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Q3 FY23 Earnings Presentation
August 1, 2023

Forward Looking Statements / Non-GAAP Measures

Forward Looking Statements

Certain statements in this supplement contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements concerning unaudited financial results; Q3 FY23 revenue and earnings guidance; industry or market outlook; addressable market; growth drivers; trends; market size; customer demand; product volumes, synergies; expected future financial results and performance; and any statements using the terms “believe,” “expect,” “intend,” “outlook,” “future,” “anticipate,” “will,” “could,” “estimate,” “guidance,” or similar statements.

These forward-looking statements involve risks and uncertainties that could cause Varex’s actual results to differ materially from those anticipated. While forward-looking statements are based on assumptions and analyses made by Varex and its management that we believe to be reasonable under the circumstances, whether actual results and developments will meet our expectations and predictions depend on a number of risks, uncertainties, and other factors discussed in our most recently filed Quarterly Report on Form 10-Q, our Annual Report on Form 10-K, in our other public filings and press releases, and on our website. These risks, uncertainties, and other factors include supply chain and logistical challenges; price increases from suppliers and service providers, inflation generally and expense management; the lingering impacts of the COVID-19 pandemic on both the global economy and Varex’s business; shifts in product mix; the continued impact of tariffs or a global trade war on our products and customer purchasing patterns; economic and political conditions globally or regionally, including any impact due to armed conflicts (such as the conflict between Russia and Ukraine as well as governmental sanctions imposed in response and increasing tensions between China and Taiwan); demand for and delays in delivery of products of Varex or its customers; litigation costs; Varex’s ability to develop, commercialize and deploy new products; the impact of reduced or limited demand by purchasers of certain X-ray products; and the impact of competitive products and pricing; and the other risks listed from time to time in our filings with the U.S. Securities and Exchange Commission, which by this reference are incorporated herein.

Any forward-looking statement made in this supplement speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. The company assumes no obligation to update or revise the forward-looking statements in this presentation because of new information, future events, or otherwise.

Non-GAAP Measures

Certain information provided in this presentation includes financial measurements that are not required by, or presented in accordance with, generally accepted accounting principles in the United States (GAAP). These non-GAAP measures, such as non-GAAP gross margin, non-GAAP operating expense, non-GAAP operating margin, and non-GAAP net earnings per diluted share, should not be considered as alternatives to GAAP measures and may be calculated differently from, and therefore may not be comparable to, similarly titled measures used at other companies. For a reconciliation to the most directly comparable GAAP financial measures, please refer to Varex’s Q3FY23 earnings release at www.vareximaging.com and the reconciliation contained at the end of this presentation.



