



# VAREX

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Making the Invisible Visible

Q4 FY23 Earnings Presentation  
November 14, 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; Q4 FY23 revenue and earnings guidance; industry or market outlook; addressable market; growth drivers and growth potential; trends; market size; customer demand; product volumes, synergies; expected future financial results, performance, market positioning, and cash generation; and any statements using the terms “believe,” “expect,” “encouraged,” “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 reduction in or loss of business of one or more of our large customers; inability to effectively compete with competitors; market erosion due to pricing pressures and other factors; failure to meet customers' needs and demands; economic instability, shifting political environments, changing tax treatment, reactionary regulatory regimes, and other risks associated with doing business internationally; supply chain disruptions; inability to maintain or defend intellectual property rights, and the high cost of protecting such rights and defending against infringement claims; disruption of critical information systems or material security breaches of such systems; non-compliance with product-related regulations and delays in obtain regulatory clearances or approvals; 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 Q4FY23 earnings release at [www.vareximaging.com](http://www.vareximaging.com) and the reconciliation contained at the end of this presentation.



# Q4 FY23 Results



Revenue  
**\$227M**

Non-GAAP  
Gross Margin<sup>1</sup>  
**36%**

Non-GAAP  
EPS<sup>1</sup>  
**\$0.45**

Cash, Cash Equiv.,  
& Mkt. Sec.<sup>2</sup>  
**\$195M**

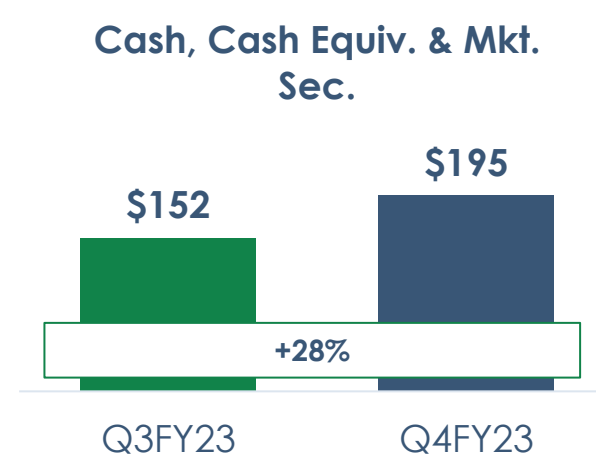
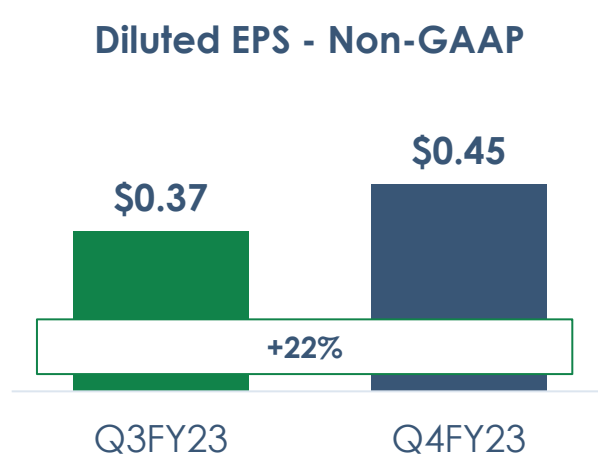
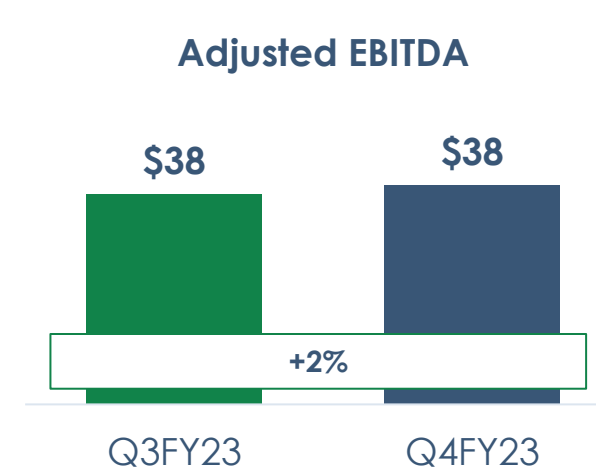
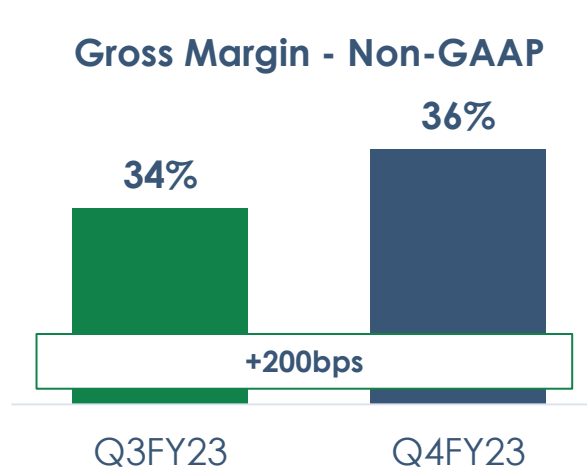
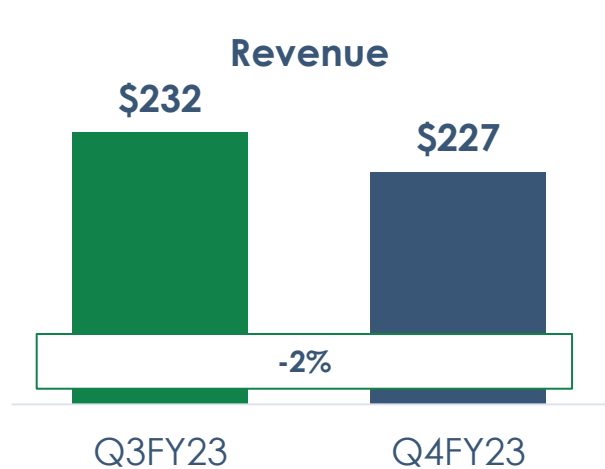
- Record Industrial performance in the quarter
- Strong gross margin
- Robust cash generation continued

