of $4.16 and $4.26 per diluted share. Our guidance excludes contracted proton projects that are not yet financed or  
booked into backlog.  
If these projects are booked during the year, the potential upside in revenues and profits could be significant. For the first quarter of FY15,  
we expect combined revenues from our Oncology Systems and Imaging Components businesses, as well as proton orders currently in

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backlog to grow by 0% to 2%. Earnings per diluted share for the total Company, included the expected $0.09 per diluted share  
restructuring charge, should be in the range of $0.76 to $0.80. We're now ready for your questions.  
QUESTIONS AND ANSWERS  
   
Operator  
(Operator Instructions)  
Jeff Johnson, Robert W. Baird.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
We're 20 minutes into the call and you guide $0.15 -- $0.50 below the street and I haven't really heard an explanation. I guess I'm  
confused, very confused where the $0.15 EPS guidance and maybe a bridge to that, Elisha, if I look at the street at the $3.00 to $4.74,  
granted maybe some of those included Maryland and my number included Maryland pushed to $0.15. But even if I give you $0.09 back  
on the restructuring and if I assume currency was a bit of a hit that maybe we weren't modeling correctly, I still can't get anywhere close.  
The last thing I'd comment on there before I give it back to you guys is, I know you talk about R&D finally being in 2015 at a point where  
you can get maybe a little leverage off it or at least a doesn't grow faster than revenue. The revenue guidance looks okay if you take -- if  
you make some adjustments around a couple different factors. So it's all EPS and yet, it's not going to be R&D, it's not going to be  
revenue. I'm confused as to where that big miss is coming at the EPS line.  
   
Elisha Finney Varian Medical Systems - CFO  
Jeff let me just start with Q4 and give you the walk from what we said last quarter to where we ended up this quarter. The guidance is the  
$1.14 with the $1.29 with the $0.15 delta attributed to the Maryland Proton Project as we talked about on the last call. If I start with $1.02  
that we are reporting, Maryland would have added $0.17 to the quarter and that's really because it's more profitable than we had  
thought.  
I've learned to kind of hedge my bets with proton deals and so when it was going to stay in, yes, it was at the $0.15 level, when it came  
out, it was at the more profitable $0.17. The tax rate, we had about a $0.06 impact from euro moving literally the last two days of the  
fiscal year when our balance sheets translate and we had a huge hedging gain in the US that was offset almost exactly by our subsidiary  
losses for a gap for the P&L, the pretax profit.  
But our hedging gain was taxable in the US because our subsidiaries hold their books from a statutory tax accounting in local currency,  
they do not have a loss with an offsetting tax deduction. So a highly unusual event. In my 15 years in this job, I do not recall having any  
impact anywhere close to that and it was just given a huge fling in the currency right at the year end which had to be reflected in the Q4  
tax rate.  
Then $0.03 additional, we missed out on tax benefit associated with Maryland where we have some NOLs in Germany that we could have  
taken credit for. So that's the guidance walk. If there's a mea culpa here, it's really Maryland was more than the $0.15 spread that we had  
put on the quarter. It ended up being the $0.17 of profit plus the additional $0.03 that we didn't get in the tax.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Elisha, I guess I fully understand that and I think most of us are probably willing to say you guys would've been at the upper end if not  
beat most of the street numbers for the fourth order. I'm talking 2015 guidance where EPS is coming in some $0.50 below the street and  
that's where I'm so confused.  
   
Elisha Finney Varian Medical Systems - CFO  
Okay. I won't ask you to bear with me on the tax again because it had the same impact for the year and the quarter but if I start with our  
GAAP number --

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Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
But not 2014, I'm talking about your guidance for 2015, just to be clear.  
   
