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EDITED TRANSCRIPT

Q1 2024 Merit Medical Systems Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to MMSI first-quarter 2024 earnings call. (Operator Instructions)

Please be advised that today's conference is being recorded. I would like now to turn the conference over to Fred Lampropoulos, Chairman and CEO. Please go ahead.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, and welcome, everyone to Merit Medical Systems' first quarter of Fiscal Year 2024 earnings conference call. I am joined on the call today by Raul Parra, our Chief Financial Officer and Treasurer; Joe Wright, our Chief Commercial Officer; and Brian Lloyd, our Chief Legal Officer and Corporate Secretary. Brian, would you mind taking us through the Safe Harbor statements, please?

Brian Lloyd Merit Medical Systems Inc - Chief Legal Officer, Corporate Secretary

Thank you, Fred. I would like to remind everyone that this presentation contains forward-looking statements that receive Safe Harbor protection under federal securities laws. Although we believe these forward-looking statements are based upon reasonable assumptions, they are subject to unknown risks and uncertainties. The realization of any of these risks or uncertainties as well as extraordinary events or transactions impacting our company could cause actual results to differ materially from those currently anticipated.

In addition, any forward-looking statements represent our views only as of today, April 30, 2024, and should not be relied upon as representing our views as of any other date. We specifically disclaim any obligation to update such statements except as required by applicable law. Please refer to the sections entitled Cautionary Statement regarding forward-looking statements in today's press release and presentation for important information regarding such statements. Please also refer to our most recent filings with the SEC for a discussion of factors that could cause actual results to differ from these forward-looking statements.

Our financial statements are prepared in accordance with accounting principles which are generally accepted in the United States. However, we believe certain non-GAAP financial measures provide investors with useful information regarding the underlying business trends and performance of our ongoing operations and can be useful for period-over-period comparisons of such operations. This presentation also contains certain non-GAAP financial measures.

A reconciliation of non-GAAP financial measures to the most directly comparable US GAAP measures is included in today's press release and presentation furnished to the SEC under Form 8-K. Please refer to the sections of our press release and presentation entitled Non-GAAP Financial Measures for important information regarding non-GAAP financial measures discussed on this call.

Readers should consider non-GAAP financial measures in addition to, not as a substitute for, financial reporting measures prepared in accordance with GAAP. Please note that these calculations may not be comparable with similarly-titled measures of other companies. Both today's press release and our presentation are available on the Investors page of our website.

I will now turn the call back to Fred.

Fred Lampropoulos *Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Brian. And let me start with a brief agenda of what we will cover during our prepared remarks. I will start with an overview of our financial results and key operating progress areas during the quarter. After my opening remarks, Joe will provide a summary of our revenue results before turning the call over to Rahul, who will provide you with a more in-depth review of our quarterly financial results. Then we will open the call for your questions.

Now, beginning with a review of our first-quarter results. We reported total revenue of \$323.5 million in the first quarter, up 8.7% year over year on a GAAP basis and up 9.3% year over year on a constant currency basis. The constant currency revenue growth we delivered in the first quarter was stronger than the high end of the range of growth expectations that we outlined on our fourth-quarter earnings call.

Specifically, we expected constant currency revenue growth for the first quarter in the range of 6.5% to 7.7% year over year. Importantly, the better-than-expected constant currency revenue growth in the

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first quarter was primarily driven by strong organic growth as well as contributions from acquired products, which modestly exceeded our expectations as well.

With respect to our profitability performance in the first quarter, we leveraged the solid revenue results to deliver non-GAAP gross profit and operating profit growth of 10% and 16%, respectively, which resulted in year-over-year margin expansion of approximately 80 basis points and 115 basis points, respectively. And we delivered 19% growth in our non-GAAP EPS, which exceeded the high end of our expectations as well.

We are pleased with a solid start to the fiscal year and remain confident in our team's ability to deliver continued strong execution, stable constant currency growth improving profitability, and solid free cash flow generation in 2024.

Now before turning the call over to Joe, I would like to share a brief update on several areas of operational progress in recent months. First, with respect to new product introductions, we have had a solid start to 2024 with multiple regulatory clearances and commercial introductions, including, in January, we announced FDA 510(k) clearance for the SCOUT MD Surgical Guidance System.

This new guidance system demonstrates Merit's ongoing leadership in oncology and marks a significant advancement in breast cancer care as it supports implantation of up to four different reflector configurations designed to pinpoint tumor location in multiple dimensions for more precise excision. This targeted approach can help minimize damage to surrounding healthy tissue, decrease the likelihood of re-excision, and avoid the emotional and physical trauma associated with a second surgery.

In March, we announced the commercial release of the Micro ACE advanced micro-access system, a complementary solution that expands our portfolio of percutaneous access and closure devices. The Micro ACE system represents innovative technology to improve interventional access procedures as it balances stiffness and flexibility to offer twice the resistance to kink and compression over the leading competitor. It also is 9% stiffer than the leading standard micro introducer.

In addition, a unique market tip design allows for nine times greater visibility under fluoroscopy for accurate positioning needed at the start of a procedure. We developed this system based on feedback from our interventional physician customers and is another example of partnering with our customers to advance vascular access, procedures, outcomes, and improve patient care.

