

**Merit Medical System(Q2 2024 Earnings)**  
**August 2, 2024**

Corporate Speakers

- Fred Lampropoulos; Merit Medical System; Founder, Chairman and Chief Executive Officer
- Brian Lloyd; Merit Medical System; Chief Legal Officer and Corporate Secretary
- Joseph Wright; Merit Medical System; President
- Raul Parra; Merit Medical System; Chief Financial Officer and Treasurer

Participants

- Jason Bednar; Piper Sandler; Analyst
- Michael Matson; Needham; Analyst
- Larry Biegelsen; Wells Fargo; Analyst
- Steven Lichtman; Oppenheimer; Analyst
- David Rescott; Baird; Analyst
- Jayson Bedford; Raymond James; Analyst
- Craig Bijou; Bank of America Securities; Analyst
- John Young; Canaccord; Analyst
- James Sidoti; Sidoti & Company; Analyst

**PRESENTATION**

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to the Merit Medical Systems Second Quarter 2024 Earnings Conference Call.

(Operator Instructions) Please note that this conference call is being recorded, and the recording will be available in the company's website for replay shortly.

I would now like to turn the call over to Mr. Fred Lampropoulos, Merit Medical Systems' Founder, Chairman and Chief Executive Officer.

Please go ahead, sir.

Fred Lampropoulos^ Thank you. And welcome, everyone.

I am joined on today's call by Raul Parra, our Chief Financial Officer and Treasurer; Joe Wright, our President; and Brian Lloyd, our Chief Legal Officer and Corporate Secretary.

Brian, would you mind reading us through the safe harbor statements, please?

Brian Lloyd^ Thanks, 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 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 the expectations and projections expressed or implied by our forward-looking statements.

In addition, any forward-looking statements represent our views only as of today, August 1, 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 section entitled cautionary statement regarding forward-looking statements in today's press release and presentation for important information regarding such statements.

For a discussion of factors that could cause actual results to differ from these forward-looking statements, please also refer to our most recent filings with the SEC, which are available on our website.

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 U.S. GAAP measures is included in today's press release and presentation furnished to the SEC under Form 8-K.

Please refer to the section 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^ Thanks, Brian. I appreciate it very much. Let me start with a brief agenda of what we will cover during in our call and prepared remarks today.

I will start with an overview of our financial results and key operating progress areas during the second quarter. After my opening remarks, Joe will provide a summary of our revenue results before turning the call over to Raul, who will provide a more in-depth review of our quarterly financial results and our financial guidance for 2024, which we updated in today's press release.

Then we will open the call for your questions.

Our second quarter results exceeded our expectations.

We reported a total revenue of \$338 million in the second quarter, up 5.6% year-over-year on a GAAP basis and up 6.6% year-over-year on a constant currency basis. The constant currency revenue growth we delivered in the second quarter was stronger than the high end of the range of growth expectations that we outlined on our quarter one earnings call.

Specifically, we expected constant currency revenue growth for the second quarter in the range of 4.7% to 5.8% year-over-year.

Importantly, the better-than-expected constant currency revenue growth in the second quarter was primarily driven by strong organic growth and to a lesser extent, contributions from acquired products, which modestly exceeded the high end of our growth expectations as well. With respect to our profitability performance in the second quarter, we leveraged the solid revenue results to deliver non-GAAP gross profit and operating profit growth of 6% and 11%, respectively, which resulted in year-over-year margin expansion by approximately 15 basis points and 92 basis points, respectively. And we delivered 17% growth in our non-GAAP earnings per share, which exceeded the high end of our expectations as well. Perhaps most notably, we generated nearly \$58 million of free cash flow in the quarter, a record for Merit and have generated more than \$82 million of free cash flow over the first half of 2024, representing a more than fivefold increase year-over-year.

We believe our second quarter results reflect continued strong momentum in the business over the first half of 2024, and we are confident in our team's ability to deliver the updated financial guidance that Raul will review later on the call.

While we are proud of the results achieved over the first half of the year, we are not resting on our laurels.

We are focused on delivering continued strong execution, stable currency -- constant currency growth, improving profitability and solid free cash flow in 2024, as well as continued progress in our continued growth initiative program related financial targets for the three-year period ending December 31, 2026.

I would now like to share a brief update on several areas of operational progress in recent months.

First, with respect to new product introductions, we announced multiple regulatory clearances and commercial introductions in the second quarter including in May, we announced FDA 510(k) clearance for our Siege vascular plug and the commercial launch of our Bearing nsPVA Express prefilled syringe in the United States and Australia. These addition to Merit's embolics portfolio complement a comprehensive offering of microsphere particle and gelatin foam products, supported by a range of micro catheters guidewires and other enabling devices.

We also announced the U.S. commercial release of the basixSKY inflation device in May. basixSKY is the latest addition to Merit's comprehensive inflation device portfolio, which includes both digital and analog devices. The basixSKY is available as a stand-alone solution and in kits with Merit angioplasty packs configured to offer complementary AccessPLUS, Honor and PhD hemostasis valves.

Second, with respect to our progress in the area of clinical validation in recent months, we are pleased with the progress achieved in recent months for our WRAPSODY arteriovenous access efficiency or WAVE pivotal study.

We completed the clinical study report and filed the final module with the FDA for premarket approval or PMA by the end of the second quarter of 2024 as expected.

We look forward to engaging with the FDA to review our PMA application for this innovative technology. The WRAPSODY Cell-Impermeable Endoprosthesis is built to combat the challenges dialysis patients can often experience due to stenosis and inclusions in the dialysis outflow circuit.