Q3 FY23 Results



Revenue
\$232M

**Non-GAAP
Gross Margin¹**
34%

**Non-GAAP
EPS¹**
\$0.37

**Cash, Cash Equiv.,
& Mkt. Sec.²**
\$152M

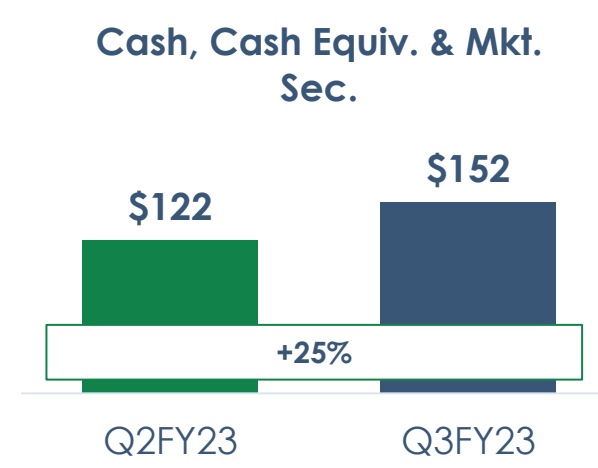
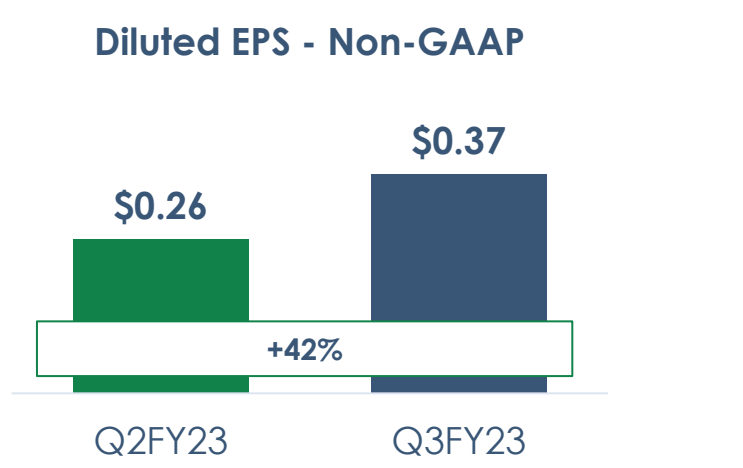
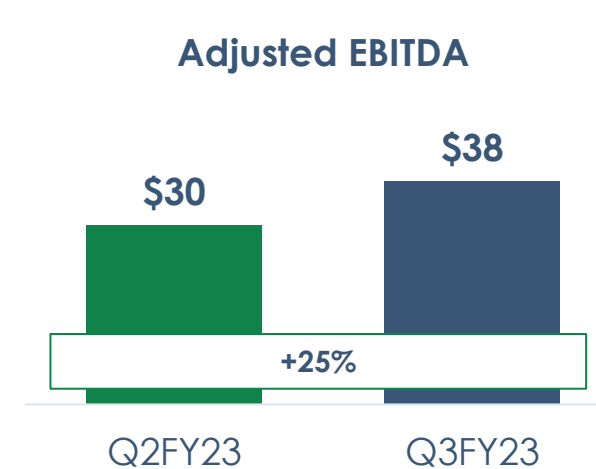
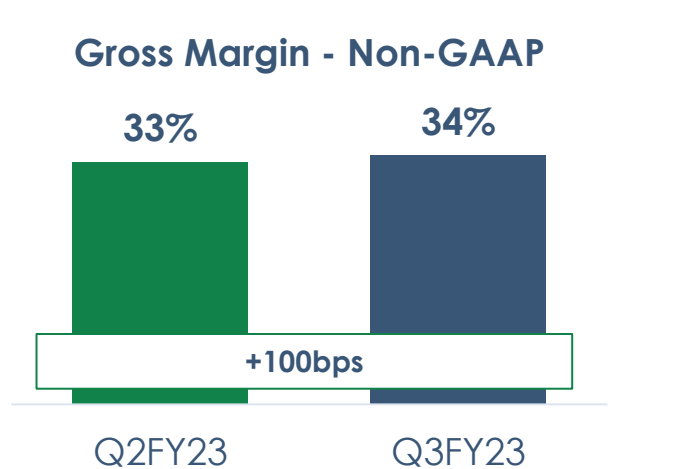
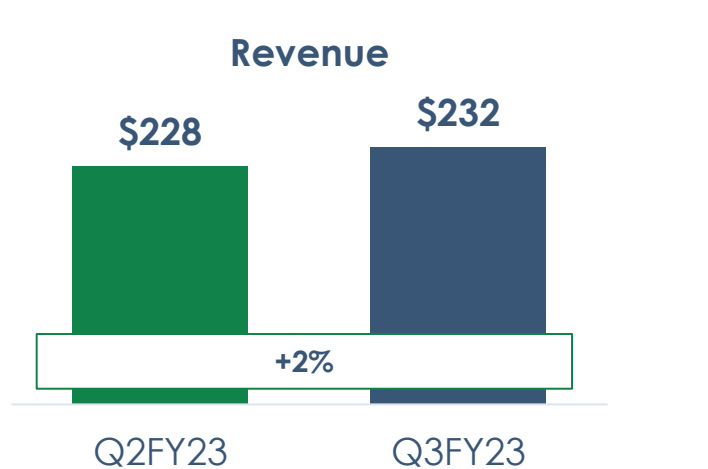
- **Strong Industrial demand continued in quarter**
- **Gross margin improvement driven by segment mix**
- **Robust cash generation on solid inventory reduction**

¹Non-GAAP. For a reconciliation to the most directly comparable GAAP financial measure please refer to the reconciliation at the end of this supplement.

²Cash & cash equivalents (\$119M) + Marketable securities (\$34M).



Q3 FY23 Sequential Performance



Note: \$millions except for per share data

Q3 FY23 Sales Performance¹



| | |
|-------------|--|
| CT | |
| Fluoroscopy | |
| Oncology | |
| Dental | |

| | |
|----------------------|--|
| Mammography | |
| Radiography & Others | |
| Industrial | |



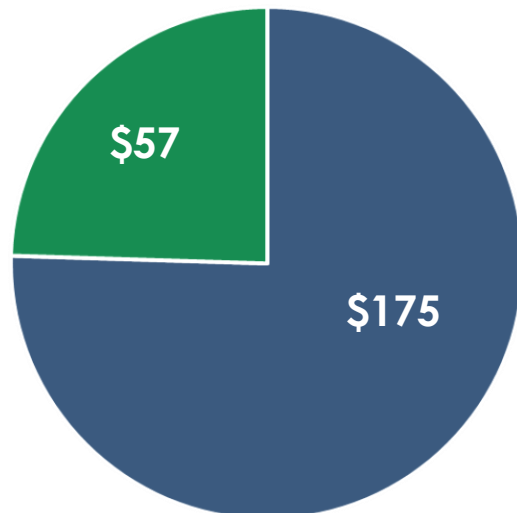
¹Sales performance is Q3FY23 sales compared to five quarter average trend