Elisha Finney Varian Medical Systems - CFO  
Sorry, Jeff, sorry. Let me just walk you through the various elements of the P&L from the guidance.  
Revenue up 5% to 6%. Our Oncology and ICB businesses together are going to stay in the mid-single digits and then our proton  
business, the core proton deals that are already in backlog should be somewhere between $60 million and $70 million, which is up about  
40% year-over-year.  
I have to say I'm a little nervous around exchange rates right now. We already know, going into Q1, we're at a much different rate than we  
were in the year ago period. We're hedging our bets a little bit on the euro exchange rate on that revenue number.  
Gross margin should be 42% to 43% for the total company with oncology in their long-term range of 43% to 44%, ICB in the low 40%s,  
and then a single-digit gross margin rate for the proton deals that are in backlog. It's going to put your EBIT margin at around 19% to  
20% and that's about even with FY14 with more proton revenue.  
Tax, I'm putting a little broader range on it, again to reflect the currency movement we saw about 28% to 30%, which gets me to, what  
I'll call, non-GAAP EPS of $4.25 to $4.35. Significant upside potential from the proton deals, but we wanted to take the downside  
volatility out of the guidance and I want to thank you and several others who gave us that suggestion to think about. Then we've got the  
$0.09 restructuring charge that gets you to the $4.16 to $4.26.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
Okay. We'll just take this offline because I'm still $0.30 off from your number, even if I drop that down at 20% EBIT margin and other  
stuff in your revenue guidance so --  
   
Elisha Finney Varian Medical Systems - CFO  
Jeff, you maybe starting with kind of the non-GAAP number for 2014. I don't know. I'm happy to walk you through it, but that's the detail.  
Then PT could add, if you just take Maryland, it's $0.17 plus the $0.03, and then Emory is about the same profitability. So that may be  
where your delta is, is we are including nothing in Maryland or Emory in our guidance.  
   
Dow Wilson Varian Medical Systems - President, CEO  
The lesson we learned here from 2014, Jeff, is if it's not financed on the proton side, the timing is just too unpredictable.  
   
Elisha Finney Varian Medical Systems - CFO  
Yes.  
   
Dow Wilson Varian Medical Systems - President, CEO  
Based on the feedback we received from a number of you, we've taken that out of our guidance. It does represent significant upside for  
us, but obviously, we're not proud of this fourth quarter and it not being in the fourth quarter earnings had a huge impact on us. We think  
the customer continues to move it along and we're confident it's going to happen, but it has yet to happen. The timing is so difficult to  
predict that we've just taken it entirely out of guidance.  
   
Jeff Johnson Robert W. Baird & Company, Inc. - Analyst  
All right. I've dominated the first few minutes here and I have a feeling there will be other questions on this. I'll get back in queue and  
we'll talk offline. Thanks, Elisha.  
   
Operator  
Amit Hazan, SunTrust.

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Amit Hazan SunTrust Robinson Humphrey - Analyst  
Let me start to clarify around the 2015 guidance. Number one, just give us a sense of how much proton revenue there is, maybe  
theoretically or that could come in next year that's not in your guidance?  
   
Elisha Finney Varian Medical Systems - CFO  
Okay. What is in my guidance is in the script, $60 million to $70 million and those are Russia, Saudi, Cincinnati, all of the deals that we  
have booked into our backlog and we're starting to move forward on those deals.  
What is not in there is the $70 million that was as of the end of the fiscal year. Of course, as we complete more on these projects, it's the  
percentage of completion. But clearly, we could have up to as much as $140 million of additional proton revenue stemming from these  
three deals that we have signed that have yet to get their financing totally completed at this point.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Okay. Getting back to what I was expected to see for next year is really talking about leverage. You've excluded -- I know your proton  
going to grow a little bit, but you've excluded a lot of your proton stuff from 2015 guidance. I think about your business, your North  
America Oncology orders grew faster in the last year and Service is obviously growing very fast and that's a high-margin.  
Why shouldn't we see leverage next year? You're taking a hit for some of the one-time offsetting you were planning to do in the first  
quarter. Shouldn't you be improving your operating margin in 2015? Why is that not happening?  
   
Elisha Finney Varian Medical Systems - CFO  
The proton gross margin is going to be lower, so if all that proton revenue materializes, it does have a downward impact on the gross  
margin for the total company. It absolutely gets us a great deal of leverage in the R&D and the SG&A spending. If I look at FY15, there's  
also a restructuring charge and I want to make sure that we've talked about that being in the first quarter.  
It's really the gross margin for the total company down a little bit. Oncology should be right in the range that we've talked about. ICB will  
be in the low [40%s], but you have a proton business at a significant lower gross margin with higher sales year-over-year.  
   