We believe this technology can extend long-term vessel patency rates and reduce the complications associated with existing treatment options on the market today including the need for repeated interventions, frequent trips to the hospital and inadequate dialysis treatments.

Importantly, we are excited to announce the clinical results from our WRAPSODY studies will be featured in scientific sessions at key medical meetings this fall including at the Cardiovascular and Interventional Radiology Society of Europe, or CIRSE, Annual Congress on September 14th in Lisbon, Portugal, and at the Controversies in Dialysis Access or CiDA meeting in Washington, D.C. on October 5th. Third, we announced important enhancements to both our executive leadership team and our Board of Directors.

In May, we announced the appointment of Joe Wright, as President. Joe now oversees Merit's global commercial, marketing and operations teams with more than 19 years of experience with Merit serving a variety of leadership roles and in multiple geographic regions, I believe he is the ideal leader for this important position. Joe has been central to executing our strategic plan and positioning the company for continued success including spearheading our commercialization efforts and overseeing significant international expansion engineering the advanced capabilities

of our renal therapies Group including the integration of the business and assets we acquired from AngioDynamics in 2023 and directing the development of our commercial excellence initiatives globally.

I look forward to continuing to work closely with Joe going forward.

We also enhanced our Board of Directors with a selection of Silvia M. Perez as a new Director at Merit's Annual Meeting of Shareholders on May 15th, 2024.

Silvia is President of the Commercial Branding and Transportation Division at 3M Company. Her expertise and proven track record of leadership success will provide valuable industry and organizational perspective to both the Board and our management team, as we pursue our continued growth initiatives program.

Now before turning the call over to Joe, I would just like to take a few minutes to discuss the strategic acquisition we announced on July 1st.

We announced the acquisition of assets for EndoGastric Solutions Incorporated for a total cash consideration of approximately \$105 million and the assumption of certain liabilities.

We believe this acquisition represents multiple strategic and financial positives. And importantly, this acquisition is consistent with and will not distract us from our continued growth initiatives program.

Strategically, this acquisition enhances our endoscopy product portfolio in existing clinical specialties, while expanding our global footprint in the gastrointestinal market.

This acquisition adds an innovative solution for patients suffering from chronic gastroesophageal reflux disease, or GERD, which is a significant annual addressable market opportunity estimated at \$2 billion annually. GERD is a digestive disorder that occurs when the lower esophageal sphincter doesn't tighten correctly, allowing acid from the stomach to enter the esophagus. When this occurs chronically, it can result in serious health conditions such as esophageal damage and cancer. The EsophyX Z+ treats GERD by restoring the body's reflux barrier.

By restoring the body's reflux barrier, the EsophyX Z+ device is designed to provide relief of GERD symptoms and reduce acid reflux that can cause long-term complications and risk.

Now this is accomplished under endoscopic visualization during a [minimally] invasive procedure called transoral incisionless fundoplication, or TIF 2.0. Recently, the American Gastroenterology Association released a clinical practice update on the evaluation and management of GERD and listed TIF 2.0 as an effective endoscopic option in carefully selected patients.

We estimate that there are more than 5 million patients in the U.S. alone currently using pharma treatment options for refractory GERD that represent potential candidates for TIF 2.0 with

EsophyX Z+ procedure each year. The EsophyX Z+ device is supported by economically favorable reimbursement, Level one clinical evidence and strong advocacy for medical societies.

We also believe this device is highly complementary with our existing portfolio and customer base, while expanding access into interventional gastroenterologists and surgeons in the endoscopy unit and in the operating room.

In addition to the strong strategic rationale, we believe the financial profile of this acquisition is extremely compelling.

Now Raul will give you some additional color on the favorable financial profile of this acquisition later on the call.

In the interim, I will share with you that we expect sales contribution in the range of \$13 million to \$15 million over the second half of 2024, and we expect this acquisition to be accretive to our multiyear total program -- excuse me, total company growth profile on an annualized basis going forward.

Now with that, let me turn the call over to Joe, who will review second quarter revenue performance.

Joe?

Joseph Wright^ Thank you, Fred.

I'll provide a detailed review of our revenue results in the second 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.

Second quarter total revenue growth was driven by 6% growth in our Cardiovascular segment and 16% growth in our Endoscopy segment.

Our Cardiovascular segment was the primary driver of the better-than-expected total 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 Q2.

Sales of our peripheral intervention or PI products increased 11%, representing nearly 74% of total Cardiovascular segment growth in the period. Excluding sales of acquired products, PI sales increased 7.6% on an organic constant currency basis.

Organic growth in the PI product category was driven by sales of our access products and our delivery systems increased 22%, and sales of our radar localization products increased 9% and together represented nearly 3/4 of our total PI organic sales growth in Q2.

Sales of our Custom Procedural Solutions, or CPS products increased 3%, which was notably better than the low single-digit decline we expected in Q2. This performance was fueled by strong growth in sales of kit products, which more than offset the expected year-over-year decline in sales of trades, resulting from our ongoing SKU rationalization efforts discussed on prior calls. Cardiac intervention product sales increased 1.5%, slightly above the high end of our growth expectations, driven primarily by strong sales of EP, CRM products and, to a lesser extent, growth in sales of fluid management and intervention products.

Sales of our OEM products increased 5% year-over-year in Q2.

While sales to OEM customers increased in the mid-teens on a sequential basis, 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 continue to believe the softer-than-expected sales trends of our OEM products are a result of order timing and fluctuations in demand, as our customers work through efforts to optimize inventory levels. Demand trends from customers in both the U.S. and OUS regions improved from Q1 as expected.