Q3 FY23 Revenue Details



Segment Mix

(\$ in millions)

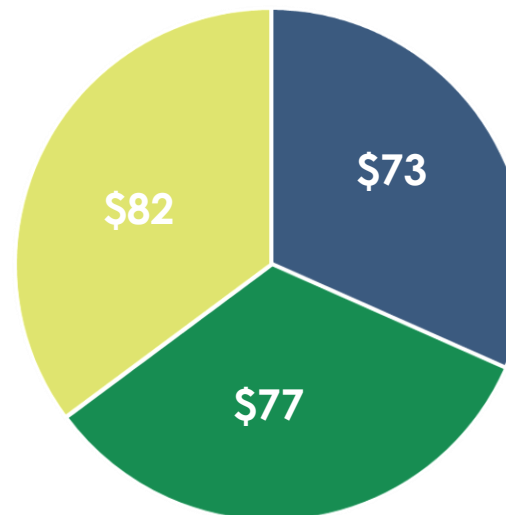


■ Medical ■ Industrial

| Revenue, \$M | Q3 23 | Q2 23 | Q1 23 | Q4 22 | Q3 22 |
|--------------|-------|-------|-------|-------|-------|
| Medical | 175 | 174 | 160 | 181 | 167 |
| Industrial | 57 | 54 | 46 | 50 | 47 |

Geographic Mix

(\$ in millions)



■ Americas ■ EMEA ■ APAC

| Revenue, \$M | Q3 23 | Q2 23 | Q1 23 ¹ | Q4 22 | Q3 22 |
|--------------|-------|-------|--------------------|-------|-------|
| Americas | 73 | 68 | 67 | 80 | 64 |
| EMEA | 77 | 70 | 65 | 74 | 70 |
| APAC | 82 | 91 | 74 | 77 | 80 |

¹Amounts for Q1 23 have been adjusted from how they were originally reported.



Quarterly Results - GAAP



| \$ in Millions, except per share data | Q3 FY23 | Q2 FY23 | Q3 FY22 |
|---------------------------------------|---------------|---------------|---------------|
| Revenue | \$232 | \$228 | \$214 |
| Gross Margin | 33% | 32% | 34% |
| Operating Expenses | \$52 22% | \$57 25% | \$50 23% |
| Operating Income | \$24 10% | \$16 7% | \$23 11% |
| Net Earnings¹ | \$9 | \$4 | \$8 |
| EPS, diluted | \$0.21 | \$0.10 | \$0.20 |
| Avg. shares, diluted ² | 50.4 | 40.5 | 40.5 |

¹Net earnings does not include the \$1.4m add back associated with the adoption of ASU 2020-06, which started for Varex in Q1FY23.

²Average diluted share count of 50.4m in Q3FY23 is due to the adoption of ASU 2020-06, which started for Varex in Q1FY23.



Quarterly results – Non-GAAP¹

| \$ in Millions, except per share data | Q3 FY23 | Q2 FY23 | Q3 FY22 |
|---|-----------------------|-----------------------|-----------------------|
| Revenue | \$232 | \$228 | \$214 |
| Gross Margin (Non-GAAP) | 34% | 33% | 35% |
| Operating Expenses (Non-GAAP) | \$49 21% | \$52 23% | \$47 22% |
| Operating Income (Non-GAAP) | \$29 13% | \$23 10% | \$28 13% |
| Net Earnings (Non-GAAP) ² | \$17 | \$11 | \$15 |
| EPS, diluted (Non-GAAP) Avg. shares, diluted ³ | \$0.37 50.4 | \$0.26 40.5 | \$0.37 40.3 |

¹Please see slide 13 for a reconciliation of Q3FY23 non-GAAP financials. Prior quarters can be found on our website at www.vareximaging.com/financial-reports

²Net earnings does not include the \$1.4m add back associated with the adoption of ASU 2020-06, which started for Varex in Q1FY23.

³Average diluted share count of 50.4m in Q3FY23 is due to the adoption of ASU 2020-06, which started for Varex in Q1FY23.