Dow Wilson Varian Medical Systems - President, CEO  
The other thing I'd add here is we were very gratified by the orders volume we saw in Q4. That was great.  
The first three quarters were lighter and so we've kind of got that flowing through the first half of the year. We've got some tough foreign  
exchange that we're looking at as it comes out of backlog and into sales.  
Then the other thing that we've got in the Oncology business in 2015 is we will be taking our first Brazil units to the P&L, which I think  
Oncology's going to be fine overall, but kind of a better mix of the US orders and software orders overall can be offset a little bit by the  
Brazil pressure we have as we deliver these units down in Brazil.  
   
Elisha Finney Varian Medical Systems - CFO  
If you take out the restructuring cards, the EBIT margin is right at about 20% in FY15.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Are you actually showing leverage in 2015 if you take out proton?  
   
Elisha Finney Varian Medical Systems - CFO  
I have not run it, but yes. I'll run that very quickly for you, Amit, but I think we would get some leverage.  
I'd have to back out the proton revenue, back out the gross margin. I haven't done that math right here in front of me, but we are growing  
R&D and SG&A slower than the top line next year if you exclude PT.

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Amit Hazan SunTrust Robinson Humphrey - Analyst  
Okay. Let me get back to the top line for a second, because I understand what you're excluding and that totally makes sense.  
But 5% to 6% top line growth, if I look at your backlog ending your fiscal year, you've got Oncology up 7% in backlog, Imaging  
Components up a lot more. Service, obviously, not in there, but growing faster. It sounds like your order trends are pretty good and  
maybe you can comment on how you're thinking about that going forward on the order side. But why the 5% to 6% guidance if  
everything that I'm looking at in backlog is looking stronger than that?  
   
Elisha Finney Varian Medical Systems - CFO  
A lot of our growth in backlog came right at the end of the fiscal year and so we need to make sure that all of that is going to deliver in  
FY15. Additionally, I am looking at exchange rates today that are vastly different than where we were in the year-ago period. To be  
conservative, we're using today's rate. That could either work for us or it could work against us, but the dollar is pretty strong right now  
and that's what we're using as we as figuring out FY15.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Okay, so maybe I'll make my final question, what would be your constant currency guidance for top line growth for 2015?  
   
Elisha Finney Varian Medical Systems - CFO  
I'm not going to guide to that, Amit. It's at the $1.26, $1.27 level so you can make assumptions on the yen, the Canadian, the euro and try  
and back into a number. But obviously, it would be higher because the currencies have moved significantly against us.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Okay.  
   
Elisha Finney Varian Medical Systems - CFO  
Probably out 1 point or so.  
   
Amit Hazan SunTrust Robinson Humphrey - Analyst  
Okay. Thank you.  
   
Operator  
Tycho Peterson, JPMorgan.  
   
Tycho Peterson JPMorgan - Analyst  
First one on margins, specifically on Oncology margins, you noted some slippage there. I know your guidance for next year is 43%, 44%  
for Oncology. But as we think about more of the business internationally, why isn't there risk of further erosion within the oncology  
margin?  
   
Elisha Finney Varian Medical Systems - CFO  
It's driven by the increase in service, which has been growing in double digits, which is in the low to mid-50% margin range. And we think  
we're going to get a resumption of software revenue moving into this year, just given the very strong orders growth in software products  
that we had. You're absolutely right, with much of that to be offset by the move to outside of North America.  
Net-net, if I look at Oncology on the year, they came right in the middle of that 43% to 44% range, up 23 basis points. Our goal is that we  
can continue for next year to keep Oncology in that 43% to 44% range.  
   
Tycho Peterson JPMorgan - Analyst  
Okay. On proton, we saw the Indiana facility get shut down. Obviously, that wasn't yours, but can you maybe just talk about whether  
people are reevaluating the value proposition here and the returns on proton investment? Is there kind of a change in the landscape  
there?

