

Stock Report | February 3, 2007 | NYS Symbol: **VAR** | VAR is in the S&P MidCap 400

**STANDARD
& POOR'S**

Varian Medical Systems Inc

S&P Recommendation **STRONG BUY** ★★★★★

Price
\$47.74 (as of Feb 2, 2007)

12-Mo. Target Price
\$58.00

Investment Style
Mid-Cap Growth

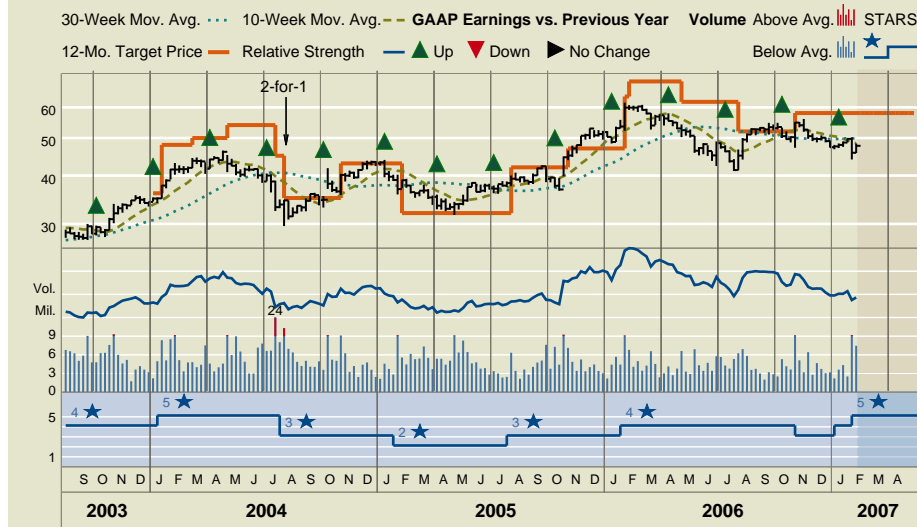
GICS Sector Health Care
Sub-Industry Health Care Equipment

Comment This leading maker of radiotherapy cancer systems also supplies X-ray tubes and flat-panel digital subsystems for imaging in medical, scientific, and industrial applications.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	\$60.98-41.10	S&P Oper. EPS 2007E	1.83	P/E on S&P Oper. EPS 2007E	26.1	Dividend Rate/Share	Nil
Trailing 12-Month EPS	\$1.88	S&P Oper. EPS 2008E	2.25	Common Shares Outstg. (M)	129.1	Yield (%)	Nil
Trailing 12-Month P/E	25.4	S&P Core EPS 2007E	1.83	Market Capitalization(B)	\$6.162	Beta	0.52
\$10K Invested 5 Yrs Ago	\$24,551	S&P Core EPS 2008E	2.25	Institutional Ownership (%)	NA	S&P Credit Rating	NA

Price Performance



Options: ASE

Analysis prepared by **Robert M. Gold** on January 30, 2007, when the stock traded at **\$46.45**.

Highlights

- We see FY 07 (Sep.) revenues of \$1.85 billion, driven by rising levels of Intensity Modulated Radiation Therapy sales, upgrades to image-guided radiation therapy technology, and accelerating growth for X-ray and brachytherapy products. We believe that efforts by the U.S. government to deploy automated cargo screening systems capable of detecting nuclear materials will help drive increased linear accelerator sales in coming years. We expect that the acquisition of ACCEL Instruments GmbH, completed in January 2007, will boost FY 07 revenues by about \$24 million.
- We see gross margins in FY 07 benefiting from a higher proportion of software revenues and rising contributions from the sale of flat panel displays. We further assume that SG&A and R&D costs will rise in the mid-single digits, well below our projected sales growth estimate. We think common share buybacks will continue to support EPS growth.
- After taxes at 31.5%, we see FY 07 EPS of \$1.83, including \$0.23 of estimated stock option expense and about \$0.07 of dilution from the ACCEL purchase. We have a FY 08 EPS forecast of \$2.25.