Select Balance Sheet Data



| \$ in Millions | Q3 FY23 | Q2 FY23 | Q3 FY22 |
|---------------------------------------|----------------|----------------|----------------|
| Assets | | | |
| Cash, Cash Equiv., Mkt. Sec. & CDs | \$152 | \$122 | \$110 |
| Accounts Receivable, net | \$163 | \$160 | \$157 |
| Inventories | \$298 | \$311 | \$300 |
| Total Assets | \$1,212 | \$1,191 | \$1,163 |
| Liabilities | | | |
| Accounts Payable | \$75 | \$74 | \$83 |
| Debt, net ¹ | \$443 | \$443 | \$413 |
| Total Liabilities & Equity | \$1,212 | \$1,191 | \$1,163 |
| Working Capital Performance | Q3 FY23 | Q2 FY23 | Q3 FY22 |
| DSO (in days) | 64 | 64 | 67 |
| DOI | 174 | 182 | 194 |
| DPO | 44 | 43 | 54 |

¹In connection with the adoption of ASU 2020-06, the unamortized discount and equity component related to Varex's convertible notes were derecognized and the carrying value of the issuance costs was adjusted in Q1FY23, increasing the carrying value of the debt balance by \$28.0M.



Select Debt and Cash Flow Data



| \$ in Millions | Q3 FY23 | Q2 FY23 | Q3 FY22 |
|---|---------|---------|---------|
| Debt | | | |
| Gross Debt ¹ (Ratings: Moody's B2 / S&P B+) | \$449 | \$449 | \$451 |
| Net Debt ² | \$297 | \$327 | \$341 |
| Adjusted EBITDA³ | | | |
| Adjusted EBITDA | \$38 | \$30 | \$36 |
| Adjusted EBITDA (TTM) | \$129 | \$127 | \$144 |
| Net debt leverage (TTM) | 2.3x | 2.6x | 2.4x |
| Cash Performance | | | |
| Cash Flow from Operations | \$38 | \$27 | (\$3) |
| Capital Expenditures | (\$4) | (\$6) | (\$4) |
| Cash Interest | (\$14) | - | (\$14) |
| Cash Taxes | (\$3) | (\$2) | (\$3) |
| Net Change in Cash | \$30 | \$14 | (\$16) |

¹Gross Debt includes debt of \$443m + mortgage of \$6m.

²Net Debt is defined as gross debt less cash & cash equivalents, marketable securities and CDs.

³Adjusted EBITDA is defined as non-GAAP net earnings plus non-GAAP interest expense, non-GAAP taxes, non-GAAP depreciation, non-GAAP amortization and stock-based compensation



Outlook Q4 FY23



| Guidance | Non-GAAP |
|-------------------------|-----------------|
| Revenues, \$M | \$220 - \$240 |
| EPS Per Diluted Share | \$0.20 - \$0.40 |
| Assumptions | Non-GAAP |
| Gross Margin | 33% - 34% |
| Operating Expenses, \$M | \$49 - \$50 |





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Non – GAAP
Reconciliation

Reconciliation between GAAP and Non-GAAP Financial measures (unaudited)



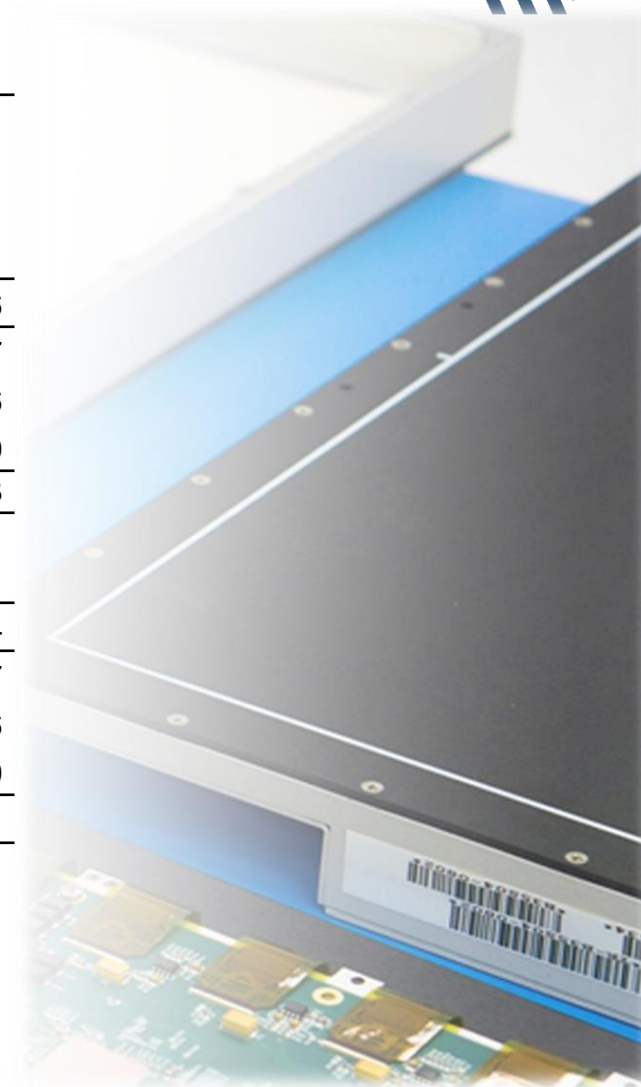
| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|--------------|-------------------|--------------|
| | June 30, 2023 | July 1, 2022 | June 30, 2023 | July 1, 2022 |
| GROSS PROFIT RECONCILIATION | | | | |
| Revenues, net | \$ 232.2 | \$ 214.5 | \$ 666.0 | \$ 628.0 |
| Gross profit | 76.3 | 73.4 | 212.3 | 209.0 |
| Amortization of intangible assets | 1.8 | 1.9 | 5.4 | 5.5 |
| Non-GAAP gross profit | \$ 78.1 | \$ 75.3 | \$ 217.7 | \$ 214.5 |
| Gross margin % | 32.9 % | 34.2 % | 31.9 % | 33.3 % |
| Non-GAAP gross margin % | 33.6 % | 35.1 % | 32.7 % | 34.2 % |