We saw solid growth in product sales to OEM customers outside the U.S., while demand from U.S. customers drove product sales growth of just 3% year-over-year in Q2.

Importantly, we continue to expect low double-digit growth in OEM sales for the full year 2024. Lastly, sales in our Endoscopy segment increased 16%, which exceeded the high end of our growth expectations.

We continue to see a normalization of growth trends in this business as expected, and our updated 2024 guidance now assumes low double-digit organic growth in our endoscopy business this year. Turning to a brief summary of our sales performance on a geographic basis.

Our second quarter sales in the U.S. increased 8.5% on a constant currency basis and 6% on an organic constant currency basis.

Similar to what we experienced in Q1, sales to U.S. customers came in roughly one point softer than what our guidance had assumed driven by the softer-than-expected OEM sales, as previously mentioned.

We continue to expect to deliver approximately 6% organic growth in the U.S. at the midpoint of our 2024 guidance range.

International sales increased 4% year-over-year and 3.8% on an organic constant currency basis, exceeding the high end of our growth expectations by more than 470 basis points in the quarter.

The stronger-than-expected organic constant currency growth to customers outside the U.S. was driven primarily by 1% growth in APAC compared to our guidance range, which had assumed a decline in the range of 10% to 11% in Q2. With respect to China specifically, sales decreased 5% year-over-year, better than the low 20% decline in our guidance had assumed.

We continue to see quarter-to-quarter variability and 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 now assumes our total international sales will increase 4.3% year-over-year driven by 7% to 8% growth in EMEA and 11% to 12% growth in the Rest of World region, partially offset by a 0% growth in the APAC region versus the 4% decline assumed in our prior guidance range. The lower headwind from APAC assumed in our updated guidance is driven by better-than-expected results in China over the first half of 2024. Note, regarding our China business in 2024, our guidance continues to assume that we will be able to increase sales of units on a year-over-year basis, but we expect total revenue to decline due to continued pricing 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 second quarter financial results, balance sheet and financial condition at June 30th.

Raul Parra^ Thank you, Joe. Beginning with a 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 second quarter of fiscal year 2024.

We have included reconciliations from our GAAP reported related non-GAAP items in our press release and presentation available on our website. Gross profit increased approximately 6% year-over-year in the second quarter.

Our gross margin was 51.5%, up 15 basis points year-over-year.

The increase in gross margin year-over-year was driven by pricing uplift, favorable product and geography revenue mix, improvements in freight and distribution costs, offset partially by manufacturing variances compared to the prior year period.

Operating expenses increased 3% from the second quarter of 2023. The year-over-year increase in operating expenses was driven by a 2% increase in SG&A expense and a 7% increase in R&D expense compared to the prior year period. Total operating income in the second quarter increased \$6.5 million or 11% from the second quarter of 2023 to \$67.8 million.

Our operating margin was 20.1% compared to 19.1% in the prior year period.

The 92 basis point increase in operating margin was driven by a 15 basis point increase in our non-GAAP gross margin and by a 76 basis point decrease in our non-GAAP OpEx margin compared to the prior year period.



Second quarter other expense net was a benefit of \$1.4 million compared to expense of \$3.4 million last year. The change in other expense net was driven by an increase in interest income associated with our higher cash balances, partially offset by an increase in net interest expense associated with increased borrowings.

Second quarter net income was \$53.8 million or \$0.92 per share compared to \$45.9 million or \$0.78 per share in the prior year period.

We are pleased with our profitability performance in the second 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 June 30th, 2024, we had cash and cash equivalents of \$636.7 million, total debt obligations of \$822.5 million and available borrowing capacity of approximately \$680 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 31st, 2023.

Our net leverage ratio, as of June 30th was 2.4x on an adjusted basis.

We generated \$57.9 million of free cash flow in the second quarter compared to \$11.5 million in the prior year period. The year-over-year improvement in free cash flow generation was primarily a result of significant improvements in cash used in working capital compared to the prior year period.

We have generated more than \$82 million of free cash flow over the first half of 2024. Expect strong free cash flow generation in 2024 and continue to believe our CGI program will generate more than \$400 million free -- of free cash flow in the three-year period ending December 31st, 2026.

For reference, we have included a table in our earnings press release, which details each of our updated formal financial guidance items and how those ranges compared to prior ranges, as of July 1st, 2024, when we updated our guidance to reflect the projected impact of our acquisition of the assets of EndoGastric Solutions.

Our updated guidance range now assumes the following: GAAP net revenue growth of 6% to 7% year-over-year, net revenue growth of approximately 5% to 6% in our Cardiovascular segment and net revenue growth of approximately 45% to 52% in our Endoscopy segment and a headwind from changes in foreign currency exchange rates of approximately \$9.1 million or approximately 70 basis points to growth year-over-year. Excluding the impact of changes in foreign currency exchange rates, we expect total net revenue growth on a constant currency basis in the range of 6.9% to 7.7% in 2024.

Finally, our total net revenue guidance for fiscal year 2024 now assumes inorganic revenue contributions from the acquisitions announced on June 8th, 2023, and July 1st, 2024, in the range of \$24.6 million to \$26.6 million in the aggregate.