Second, with respect to our progress in the area of clinical validation in recent months, in January, we announced the successful enrollment of the first patient in our MOTION study. This study is a multi-center prospective randomized controlled trial comparing genicular artery embolization, or GAE, using Merit's Embosphere microspheres to corticosteroid injections for the treatment of symptomatic knee osteoarthritis, a condition that impacts more than 650 million adults globally.

GAE is a minimally invasive procedure that selectively reduces blood flow to areas of the knee where

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hypervascularity has been identified, helping to alleviate pain and inflammation associated with knee osteoarthritis. The MOTION study is designed to enroll up to 264 adults with symptomatic knee osteoarthritis across medical centers in North America, Brazil, Europe, Australia, and New Zealand. This study is structured to evaluate the primary safety and effectiveness of the Embospheres at six months, with continued patient follow-up to up for 24 months.

Finally, we are pleased with the progress achieved in recent months for our WRAPSODY Arteriovenous Access Efficacy, or WAVE pivotal study. We completed collection of safety and efficacy outcomes throughout this study follow-up period and receive primary endpoint data for the last enrolled patient during the first quarter. The team has recently completed the monitoring, data cleaning, and analysis phase, and we remain on track to complete the clinical study report and continue to expect to be in a position to file primary outcomes with the FDA for pre-market approval, or PMA, by the end of the second quarter of 2024.

Now with that, let me turn the call over to Joe, who will review the first-quarter revenue performance, Joe?

Joe Wright Merit Medical Systems Inc - Chief Commercial Officer

Thank you, Fred. I'll start with a detailed review of our revenue results in the first quarter, beginning with the sales performance in each of our primary reportable product categories. Note, unless otherwise stated, all growth rates are approximated and presented on both a year-over-year and constant currency basis. We have included reconciliations from our GAAP reported results to the related non-GAAP item in our earnings release and presentation available on our website.

First-quarter total revenue growth was driven by 9% growth in our cardiovascular segment and 6% growth in our endoscopy segment. Our cardiovascular segment was the primary driver of the better-than-expected revenue results versus the high end of constant currency growth expectations again this quarter. However, our endoscopy segment sales did exceed the high end of our expectations as well in Q1.

Sales of the peripheral intervention, or PI products, increased 19%, representing nearly 80% of total cardiovascular segment growth in the period. Excluding sales of acquired products, PI sales increased 13% on an organic constant currency basis. Organic growth in the PI product category was driven by sales of our delivery systems. And embolotherapy products increased 41% and 16%, respectively, and together, represented more than a third of our total PI sales growth. And sales of our drainage and radar localization products were strong contributors to our total PI growth in Q1, increasing in the low double digits year over year.

Sales in both our cardiac intervention and CPS product categories were also key contributors to our organic growth in the cardiovascular segment this quarter, each exceeding the high end of our growth expectations in Q1. Cardiac intervention product sales increased 7%, driven primarily by strong sales of intervention products and balanced contributions to growth from access, angiography, EPCR, and

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hemostasis products in the period.

Sales of our custom procedural solutions, or CPS products, increased 3%, which was notably better than the low single-digit decline we expected in Q1, fueled by 8% growth in sales of critical care and kit products, which more than offset year-over-year declines in sales of trays. By way of reminder, the decline in trays is due to the ongoing SKU rationalization effort we specifically noted in Q3 earnings call last year.

Sales of our OEM products were the only area of our cardio business that came in softer than our growth expectations heading into the quarter. We attribute the mid-single-digit decline in sales to be result of order timing and fluctuations in demand trends as our customers work through efforts to optimize inventory levels. OEM product sales to US customers were flat in Q1, with demand from our OUS customers declining year over year. Importantly, we continue to expect solid growth in OEM sales.

Lastly, sales in our endoscopy segment increased 6%, which exceeded the high end of our growth expectations. We are pleased to see continued normalization of growth trends in this business and our 2024 guidance continues to assume high single-digit growth in our endoscopy segment this year.

Turning to a brief summary of our sales performance on a geographic basis. Our fourth first-quarter sales in the US increased 9% on a constant currency basis and 5.5% in organic constant currency basis. Sales to US customers came in roughly a point softer than what our guidance had assumed, driven primarily by the softer-than-expected OEM sales, as previously mentioned. Despite a modestly softer-than-expected growth in Q1, our US growth trends accelerated on both the two-year and three-year basis in the first quarter, and we continue to expect to deliver the 7.6% growth assumed at the midpoint of our 2024 guidance range.

International sales increased 9.5% year over year and 9% on an organic constant currency basis, exceeding the high end of our growth expectations by more than 600 basis points in the quarter. The stronger-than-expected organic constant currency growth to customers outside the US was driven primarily by mid-teens growth in APAC. With respect to China, specifically, sales increased 22% year over year against a softer comp in the prior-year period.

We continue to see quarter-to-quarter variability in growth trends related to volume-based purchasing tenders as expected. By way of reminder, while we are not providing country-specific growth assumptions in our guidance messaging, the midpoint of our 2024 constant currency growth guidance range continues to assume our total international sales increased 2.3% year on year, driven by high single-digit growth in EMEA and ROW regions, partially offset by a 4% decline in the APAC region.