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Dow Wilson Varian Medical Systems - President, CEO  
I think there's a number of issues around proton. Clearly, one of the things driving protons is the inherent physics, the advantages of the  
drag peak and the ability, really, to reduce dose to healthy tissue. One of the things that we identified when we acquired ACCEL 7 years  
ago was their technology for doing intensity modulated proton therapy was the best out there.  
I think in large measure, some of these older proton therapy systems do not have advanced capability for doing IMPT. The analogy holds  
in radiation therapy, if you don't have IMRT capability today, you're nowhere. I think it was as much a technology reason as anything else.  
The Indiana, I haven't talked to them personally, but it was one of the first proton centers in the US. It was older technology, generations  
behind. It's in a tough location. It's an hour outside Indianapolis, an hour plus outside Indianapolis, not in a big location, it has a small  
attachment area.  
They did good work, primarily research, and if you saw the report, it was very costly for them to modernize in that location. We feel very  
good about the partners that we're dealing with. Clearly, the cost of protons is expensive and we have to work on that together to bring it  
down, but the clinical advantages of proton look very, very positive.  
   
Tycho Peterson JPMorgan - Analyst  
Okay. Last one, on reimbursement, you've obviously waiting for final reimbursement here with the assumption that funding goes through  
as most people expect. What are you hearing from customers?  
Is there some pent-up demand potentially once the reimbursement gets put in place? How do you think about maybe the pacing of  
orders the next couple of quarters, post the [Halloween] reimbursement coming out?  
   
Dow Wilson Varian Medical Systems - President, CEO  
Let me say this from the outset, for getting reimbursement for second to just looking at the North American market, the North American  
market was up 11% in the fourth quarter. That's the best quarter we've had in North America in over two years. We really like that.  
The market continues to be a hospital market only. We see very little participation from the freestanding centers. That's 90%-plus of our  
market right now.  
I think what we're seeing in the proposal is that the payments for the hospital market are going to remain okay. We expect them to be up  
1% to 2%.  
We like the fact that the bundled payment for single fraction SRS favors Varian LINACs. It's the same for any SRS SBRT treatment and  
there's no price advantage to any competitor in the marketplace.  
In the proposal, the freestanding rates are going to get haircut again as proposed. The rationale behind that is CMS wants to move the  
vault from a direct to an indirect expense and exclude it from the cost calculation that gets to reimbursement.  
We've had a major effort with our customer partners, with Congress to oppose those cuts. We won't know if those cuts get modified until  
November. We did have a huge chunk of the Senate and the House sign the letter, so I think we've made what argument we can.  
But at this point I'd say, in the proposal, the freestanding centers are looking at another 5%-plus cut. Is it going to impact us? At this  
point, it's less than 10% of our market. We had a good fourth quarter and I'd say our funnel looks pretty good.  
   
Tycho Peterson JPMorgan - Analyst  
Okay. Thank you.  
   
Operator  
David Roman, Goldman Sachs.

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David Roman Goldman Sachs - Analyst  
Dow, a little bit of a follow-up to the commentary you just made regarding the US market and maybe put it in a little bit broader context.  
I think you obviously have faced some headwinds, whether it was reimbursement-related or a freeze in hospital CapEx spending. But as  
we look across the early datapoints we've gotten out of this quarter, the environment does seem better, whether it was comments from  
some of the large industrial players or out of the hospitals themselves.  
Can you maybe just sort of talk about what's the nature of the conversations you're having with customers today? Are you sensing any  
unfreezing of the environment relative to, call it, 12 months to 24 months ago?  
   
Dow Wilson Varian Medical Systems - President, CEO  
I'd say some of the trends that we've talked about before remain. We are seeing the strong get stronger and the good news is they're  
doubling down and investing.  
This last quarter, we had multi-system wins at a number of places. They're betting on technology. They really see the future of SRS and  
SBRT and are making that bet.  
There's a lot of investment in software for oncology information systems. We think we've got a very good position there, being clinically  
rich is very important. That's an advantage we have coming from our space versus some of the enterprise players.  
I'd say conversations with our hospital system partners remain very robust. They're looking at technology as a means of differentiation.  
They're looking at consolidation in their local regional markets and the downside to that is the purchases are bigger and take a little  
longer, but I think we've done very well. On the freestanding side, it's getting very, very quiet.  
   