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

<sup>2</sup>Cash & cash equivalents (\$153M) + Marketable securities (\$41M) + certificates of deposit (\$1M).



# Q4 FY23 Sequential Performance



Note: \$millions except for per share data

# Q4 FY23 Sales Performance<sup>1</sup>



CT	
Fluoroscopy	
Oncology	
Dental	

Mammography	
Radiography & Others	
Industrial	



<sup>1</sup>Sales performance is Q4FY23 sales compared to five quarter average trend

# Medical Segment Overview

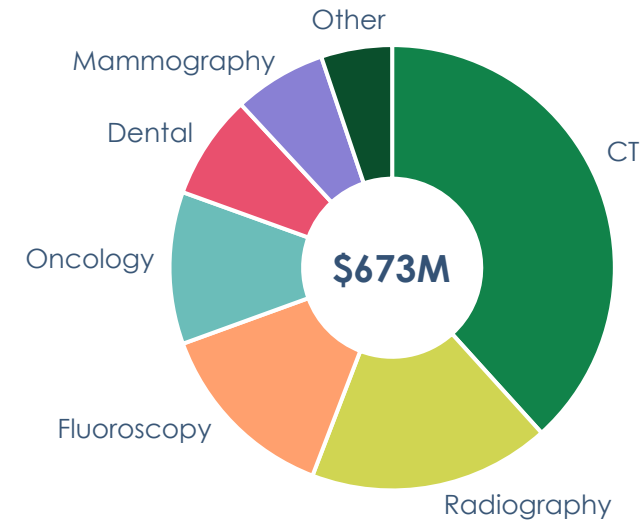


**FY23 Revenue: \$673M**  
75% of Varex Revenue

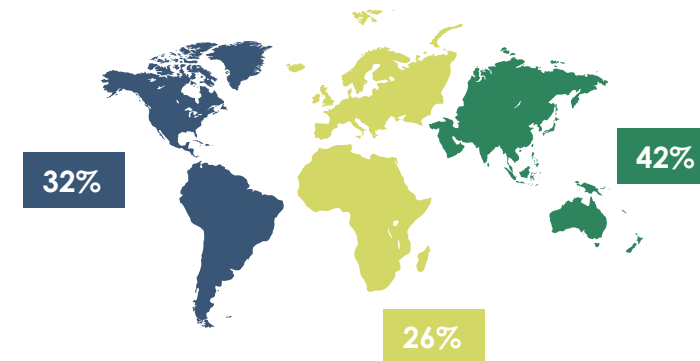
**Current Addressable Market: ~\$3B**  
Market Growth: ~2 – 3%  
Large, Stable & Growing

- X-ray Tubes
- Digital Detectors
- AI-based Software
- High-Voltage Interconnects