Investment Rationale/Risk

- We believe that revenue growth in coming quarters will continue to be bolstered by the clinical adoption of IMRT in North America and Europe, along with IGRT upgrades to the installed base. While we think that the North American radiation equipment market is competitive, we are encouraged that VAR was able to generate an approximate 13% rise in worldwide oncology orders during FY 07. Given the dynamics underlying Varian's key markets, we think sales growth of 12%-14% and EPS growth of 17% is sustainable over the next three years.
- Risks to our recommendation and target price include unfavorable changes in Medicare reimbursements, equipment pricing pressures, and an inability to continue to grow the oncology equipment order backlog in both U.S. and overseas markets.
- Our 12-month target price of \$58 represents a P/E of 30.4X our calendar 2007 EPS estimate of \$1.91 and a price-to-earnings growth (PEG) ratio of 1.8X, a modest premium to our mid-cap device coverage universe, which is justified, in our opinion, by what we see as VAR's sustainable 17% earnings growth rate and favorable long-term product demand drivers.

Qualitative Risk Assessment

LOW **MEDIUM** **HIGH**

While Varian offers some of the more technologically advanced products in the oncology equipment industry, the company operates in a competitive industry characterized by technological innovation and new product entrants. In addition, although we believe radiation therapy will continue to be an integral component of global cancer treatment protocols, the continued development of drug-based oncology treatments represents a substantial threat to the company's radiation therapy equipment business.

Quantitative Evaluations

S&P Quality Ranking **B+**

D **C** **B-** **B** **B+** **A-** **A** **A+**

Relative Strength Rank **WEAK**

20
LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2007	387.9	--	--	--	--
2006	334.2	413.9	395.7	454.0	1,598
2005	299.0	350.8	346.5	386.2	1,383
2004	267.0	320.6	303.1	344.8	1,236
2003	206.7	266.2	265.5	303.3	1,042
2002	175.1	220.5	216.1	261.4	873.1

Earnings Per Share (\$)	2007	2006	2005	2004	2003	2002
	0.37	E0.45	E0.46	E0.55	E1.83	
	0.30	0.41	0.49	0.61	1.80	
	0.29	0.39	0.37	0.45	1.50	
	0.21	0.30	0.30	0.37	1.18	
	0.15	0.24	0.23	0.31	0.92	
	0.10	0.17	0.16	0.24	0.66	

Fiscal year ended Sep. 30. Next earnings report expected: Late April. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data

Cash dividends were last paid in 1999.

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Varian Medical Systems Inc**Business Summary** January 30, 2007

CORPORATE OVERVIEW. Varian is one of the largest manufacturers of oncology diagnostic products, X-ray tubes, and imaging subsystems. The company is focused primarily on capturing share in the global oncology radiation therapy markets. Cancer rates are expected to increase 50% by 2020.

MARKET PROFILE. Driven by an aging global population and improved diagnostic methods, the number of newly diagnosed cancer cases continues to increase. According to estimates published in February 2005 by the Annals of Oncology, nearly 2.9 million new cancer cases were diagnosed during 2004, and the U.S. National Cancer Institute estimates that cancer diagnoses will rise 1.6 million per year by 2010, a 23% increase from the 1.3 million cancers per year seen in 2000. Radiation therapy is commonly used in the treatment of cancer, alone or in combination with surgery or chemotherapy. The most common type of radiotherapy uses X-rays delivered by external beams, and is administered using linear accelerators. In addition to external radiation, radioactive seeds, wires or ribbons are sometimes inserted into a tumor or into a body cavity (brachytherapy), a modality that does not require radiation to pass through healthy tissues.