For avoidance of doubt, this aggregate range consists of approximately \$11.6 million of inorganic revenue related to our acquisitions of assets from AngioDynamics in Q1 and Q2, plus the contributions from our acquisition of assets from EndoGastric Solutions in Q3 and Q4. Excluding inorganic revenue, our updated guidance reflects total net revenue growth on a constant currency organic basis in the range of approximately 4.9% to 5.6% year-over-year. With respect to our updated profitability guidance for 2024, we now expect non-GAAP diluted earnings share in the range of \$3.27 to \$3.35, representing an increase of [15% to 17%] year-over-year. Note, this range includes the expected dilution related to our acquisition of assets from EndoGastric Solutions, which as discussed on July 1st, is expected to be in the range of \$0.04 to \$0.06.

As Fred discussed earlier, we believe this acquisition offers a very attractive financial profile.

While we believe this acquisition will be modestly dilutive to our full year 2024 non-GAAP profitability given the partial year contribution and the impact of approximately \$2.7 million of lower interest income on cash balances used for the total purchase consideration, we expect the acquisition to be accretive to our non-GAAP gross and operating margin, non-GAAP net income and non-GAAP EPS in the first full year post closing.

For modeling purposes, our updated fiscal year 2024 financial guidance now assumes non-GAAP operating margins in the range of approximately 18.4% to 18.7%, up 120 basis points to 150 basis points year-over-year. Non-GAAP interest and other expense net of approximately \$1.5 million compared to \$10.6 million last year. Non-GAAP tax rate of approximately 21.5%.

Diluted shares outstanding of approximately \$58.8 million, and we now expect CapEx in the range of \$55 million to \$60 million and free cash flow of at least \$130 million compared to at least \$115 million previously.

We will also like to provide additional transparency related to our growth and profitability expectations for the third quarter of 2024.

Specifically, we expect our total revenue to increase in the range of approximately 5.7% to 7.1% year-over-year on a GAAP basis and approximately 6.4% to 7.8% year-over-year on a constant currency basis. The midpoint of our third quarter constant currency sales growth expectation assumes approximately 9% growth year-over-year in the U.S. and 5% growth year-over-year in the international markets.

Note, the midpoint of our third quarter constant currency sales growth expectations also includes approximately \$6.4 million of inorganic revenue. Excluding these inorganic contributions, our third quarter total revenue is expected to increase approximately 5% year-over-year on an organic constant currency basis. With respect to our profitability expectations for the third

quarter of 2024, we expect non-GAAP operating margins in the range of approximately 18% to 18.7%, and we expect non-GAAP EPS in the range of \$0.77 to \$0.82.

Finally, I wanted to call out one item for consideration when comparing our updated non-GAAP operating margin assumptions versus our original guidance for 2024 we introduced on our Q4 call and subsequently reaffirmed on our Q1 earnings call on April 30th and again in our EndoGastric Solutions press release of July 1st.

As detailed in our earnings press release this afternoon, beginning in the second quarter of 2024, consulting expenses associated with initiatives conducted under our Foundations for Growth program are no longer adjusted, as part of our non-GAAP measures.

Non-GAAP financial measures detailed in the reconciliation tables in our earnings press release reflect the removal of the FFG consulting fees for the 3- and 6-month periods ended June 30th, 2023 and 2024, specifically \$4.2 million in the first half of 2023 and \$1 million in the first half of 2024.

FFG consulting fees totaled approximately \$12.3 million pretax for the 12 months ended December 31st, 2023, representing an approximately 100 basis point impact to the previously non-GAAP operating margin for that period. Accordingly, our updated non-GAAP operating margin assumptions for fiscal year 2024, excluding FFG consulting fees, now reflect expected year-over-year expansion in the range of 120 basis points to 150 basis points compared to expected year-over-year expansion in the range of 45 basis points to 70 basis points previously.

Importantly, when applying this new treatment for FFG consulting fees throughout the 3-year FFG program, our non-GAAP operating margin expansion performance is still extremely strong.

Our efforts to improve profitability over this period resulted in a non-GAAP operating margin of 17.2% in fiscal year 2023 compared to 13.2% in fiscal year 2020, an increase of approximately 400 basis points.

Further, this new treatment does not impact the cumulative free cash flow we generated over the three years ending December 31st, 2023, which totaled nearly \$300 million. And by way of reminder, we generated nearly [\$419 million] of free cash flow since the beginning of 2020.

Finally, this new treatment does not impact our 2024 guidance nor our CGI financial targets for the 3-year end -- period ending December 31st, 2026. That wraps up our prepared remarks.

Operator, we would now like to turn -- open the line up for questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will come from the line of Jason Bednar^ from Piper Sandler.

Jason Bednar^ Congrats on another solid quarter here.

I wanted to start first with guidance. It looks like you're flowing through mostly that 2Q coverage here. Not much change in here with the implied outlook for the second half of the year.

I think this is within how you typically manage your guide or your outlook, but I wanted to check to see if there's any incremental caution you have with respect to pieces of your business that just as you think of the momentum from the first half of the year doesn't continue in the back half.

It doesn't sound like that, but really wanted to check in on that. And then within that conversation, maybe discuss a little more specifically your China assumptions within your overall guidance range.

It doesn't look as onerous, but I don't think I heard exactly what you're assuming now for China this year.

Raul Parra^ Yes. So yes, you're right, Jason. This is how we typically do it, right? So we're flowing through that first half increase.

As you know we beat by about \$7 million on the high end of our guidance.

And so, we're flowing that through.

Obviously, you have the dynamics of EGS that were also -- that we've also included in that, which we did that earlier this month when we did the acquisition.

So I think, generally speaking, we're super optimistic about how the business is doing. The U.S. growth was outstanding again.

International growth was great.