David Roman Goldman Sachs - Analyst  
Okay. That's helpful. On the imaging business, that has been a very strong contributor to your overall top line growth over the past  
couple years.  
Can you maybe just give us some perspective on where you think we are in the sort of digital conversion? Are we operating at an above  
normal long-term trendline right now or is that a business that can continue to sustain the growth that it has over the past several  
periods?  
   
Dow Wilson Varian Medical Systems - President, CEO  
There's a number of segments, kind of subsegments in here. The flat panel business is really what's driving the digitization. We were up  
13% on the year.  
We had a tough comp in Q4, but flat panel business is going to continue to rock. We see that as very strong.  
The tube business, it participates in the digitization, but it also participates in the analog world. It's a little bit more of a replacement  
business. We were down slightly on the year, so I think that's kind of following the broader trend in radiology.  
In the fourth quarter, we had a huge order in our security and inspection business, $40 million. That's going to make next year in this  
business tough to explain all year, those kind of lumps come and go. But I think, as a continued trend, we'll see a flat panel business  
continue to grow very strongly and tubes will be a little bit of a flattish to slightly up scenario and then security will come and go with big  
customer purchases.  
   
David Roman Goldman Sachs - Analyst  
Okay. A last question on cash and I know you've been very explicit about share repurchases being pretty consistently a priority.  
But as you kind of look at what's gone on over the past couple of years, a deceleration in the overall top line growth rate, a compression

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in your operating margin, and some might argue a peaking in your return on capital metrics in the context of a large cash balance. Why  
not look to get more aggressive on either the M&A front or other external investments that could restore the growth rate or give you  
some more flexibility from a diversification standpoint?  
   
Dow Wilson Varian Medical Systems - President, CEO  
That's a good question, David, and we're looking very hard at it. We've done a couple of acquisitions this year that we're very excited  
about; some pretty small frankly.  
We acquired Transpire and Velocity and they both help out our software business in oncology. We think that's a good opportunity, that's  
a space we continue to look at. They were small acquisitions, but they're already contributing and the funnels -- Transpire a little more on  
margin rate side with some intellectual property that we acquired there and then Velocity, we've had a terrific ASTRO with Velocity.  
We've got a robust funnel of activity there and so I think we've got some good execution on these two most recent acquisitions. We did  
the Calypso acquisition three years ago and I'd say that's been slow, but now with SBRT starting to take off, we are seeing some nice  
growth kind of on the horizon of Calypso.  
More broadly, I'd say from the 30,000 foot level, oncology software is one focus area for us and the other is strengthening our  
components business. We've got a great business model, a great team in the components business, and that'd be another place that  
we'd look to enhance our portfolio.  
   
David Roman Goldman Sachs - Analyst  
Got it. Okay. Thank you very much.  
   
Operator  
Steve Beuchaw, Morgan Stanley.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Just two quick ones on the model, actually. Dow, I wonder if you could give us a sense for how big ASTRO was in the quarter as a driver of  
orders? I know in past years where ASTRO has moved from one quarter to the next --.  
   
Dow Wilson Varian Medical Systems - President, CEO  
I think if anything, ASTRO in our fourth quarter is a drag. I take my whole sales team and I park them in a convention center, the least  
productive place in the world. So I think it's an indication the momentum is out there.  
   
Steve Beuchaw Morgan Stanley - Analyst  
So could we see North American order momentum here into FY15 remain close to this level?  
   
Dow Wilson Varian Medical Systems - President, CEO  
All I can tell you is my funnel looks good.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Okay. Circling back on proton, I appreciate the conservatism with the approach on proton for the FY15 guide and the specifics, Elisha, on  
what the contribution could be to the top line. Could you give us a sense for how much proton could contribute for FY15 on the bottom  
line if everything goes toward a best case scenario?  
   
Elisha Finney Varian Medical Systems - CFO  
Again, it depends on how much of the project is completed, but if I simply take Maryland, which we just said was $0.17 at the pretax  
margin line at $0.03 in the tax and you double it for Emory, which is roughly the equivalent project, you can see that it could be  
significant. It's the timing and that is what is impossible for us to predict.  
I don't think there's a chance that both Maryland and Emory would be totally complete within this fiscal year. Chances are Maryland

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could bring in maybe $0.20 and Emory could bring in perhaps half that in this fiscal year and then the balance would be in a future fiscal  
year.  
   