The year-over-year decline in APAC is entirely related to China, where we expect to draw sales of units on a year-over-year basis, but we expect total revenue to decline due to continued headwinds related to volume-based purchasing.

With that, let me turn the call over to Raul, who will take you through a detailed review of our first-quarter financial results, balance sheet, and financial condition as of March 31.

Raul Parra *Merit Medical Systems Inc - Chief Financial Officer, Treasurer*

Thank you, Joe. beginning with the review of our P&L performance, for the avoidance of doubt, unless otherwise noted, my commentary will focus on the company's non-GAAP results during the first quarter of fiscal year 2024. We have included reconciliations from our GAAP reported results to the related non-GAAP items in our press release and presentation available on our website.

Gross profit increased approximately 10% year over year in the first quarter. Our gross margin was 50.9%, up 79 basis points year over year. The increase in gross margin year over year was driven by favorable revenue mix, pricing uplift, and improvements in freight and distribution costs, offset partially by manufacturing variances compared to the prior-year period.

Operating expenses increased 8% from the first quarter of 2023. The year-over-year increase in operating expenses was driven by a 7% increase in SG&A expense and a 9% increase in R&D expense compared to the prior-year period.

Total operating income in the first quarter increased \$7.9 million, or 16% from the first quarter of 2023, to \$56 million. Our operating margin was 17.3% compared to 16.1% in the prior year period. The 115-basis-point increase in operating margin was driven by a 79-basis-point increase in our non-GAAP gross margin and by 36-basis-point decrease in our non-GAAP OpEx margin compared to the prior-year period.

First-quarter other expense net was \$0.1 million compared to \$0.7 million last year. The change in other expense net was driven by an increase in net interest expense associated with increased borrowings and rising interest rates, partially offset by an increase in interest income associated with our higher cash balances.

First-quarter net income was \$44.8 million, or \$0.77 per share, compared to \$37.5 million, or \$0.64 per share in the prior-year period. We are pleased with our profitability performance in the first quarter, where we leveraged stronger-than-expected revenue results to drive both expansion in operating margins and non-GAAP diluted earnings per share that exceeded the high end of our expectations.

Turning to a review of our balance sheet and financial condition. As of March 31, 2024, we had cash and cash equivalents of \$581.9 million, total debt obligations of \$822.5 million, and available borrowing capacity of approximately \$657 million, compared to cash and cash equivalents of \$587 million, total debt obligations of \$846.6 million, and available borrowing capacity of approximately \$626 million as of December 31, 2023. Our net leverage ratio as of March 31 was 2.4 times on an adjusted basis.

We generated \$24.5 million of free cash flow in the first quarter compared to \$1.8 million last year. The year-over-year improvement in free cash flow generation was primarily a result of significant improvements in cash used in working capital, specifically in the reduction of dollars invested in

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inventory compared to the prior-year period. We expect strong free cash flow generation again in 2024 and continue to believe our CGI program will generate more than \$400 million of free cash flow in the three-year period ending December 31, 2026.

For reference, we have included a table in our earnings press release, which details each of our formal financial guidance items and how those ranges compare to the prior-year period. However, it is important to highlight that all guidance expectations remain unchanged versus what we introduced in our fourth-quarter earnings press release. Further, we have not changed the underlying assumptions discussed in our prepared remarks last quarter as well.

Lastly, we would like to provide additional transparency related to our growth and profitability expectations for the second quarter of 2024. Specifically, we expect our total revenue to increase in the range of approximately 4% to 5% year over year on a GAAP basis and up approximately 4.7% to 5.8% year over year on a constant currency basis. The midpoint of our second-quarter constant currency sales growth expectations assumes approximately 10% growth year over year in the US and a 1% decline year over year in international markets.

Note, the midpoint of our second quarter's constant currency sales growth expectations also includes approximately \$4.5 million of inorganic revenue. Excluding these inorganic contributions, our second-quarter total revenue is expected to increase approximately 3.8% year over year on a constant currency basis.

With respect to our profitability expectations for the second quarter of 2024, we expect non-GAAP operating margins in the range of approximately 19.6% to 19.9%, and we expect non-GAAP EPS in the range of \$0.87 to \$0.90.

That wraps up our prepared remarks. Operator, we would like now like to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

Larry Biegelsen, Wells Fargo.

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Hi, good afternoon. This is [Simran] on for Larry. Thanks for taking the questions.

Fred Lampropoulos *Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer*

Welcome.

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Maybe just to start off -- hey. Maybe just to start off on the Q2 guidance, can you just walk me through some of the assumptions that get you to the low end and the high end of the range? It seems like the EPS guide is ahead of what we're modeling. So maybe just what are some of the key leverage points in the quarter that you're assuming? And should we consider the phasing of revenues for the remainder of the year to be steady through Q3 and Q4 or more so Q4 weighted? And then I have a follow-up.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Long question. I'm gonna let Raul pick that one. Raul?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah. So this is specific to the second quarter, right? So I'll start there and just say, as far as the revenue, 4% to 5% year over year on a GAAP basis, approximately 4.7% to 5.8% year over year on a constant currency basis. The midpoint for the second quarter on a constant currency growth expectation also includes approximately \$4.3 million in organic revenue related to the acquisition for any Angio products. Excluding those inorganic items, our growth is around 3.8%.