Varian's oncology systems group (84% of FY 06 (Sep.) revenues) designs, markets and services hardware and software products for cancer radiation treatment, including linear accelerators, treatment simulators and verification products, and software systems for planning cancer treatment and managing information and images for radiation oncology. Products focus on enabling a new therapy that delivers high doses of radiation to tumors while reducing risk to surrounding tissues. This three-dimensional conformal radiation therapy, called Intensity Modulation Radiation Therapy (IMRT), links treatment planning, information management and driver software to the treatment delivery device, the linear accelerator. This is designed to allow clinicians to determine and deliver a clinically optimized plan of radiation for each patient. IMRT is used to treat head and neck, breast, prostate, pancreatic, lung, liver, gynecological and central nervous system cancers. VAR has also developed image-guided radiation therapy (IGRT), which improves radiation therapy precision by using technologies that compensate for tumor changes and movements during and between treatments.

Varian sells X-ray products (14%), including X-ray generating tubes used in four primary medical X-ray imaging applications: CT scanners; radiographic/fluoroscopic; special procedures; and mammography. VAR offers a line of industrial X-ray tubes, which consist of analytical X-ray tubes used for X-ray fluorescence and diffraction, as well as tubes for non-destructive imaging and gauging and airport baggage inspection systems. The company also designs and manufactures flat panel detectors being incorporated into next-generation medical diagnostic and industrial imaging systems.

Through its Ginzton Technology Center, Varian is developing technologies that enhance current businesses or may lead to new business opportunities, including next-generation digital X-ray imaging technology, volumetric and functional imaging, improved X-ray sources, and technology for security and cargo screening applications. The company is also developing technologies and products that may improve disease management by more precise targeting of radiation therapy, and brachytherapy products that are used for partial breast irradiation and many other applications.

In January 2007, Varian acquired privately-held ACCEL Instruments GmbH for \$30 million in cash. The purchase added proton therapy systems for cancer treatment and scientific research to the company's product offerings. As opposed to standard proton radiotherapy beams that pass all the way through a patient's body, proton therapy beams can be designed to stop and distribute most of their radiation dose at the site of the tumor. The therapy is believed to be especially useful in pediatric cases, for very large tumors, ocular tumors or other tumors adjacent to very sensitive healthy tissue. VAR expects that this acquisition will dilute FY 07 EPS by about 3%, becoming earnings neutral in FY 08 and accretive in FY 09 and beyond.

COMPETITIVE LANDSCAPE. The market for radiation therapy equipment and software is characterized by rapidly evolving technology, intense competition, and pricing pressure, in our view. As such, new competitors have the potential to disrupt the overall market. We believe the global market for radiation therapy equipment is dominated by Varian, Elekta AB and Siemens Medical Solutions.

FINANCIAL TRENDS. For the five years ended FY 06, VAR posted a revenue compound annual growth rate (CAGR) of 15.6% and an operating EPS CAGR, excluding stock option expense, of 29.9%. Assuming global oncology radiation equipment market growth of about 10%, we believe VAR can generate sales growth of 12% to 14% and EPS growth of 17% annually over the coming three years.

Corporate Information

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Officers

Pres & CEO
T.E. Guertin

VP & Cntrl
T. Chen

SVP & CFO
E.W. Finney

VP & General Counsel
J.W. Kuo

Board of Directors

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D. W. Martin, Jr.
R. Naumann-Etienne
K. J. Thiry

Domicile
Delaware

Founded
1976

Employees
3,900

Stockholders
3,442

Varian Medical Systems Inc

Quantitative Evaluations

S&P Fair Value Rank	4+	1	2	3	4	5
		LOWEST				HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation	\$45.30	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that VAR is slightly overvalued by \$2.44 or 5.1%.
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Investability Quotient Percentile	95
	LOWEST = 1 HIGHEST = 100

VAR scored higher than 95% of all companies for which an S&P Report is available.

Volatility	LOW	AVERAGE	HIGH
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VAR has had Average price volatility over the past year.