Steve Beuchaw Morgan Stanley - Analyst  
And that would be incremental to the guidance?  
   
Elisha Finney Varian Medical Systems - CFO  
Yes.  
   
Steve Beuchaw Morgan Stanley - Analyst  
Great. Perfect. Thanks so much, guys.  
   
Operator  
Vijay Kumar, ISI Group.  
   
Vijay Kumar ISI Group - Analyst  
Maybe just to add on to that prior question on the guidance on proton, I think I'm looking at your sort of prepared remarks. The guidance  
excludes the contracted proton projects that are not financed, they're booked into the backlog. Just to give us a sense, I understand  
Maryland and Emory being $0.20 and $0.05, thanks for the color, were there any other projects? If you had done the normal way that  
you would have guided, were there any other sort of proton projects that were contracted, but not yet financed and now that is being  
explored?  
   
Dow Wilson Varian Medical Systems - President, CEO  
We mentioned on the call there's a project, of course, in Maryland, the project in Atlanta, and the project in Dallas. Those are the three  
projects where we've been contracted, but the deals aren't yet financed, so we have booked them into our backlog until they're financed.  
   
Vijay Kumar ISI Group - Analyst  
Dow, I was asking on the EPS impact or the relative size.  
   
Dow Wilson Varian Medical Systems - President, CEO  
None of those are in our EPS guidance.  
   
Vijay Kumar ISI Group - Analyst  
I know they're not in the EPS guidance, but if I guess in any magnitude -- what the magnitude is what's been pulled out of the guide?  
   
Elisha Finney Varian Medical Systems - CFO  
As I just mentioned, if you assume Maryland at the $0.17 pretax, $0.03 tax impact. Emory, I don't believe will get as far this year on  
completing that project. We are moving forward, but again, that project is just behind Maryland and it could add maybe half that much.  
So that's at the outset.  
   
Dow Wilson Varian Medical Systems - President, CEO  
I just want to underscore the big if here. We were burned on this last year, so we've taken out of our guidance. We're confident our  
customer will get it done, but the timing has just been impossible to predict, so we're getting out of the timing business.  
   
Vijay Kumar ISI Group - Analyst  
Got you. Fair enough. One bigger picture question, on the environment that you're seeing. You had some pretty good growth in the US  
including seeing double-digit growth.  
What's driving the growth out there? Is it new products? What's been the comparative response?  
As it correlates to that, when you look at the medium-term outlook, how should we think about gross margins for oncology rate?

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Specifically given that, at some point, that service growth, like how long can that continue and offset the emerging markets sort of which  
is below the corporate margin levels?  
   
Dow Wilson Varian Medical Systems - President, CEO  
Let me talk to the US markets first. I think what's driving the US market is new technology. People really want to take advantage of the  
new capabilities that the team is developing, especially for lung cancer and liver cancer. People want hypofractionation continues to be a  
big trend and as our customers go from a little bit of hypofractionation to a lot of hypofractionation, they need dedicated platforms to do  
it.  
So I think hypofractionation is a big piece in the US that's driving the growth. Our position with TrueBeam and EDGE is terrific.  
The other thing is if you were at ASTRO, I thought our software lineup was just gangbusters. We got game in software. I think that we  
had very good, when you look at the US orders coming out of the fourth quarter, that is very, very positive for us.  
That was good. I'll go to your third question and turn it over to Elisha for some of the margin rate stuff, but the for the service business,  
how long can it continue? We just had our best unit year ever. Our units were up about 12% year-over-year order-wise.  
We continue to see good install base expansion outside of the US. US is a replacement market, OUS is not.  
We think there's another 10,000 machines that are needed outside of the US. I think we've got a double-digit scenario. We're struggling  
a little bit with FX as you look at our service business for 2015, but as we look at service long-term, I think it remains double-digit  
scenario for a long period. I'll let Elisha comment on some of the international mix on margin rate.  
   