And as far as the EPS, actually -- maybe I'll talk about the revenue cadence for the rest of the year since we're there. You can think about this as more of a regular seasonality. So we're getting back to that normalized seasonality levels where our Q1 and Q3 are softer quarters and Q2 and Q4 are our stronger ones. So I think we feel pretty comfortable that it's kind of back to that historical cadence.

With the exception that you have to think about the SKU rationalization items that we've talked about, that will impact us, and then also the China impact which we expect in the back half of the year. So couple things to consider, but essentially normalized.

And then -- go ahead.

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Great. I was just going to say -- to clarify on the SKU rationalization. What was the impact in Q1 and how do we think about the impact of the SKU throughout the remainder of the year?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

So we talked about it being about \$15 million for the year. And I'd say the substantial part of the impact will be essentially kind of evenly weighted for the most part, with the exception that it'll taper off towards the fourth quarter as we started to decelerate from those products. So Q1, Q2, and Q3 will be a little bit heavier than the fourth quarter.

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Okay. And sorry, I've just one more follow-up on RHAPSODY. Just to put a finer point on timing, I think the last call you said you expected to submit the final module of the PMA in April or May. I think if I heard correctly, you're saying end of Q2 now. So should we interpret any wiggle to timing? And more

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importantly, are you still tracking to a fourth-quarter approval and launch? Or should we think of this as more of a 2025 event?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Well, I think nothing has changed with respect to timing. So everything is right on schedule per our representations. I mean, everything is gone. We expect in the second quarter we'll file that, and then it's up in -- it's into the hands of the FDA. So I don't know. I don't believe that we've said that we would have this in the fourth quarter. It's up to the FDA at that point and their regulatory process, but we will have submitted all the modules and all the data will be in their hands by the end of this quarter.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I think our messaging has been pretty clear that we would expect it to be submitted by the end of the second quarter. And then the FDA obviously has 180 days, but it's FDA days. So we'll be at their mercy. But we're ready to answer any questions and make sure we address any other questions.

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Perfect. Thank you.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Thank you.

Operator

Craig Bijou, Bank of America Securities.

Craig Bijou Bank of America Securities - Analyst

Good afternoon, guys. Thanks for taking the questions. I wanted to follow up on the Q2 guidance. And Raul, appreciate the color that you gave. But you guys obviously had a strong start to the year, strong growth, and you're looking for a little bit of a step down. So I wanted to dig into maybe some of the other factors and how to think about the growth through the rest of the year. And I guess one segment that I'm looking at is the OEM that you guys said came in a little bit softer.

So maybe just how to think about OEM for the rest of the year and anything else that kind of impacts the growth. Looks like it's slowing a little bit throughout the year.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah, Craig. Thanks for the question. First of all, I think we're super excited about how we -- our results for Q1. But it's just that, right? It's Q1. There's three quarters left. It's not our practice to raise guidance after the first quarter. I think we'll review things after the second quarter, see how things look.

It'll also give us a little bit better visibility on some of the things surrounding China and the volume-based

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purchasing. So it'll give us a little bit more clarity there. And so, again, I think we're really excited about how the business did, but we did leave our guidance unchanged just because it is the first quarter of the year, but we do see the business doing well.

As far as OEM, I think we've talked, we continue to expect solid growth in our OEM business. The reality is we did start talking about people managing their inventory levels I think in the fourth quarter last year. And then obviously, if you met with me during any investor conferences, I've talked about it pretty openly. We're seeing the same thing that all other OEM companies are dealing with, and that's people holding back on their inventory purchases.

And it's not just -- essentially, I think most of the industry is doing it. I know we're doing it. I'll say that I think that'd be better. I'm not going to surmise what everybody else is doing, but we are managing our inventory levels. I think you saw our free cashflow number. Our inventory for this quarter or Q1 was essentially flat. That's why we were able to deliver about \$24 million of free cashflow compared to the \$1.8 million from last year. And all of that was really just managing our inventory. So again, we continue to expect strong growth out of our OEM business.

Craig Bijou *Bank of America Securities - Analyst*

Got it. Thanks. That's helpful, Raul. And maybe just a couple quick follow-ups on RHAPSODY. So would love to hear, Fred, if you guys have had any more conversations in between, getting the data on the last patient with the FDA as you're working to submit the filing.

And I'll throw this in too. I'm not optimistic on you giving me a good answer, Fred, but any color on how to think about the potential opportunity for RHAPSODY yet? I know you wanted to wait, but figured I'd throw the question out there.

Fred Lampropoulos *Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer*

Well, listen, we've completed the collection of the safety and the efficacy outcomes throughout the study in the follow-up period. We received primary endpoint data for the last enrolled patient. We recently completed the monitoring, the data cleaning, and analysis phase, and we remain on track to complete the clinical study and report. And we continue to expect to be in a position to file primary outcomes, as I've said, by the end of the quarter, the second quarter.