Technical Evaluation	BEARISH	Since November, 2006, the technical indicators for VAR have been BEARISH.
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Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2006	2005	2004	2003
Price/Revenue	4.03	5.02	4.98	4.72
Price/EBITDA	19.01	20.89	22.22	22.46
Price/Pretax Income	20.22	22.50	23.90	24.39
Price/Net Income	26.45	33.59	36.77	37.52
Avg. Diluted Shares Outstg (M)	135.4	137.8	142.2	142.2

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	15.57	14.98	15.94	3.63
Net Income	17.90	23.05	29.33	21.42

Ratio Analysis (Annual Avg.)

Net Margin (%)	15.24	14.57	13.40	10.01
LTD of Capitalization (%)	5.83	7.27	8.33	12.48
Return on Equity (%)	33.45	31.35	27.92	21.99

Company Financials

Per Share Data (\$) Year Ended Sep. 30	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Tangible Book Value	5.21	4.11	3.74	3.71	3.05	2.93	2.13	1.51	4.69	4.36
Cash Flow	2.02	1.70	1.32	1.06	0.81	0.64	0.55	0.38	0.96	1.28
Earnings	1.80	1.50	1.18	0.92	0.66	0.50	0.41	0.07	0.61	0.92
S&P Core Earnings	1.80	1.34	1.04	0.78	0.54	0.40	NA	NA	NA	NA
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	0.03	0.10	0.09
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	Nil	37%	16%	10%
Prices:High	61.70	52.92	46.49	35.65	25.66	19.31	17.75	10.75	14.59	16.75
Prices:Low	41.10	31.65	29.63	23.70	15.80	13.50	6.88	4.06	7.89	11.47
P/E Ratio:High	34	35	39	39	39	39	43	NM	24	18
P/E Ratio:Low	23	21	25	26	24	27	17	NM	13	13

Income Statement Analysis (Million \$)

Revenue	1,598	1,383	1,236	1,042	873	774	690	590	1,422	1,426
Operating Income	339	332	277	219	165	129	108	91.4	158	176
Depreciation	29.6	27.1	20.8	20.3	20.4	19.3	17.8	37.4	42.7	45.6
Interest Expense	4.65	4.70	4.67	4.38	4.49	4.13	5.16	10.0	8.84	7.78
Pretax Income	319	308	257	201	146	107	84.9	18.2	113	178
Effective Tax Rate	23.6%	33.0%	35.0%	35.0%	36.0%	36.5%	37.5%	55.0%	34.5%	35.0%
Net Income	244	207	167	131	93.6	68.0	53.0	8.20	73.8	116
S&P Core Earnings	245	184	148	111	75.9	54.2	NA	NA	NA	NA

Balance Sheet & Other Financial Data (Million \$)

Cash	366	378	352	323	299	219	83.3	25.1	150	142
Current Assets	1,156	1,017	885	806	651	620	451	382	840	813
Total Assets	1,512	1,317	1,170	1,053	910	759	603	539	1,218	1,104
Current Liabilities	644	544	461	409	358	285	250	270	505	464
Long Term Debt	49.4	57.3	53.3	58.5	58.5	58.5	58.5	58.5	111	73.2
Common Equity	797	659	614	564	504	418	270	185	558	525
Total Capital	847	716	667	622	562	477	329	244	669	604
Capital Expenditures	41.4	43.9	24.2	18.9	25.9	16.5	19.2	39.4	47.0	55.1
Cash Flow	273	234	188	151	114	87.3	70.8	45.6	117	161
Current Ratio	1.8	1.9	1.9	2.0	1.8	2.2	1.8	1.4	1.7	1.8
% Long Term Debt of Capitalization	5.8	8.0	8.0	9.4	10.4	12.3	17.8	24.0	16.5	12.2
% Net Income of Revenue	15.2	14.9	13.5	12.6	10.7	8.8	7.7	1.4	5.2	8.1
% Return on Assets	17.2	16.5	15.0	13.3	11.2	10.0	9.3	0.1	6.4	10.9
% Return on Equity	33.4	32.2	28.4	25.3	20.3	19.2	23.3	2.2	13.6	23.3