**FY2023 Revenue by Modality**



**FY2023 Revenue by Geography**



# Industrial Segment Overview

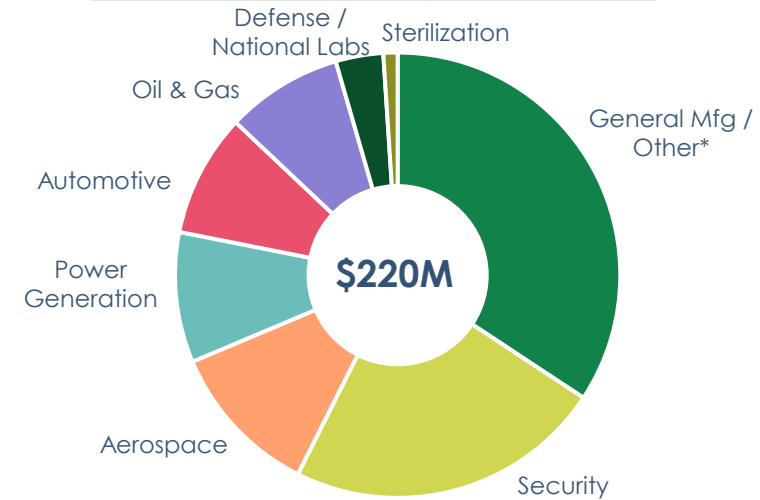


**FY23 Revenue: \$220M**  
25% of Varex Revenue

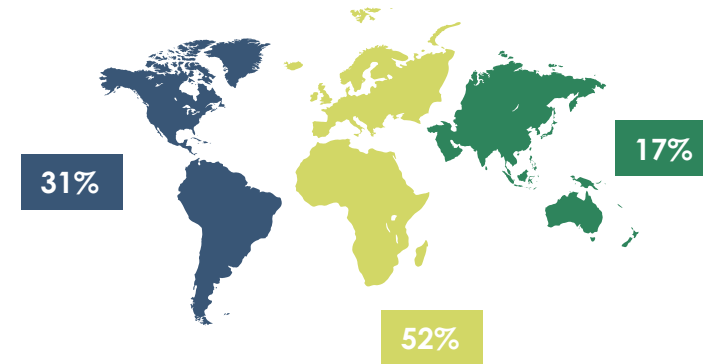
**Current Addressable Market: ~\$1.3B**  
Market Growth: ~5 – 7%  
Greenfield & Evolving Market

- X-ray tubes
- Digital detectors
- Linear accelerators
- Interconnects
- Specialized software

## FY2023 Revenue by End Market



## FY2023 Revenue by Geography





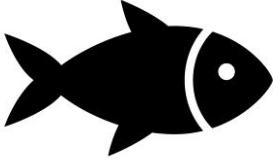


Source: Frost and Sullivan "2022 Global X-ray Inspection Systems Growth Opportunities" report; Meticulous Research "2022 Global Industrial X-Ray Inspection System Market" report; HRSC "2022 X-Ray Security Screening Market" report

\* Other includes: Battery inspection, Electronics inspection, Food inspection, 3D printing inspection, Casting inspection

# Industrial Growth Drivers



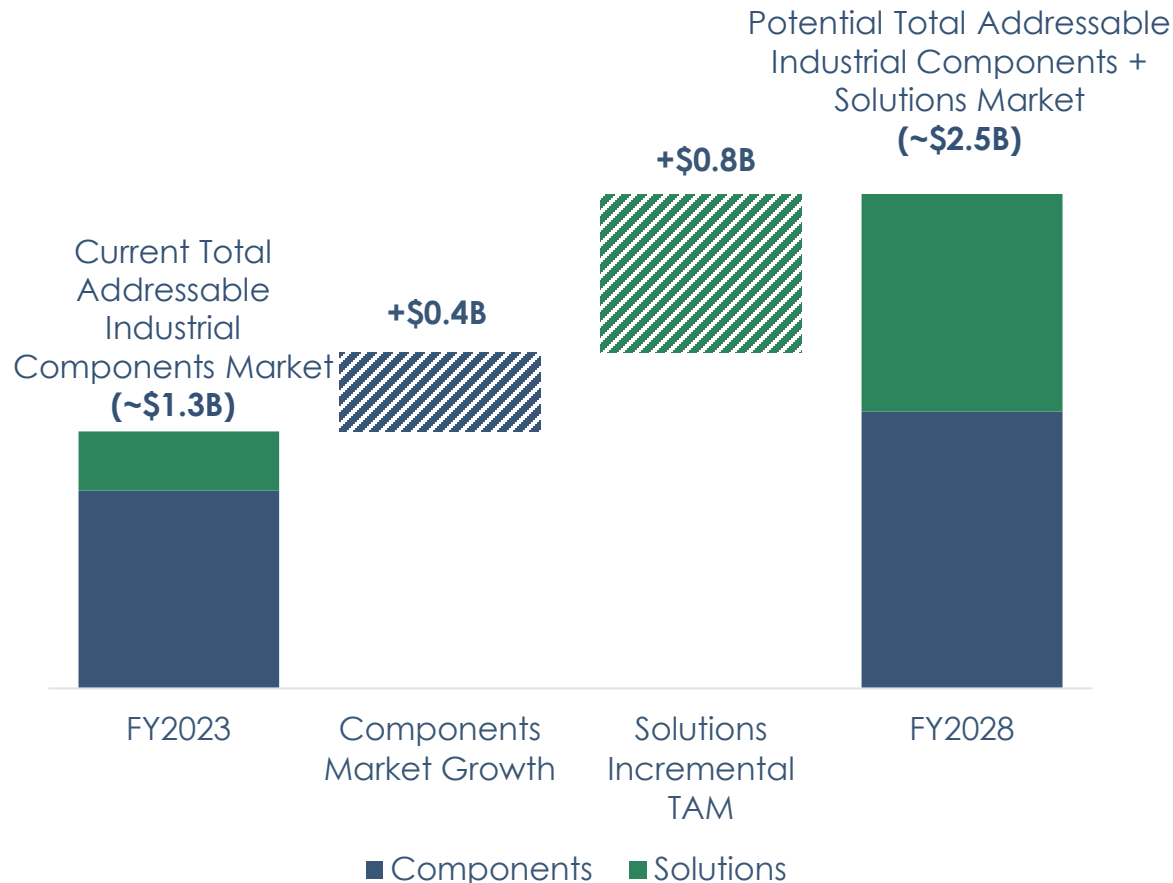
## Evolving verticals driving growth for Industrial markets