So we've made a lot of progress, and we've done exactly what we said we're going to do. And I think after that, then, as we move down the road, we'll see where we are. And when appropriate, we will then take a look at the opportunities in the US commercial strategy. But these are at a time when it's appropriate to do so.

It's really important that we do this correctly and that we do it in a manner that's befitting for all of you, for our customers, for the FDA. I mean, I could go on and on, but this really has to be disciplined. And that's what we are. So that's the best way I can answer it because that's what we're doing.

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Craig Bijou Bank of America Securities - Analyst

Okay. Thanks, Fred. Thanks, guys.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

I thought that's a really good answer, by the way.

Craig Bijou Bank of America Securities - Analyst

It is. I agree, Fred. I had to try. Thanks.

Operator

Jason Bednar, Piper Sandler.

Jason Bednar Piper Sandler Companies - Analyst

Hey, there. Good afternoon. You hear me okay?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, we got you, Jason.

Jason Bednar Piper Sandler Companies - Analyst

Great. Thanks for the questions, and nice start to the year here, guys. If I could maybe start on gross margin strength. The trend line here has been pretty darn solid. I think probably an underappreciated part of the story right now.

I know gross margin improvements are a key element of new CGI plan you spoke to in the last call, but can you talk about the confidence you have in sustaining year-over-year improvements in gross margin over the balance of the year? Where do additional improvements come from? And maybe remind us how much of a contributor here if you can bucket it or allocate it on things such as price and mix versus actions you're taking like transfers to Mexico and the SKU rationalization.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Look, I think it's -- Jason, as you know, we've worked really hard to make improvements in the business, specifically around gross margin. And I think the improvement in Q1 amplifies what we've been working on for the last years, and I think it will be more of the same, right? So favorable revenue mix, pricing uplift. We're talking about efficiencies within our product lines and product line transfers.

And so, I think when you look at our 2024 guidance, we didn't really guide on gross margin. We guided on operating margin, roughly 18.7% to 18.9%, so up 50 to 75 basis points for the year. And we said the majority are the primary driver that would be gross margin, with also some OpEx leverage.

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And I think if you look at what we did this year on -- or sorry, for Q1 in the P&L, it's exactly that. We grew the top line almost 9%, gross margin expanded by about 80 basis points, our OpEx margin expanded by about 40 basis points, which led to an operating margin expansion of 115 basis points. I mean, that's, in my eyes, that's the perfect way to leverage the P&L, strong progression from every line item.

So I'll just say that our guidance still holds. We continue to expect our operating margin expansion to be primarily driven from gross margin with some leverage from OpEx. So hopefully that helps.

Jason Bednar Piper Sandler Companies - Analyst

Yeah. No, it does. Yeah, no, couldn't agree more either. I know all the leverage you got going there. Maybe two others, I'll ask them. They're unrelated here though. First, just on -- I guess, how do we reconcile the expectation of sales, still the decline in China, even though you posted 20% growth here in the first quarter? I guess, outside of VBP, is there anything else we should be considering for our models that you're factoring in there that would, I guess, reversed or work against that nice performance here we had in the first quarter?

And then the unrelated item, I'll take a swing on a RHAPSODY question. But I guess, are there any investments or pre-launch costs, educational efforts, things like that, that we should be thinking about later this year? Or is that also going to be more of a 2025 item?

Joe Wright Merit Medical Systems Inc - Chief Commercial Officer

Yeah, this is Joe. Thanks for the question. I'll take the one on China. So our international sales were up 9.5% year on year. So that definitely exceeded the high end of our growth expectations by, as I said, more than 600 basis points. That was primarily driven by strength in APAC, as you point out, and China was particularly strong with a 22% year over year.

We did have a softer comp, just so you know there. But as far as VBP, we continue to see quarter-to-quarter variability in growth trends related to that, which we expected. But we feel good about the guidance we've given on APAC in particular. So no update there. And no other real factors we're dealing with presently.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

And if you want to repeat the second half of your question, Jason, because I've --

Jason Bednar Piper Sandler Companies - Analyst

Yeah, sure, Raul. Yeah, just on RHAPSODY is, if there's any investments or pre-launch costs or educational efforts that we should be thinking about as we work some of those investments or costs into our model later this year, or is that more of a 2025 item?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

No, Jason. So whatever investments we think we needed to make are included in our guidance already.

So there isn't any surprises coming your way from an investment standpoint. I think the biggest investment that we needed to make outside of the normal clinical studies and things like that were the sales people that we brought on.

But as you guys -- I think most of you guys know, part of the reason we did the acquisition last year was to cover the expenses for those additional heads. And so, again, we've hired those people. We continue to be excited about how the Angio products are doing. And any expenses are already included in our guidance. So you shouldn't expect anything outside of that.

Jason Bednar Piper Sandler Companies - Analyst

Okay, perfect. Thanks so much.

Operator

Jayson Bedford, Raymond James.

Jayson Bedford Raymond James - Analyst

Hi, good afternoon. Maybe just a couple follow-ups here. Just on the gross margin, clearly a nice step up quarter over quarter, year over year. You covered the drivers. I guess my question is, revenue is expected to trend higher throughout the year. Is 1Q kind of the low point for a gross margin for the year?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, Jayson. That's a great question. I don't know that we're going to get into the cadence of that. I think we gave our guidance on operating margin. We talked about the primary drivers of what that operating margin expansion would be, and I think we'll leave it at that. I think we're happy with the results for Q1, but our guidance still stands. And I don't know that I have additional color for you.