Reconciliation between GAAP and Non-GAAP Financial measures (unaudited)



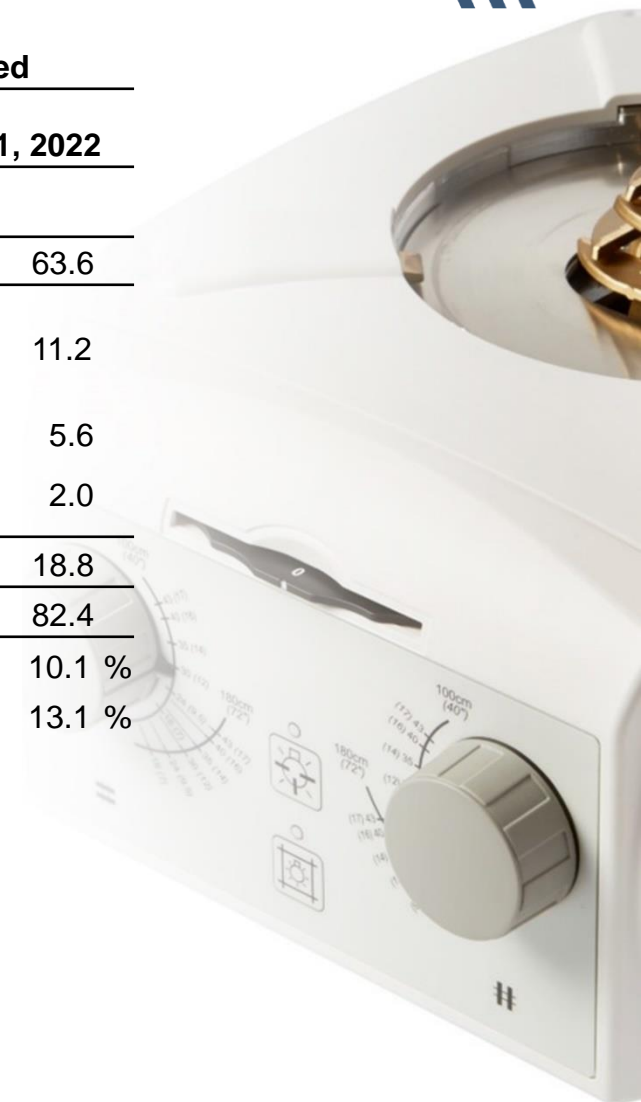
| (In millions, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | June 30, 2023 | July 1, 2022 | June 30, 2023 | July 1, 2022 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSE RECONCILIATION | | | | |
| Selling, general and administrative | \$ 32.1 | \$ 30.2 | \$ 96.5 | \$ 88.6 |
| Amortization of intangible assets | 1.6 | 1.9 | 4.8 | 5.7 |
| Restructuring charges | 0.7 | 1.3 | 2.2 | 5.6 |
| Other non-operational costs | 0.8 | 0.1 | 4.6 | 2.0 |
| Non-GAAP selling, general and administrative expense | \$ 29.0 | \$ 26.9 | \$ 84.9 | \$ 75.3 |
| OPERATING EXPENSE RECONCILIATION | | | | |
| Other expense, net | \$ 52.1 | \$ 50.4 | \$ 159.5 | \$ 145.4 |
| Amortization of intangible assets | 1.6 | 1.9 | 4.8 | 5.7 |
| Restructuring charges | 0.7 | 1.3 | 2.2 | 5.6 |
| Other non-operational costs | 0.8 | 0.1 | 4.6 | 2.0 |
| Non-GAAP operating expense | \$ 49.0 | \$ 47.1 | \$ 147.9 | \$ 132.1 |