Security	Energy	Food Quality	Electronics	Consumer Safety
				
Improved border security through X-ray inspection	Periodic X-ray inspection for weld and structural integrity	Foreign object identification and quality determination	Increased utilization of in-line X-ray inspection to assure product quality	X-ray irradiation is a preferred solution in sterilization markets
<ul style="list-style-type: none"><li>• Terrorism threats</li><li>• Smuggling</li><li>• Illegal drugs</li><li>• Tariffs</li></ul>	<ul style="list-style-type: none"><li>• Pipelines</li><li>• Refineries</li><li>• Power plants</li><li>• High value assets</li></ul>	<ul style="list-style-type: none"><li>• Fish</li><li>• Poultry</li><li>• Packaged food</li><li>• Canned food</li></ul>	<ul style="list-style-type: none"><li>• Electronics</li><li>• Batteries</li><li>• Printed circuit boards</li><li>• Electronic components</li></ul>	<ul style="list-style-type: none"><li>• Packaged Foods</li><li>• Fish, Poultry, Meat</li><li>• Plant Products</li></ul>



# Expanding our Industrial TAM

Focus on getting closer to end user by providing a more complete solution



- Greenfield & evolving market with 5% -7% growth
- Varex's existing products and channels serve a \$1.3B currently addressable market, but there is **significant room for expansion**
- Potential to add **~\$0.8B of incremental total addressable market (TAM)** as Varex expands into end user solutions including Irradiation vertical

# Initial Application - Microbial Decontamination for Cannabis Flower



## Controlling microbial growth can be difficult

- Remediation methods used in food and other industries are not always appropriate for treating cannabis.
- Each batch must be tested and meet state mandated limits for microbials and other substances.



## What is the impact of a failing lot?

- Financial
- Reputation
- Schedule
- Patient Health
- Recalls



# Decontamination Using X-ray Energy



## Benefits of X-ray irradiation

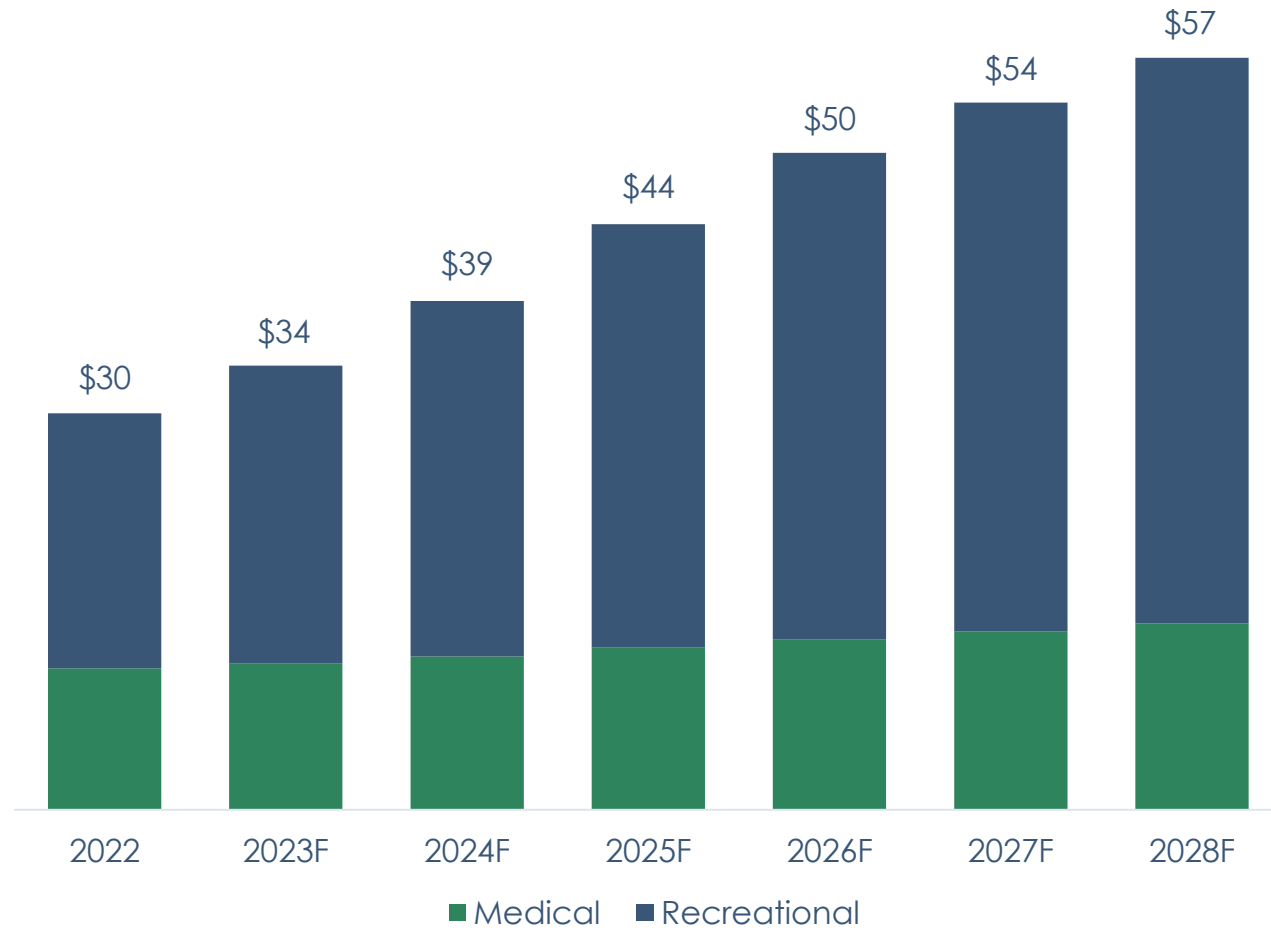
- High penetration
- Radiation beam can be turned off
- Moderate size
- Self contained unit
- On site solution
- No decrease in potency
- No chemicals
- No residues
- No motion or tumbling
- No heating or premature decarboxylation
- Potential to extend shelf life of cannabis



