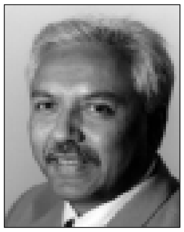
Varian Medical Systems

A leader in radiation treatment of cancer

By Sunil Vidyarthi



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One old stock that has gone through a few gyrations recently and is trading at a short-term low is **Varian Medical Systems Inc**. (VAR-NYSE, $35.75, 650-493-4000, *www.varian.com*), not to be confused with Varian Inc., which concentrates on high-technology equipment.

VAR's principal activities are to design and manufacture equipment for treating cancer with radiation. It also designs and produces X-ray tubes and imaging subsystems.

The oncology systems division designs, manufactures and sells hardware and software products for radiation treatment. The products include linear accelerators and accessories, treatment simulators, treatment-verification products and software systems for planning cancer treatments.

The oncology systems products are sold to hospitals, private and governmental institutions and health-care agencies. The X-ray products division designs and manufactures subsystems for diagnostic radiology, X-ray generating tubes and imaging subsystems.

In 2004 the Group acquired Zmed Inc, Mitsubishi Electric Co.'s radiotherapy equipment service business and the OpTx Corp. business.

Cancer treatment has come a long way over the last 20 years. More sophisticated equipment using concentrated radiation beams to annihilate cancerous tissues without affecting the rest is the new mode.

Major share

Varian, along with another company I wrote about a few months ago, **Elekta B** (EKTA-Stokholm, 249 krona, *elekta.com*) are the leaders in this technology. VAR has the major market share in this sector, which is promising to grow 13 to 15 per cent per year.

More important, here is a company whose plans coincide with the basic thesis that general demand will be anything but declining and technical excellence, not oil or gold, will make the difference.

Varian's financials are also outstanding. Revenue last quarter was $299 million versus last year's $267 million. The company said that its net income would have been reduced by four cents a share if it had recognized stock-option compensation costs.

That would put Varian's results in line with the earnings forecast of 25 cents from analysts polled by Thomson First Call. Orders during the quarter amounted to $334 million. Varian ended the quarter with a backlog of $1 billion, 18 per cent higher than it was a year ago.

The stock trades currently at a price-to-earnings ratio of 29 and a forward P/E of 21. Return on equity is 29 per cent while the debt level is less than 10 per cent. Not a bad one for contrarians like me to buy now and wait patiently until other investors start paying attention to what is truly a growing demand.

Sunil Vidyarthi is president of Value Sciences Inc.