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Varian Medical Systems Inc

Sub-Industry Outlook

Our fundamental outlook on the health care equipment sub-industry is positive, and we believe that early signs of a rebound in the implantable defibrillator markets, combined with ongoing strength in the cardiology, diabetes, pain management, orthopedics and oncology markets will help drive accelerating sales growth during 2007. We remain concerned about a lack of blockbuster new product introductions anticipated for 2007, but believe several important products may be launched during 2008 and 2009. In addition, we think merger and acquisition activity will continue to rise in 2007, providing some support to stock valuations and creating more powerful global competitors in categories such as orthopedics, vision care, interventional cardiology and oncology.

We estimate that 2007 revenues will rise by about 11% to 12%, as improved pricing in the orthopedics area join with slowing growth in the interventional cardiology category, particularly regarding drug-eluting coronary stents, which have, in our view, saturated the market in the U.S. We continue to anticipate a rebound in the implantable defibrillator markets in 2007, and think growth will persist in the spinal surgery, pain management, robotic surgery, diagnostic imaging and diabetes management product areas. We also look for strong gains in the cosmetic surgery categories, with particular strength projected in the facial aesthetics and breast augmentation areas, although a weaker-than-expected level of consumer confidence in the U.S. could negatively impact demand in the plastic surgery areas.

In orthopedics, we expect protracted strength in the knee joint replacement market in 2007, reflecting favorable global demographics and technological innovation. We see spinal repair, including artificial discs, as another strong industry area. Although a

broad investigation by the Department of Justice into orthopedic device pricing could result in additional headline risk for these stocks, we think the underlying fundamental drivers remain solid and anticipate that merger and acquisition activity will remain strong into 2007.

We see positive longer-term fundamentals, including growing global demand for quality health care, an aging population and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products in areas such as cardiology, orthopedics, oncology and minimally invasive surgery.

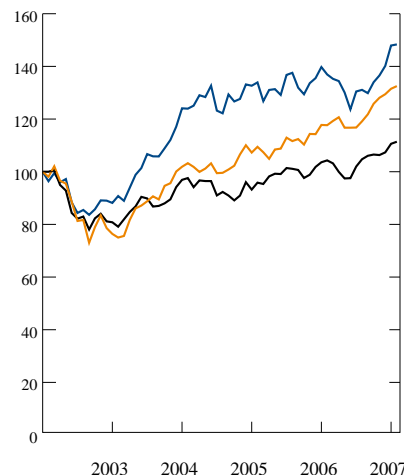
In 2006, the Health Care Equipment Index rose 3.4%, well below the 5.4% gain for the consolidated S&P Health Care Index and a 13.3% advance for the S&P 1500 Index.

--Robert M. Gold

Stock Performance

GICS Sector: Health Care
Sub-Industry: Health Care Equipment

Based on S&P 1500 Indexes
Month-end Price Performance as of 01/31/07



Sub-Industry Sector S&P 1500

NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Health Care Equipment Peer Group*: Imaging Equipment

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price	P/E Ratio	12-Mo. Trailing EPS	30-Day Price Chg(%)	1 Year Price Chg(%)	Beta	Yield (%)	Quality Ranking	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap (%)
Varian Medical Systems	VAR	6,162	47.74	25	1.88	1%	-20%	0.52	Nil	B+	33.4	19.9	5.8
Analogue Corp.	ALOG	821	58.79	45	1.32	5%	7%	0.19	0.7	B-	1.1	1.2	Nil
E-Z-EM, Inc.	EZEM	198	18.06	22	0.81	2%	-11%	1.15	Nil	B	10.4	7.7	Nil
FONAR Corp	FONR	35	0.29	NM	-0.24	-4%	-61%	0.85	Nil	C	NM	NM	3.7
Fischer Imaging	FIMG	NA	0.00	NM	-0.93	2%	NA	-1.02	Nil	C	NM	NM	Nil
Given Imaging	GIVN	577	20.63	NM	0.02	6%	-21%	0.75	Nil	NR	6.5	6.4	Nil
Hologic, Inc.	HOLX	2,951	55.94	76	0.74	17%	10%	1.99	Nil	B-	6.7	11.5	0.9
SonoSite Inc.	SONO	544	33.15	81	0.41	8%	-14%	1.25	Nil	NR	3.8	5.3	Nil