# Growing Market Within Large Total Addressable Market



## U.S. Cannabis Retail Sales Estimates (\$B)



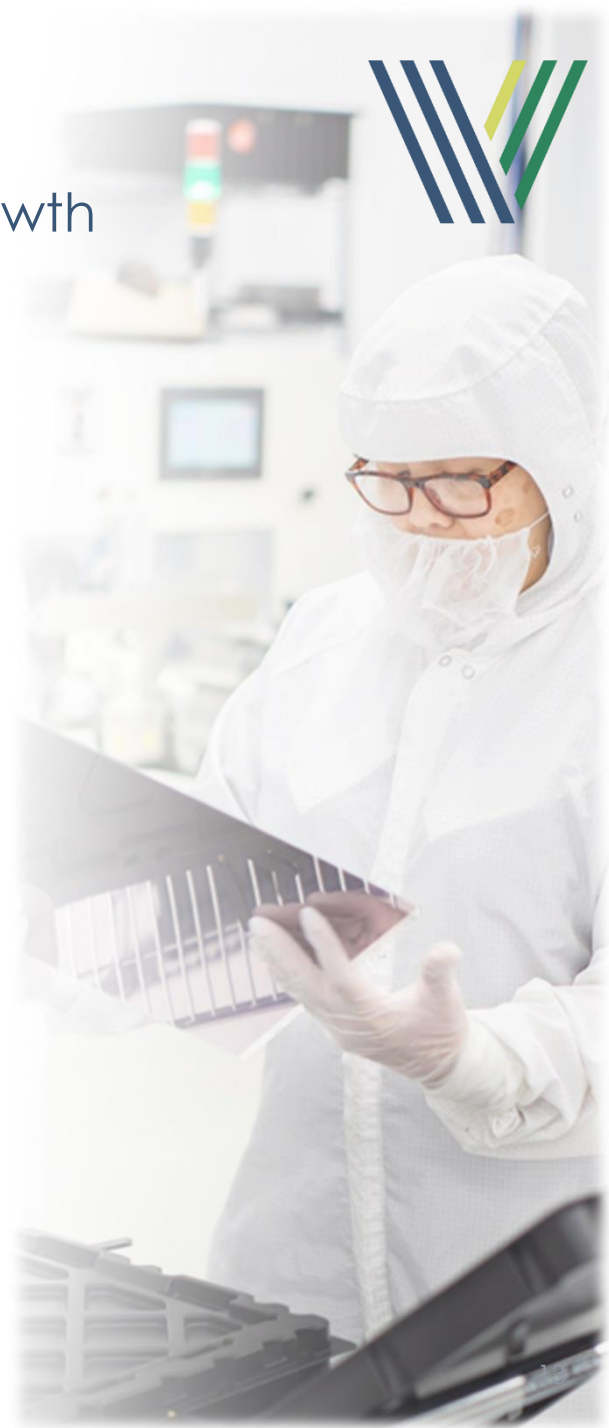
- Over 13,000 growers in U.S.
- **\$30B U.S. Cannabis retail sales** market expected to grow at **10%+ CAGR** through 2028
- **Cannabis decontamination market ~\$225M** and expected to grow at a double-digit CAGR
- Varex XRpure expected to reach run-rate of **\$25-50M in subscription revenues** per year in 5 years.

# FY2024 Initiatives

Focused execution on existing and new initiatives to drive profitable growth



- Industrial Applications
- Systems & Solutions
- Photon Counting Technologies
- India Expansion
- Gross Margin Improvement
- Inventory Reduction
- Cash Generation

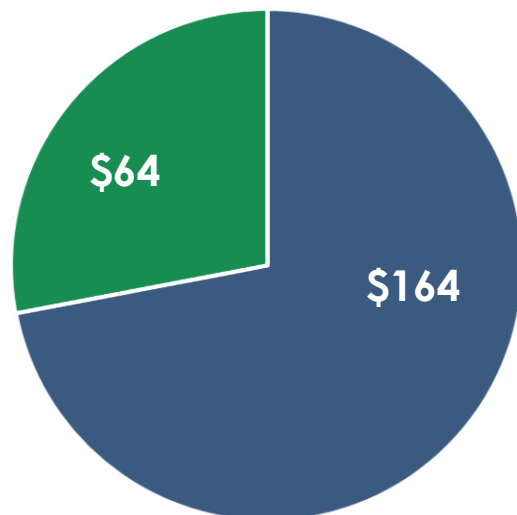


# Q4 FY23 Revenue Details



## Segment Mix

(\$ in millions)