So we're feeling pretty optimistic. And I think I'm sure we'll get some questions on China. China did better than anticipated, and we continue to see that.

So generally speaking, I think we're pretty excited about how the first half went and how the back half is looking.

And I think ultimately, we're putting in a pretty strong year together.

Jason Bednar^ And one follow-up there and then a separate question. Just if you can specify just what China is within your updated guide versus where it was previously. Again, it seems like it's not as onerous.

But -- and then I did want to ask as a follow-up.

I bring it up often here, the gross margin line was pretty solid again this quarter and considering this was the toughest year-over-year comp on the margin -- gross margin line.

So those margin comps could [be easier] over the balance of the year.

I'm just wondering how you're thinking about the gross margin trend line from here. Maybe if we be thinking about a seasonal step down in the third quarter, but just going forward, is this 51% or so range more or less defensible, as we look ahead?

Raul Parra^ Yes. I'll let Joe kind of hit on the international piece here first and China, and then I'll answer the gross margin.

Joseph Wright^ Yes. Hi, Jason. This is Joe.

Our international sales were up 4% year-on-year and 3.8% on an organic constant currency basis.

So this exceeded the high end of our growth expectations by approximately 470 basis points in the quarter.

So those better-than-expected OUS results were driven primarily by only a 1% constant currency growth in -- or decline in APAC in Q2.

Our previous guidance range had assumed a decline in the range of 10% to 11% in Q2.

So regarding the APAC sales, so China sales decreased 5% year-over-year.

So that was better than the low 20% decline our guidance had assumed.

We continue to see quarter-to-quarter variability in the growth trends related to volume-based purchasing tenders, which is as we expected.

Raul Parra^ Yes. So just on the gross margin, Jason, as you know we don't comment on the gross margin. Generally speaking, it, we did say at the beginning of the year, and I think this still holds true that as far as the operating margin improvement, it would mostly come from gross margin. And to the extent that we would -- on the high end, we would also leverage OpEx.

So I'd say, generally speaking, we're really happy with the way gross margin is performing.

We've been happy the last three years the way it -- what it's done and again, continue to be excited about what it's doing this year. And I'd say it's kind of where we want it to be.

Operator^ And our next question coming from the line of Mike Matson from Needham.

Michael Matson^ I guess, just one on the EndoGastric deal, so I imagine this is going into the Endoscopy business.

So are you going to be combining the sales teams and having kind of both groups of people selling all the endoscopy products? Or will you maintain kind of a specialist sales force to sell the EsophyX Z+ product?

Fred Lampropoulos^ Yes, Mike, thanks. This is Fred. Thanks for the question. Listen, we've been looking for assets in this GI business for a long time, and it's been very difficult.

What we did with this product is we found something that we thought would be able to cross over, that we could have the combined sales forces.

So for the balance of this year, there's training, and there will be the -- we did keep that sales team and some of the technical and clinical people, we will combine those together with the existing products we have in Endotek. And then as other products come out because we have a very nice pipeline, we won't discuss it specifically, but we think that that's going to serve well and we'll be more efficient.

We've had a good sales force, but -- I mean they're still doing a good job.

But the utilization wasn't what we needed it to be. This way, there was a single product company that fit into our business very nicely and we're going to combine those two.

We've had them here, by the way, I should mention. They've -- all of those sales forces have been here to Salt Lake, all getting together.

We've all spent time together. And I'm actually very pleased with how that's coming along, as well as the integration. Joe, you want to add something to that.

Joseph Wright^ Yes. As you mentioned, Fred, we've been looking for something in this space for a long time. The great thing about this opportunity was just the financial profile.

It's very rare that you find something that's going to be accretive to not just our growth profile, but also our gross margin and overall profitability in the first full year.

So that was very attractive, and it's our existing call point.

So we are basically able to increase our footprint in a very attractive market here.

So yes, we're excited about the combination, and we expect to train cross-train all of the EGS salespeople that we hired and also our current Endotek sales force.

So both will be able to sell both product lines.

So we do expect some cross-selling opportunities, as we move forward.

Fred Lampropoulos^ And Joe, if I could just add one more thing. Mike, the other thing is the territories and the smaller our ability to focus more instead of having people traveling so far with

these additional folks, we think we can get deeper into the accounts. And incidentally, just as a point of interest, every single account that Merit has happens to be exactly the same footprint as they have.

So it's not like these are new customers. They are existing customers, and they're all their existing customers.

So they know who we are.

We're not having new people show up in the lab. This is something that has a lot of features that Joe mentioned and that I have alluded to that we think helps to make it a pretty dynamic team. And I guess, the other part that goes with that is when you get -- I don't know I had probably 10 notes from the sales force after we were here and spent a couple of days together just how excited they were to have this opportunity, and every person that we made that offer to in that sales force accepted.

I think those are really interesting facts that they all came together, and that group will come together under the leadership of Niki Kennedy, who's the leader of that Endotek division.

So we're quite excited about this opportunity. A lot of work to be done.

But nevertheless, we're very excited about it.

Michael Matson^ Yes. It sounds great. And then just on the cardiac business, have you seen any kind of impact there, positive or negative from the rapid uptake we're seeing of PFA ablation?

Fred Lampropoulos^ No. We have not seen that at all.

We haven't seen anything that's taken away. Joe, anything that you've seen.

Joseph Wright^ No. We have devices that enable ablation procedures.

So regardless if it's RF ablation or PFA, our tools are generally applicable to both procedures.

So it hasn't been an impact for us.