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

S&P Analyst Research Notes and other Company News**January 29, 2007**

12:55 pm EST... S&P UPGRADES SHARES OF VARIAN MEDICAL SYSTEMS TO STRONG BUY FROM BUY (VAR 46.44****): VAR has consummated its purchase of privately-held ACCEL Instruments GmbH, a manufacturer of scientific research instruments and proton therapy systems used in the treatment of cancer. We expect that the purchase will add about \$24M to sales in FY 07 (Sep.). However, we are trimming our FY 07 EPS estimate by \$0.07 to \$1.83, to account for expected dilution. We continue to look for FY 08 EPS of \$2.25. In our view, the purchase adds another promising cancer treatment option to VAR's product line. With the shares well below our 12-month target price of \$58, we are upgrading. /R.Gold

January 25, 2007

DOWN 5.09 to 45.05... Posts \$0.37 vs. \$0.30 Q1 EPS on 16% revenue rise... Says European market for Oncology Systems was tough... Sees \$0.46 Q2 EPS on 7%-9% revenue growth... S&P keeps buy...

January 25, 2007

08:34 am EST... S&P REITERATES BUY OPINION ON SHARES OF VARIAN MEDICAL SYSTEMS (VAR 50.14****): Dec-Q operating EPS of \$0.37 vs. \$0.30 is \$0.03 below our forecast. We attribute the shortfall to lower-than-projected gross margins and slightly higher operating expenses. We believe the stock could be pressured this morning by concerns about the 16% decline in international oncology orders and the company's guidance for only modest overseas growth in FY 07 (Sep.). However, we think orders in the U.S. are accelerating and we see proton therapy technology driving the next leg of growth. We are keeping our FY 07 EPS estimate at \$1.90, and our 12-month target price at \$58. /R. Gold

January 24, 2007

NEW YORK (Standard & Poor's)--Jan 24, 2007, Varian Medical Systems Inc., announced 1Q EPS \$0.37 vs. \$0.30.

January 4, 2007

11:23 am EST... S&P UPGRADES SHARES OF VARIAN MEDICAL SYSTEMS TO BUY FROM HOLD (VAR 47.93****): VAR agrees to acquire, subject to necessary approvals, privately held ACCEL Instruments GmbH for \$30M in cash, or 1X the revenues VAR expects the deal would add in FY 07 (Sep.). We think planned deal would be strategically significant, adding proton therapy to VAR's suite of cancer radiation treatment options. The technology is viewed as particularly useful in pediatric cancer cases and treatment of very large tumors. VAR projects proposed deal to be about 3% EPS dilutive in year 1, neutral in year 2, and accretive thereafter. VAR is trading well below our target price of \$58. /R. Gold

October 31, 2006

NEW YORK (Standard & Poor's)--Oct 25, 2006, Varian Medical Systems Inc., announced 4Q EPS \$0.61 vs. \$0.45 and annual EPS \$1.80 vs. \$1.50. Results for 2006 exclude income of \$0.01 from discontinued operations.

October 30, 2006

10:04 am EST... S&P DOWNGRADES SHARES OF VARIAN MEDICAL TO HOLD FROM BUY, BASED ON VALUATION (VAR 54.63****): Last week, VAR reported Sep-Q that exceeded our projections, and we believe the company's long-term fundamental story remains intact. In our view, strength in the oncology equipment business, along with with solid growth in treatment planning software and the potential for significant contributions from the cargo screening business, make VAR among the more fundamentally compelling names in our medical equipment coverage. We continue to see sustainable 17% EPS growth. However, we are taking a more cautious stance after the stock's recent rise. Our 12-month target price stays \$58. /R. Gold

October 26, 2006

Posts \$0.62 vs. \$0.46 Q4 EPS (GAAP) on 18% revenue rise... Sees FY 07 revenue rise of about 13%... Sees \$2.08-\$2.10 FY 07 EPS, excluding \$0.21-\$0.24 in stock option expense... S&P maintains buy...