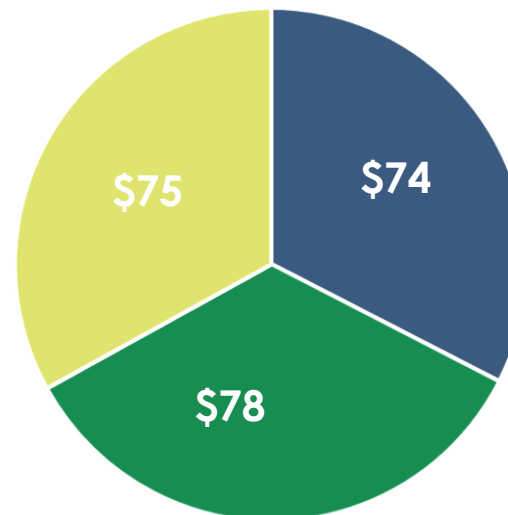


■ Medical ■ Industrial

Revenue, \$M	Q4 23	Q3 23	Q2 23	Q1 23	Q4 22
Medical	164	175	174	160	181
Industrial	64	57	54	46	50

## Geographic Mix

(\$ in millions)



■ Americas ■ EMEA ■ APAC

Revenue, \$M	Q4 23	Q3 23	Q2 23	Q1 23 <sup>1</sup>	Q4 22
Americas	74	73	68	67	80
EMEA	78	77	70	65	74
APAC	75	82	91	74	77

<sup>1</sup>Amounts for Q123 have been adjusted from how they were originally reported.



# Quarterly Results - GAAP



\$ in Millions, except per share data	Q4 FY23	Q3 FY23	Q4 FY22
Revenue	\$227	\$232	\$231
Gross Margin	34%	33%	32%
Operating Expenses	\$54 24%	\$52 22%	\$50 22%
Operating Income	\$24 11%	\$24 10%	\$25 11%
Net Earnings <sup>1</sup>	\$32	\$9	\$13
EPS, diluted	<b>\$0.66</b>	<b>\$0.21</b>	<b>\$0.32</b>
Avg. shares, diluted <sup>2</sup>	50.5	50.4	40.9

<sup>1</sup>Net earnings does not include the \$1.5m add back associated with the adoption of ASU 2020-06, which started for Varex in Q1FY23.

<sup>2</sup>Average diluted share count of 50.5m in Q4FY23 is due to the adoption of ASU 2020-06, which started for Varex in Q1FY23.



# Quarterly results – Non-GAAP<sup>1</sup>

\$ in Millions, except per share data	Q4 FY23	Q3 FY23	Q4 FY22
<b>Revenue</b>	\$227	\$232	\$231
<b>Gross Margin</b> (Non-GAAP)	36%	34%	33%
<b>Operating Expenses</b> (Non-GAAP)	\$51 23%	\$49 21%	\$47 20%
<b>Operating Income</b> (Non-GAAP)	\$30 13%	\$29 13%	\$29 13%
<b>Net Earnings</b> (Non-GAAP) <sup>2</sup>	\$21	\$17	\$17
<b>EPS, diluted</b> (Non-GAAP) Avg. shares, diluted <sup>3</sup>	<b>\$0.45</b> 50.5	<b>\$0.37</b> 50.4	<b>\$0.42</b> 40.4

<sup>1</sup>Please see slide 13 for a reconciliation of Q4FY23 non-GAAP financials. Prior quarters can be found on our website at [www.vareximaging.com/financial-reports](http://www.vareximaging.com/financial-reports)

<sup>2</sup>Net earnings does not include the \$1.5m add back associated with the adoption of ASU 2020-06, which started for Varex in Q1FY23.

<sup>3</sup>Average diluted share count of 50.5m in Q4FY23 is due to the adoption of ASU 2020-06, which started for Varex in Q1FY23.





# Select Balance Sheet Data



\$ in Millions	Q4 FY23	Q3 FY23	Q4 FY22
<b>Assets</b>			
Cash, Cash Equiv., Mkt. Sec. & CDs	\$195	\$152	\$113
Accounts Receivable, net	\$164	\$163	\$173
Inventories	\$278	\$298	\$303
Total Assets	\$1,250	\$1,212	\$1,184
<b>Liabilities</b>			
Accounts Payable	\$65	\$75	\$78
Debt, net <sup>1</sup>	\$443	\$443	\$414
Total Liabilities & Equity	\$1,250	\$1,212	\$1,184
<b>Working Capital Performance</b>	<b>Q4 FY23</b>	<b>Q3 FY23</b>	<b>Q4 FY22</b>
DSO (in days)	65	64	68
DOI	169	174	176
DPO	39	44	45