Jayson Bedford Raymond James - Analyst

Okay, okay. Just following up on the 2Q revenue guide, are there any changes in the environment that you're expecting? And Raul, it sounded like China VBP is more of a second-half impact, if I had that right.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah, I think that's the way we've described it. I think, again, we're excited about how the business is doing, Jayson, and we've given our growth expectations for the second quarter. OEM, I think, is the one item that I think that was a little bit softer in Q1. But I think, hopefully the reflection of our guidance in the Q2 gives people some comfort there and the fact that we continue to remain confident that OEM growth will be strong for the rest of the year. But we'll evaluate things after the second quarter and see where we're at.

Jayson Bedford Raymond James - Analyst

Okay. Just on the OEM timing dynamic, did it slip into 2Q, or these orders slip into the second half? Do

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you have visibility on that?

Raul Parra *Merit Medical Systems Inc - Chief Financial Officer, Treasurer*

We've given our guidance for Q2, and I don't want to get into that. I'll just say that it's all-inclusive and we believe that OEM, for the full year, will be a strong revenue growth.

Jayson Bedford *Raymond James - Analyst*

Okay. Fair enough. Thank you.

Operator

Steve Lichtman, Oppenheimer.

Steve Lichtman *Oppenheimer & Co., Inc. - Analyst*

Thank you. Hi, guys. Fred, I noted that you talked about more sort of specific products on this call than I think you talked on in a lot of previous calls, obviously in addition to RHAPSODY. Can you talk from a high level how you're feeling about your R&D pipeline? It looks like even -- again, this quarter you invested a little bit more than we expected. Talk about a little bit about what's going on internally there in terms of focus on new product flow. I know you like to talk a lot about some singles and doubles, but you highlighted some several new products here.

Fred Lampropoulos *Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Listen, we continue to expect innovation in our business. We have a track record of what we do every year. We have new product introductions.

Steve, I hate to say it's business as usual, but that really is what Merit is doing. We are announcing more product introductions than we have in the past because to answer these questions about the pipeline. In other words, we're not sacrificing earnings for the investments we need to make for the future. So we continue to do that, and we think it helps you guys to better understand the cadence.

When I say cadence, it's still the same Merit in some ways and a different Merit in other ways, if you look at the foundations for growth from the CGI. But one thing that hasn't changed is the understand, innovate, and deliver. Those are the three key words that we use at Merit, and that continues to be what we do every single day.

In fact, I'm looking at my desk. I wish you could see the products and the various things that are sitting here. You can't see that, but we continue to do what brought us this far and which will take us into the future, and that is investment in research and development.

Steve Lichtman *Oppenheimer & Co., Inc. - Analyst*

Great. Thanks, Fred. And then I apologize if I missed this or if someone else asked, but on the inorganic side, can you talk about your latest views on M&A, what you're seeing out there, your appetite, et

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cetera?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Listen, I think it's well known that we have a good cash position. We're in a position where we could do things. I think we have to be selective. We continue to look. But it has to be consistent with the investments and the things that we've told you and that we've committed to investors.

So we're not just doing or would we do anything just for the sake of doing something. It has to fit with the business. It has to align with our sales forces and our long-term objectives. And it continues to be the same in those aspects.

Steve Lichtman Oppenheimer & Co., Inc. - Analyst

Great. Thanks so much, Fred.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

You bet.

Operator

Michael Petusky, Barrington Research.

Michael Petusky Barrington Research Associates - Analyst

Good evening, guys. Raul, I'm wondering, was there any thought to sort of making an adjustment in the guide on APAC for the year, given the strong Q1 organic constant currency growth? I mean, to me, it seems like that's an awfully conservative guide for full year when you start off maybe 13%, 14%, 15% growth in Q1.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah. Look, Mike, I mean, I think when we look at the business, we're super excited how we did. Again, I'm going to repeat what we did, over 9% organic constant currency growth during the year -- or constant currency, sorry. When you look at it, really strong start, but it's just not in our nature to go out and update guidance after Q1.

And so I think looking at everything, I think we're really happy how Q1 came out. And we'll look at things after the second quarter and evaluate there. But excited how the business is off to a really good start.

Michael Petusky Barrington Research Associates - Analyst

So I'm just curious if you have anything you can share on the cadence of free cash. Obviously, last year was an unusual year and that so much of the free cash came in in the second half and particularly the fourth quarter. Obviously, I would suspect based on how you came in this quarter, it's going to be a much more balanced.

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I mean, is there anything you can say about that? Like, is it 40% of free cash in the first half, 60%? I mean, is that a decent guess? Can you just speak to that?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

I think on this one, when we talk about revenue and the cadence, seasonality with our -- I feel a little more comfortable with that one. I think on free cash flow, there's just so many timing-related things that sometimes are just outside of our control. And so, I don't feel comfortable giving cadence there other than to say that I'm really happy with the way we started, \$24 million.