October 26, 2006

08:17 am EDT... S&P MAINTAINS BUY OPINION ON SHARES OF VARIAN MEDICAL SYSTEMS (VAR 47.59****): Sep-Q EPS from continuing operations of \$0.54 vs. \$0.40 is \$0.06 above our estimate on 17.6% in line sales growth and a sharply lower tax rate. We think the tax-rate reduction largely reflected a higher

proportion of non-U.S. profits. We were impressed with U.S. oncology systems order strength, demand for planning software and solid growth in the X-ray products area. We think FY 07 (Sep.) sales will reach \$1.8B, and our EPS estimate rises by \$0.05 to \$1.90. Assuming sustainable 17% EPS growth and a forward P/E-to-growth of 1.8X, above peers, our target price rises by \$6 to \$58. /R. Gold

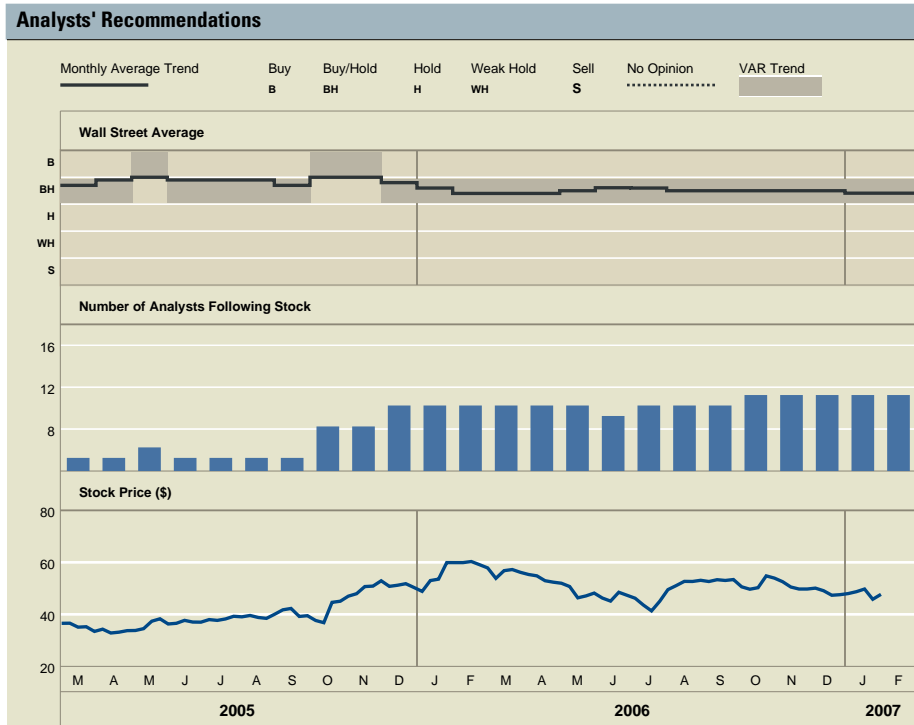
August 16, 2006

DOWN 0.07 to 51.93... Univ. of Pitt. Medical Center Cancer Centers successfully treat lung cancer patient using more precise technique from VAR that combines image-guided radiotherapy with respiratory gating to zero in on tumor.