Reconciliation between GAAP and Non-GAAP Financial measures (unaudited)



| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | June 30, 2023 | July 1, 2022 | June 30, 2023 | July 1, 2022 |
| (In millions, except per share amounts) | | | | |
| OPERATING INCOME RECONCILIATION | | | | |
| Operating income | \$ 24.2 | \$ 23.0 | \$ 52.8 | \$ 63.6 |
| Amortization of intangible assets (includes amortization impacts to cost of revenues) | 3.4 | 3.8 | 10.2 | 11.2 |
| Restructuring charges (includes restructuring impact to cost of revenues) | 0.7 | 1.3 | 2.2 | 5.6 |
| Other non-operational costs (includes other non-operational impacts to cost of revenues) | 0.8 | 0.1 | 4.6 | 2.0 |
| Total operating income adjustments | 4.9 | 5.2 | 17.0 | 18.8 |
| Non-GAAP operating income (loss) | \$ 29.1 | \$ 28.2 | \$ 69.8 | \$ 82.4 |
| Operating margin | 10.4 % | 10.7 % | 7.9 % | 10.1 % |
| Non-GAAP operating margin | 12.5 % | 13.1 % | 10.5 % | 13.1 % |



Reconciliation between GAAP and Non-GAAP Financial measures (unaudited)



| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | June 30, 2023 | July 1, 2022 | June 30, 2023 | July 1, 2022 |
| (In millions, except per share amounts) | | | | |
| INCOME (LOSS) BEFORE TAXES RECONCILIATION | | | | |
| Income (loss) before taxes | \$ 17.1 | \$ 13.5 | \$ 30.3 | \$ 30.4 |
| Total operating earnings adjustments | 4.9 | 5.2 | 17.0 | 18.8 |
| Convertible notes non-cash interest expense | — | 2.2 | — | 6.5 |
| Other non-operational costs | — | — | — | 1.2 |
| Total income before tax adjustments | 4.9 | 7.4 | 17.0 | 26.5 |
| Non-GAAP income (loss) before taxes | \$ 22.0 | \$ 20.9 | \$ 47.3 | \$ 56.9 |
| INCOME TAX EXPENSE RECONCILIATION | | | | |
| Income tax expense | \$ 7.9 | \$ 5.1 | \$ 13.6 | \$ 12.8 |
| Tax effect on non-GAAP adjustments | 3.4 | (0.8) | 3.3 | (3.4) |
| Non-GAAP income tax expense | \$ 4.5 | \$ 5.9 | \$ 10.3 | \$ 16.2 |
| NET INCOME (LOSS) AND DILUTED NET INCOME (LOSS) PER SHARE RECONCILIATION | | | | |
| Net income (loss) attributable to Varex | \$ 9.1 | \$ 8.2 | \$ 16.3 | \$ 17.2 |
| Total earnings before taxes adjustments | 4.9 | 7.4 | 17.0 | 26.5 |
| Effective tax rate on non-GAAP adjustments | (69.4)% | 10.8 % | (19.4)% | 12.8 % |
| Tax effect on non-GAAP adjustments | 3.4 | (0.8) | 3.3 | (3.4) |
| Non-GAAP net income (loss) | 17.4 | 14.8 | 36.6 | 40.3 |
| Interest expense on Convertible Notes, net of tax | 1.4 | — | — | — |
| Diluted Non-GAAP net income | 18.8 | 14.8 | 36.6 | 40.3 |
| Diluted net income (loss) per share | 0.21 | 0.20 | 0.40 | 0.41 |
| Non-GAAP diluted net income (loss) per share | \$ 0.37 | \$ 0.37 | \$ 0.90 | \$ 1.00 |



Reconciliation between GAAP and Non-GAAP Financial measures (unaudited)