And really, just thanks over to our operations group because it's really hard to manage inventory, especially when we have a global footprint with global distribution and with the amount of products that we have. And for them to keep it flat, they have a good plan this year to manage inventory. So they're off to a really good start.

We still have confidence in delivering at least \$115 million of free cashflow this year. And we still have confidence that we'll deliver at least \$400 million through the end of 2026. So other than that, I feel good about how we did in Q1.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I think -- Mike, this is Fred. I think the important thing is the focus that we have on this. It's out there. We've made the commitment. We kept our past commitments. And I think that's really the headline, if it were me. It's just this is a big deal. And very candidly, we're all compensated. The entire company is aligned on this. It's not a small deal. It's a big deal to Merit.

Michael Petusky Barrington Research Associates - Analyst

Hey, Fred. So let me just ask a last one to you, you brought a lot of -- last several decades, brought a lot of products from development into commercialization. Based on your experience, based on your sense of RHAPSODY, I mean, do you -- and Raul's comments I think were important. 180 days for FDA is sort of like watching the last four minutes of a football game. It's not really four minutes.

I'm just curious, do you think there's going to be a lot of stops and starts, sort of Q&A back and forth on a product like this? Do you have any expectation around that based on your experience? Thanks.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Listen, only from the standpoint that we're focused on what we need to do, we'll respond appropriately, and this is important to the company. So we can't control the FDA; we can control us. And we can direct our resources to answer the questions as they come. So it's really just we'll do our part, Mike.

Michael Petusky Barrington Research Associates - Analyst

Okay, fair enough. Thanks, guys. Appreciate it.

Operator

Jim Sidoti, Sidoti & Company.

Jim Sidoti Sidoti & Company, LLC - Analyst

Hi, good afternoon. Thanks for taking the question. I know you're probably sick of questions on China, but I think it's difficult for others to get our arms around it when you had such a strong quarter up 20% this quarter, while you expect the 4% decline. And I know in past years, you've been concerned about the volume price discounts and then as the year ended up, it wasn't quite as significant as you thought. How confident are you this year that those are going to kick in in the second half of the year?

Joe Wright Merit Medical Systems Inc - Chief Commercial Officer

Hi, Jim. This is Joe. I can take that one. As you know, there's a lot of quarter-to-quarter variability with VBP in China. So you're right in a sense that it's been difficult to project really when that impact will come. We are continually updating our models and trying to determine when that impact will come. But we feel pretty good about the full-year guidance.

And keep in mind APAC incorporates more than just China. There's Japan, which is a significant revenue driver for us, and Southeast Asia, Korea. So yeah, all I can say is we're confident with the number we projected for the year and fully realizing that there will be some variability along the way.

Jim Sidoti Sidoti & Company, LLC - Analyst

So potentially, you could see more of an impact maybe in the last quarter, maybe into the first quarter of 2025?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah, I don't think we'll get to that point there, Jim. But look, we're trying to be as transparent as possible on this. We've detailed the headwinds out in advance in our guidance. I know it can be frustrating to investors. Quite frankly, it's frustrating to us too. But there is variability. I think we've managed it accordingly. We haven't given you any surprises, negatively, I should say, when it comes to China.

And we are seeing the impacts. And I know that's hard to see because of the results that we're delivering, but Joe and I looked at a report the other day and we are seeing price pressure on some of our products. And so this isn't something that's made up, that we're just kind of making up. It's real, and it's impacting the business. But I think we've tried to manage it appropriately.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Jim, this is Fred. Look, we remain confident in our long-term plan in China. And I think that's critical.

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Merit is in for the long run, and we're confident about the future for Japan and all of APAC. We think it's a big opportunity for the company.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah. And just as a reminder, I think the whole goal was to derisk the China component from our guidance, right? I think we were pretty clear on our call that a portion of it was actual. Tangible things that we knew are happening in the business that's in our guidance, and a portion was things that we think could be coming on in the third and fourth quarter that our group thinks that we're going to have an impact.

Now, whether those come to fruition or not, we'll wait and see. But we'll have better visibility as we exit the second quarter. And then hopefully we can provide you guys an update then.

Jim Sidoti Sidoti & Company, LLC - Analyst

Okay. All right. And then the last one from me. Raul said you paid down about \$24 million of debt in the quarter. I assume that is on the line. Could you just remind me what's the interest rate on that debt that you paid down?

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

It's about -- well, yeah, I think, so when you're looking at the -- I guess there's a couple components and I'll try and break it down. Sorry. So we have a term loan that we have. That debt is at about 1.6% or something like that. We're paying that down, and we'll have that paid off this year.

Then there's obviously the convert that has a rate of around 3%. And so there's a little bit of variability there. But for the most part, that's what we're paying down, is the term loan right now, Jim.

Jim Sidoti Sidoti & Company, LLC - Analyst

Okay. All right. Thank you.

Operator

Mike Matson, Needham & Company.

Mike Matson Needham & Company Inc. - Analyst

Yeah, thanks. So just wanted to start with one on RHAPSODY. So do you have any plans to apply for new technology add-on payment and/or transitional pass-through to get some additional reimbursement given that it's a breakthrough device?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I think, Mike, as we pointed out, as we get through this first six months, then that's really -- we're planning on a lot of different things, the right time for release of data, the right time for release to the public. All of these things are all things that are all being worked on. And at the appropriate time, we've

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been involved in this strategy for a long time.