Fred Lampropoulos^ And in fact, it's access to get them there, so they can deliver those products.

It would be our HeartSpan, our steerable sheath, our splittable -- it's those products that complement that they don't take away.

Operator^ And our next question coming from the line of Larry Biegelsen from Wells Fargo.

Larry Biegelsen^ It's Larry. Fred, I wanted to ask you, too, on WRAPSODY.

First, a big picture one and then a little bit more detailed one. And by the way, congrats on the nice quarter here, especially on the margins.

Fred, how do you expect to compete with Gore and BD in the stent graft space?

We've heard that price is a key component when physicians choose a stent graft.

What's your view? And I had one follow-up.

Fred Lampropoulos^ Yes. I think that first of all, as you know Larry, we made a press release early to talk about the data being presented at the CIRSE meeting, I think it's August 14th or September, whatever it's coming up in the next couple of weeks.

So we just -- my general take is that we have superior technology, period. That's always been why we developed it.

We think it's a great product.

I think we've been out there selling it for a while, and the uptake on the product has been positive.

So we're very excited about the long term.

We continue to track well in those markets. The commissions continue to be positive, and we're really looking forward in the future to discuss more of the addressable market opportunities. And at the right time in the very near future, we'll be talking about all of these things so that we can lay it out.

And on this call is we're not intending to do that today, but we don't have -- I can just tell you -- I don't have, and I don't think the people in this room have any doubt about the viability of this technology and its performance capabilities.

We'll talk more specifically in the very near future.

Larry Biegelsen^ I wanted to push my luck and ask you one follow-up. How are you thinking about the likelihood you can obtain a transitional pass-through payment or TPT payment? And if you believe you can get a TPT because you have breakthrough status, does this mean you're going to have to price it at a significant premium when you come out of the gate so you can meet the PPT criteria?

Fred Lampropoulos^ Yes. Larry, we do have breakthrough status on this product that speaks to that. And at the appropriate time, as we talked about, all of this will be revealed.

So we're -- in the very near future, we'll lay all of this out.

Our primary focus today is the PMA has been filed.



It's been accepted. Let's get that done, and then we'll start hitting all these other things once we know and we get closer and understand that better.

So it will be there. Just going to have to be a little bit more patient, and I should appreciate you're pressing your luck.

Larry Biegelsen^ Well, I'm not -- we're not going to be impatient here, Fred.

Fred Lampropoulos^ I know that. You're just -- I'm going to teach you a lot of things like you've taught me. You have.

I mean thanks (inaudible) Larry, you have.

Larry Biegelsen^ I don't have.

Fred Lampropoulos^ So over the years, you have, and I appreciate it. Thank you, sir.

Operator^ And our next question coming from the line of Steve Lichtman from Oppenheimer.

Steven Lichtman^ And congrats on the quarter.

I wanted to ask, again, about EndoGastric Solutions.

Can you talk a little bit more about what the revenue growth profile is of the products? I appreciate the base of revenue that's being built in here. And sort of do you see opportunities in the near term to accelerate that with some potential cross-sell from your current business?

Raul Parra^ Yes. Great question, Steve.

As you're aware, we disclosed that for this year, we're going to be in the \$13 million to \$15 million range for the back half of the year. And we also announced that it would be accretive to revenue, gross margin and operating margin in the first full year of integration.

So other than that, I don't think we're going to get into the details of it.

We'll give you, obviously, our guidance for 2025 in February.

But I can tell you that the endoscopy team and both teams are excited about the products that we have and the scale that we think we can get there with the cross-selling.

So we'll leave it at that but continue to be excited about that asset.

Steven Lichtman^ Okay. And then, obviously, you were acquisitive this quarter.

Free cash flow coming in stronger, though. How should we be thinking about sort of where you're headed at in terms of use of free cash looking forward here in the near term?

Raul Parra^ Yes. And look, first of all, I just want to -- I'll give a little shout out to our operations group on managing the inventory growth.

I mean it's been a huge benefit to our free cash flow this year, and we're growing ahead of plan.

So they've been able to manage keeping up with our customer demand, while also essentially keeping inventory flat to down.

So we continue to expect strong free cash flow generation for the back half of the year, and we continue to believe that we're in a good position to hit our CGI program of a minimum of \$400 million in free cash flow.

And lastly and more importantly, we took our -- a minimum of [\$115 million] in free cash flow target for 2024, and we bumped that up to \$130 million.

So super strong generation for the quarter. I couldn't be more excited about that.

Steven Lichtman^ Good to be with you, Steve.

Operator^ Thank you. And our next question is coming from the line of David Rescott from Baird.

David Rescott^ Great. Congrats on the strong quarter here. My first question is more around the WAVE results looking forward to seeing that.

I don't think I've definitely haven't attended the CiDA, the CIRSE conference in the past.

So I'm just wondering if you could give us a sense for maybe what to look for there.

And then at least in your view, maybe how data is presented at these two conferences tends to kind of flow into the clinical practice?

Fred Lampropoulos^ Yes. Well first of all, this is going to be presented by physicians, as part of the scientific sessions, not by Merit. This is the six-month follow-up results on patients from the randomized arm of the study, the -- what we call the ABF cohort, which includes a target lesion primary patency access circuit primary patency and safety events.

So this is the randomized part of the study, and that will be presented.

It will be presented from the podium in the scientific sessions.

In terms of the specific data, come to Lisbon or tune in because we can't speak to it until that date, and then we'll be happy to have the physicians, not Merit, the doctors talk about the results and how they view it.

So I think we're excited to -- we'll all be there.