(In millions, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | June 30, 2023 | July 1, 2022 | June 30, 2023 | July 1, 2022 |
| DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING RECONCILIATION | | | | |
| GAAP weighted average common shares - dilutive | 50.4 | 40.5 | 40.6 | 41.9 |
| Dilution offset from convertible notes hedge transaction | — | (0.2) | — | (1.6) |
| Non-GAAP dilutive shares | 50.4 | 40.3 | 40.6 | 40.3 |
| ADJUSTED EBITDA RECONCILIATION | | | | |
| Net income (loss) attributable to Varex | \$ 9.1 | \$ 8.2 | \$ 16.3 | \$ 17.2 |
| Interest expense | 7.3 | 9.4 | 22.1 | 29.2 |
| Income tax expense | 7.9 | 5.1 | 13.6 | 12.8 |
| Depreciation | 4.9 | 4.7 | 14.2 | 14.3 |
| Amortization | 3.4 | 3.8 | 10.2 | 11.2 |
| Stock based compensation | 3.6 | 3.4 | 10.1 | 10.7 |
| Restructuring charges | 0.7 | 1.3 | 2.2 | 5.6 |
| Other non-operational costs | 0.8 | 0.1 | 4.6 | 3.2 |
| Adjusted EBITDA | \$ 37.7 | \$ 36.0 | \$ 93.3 | \$ 104.2 |



Effect of Convertible Note Hedge and Warrants on Non-GAAP Diluted Share count



| <u>Impact of Warrants and Convertible Note Hedge at Various Share Prices</u> | | |
|--|---|--|
| Share Price* | Impact of Warrants on GAAP Diluted Shares | Shares added back for non-GAAP related to convertible note hedge Non-GAAP Diluted Shares |
| \$20.00 | — | — |
| \$20.81 | — | — |
| \$21.00 | — | 85,790 |
| \$22.00 | — | 518,691 |
| \$23.00 | — | 913,948 |
| \$24.00 | — | 1,276,267 |
| \$24.98 | — | 1,601,592 |
| \$25.00 | 9,610 | 1,609,600 |
| \$26.00 | 378,840 | 1,917,292 |
| \$27.00 | 720,720 | 2,202,193 |
| \$28.00 | 1,038,180 | 2,466,743 |
| \$29.00 | 1,333,746 | 2,713,048 |
| \$30.00 | 1,609,608 | 2,942,933 |
| \$31.00 | 1,867,672 | 3,157,987 |
| \$32.00 | 2,109,608 | 3,359,600 |
| \$33.00 | 2,336,880 | 3,548,994 |
| \$34.00 | 2,550,784 | 3,727,247 |
| \$35.00 | 2,752,464 | 3,895,314 |



Illustrative Impact of ASU 2020-06



Quarterly ASU 2020-06 Share Count Illustration

| GAAP | | | NON-GAAP* | | |
|---|--|---|---|--|---|
| Net Income before effect of Convertible Notes (\$M) | Add-back of After-tax Interest Expense | Incremental Dilutive Shares for EPS Calculation | Net Income before effect of Convertible Notes (\$M) | Add-back of After-tax Interest Expense | Incremental Dilutive Shares for EPS Calculation |
| \$1 | \$0.0 | 0 | \$4 | \$0.0 | 0 |
| \$4 | \$0.0 | 0 | \$7 | \$0.0 | 0 |
| \$5 | \$0.0 | 0 | \$8 | \$0.0 | 0 |
| \$6 | \$1.4 | 9 | \$9 | \$1.4 | 9 |
| \$7 | \$1.4 | 9 | \$10 | \$1.4 | 9 |
| \$8 | \$1.4 | 9 | \$11 | \$1.4 | 9 |
| \$9 | \$1.4 | 9 | \$12 | \$1.4 | 9 |
| \$10 and above | \$1.4 | 9 | \$13 | \$1.4 | 9 |

Annual ASU 2020-06 Share Count Illustration

| GAAP | | | NON-GAAP* | | |
|---|--|---|---|--|---|
| Net Income before effect of Convertible Notes (\$M) | Add-back of After-tax Interest Expense | Incremental Dilutive Shares for EPS Calculation | Net Income before effect of Convertible Notes (\$M) | Add-back of After-tax Interest Expense | Incremental Dilutive Shares for EPS Calculation |
| \$0 | \$0.0 | 0 | \$14 | \$0.0 | 0 |
| \$10 | \$0.0 | 0 | \$24 | \$0.0 | 0 |
| \$20 | \$0.0 | 0 | \$34 | \$0.0 | 0 |
| \$30 | \$5.6 | 9 | \$44 | \$5.6 | 9 |
| \$40 | \$5.6 | 9 | \$54 | \$5.6 | 9 |
| \$50 and above | \$5.6 | 9 | \$64 | \$5.6 | 9 |

Note: The table above assumes 41 million diluted shares for GAAP earnings per share as a starting point and various other estimates. The tables above are illustrative only and actual results may differ from those presented above.