<sup>1</sup>In 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

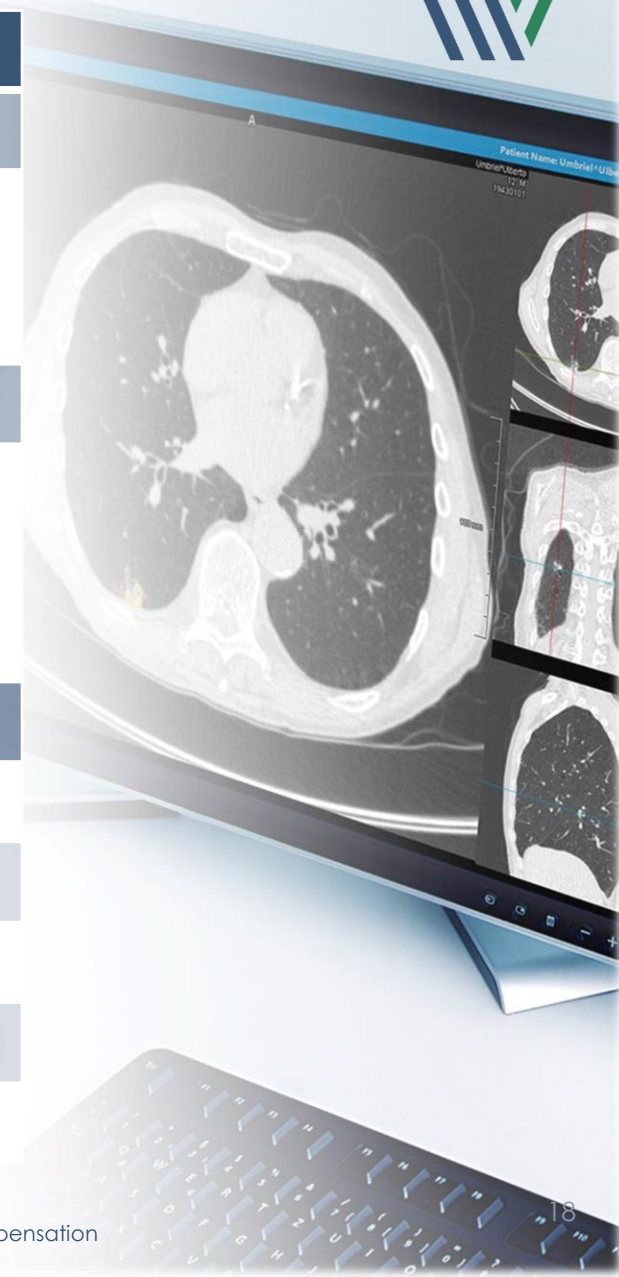


\$ in Millions	Q4 FY23	Q3 FY23	Q4 FY22
<b>Debt</b>			
Gross Debt <sup>1</sup> (Ratings: Moody's B2 / S&P B+)	\$448	\$449	\$450
Net Debt <sup>2</sup>	\$253	\$297	\$337
<b>Adjusted EBITDA<sup>3</sup></b>			
Adjusted EBITDA	\$38	\$38	\$36
Adjusted EBITDA (TTM)	\$132	\$129	\$140
Net debt leverage (TTM)	1.9x	2.3x	2.4x
<b>Cash Performance</b>			
Cash Flow from Operations	\$47	\$38	\$17
Capital Expenditures	(\$5)	(\$4)	(\$10)
Cash Interest	-	(\$14)	-
Cash Taxes	\$7	(\$3)	(\$3)
Net Change in Cash	\$42	\$30	(\$10)

<sup>1</sup>Gross Debt includes debt of \$443m + mortgage of \$5m.

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

<sup>3</sup>Adjusted 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 Q1 FY24



Guidance	Non-GAAP
Revenues, \$M	\$180 - \$200
EPS Per Diluted Share	\$0.00 - \$0.20
Assumptions	Non-GAAP
Gross Margin	33% - 34%
Operating Expenses, \$M	\$49 - \$50





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Q & A



# VAREX

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Non – GAAP  
Reconciliation

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



(In millions, except per share amounts)

## GROSS PROFIT RECONCILIATION

	Three Months Ended		Twelve Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Revenues, net	\$ 227.4	\$ 231.4	\$ 893.4	\$ 859.4
Gross profit	\$ 78.0	\$ 74.5	\$ 290.3	\$ 283.5
Amortization of intangible assets	1.9	1.7	7.3	7.2
Other non-operational costs	1.1	—	1.1	—
Non-GAAP gross profit	\$ 81.0	\$ 76.2	\$ 298.7	\$ 290.7
Gross margin	34.3 %	32.2 %	32.5 %	33.0 %
Non-GAAP gross margin	35.6 %	32.9 %	33.4 %	33.8 %



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



(In millions, except per share amounts)

	Three Months Ended		Twelve Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSE RECONCILIATION</b>				
Selling, general and administrative	\$ 31.9	\$ 29.7	\$ 128.4	\$ 118.3
Amortization of intangible assets	1.6	1.7	6.4	7.4
Restructuring charges	1.0	1.7	3.2	7.3
Other non-operational costs	(0.3)	(0.6)	4.3	1.4
Non-GAAP selling, general and administrative expense	\$ 29.6	\$ 26.9	\$ 114.5	\$ 102.2
<b>OPERATING EXPENSE RECONCILIATION</b>				
Total operating expenses	\$ 53.7	\$ 49.9	\$ 213.2	\$ 195.3
Amortization of intangible assets	1.6	1.7	6.4	7.4
Restructuring charges	1.0	1.7	3.2	7.3
Other non-operational costs	(0.3)	(0.6)	4.3	1.4
Non-GAAP operating expense	\$ 51.4	\$ 47.1	\$ 199.3	\$ 179.2