Elisha Finney Varian Medical Systems - CFO  
Sure. Again, for FY15, we're assuming that Oncology is going to be again in the 43% to 44% margin range. The growth in service, which is  
at a significantly higher margin than the equipment and the growth in software, we think, is going to offset the move to outside of North  
America. We expect we're going to begin shipping on our Brazil tender this fiscal year and that is at an extremely low gross margin rate,  
as we've talked about for a while. That will be in there, as well.  
But we've continued to think long-term that 43% to 44% range will hold. I will say Q1, just based on where we see the backlog and where  
we see shipment deliveries, it's probably closer to a 43% level in Q1. And then as more software and services balance of the year, we'll see  
it start to tick up from there.  
   
Vijay Kumar ISI Group - Analyst  
Thanks, guys. I'll step back in the queue.  
   
Operator  
Jason Wittes, Brean Capital.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Elisha, I just want to follow up, there's been a lot of questions about proton. It's obviously the big distinguishing factor this year. From  
what you've said thus far, it sounds like potentially Maryland and Atlanta potentially hit this year and then you're going to have to look at  
the percent complete to see how much it actually would hit the P&L. I think you said, assuming best case scenario, it's about $0.30.  
It sounds to me like Dallas is too far, is not yet far enough along yet to really have much of an impact whether or not you can close the  
financing on that. Is that the right way to think about it?  
   
Elisha Finney Varian Medical Systems - CFO  
I think that's fair. Just to be clear, it's our customer who's getting the financing. They are making good progress, they are working with a  
very large institution.

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We have no reason to believe that this won't get done. In fact, we're committed to stepping in as a minority lender in this facility, but until  
it's done, it's just not done. I am black and blue from this proton deal all year long and we're taking the downside volatility out of this.  
   
Jason Wittes Brean Capital, LLC - Analyst  
You're certainly black and blue from Maryland. Are the other, the Dallas and Emory facilities, also sort of somewhat unpredictable from  
the same way?  
   
Elisha Finney Varian Medical Systems - CFO  
They have yet to be financed.  
   
Dow Wilson Varian Medical Systems - President, CEO  
We're not quite so black and blue.  
   
Elisha Finney Varian Medical Systems - CFO  
Maryland has been significant throughout this fiscal year. Emory is just now getting to the point where it can be significant in FY15.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay, I see. Thank you.  
   
Dow Wilson Varian Medical Systems - President, CEO  
Just to underscore, Jason, though, again, there's if on this and we're just taking ourselves out of the timing business on these.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Fair enough.  
   
Dow Wilson Varian Medical Systems - President, CEO  
If there was 100% confidence, they'd be in our guidance.  
   
Jason Wittes Brean Capital, LLC - Analyst  
The other question is just to understand how we should look at Oncology. Obviously, you've got some pretty high expectations for  
software this year. That's been growing at a very nice clip. Should we anticipate an acceleration?  
If I think about your oncology growth rate overall, should we assume that product sales kind of remain in the low single-digits and we see  
some acceleration in service, which has already kind of been in that low to mid-teen range?  
   
Elisha Finney Varian Medical Systems - CFO  
One way to look at this, let me take a stab, is Oncology, if I just look at where we ended the year on backlog, it was up about 7%. Now  
again, we think there is some FX risk in that, but that just gives you a flavor because that obviously is only equipment and software. It  
does not include our service business, which is growing a little faster.  
We're early in the year. Much of this growth in backlog came in the Q3 and most of it in Q4. We need to make sure if it's going to deliver  
this fiscal year or next fiscal year, we're being conservative on the FX rate to the extent we can.  
But, you're right. With backlog being up 7%, if things were to start moving in our favor, there could be potentially a little upside there. It's  
just too early to call at this point in the new year.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Just to put a final point on that, the software contracts can deliver quicker than data product contracts, from my understanding.

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Dow Wilson Varian Medical Systems - President, CEO  
It depends how they're structured.  
   
Elisha Finney Varian Medical Systems - CFO  
A lot of times they're linked.  
   
Jason Wittes Brean Capital, LLC - Analyst  
On x-ray and components, I suppose this has been somewhat of a rough year. What kind of expectations do we have for 2015 for that  
business?  
   