* Non-GAAP shares include the benefit of call option issued by the company in association with its convertible notes issued June 2020

Discussion of Non – GAAP Financial Measures



This presentation includes non-GAAP financial measures derived from our Condensed Consolidated Statements of Operations. These measures are not presented in accordance with, nor are they a substitute for U.S. generally accepted accounting principles, or GAAP. These measures include: non-GAAP gross profit; non-GAAP gross margin; non-GAAP operating expense; non-GAAP operating earnings; non-GAAP operating earnings margin; non-GAAP earnings before taxes; non-GAAP net earnings; non-GAAP net earnings per diluted share, non-GAAP dilutive shares; and non-GAAP EBITDA. We are providing a reconciliation above of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. We are unable to provide without unreasonable effort a reconciliation of non-GAAP guidance measures to the corresponding GAAP measures on a forward-looking basis due to the potential significant variability and limited visibility of the excluded items discussed.

We utilize a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of our business, in making operating decisions, and forecasting and planning for future periods. We consider the use of the non-GAAP measures to be helpful in assessing the performance of the ongoing operation of our business by excluding unusual and one-time costs. We believe that disclosing non-GAAP financial measures provides useful supplemental data that allows for greater transparency in the review of our financial and operational performance. We also believe that disclosing non-GAAP financial measures provides useful information to investors and others in understanding and evaluating our operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Non-GAAP measures include the following items:

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

Purchase price accounting charges to cost of revenues: We may incur charges to cost of revenues as a result of acquisitions. We believe that excluding these charges allows the users of our financial statements to better understand the historic and current cost of our products, our gross margin, and also facilitates comparisons to peer companies.

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

Acquisition and integration related costs: We incur expenses or benefits with respect to certain items associated with our acquisitions, such as transaction costs, changes in fair value of acquisition related hedges, changes in the fair value of contingent consideration liabilities, gain or expense on settlement of pre-existing relationships, etc. We exclude such expenses or benefits as they are related to acquisitions and have no direct correlation to the operation of our on-going business. We also incur expenses or benefits with respect to certain items associated with our acquisitions, such as integration costs relating to acquisitions for any costs incurred prior to closing and up to 12 months after the closing date of the acquisition.

Impairment charges: We may incur impairment charges that result from events, which arise from unforeseen circumstances and/or often occur outside of the ordinary course of our on-going business and such charges may limit the comparability of our on-going operations with prior and future periods.

Other non-operational costs: Certain items may be non-recurring, unusual, infrequent and directly related to an event that is distinct and non-reflective of the company's ongoing business operations. These may include such items as non-ordinary course litigation, legal settlements, inventory write-downs for discontinued products, cost of facilities no longer in use, extinguishment of debt and hedge costs, environmental settlements, governmental settlements including tax settlements, and other items of similar nature.

Convertible notes non-cash interest expense: We issued convertible notes in June 2020 at a discount related to the conversion feature of the notes and capitalized certain costs related to the issuance of these notes. The discount and capitalized issuance costs are amortized into interest expense over the term of the convertible notes. The amortization recognized for the convertible notes will be greater than the cash interest payments for the notes. We believe that excluding the convertible notes non-cash interest expense allows the users of our financial statements to better understand the historic and current results of our operations. This also facilitates comparisons to peer companies.

Non-operational tax adjustments: Certain tax items may be non-recurring, unusual, infrequent and directly related to an event that is distinct and non-reflective of the company's normal business operations. These may include such items as the retroactive impact of significant changes in tax laws, including changes to statutory tax rates and one-time tax charges.

Tax effects of operating earnings adjustments: We apply our non-GAAP adjustments to the GAAP pretax income to calculate the non-GAAP effective tax rate. This application of our non-GAAP effective tax rate excludes any discrete items, as defined in the guidance for accounting for income taxes in interim periods, or any other non-operational tax adjustments.

Dilution offset from convertible notes hedge transaction: In connection with the issuance of the company's Convertible Senior Unsecured Notes (the Convertible Notes) in June 2020, the company entered into convertible note hedge transactions (the Hedge Transactions) to reduce the potential dilutive effect on common shares upon the eventual conversion of the Convertible Notes. GAAP diluted shares outstanding includes the incremental dilutive shares from the company's Convertible Notes. Under GAAP, the anti-dilutive impact of the Convertible Note Hedge Transactions is not reflected in GAAP diluted shares outstanding. In periods in which the average stock price per share exceeds \$20.81 and the company has GAAP net income, the non-GAAP diluted share count includes the anti-dilutive impact of the company's Hedge Transactions, which reduces the potential dilution that otherwise would occur upon conversion of the company's Convertible Notes. We believe non-GAAP diluted shares is a useful non-GAAP metric because it provides insight into the offsetting economic effect of the Hedge Transactions against potential conversion of the Convertible Notes.



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