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



(In millions, except per share amounts)	Three Months Ended		Twelve Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
<b>OPERATING INCOME RECONCILIATION</b>				
Operating income	\$ 24.3	\$ 24.6	\$ 77.1	\$ 88.2
Amortization of intangible assets (includes amortization impacts to cost of revenues)	3.5	3.4	13.7	14.6
Restructuring charges (includes restructuring impact to cost of revenues)	1.0	1.7	3.2	7.3
Other non-operational costs (includes other non-operational impacts to cost of revenues)	0.8	(0.6)	5.4	1.4
Total operating income adjustments	5.3	4.5	22.3	23.3
Non-GAAP operating income	\$ 29.6	\$ 29.1	\$ 99.4	\$ 111.5
Operating margin	10.7 %	10.6 %	8.6 %	10.3 %
Non-GAAP operating margin	13.0 %	12.6 %	11.1 %	13.0 %





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



	Three Months Ended		Twelve Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
<b>(In millions, except per share amounts)</b>				
<b>INCOME BEFORE TAXES RECONCILIATION</b>				
Income before taxes	\$ 1.0	\$ 14.1	\$ 31.3	\$ 44.5
Total operating income adjustments	5.3	4.5	22.3	23.3
Convertible notes non-cash interest expense	—	2.3	—	8.8
Investment impairment charges	16.4	—	16.4	—
Other non-operational costs	—	—	—	1.2
Total income before taxes adjustments	21.7	6.8	38.7	33.3
Non-GAAP income before taxes	\$ 22.7	\$ 20.9	\$ 70.0	\$ 77.8
<b>INCOME TAX (BENEFIT) EXPENSE RECONCILIATION</b>				
Income tax (benefit) expense	\$ (31.0)	\$ 0.9	\$ (17.4)	\$ 13.7
Tax effect on non-GAAP adjustments	(32.4)	(2.7)	(29.1)	(6.1)
Non-GAAP income tax (benefit) expense	\$ 1.4	\$ 3.6	\$ 11.7	\$ 19.8
<b>NET INCOME AND DILUTED NET INCOME PER SHARE RECONCILIATION</b>				
Net income attributable to Varex	\$ 31.9	\$ 13.1	\$ 48.2	\$ 30.3
Total income before taxes adjustments	21.7	6.8	38.7	33.3
Effective tax rate on non-GAAP adjustments	(149.3)%	(39.7)%	(75.2)%	(18.3)%
Tax effect on non-GAAP adjustments	(32.4)	(2.7)	(29.1)	(6.1)
Non-GAAP net income	21.2	17.2	57.8	57.5
Interest expense on Convertible Notes, net of tax	1.5	—	6.2	—
Diluted Non-GAAP net income	22.7	17.2	64.0	57.5
Diluted net income per share	0.66	0.32	1.08	0.73
Non-GAAP diluted net income per share	\$ 0.45	\$ 0.42	\$ 1.27	\$ 1.43



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



(In millions, except per share amounts)	Three Months Ended		Twelve Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
<b>DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING RECONCILIATION</b>				
GAAP weighted average common shares - dilutive	50.5	40.9	50.3	41.6
Dilution offset from convertible notes hedge transaction	—	(0.5)	—	(1.3)
Non-GAAP dilutive shares	50.5	40.4	50.3	40.3
<b>ADJUSTED EBITDA RECONCILIATION</b>				
Net income attributable to Varex	\$ 31.9	\$ 13.1	\$ 48.2	\$ 30.3
Interest expense	7.2	9.4	29.3	38.6
Income tax (benefit) expense	(31.0)	0.9	(17.4)	13.7
Depreciation	5.3	4.7	19.5	19.0
Amortization	3.5	3.4	13.7	14.6
Stock based compensation	3.4	3.3	13.5	14.0
Restructuring charges	1.0	1.7	3.2	7.3
Impairment charges	16.4	—	16.4	—
Other non-operational costs	0.8	(0.6)	5.4	2.6
Adjusted EBITDA	\$ 38.5	\$ 35.9	\$ 131.8	\$ 140.1



# 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	\$7	\$0.0	0
\$4	\$0.0	0	\$10	\$0.0	0
\$5	\$0.0	0	\$11	\$0.0	0
\$6	\$0.0	0	\$12	\$0.0	0
\$7	\$1.5	10	\$13	\$1.5	10
\$8	\$1.5	10	\$14	\$1.5	10
\$9	\$1.5	10	\$15	\$1.5	10
\$10 and above	\$1.5	10	\$16	\$1.5	10

## 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	\$22	\$0.0	0
\$10	\$0.0	0	\$32	\$0.0	0
\$20	\$0.0	0	\$42	\$0.0	0
\$30	\$6.2	10	\$52	\$6.2	10
\$40	\$6.2	10	\$62	\$6.2	10
\$50 and above	\$6.2	10	\$72	\$6.2	10

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 our 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 our 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 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 our Convertible Senior Unsecured Notes (the Convertible Notes) in June 2020, we 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 our 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 our has GAAP net income, the non-GAAP diluted share count includes the anti-dilutive impact of our Hedge Transactions, which reduces the potential dilution that otherwise would occur upon conversion of our 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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