I can just tell you that people in this room will be at that meeting in Lisbon, Portugal.

David Rescott^ Okay. I don't think I'll make it up to Lisbon this year.

But my second question is more on China APAC, obviously, that was a strong -- stronger growth driver than you expected from the comments there.

I'm just wondering if you can help us think about some of the components of the way in which your business model operates in that market and the level of visibility, at least you have into the next several quarters of growth.

I mean it seems like in medtech, it's a weaker kind of macro market in general.

It seems like you've held in there a little bit better than maybe expected.

So just wondering if your business or the visibility you have into those markets is maybe any different than what some other kind of medtech competitors out there have?

Raul Parra^ Yes. Joe is going to take the China question.

But David, just as a point here.

I believe that the CIRSE will be able to webcast that information.

So if you can't make it there, I think a pass will get you a webcast.

I don't know all the details yet.

We're trying to find that out, but our understanding is that there is a webcast available for that.

So for those of you that can't make it.

Joseph Wright^ Yes. Thanks, Raul.

On China, just as a way of reminder, we don't provide country-specific growth assumptions, but we did have better-than-expected results from China in the first half of 2024.

We, like all the other medtech companies are affected by volume-based purchasing, and there is some variability to that.

But we still look at China as a very strong demographic strong growth market for us.

The key for us is just getting through this year and perhaps next year and then we reset our growth based on a new baseline, and we still expect great things from China in the future.

Raul Parra^ Yes. And I think one thing to highlight, too, that we're excited about is that even though we did have a total revenue decline, we did see sales volume growth year-over-year.

So I think that's important because as Joe mentioned, once we reset that, then I think we can get back to normalized levels of growth in China.

Operator^ Thank you. And our next question coming from the line of Jayson Bedford^ from Raymond James.

Jayson Bedford^ Can you hear me okay.

Raul Parra^ Yes. We got you, Jayson.

Jayson Bedford^ All right. So a few questions.

Following up on WRAPSODY, I apologize if I missed this, but did you provide an update on expected timing around FDA approval?

Raul Parra^ No. It's in there. It's in their hands.

We'll go through all the steps. We're prepared for it.

We're prepared for the various aspects of a PMA, but it's in their hands now.

We've completed the submission, as we said we would on time. And now we just sit back, and we respond and when they're done, they're done.

So we haven't spoken to it because it's in their hands, Jayson.

Jayson Bedford^ Got it. Okay. That's fair.

OEM flat year-to-date, but I think I heard you say that you're still expecting double-digit growth for the year.

I wonder if you could just kind of confirm that, and I don't mean to be overly obvious with the question.

But do you have strong visibility to -- it does imply a pretty big ramp in the second half to get to double digit, if indeed that's the guide.

Raul Parra^ Yes. Jayson, I mean first of all, I'd like to highlight our U.S. sales growth was just tremendous, and it continues to be.

So -- and OEM did contribute in the second quarter.

So they grew at about 5% on a constant currency basis.

That's compared to Q1, where they were down approximately 5%. So we've seen a good rebound.

We haven't changed the guidance for OEM because we do feel like we have the visibility to a better second half. And it does -- obviously the math would imply that it's a pretty strong back half of the year, and we feel good about what we've guided there.

So again, I think we're really happy how things bounce back, and we're seeing some pretty strong demand there.

As you know there was also a deal announced, which we included was in our guidance, but nevertheless, I'll highlight it with Medtronic on their Spine business that our OEM division is helping with.

So strong demand for sure.

Fred Lampropoulos^ That -- that pipeline is filling back up, Jayson.

So we do have probably more visibility there of the stuff that's coming. Those orders are coming and behaviors going back to what we would see has been kind of the general after the ups and downs and the workouts of COVID are starting to come back to normalization.

Joseph Wright^ Yes. And we have seen in the past 20% plus growth quarters from OEM.

So while we're not necessarily saying when that will happen, it's not out of the ordinary for the sales division.

Jayson Bedford^ Okay. Yes. The business obviously lends itself to some pretty good visibility. Just -- and last one, I guess, for me, just on the EGS deal and the improving growth profile there.

Is there an international angle to the strategy?

Or is it mostly U.S. driven?

Fred Lampropoulos^ Well, it is mostly U.S.-driven, however. They do have -- and I think they just didn't have the bandwidth.

We think that's one of the things we're exploring is they have sales coming out of Europe and the Middle East. And we think we can add to that, and we'll be pursuing those growth opportunities wisely and very methodically.

Operator^ Thank you. And our next question coming from the line of Craig Bijou from Bank of America Securities.

Craig Bijou^ Thanks, guys for taking the questions, and congrats on a strong quarter. Just had a couple of quick follow-ups on China and the better-than-expected results in Q2. Just wondered, was that VBPs maybe not coming through on certain products you were expecting or the impact -- the pricing impact from the VBP wasn't as big as you expected? Or maybe the underlying markets got a little bit better there? And then a similar question for the rest of the year and how conservative you guys think you are on the VBP side?

And I think this was alluded to in a couple of other questions, but the growth of the underlying China medical device market, just any thoughts there? It sounds like you still expect volumes to grow.

So that's positive. But any broader thoughts on the underlying market there?

Raul Parra^ Yes. And so, I'll let Joe kind of tackle the market and what he sees there.

But first of all, we haven't changed our second half VBP headwind assumptions, those are going to stay.

I will say that during the first half of the year, obviously we've done better than expected, clearly, as we talked about. And I think the one thing that I do want to highlight, which I think is really important is that we continue to grow sales of units on a year-over-year basis, which I think is really important because we're able to overcome some of that volume-based purchasing impact.