Dow Wilson Varian Medical Systems - President, CEO  
I think it's been a double-digit business in panel. I think we'll continue to see that. I think on the year, we're probably looking at strong  
single-digit performance in the x-ray business.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay, great. Thanks.  
   
Dow Wilson Varian Medical Systems - President, CEO  
We are going to have a little bit of lumpiness because of the big security order that we took in the fourth quarter this past year, but the  
core business is going to do fine.  
   
Elisha Finney Varian Medical Systems - CFO  
And they sell mostly in dollars for what it's worth.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Understood. Thanks a lot.  
   
Operator  
Raj Denhoy, Jefferies.  
   
Raj Denhoy Jefferies & Company - Analyst  
I wonder if I could just ask a little bit about the first quarter guidance. 0% to 2%, particularly you're guiding 5% to 6% for the year, so a  
sharp upswing as you move through the year. But why so low in the first quarter, the 0% to 2%?  
   
Elisha Finney Varian Medical Systems - CFO  
Again, if I look back at where Oncology was in the year ago Q1 and we have on average deliveries about a year later, it was fairly low  
growth at that point with the backlog up in very low single-digits. So we expect that this is going to build as we go throughout the year.  
So I think both Oncology and our Imaging Components businesses will be in the low single-digits, some impact from FX when we look at  
the significant shift quarter-over-quarter and that's really where that's coming from.  
Then our proton therapy business will be down, it looks like in Q1, assuming Maryland doesn't happen in the core projects. Just given the  
timing, it will be down from the year ago period.  
   
Raj Denhoy Jefferies & Company - Analyst  
Okay, that's helpful. I'll ask my proton question, as well. This decision to move from not considering projects for inclusion in your forecast  
unless they have financing, does that have any bearing on whether something actually goes into backlog or not? Or have you changed  
your criteria on how you assess your backlog at this point?

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Elisha Finney Varian Medical Systems - CFO  
No. None of our criteria of how things get into backlog have changed and again, we've got signed contracts. We've delivered the  
cyclotron.  
We've got a lot of things that are going on, but we will not book it into backlog until the financing contingency is lifted. The only change  
here is how we reflect these deals in guidance, just given the timing of when they're going to occur.  
   
Jason Wittes Brean Capital, LLC - Analyst  
Okay, so they can have a contingency around financing to go into the backlog, but the financing does not necessarily have to be secured?  
   
Elisha Finney Varian Medical Systems - CFO  
It doesn't have to be 100% complete, but it has to be sufficiently completed to where we are comfortable that we can take the revenue.  
   
Raj Denhoy Jefferies & Company - Analyst  
Okay. Last thing on proton, it doesn't look like you've booked anything really in proton in the quarter. I'm curious about your views on this  
because you now have a single room center and the given extreme cost of these systems, have you seen much of a change in perception  
in the marketplace or where customers are looking now in terms of proton?  
   
Dow Wilson Varian Medical Systems - President, CEO  
I think the good news is the funnel is robust and at this point, we have a good funnel in both the kind of smaller proton center market, as  
well as bigger multi-room market and we've got capabilities in both segments. Last year, we booked three orders. We booked Cincinnati,  
Taiwan, and the Paul Scherrer Institute, so we feel very good about getting those orders booked last year and the funnel looks pretty  
good for us.  
   
Elisha Finney Varian Medical Systems - CFO  
Sitting on a nice backlog in the proton business.  
   
Raj Denhoy Jefferies & Company - Analyst  
Okay, good. Thank you.  
   
Operator  
There are no further questions. I'd like to hand the call back over to Management for closing comments.  
   
Spencer Sias Varian Medical Systems - VP IR  
Thanks very much. Thank you all for participating.  
A replay of this call can be heard on the Varian investor website, where it will be archived for a year. To hear a telephone replay, you can  
dial 1-877-660-6853 from inside the US or 201-612-7415 from outside the US and the confirmation code for that is 13591876. The  
telephone replay will be available through the end of the day this Friday at 5 PM October 24. Thanks very much.  
   
Operator  
Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this  
time and have a wonderful day.  
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