So I will just tell you simply to capitalize it all. We're prepared. We've been working on it. None of these are new to us. And at the right time, we will do all these things that were most beneficial to our shareholders in the company.

Mike Matson *Needham & Company Inc. - Analyst*

Okay, thanks. And then there was some news earlier this week that Hologic's buying Endomagnetics. I believe that product competes with your SCOUT products. So I assume we've already been competing with them in the marketplace, but Hologic's kind of a well-known brand in the breast area. So is there any reason to be concerned about this? And can you maybe just remind us how big the TAM is here? I assume there's probably enough room for multiple players.

Joe Wright *Merit Medical Systems Inc - Chief Commercial Officer*

Yeah. Hi, Mike. This is Joe. I think I can take that one. You're right. We have been competing against the Endomag product for many years now in the market.

As you probably know, we remain the market leader in this space. We're very excited about the prospects for growth here. We continue to invest in market leading innovations. We mentioned the SCOUT MD, which recently was approved. So our goal is simply to continue to focus on maintaining that market lead and delivering innovation to the market.

I won't get into the total addressable market, but I think our expectation is and what our belief is that the market will, over time, go completely wire-free. And that's what we're working to achieve. Again, we've competed against magnetic technologies in the past including Endomag, and we're confident in our ability to compete favorably against all the technologies out there.

Raul Parra *Merit Medical Systems Inc - Chief Financial Officer, Treasurer*

Especially from a technology point of view. We won't get into that, but I think our technology is not just that we're the market leader, Mike, but we're the technology leader.

Mike Matson *Needham & Company Inc. - Analyst*

Yeah. Got it. Thank you.

Operator

Jon Young, Canaccord.

Jon Young *Canaccord Genuity - Analyst*

Good evening. Thanks for taking the questions and congrats on the quarter. I just want to -- it sounds like you won't give this, but on RHAPSODY, is there any estimate of when we could see the data and where any medical meetings that you're looking at to release this to the scientific community, Fred?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So the general answer is no. Now, maybe a little more specific, let us get it filed. There are a lot of factors here, Jon, that talk about the value that's being created, issues like when the right timing is, what -- there's a lot of factors that go into this. We just want to do it correctly to maximize the opportunity. So we could get in a hurry, we could get pushed, but if we do -- and first of all, we won't, but it doesn't help the value to our shareholders.

So I think that's important for you to understand that we're doing things in a disciplined manner, that we believe and have been counseled that in looking at these things, this is what maximizes value for shareholders, and equally important, the physician community. And that's what we have to remember. This is serious stuff we're talking about. These are important issues, and at the appropriate time, we will release all of this information for the assessment of the public and physicians at the appropriate time.

Jon Young Canaccord Genuity - Analyst

Okay, thanks. And then just maybe moving to SIR, you guys had a very large showing there too. Now, how much of the new Bluegrass and Angio products helped grab attention from the interventional radiology call point? And how large is that salesforce now? I remember you previously saying it's up six to eight reps through the renal care call point. Are you continuing to scale that as those revenues grow? Thanks again.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Look, we think first of all, as you know, because you've heard, Merit had a very good showing not only there, but here at our facility with over 150 physicians. It's part of our renal therapy group. I think that strategy is sound. We're seeing it execute the way we had anticipated, and we are scaling. We don't give out specific numbers, but it is a successful program, and we continue to believe it will be.

Joe, do you want to comment on it, though? It's your program.

Joe Wright Merit Medical Systems Inc - Chief Commercial Officer

Yeah. We decided we have enough scale in that product portfolio to break out a dedicated sales group. So to your point, that's what we've done. And we're fully confident in our ability to scale that over time and be fully prepared for the launch of RHAPSODY whenever that may come.

Jon Young Canaccord Genuity - Analyst

Okay, great. And then just a quick follow-up. What scale do you think is needed to support RHAPSODY at launch?

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

We don't talk about those things because we don't want to give that information to our competitors,

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and it's not generally what we talk about. We will, at the appropriate time, release data and information on TAM and all the numbers. All these things you'll have all of these answered in due time.

Raul Parra Merit Medical Systems Inc - Chief Financial Officer, Treasurer

Yeah. Jon, I mean, obviously, you may be excited about the product, but we'll talk about the US commercial strategy, reimbursement strategy, all those things, as Fred mentioned, when appropriate.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

And let me just say one other thing. We are extraordinarily excited about this project coming down the road. Yeah, very excited. So just for the record.

Jon Young Canaccord Genuity - Analyst

Got it. Thanks again.

Operator

I show no further questions at this time. I would like to turn the call back to Fred for closing remarks.

Fred Lampropoulos Merit Medical Systems Inc - Chairman of the Board, President, Chief Executive Officer

Ladies and gentlemen, it's the top of the hour. We got everything done in one hour. We appreciate, we know there are a lot of other calls going on. Raul and I and Joe will be available to discuss with you one-on-ones, and we thank you very much for your consideration, your time. We wish you all the very best.

Signing off from Salt Lake City. Good evening.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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