July 27, 2006

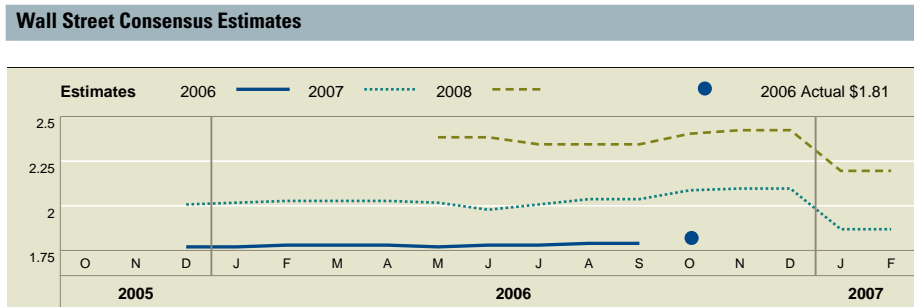
NEW YORK (Standard & Poor's)--Jul 26, 2006, Varian Medical Systems Inc., announced 3Q EPS \$0.49 vs. \$0.37 and 9 mos. EPS \$1.20 vs. \$1.05.

Varian Medical Systems Inc



Of the total 11 companies following VAR, 11 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	2	18	2	2
Buy/Hold	6	55	6	7
Hold	3	27	3	2
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	11	100	11	11



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2008	2.20	2.25	2.11	8	21.7
2007	1.87	1.91	1.83	10	25.5
2008 vs. 2007	▲ 18%	▲ 18%	▲ 15%	▼ -20%	▼ -15%
Q2'08	0.54	0.55	0.52	2	88.4
Q2'07	0.46	0.46	0.45	9	NM
Q2'08 vs. Q2'07	▲ 17%	▲ 20%	▲ 16%	▼ -78%	NM

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- Banc of America Securities Llc.
- CIBC World Markets
- Fahnestock & Co.
- First Albany Corporation
- JP Morgan Securities
- Jefferies & Company
- Leerink Swann
- Monness, Crespi, Hardt & Co., Inc.
- Needham & Co.
- Noble Financial Group
- Smith Barney

Wall Street Consensus vs. Performance

For fiscal year 2007, analysts estimate that VAR will earn \$1.87. For the 1st quarter of fiscal year 2007, VAR announced earnings per share of \$0.37, representing 20% of the total annual estimate. For fiscal year 2008, analysts estimate that VAR's earnings per share will grow by 18% to \$2.20.

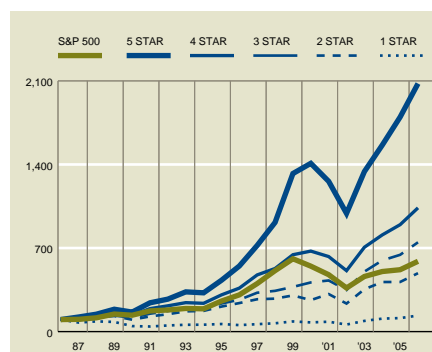
Varian Medical Systems Inc

Glossary

S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS Average Annual Performance



S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capitalize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

S&P's IQ Rationale:

Varian Medical Systems

	Raw Score	Max Value
Proprietary S&P Measures	52	115
Technical Indicators	23	40
Liquidity/Volatility Measures	17	20
Quantitative Measures	64	75
IQ Total	156	250

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and

trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 67 Industries, and 147 Sub-Industries.

S&P Core Earnings

Standard & Poor's Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the Standard & Poor's definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

S&P Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC-London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

Varian Medical Systems Inc

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S&P Global STARS Distribution

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In Europe: As of December 31, 2006, research analysts at Standard & Poor's Equity Research Services Europe have recommended 37.1% of issuers with buy recommendations, 41.8% with hold recommendations and 21.1% with sell recommendations.

In Asia: As of December 31, 2006, research analysts at Standard & Poor's Equity Research Services Asia have recommended 30.9% of issuers with buy recommendations, 55.5% with hold recommendations and 13.6% with sell recommendations.

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★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STAR (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In the U.S. the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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For residents of Malaysia, all queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe, or Ching Wah Tam.

This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041.