So we're definitely seeing it in our P&L. We're definitely getting hit with VBP.

But our team is doing an excellent job of continue to growing units, which is giving us a little bit of upside.

So optimistic about China. Joe, what do you think?

Joseph Wright^ Yes. I think the overall unit growth highlights the fact that the procedural growth in China is still strong.

So while we're dealing with the VBP headwinds, the first half VBP was largely in line with our expectations.

So there's no real change even in our second half guidance.

We still expect -- it's in our plan right now.

Operator^ Thank you. And our next question coming from the line of John Young from Canaccord.

John Young^ Thanks for squeezing in here.

First, I just want to touch on WRAPSODY, too. A lot of questions have been asked on it.

But maybe just going back here, what is the commercial infrastructure for the product today, Fred and how you think about building it up to the PMA approvals that [you're ready] at launch?

Fred Lampropoulos^ Well, we put together a renal therapy group that we put together last year that had a number of products that are in there that, that product will fall into. They include things like the Surfacer and our hemodialysis products because they call on the same physician and the same point of sale.

So part of that has been under development getting ready for this for some time.

So Joe, do you want to comment any further on that?

Joseph Wright^ Yes. As Fred mentioned, we established a renal therapy sales group, and we've been adding to that this year in preparation for WRAPSODY. The good thing for us is, as Fred mentioned, we have other renal therapies products that were, frankly, under focused previously.

So when we broke out this team, they've been able to focus on these products that we already have, grow that business, while at the same time, we've been spending a lot of time training them up on WRAPSODY, letting them hear physician experiences in other approved markets outside of the United States.

So we feel like we're doing all we can.

We expect to add to that team over time, but we're going to be judicious in how we do that.

Raul Parra^ The other thing to add, too, John, is that you can clearly see that that team is performing well right? They have the Angio products, which are slightly ahead of where we anticipated they would be. And so clearly, they're doing a good job and the integration part of things.

Fred Lampropoulos^ And let me just maybe add the last end to that. Thanks, Raul. And that is, I think the ability for these guys to focus on six to eight products all at the point of sale is really significant. Again, as Joe pointed out, we've seen that performance, and we're being, I think, very cognizant of making sure we stay within our budgets at the same time making sure that people are trained.

So when it comes in, we can go to the market without having either too much inventory because that's another important part of this.

The training and the focus. Focus is a key because of Merit's broad product bag, and you can't -- it's hard to do.

So with this, we think that it was the right call.

It was developed some 18 months ago, and we're just working through it. And when we're -- when we get approval, we'll be all set with people that know the product and have complementary products to sell with it, so.

John Young^ Great. And maybe just a follow-up on that approval.

On the submission, I heard you that it's in the FDA (inaudible).

Have you gotten any deficiency letter to get back? Or has the 180-day clock stopped for questions at this point yet?

Fred Lampropoulos^ We generally don't comment, but I will -- on the stuff that comes in because it could be misunderstood, misconstrued and whatever. They have it. The clock is ticking. That's where -- I'll leave it at that.

Operator^ Thank you. And our next question coming from the line of Jim Sidoti from Sidoti & Company.

James Sidoti^ On WRAPSODY, do you think that presenting the data in Spain will have any impact on your international sales of the product? And do you think that there is an international market for the product?

Fred Lampropoulos^ Well, first of all, Jim, we're already selling it in international, and data is the name of the game to physicians. That is the name of the game.

We hear it over and over every day. Where is the data, where is this? Where is that on a lot of products?

And if you don't have it, how do you prove that it's efficacious. So data is important.

It will have an impact. And we're very excited to be able to deliver this in at CIRSE.

James Sidoti^ Okay. And then can you just give us some sense on the impact of the acquisition on the sales team? How big was the EndoGastric sales team that you brought in compared to what you had with your sales -- existing sales force?

Joseph Wright^ Yes. So it was about 50% of the size of our Endotek sales force.

So we could have taken more, but we decided to selectively hire those we thought were in strategic areas and where we had opportunity.



So it will grow that overall force by about 50%.

James Sidoti^ I'm sorry, was that 15% or 50%?

Joseph Wright^ 50%.

James Sidoti^ 50%. Okay. And then also, I'm sure that there was a lot of customer overlap, but are there new customers that you'll be calling on now for your core products?

Fred Lampropoulos^ Well, the bottom line is every customer there is a customer of ours already.

Raul Parra^ Maybe two customer -- new customers...

Fred Lampropoulos^ So that was one of the beauties of all this, Jim, is that they're not new people, but we don't know or that they don't.

So when we're calling on a lab, they know who we are, and we know who they are.

So I've never seen anything quite like this where every account that we have, they have as well and they have something in there.

So -- but let me go the other way around. Every account that they have is an account that we're already calling on, okay?

Operator^ Thank you. And I'm showing no further questions in the queue at this time.

I will now turn the call back over to Mr. Fred Lampropoulos for any closing remarks.

Fred Lampropoulos^ Ladies and gentlemen, it's a long call. So we appreciate your patience.

There was a lot of things to talk about. Raul and I and Joe will be around for the next couple of hours to answer specific questions.

We want to thank you for your interest and for -- I thought the questions were great.

So thank you very much for your interest. And all best wishes from 100 degrees of heat in the mountain land of Salt Lake City, Utah.

Good evening, best wishes.

Operator^ This concludes our conference call for today. Thank you all for your participation.

You may now disconnect.

