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Q1 2018 Merit Medical Systems Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Merit Medical Systems, Inc. Q1 2018 Earnings Call. (Operator Instructions)

As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Fred Lampropoulos, Chairman and CEO. You may begin.

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Good afternoon, ladies and gentlemen, and welcome. We're delighted to have you with us on this beautiful spring afternoon in Salt Lake City. Thank you for taking the time. We look forward to reporting.

I'm going to ask Brian Lloyd, our Chief Legal Officer, to read our opening statement. Brian?

Brian G. Lloyd *Merit Medical Systems, Inc. - Chief Legal Officer & Corporate Secretary*

Thank you, Fred. During our discussion today, reference may be made to projections, anticipated events or other information which is not purely historical. Please be aware that statements made in this call which are not purely historical, may be considered forward-looking statements.

We caution you that all forward-looking statements involve risks, unanticipated events and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Many of these risks are discussed in our annual report on Form 10-K and other reports and filings with the Securities and Exchange Commission and are available on our website.

Any forward-looking statements made in this call are made only as of today's date. And except as required by law or regulation, we do not assume any obligation to update such statements, whether as a result of new information, future events or otherwise. Please refer to the section of our presentation entitled Disclosure Regarding Forward-looking Statements for important information regarding such 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. The tables included in our release and discussed on this call set forward supplemental financial data and corresponding reconciliations to GAAP financial statements.

Please refer to the sections of our presentation entitled Non-GAAP Financial Measures and Notes to Non-GAAP Financial Measures for



important information regarding non-GAAP financial measures discussed on this call. Readers should consider non-GAAP measures in addition to, not as a substitute for, financial reporting measures prepared in accordance with GAAP. These non-GAAP financial measures exclude some items that affect net income. Finally, these calculations may not be comparable with similarly titled measures of other companies.

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Brian, thank you very much. And once again, ladies and gentlemen, thank you for joining us.

To say that it was a busy quarter would be an understatement. It has been very, very active here, as we have closed the Becton, Dickinson deal. We have completed many of the activities of transfers of inventory, developing and putting into place the appropriate channels for our customers, literally taking the order to cash and inventories for all the major markets.

In addition to that, we have had our teams in a number of the locations preparing for the transition, as well as our manufacturing teams completing our clean rooms, ordering equipment. And everything is really on track. And I know that I have had a number of calls during the quarter about this, and I'm happy to report that we are on track. This is an experienced team. This is a team that is committed to be able to hit all of the schedules. And I think we are, very candidly, doing extraordinarily well in all of these issues.

But I suppose that the order of the day are really the numbers. In a few minutes, I'm going to turn the time over to Bernard to be able to go over more specifics. But the bottom line is this. For the first time in Merit's history, we went over \$200 million in a quarter. I think we beat The Street estimate substantially. We were able to also beat on earnings. And we will explain margins and a whole bunch of other details in a few more minutes.

Couple of other, I think, important issues as we look forward is the Laurane Medical acquisition, which was -- has now been consolidated into our Irish facility. And now they have capacity there, and that product is now building inventories for launch. We literally have not been able to take any more orders other than our existing customers. So this is, I think, an exciting opportunity for us as we look forward.

We received a number of new 510(k)s. They are in the press release, you can read them. A couple I would like to point out to you that I think are very important. One is our Prelude IDeal. Now this is a very, very unique vascular sheath. This product is a flat wire with a top cover as well as a hydrophilic coating. And very candidly, I believe, and many of my customers believe, it's the best product in the market. It also has a substantial premium over our existing sheaths. And it's fun to kind of read the blogs and to read the texts of physicians who are talking about the performance of this product.

In addition to that, we've also recently received a 510(k) for our Distal Access Sync. This is a closure device that is used with radial procedures. But it's done in the area called the snuffbox. It's a procedure that's being done in Europe. It was proposed by Dr. Kiemeneij, who many consider to be the father of radial procedures. And to the best of my knowledge, I believe we are the only company on the market with this product. It's also proprietary in terms of process and there are patents pending. When you combine these 2 products together, it really is going to have a dramatic impact on the company going forward. We're very excited about this product.

The pipeline is full. We have, as you know, over 50 active R&D products. And we have a sales meeting coming up, even though we had one in January. We have more new products coming to the market. And so the pipeline is full. The acquisitions and activity are ongoing. And there is still a lot of work to do. The issues of capacities, the issues of making sure that our Chinese operations, our new facilities in Melbourne, in Tokyo and the expansion of our facilities to accommodate growth in Maastricht in The Netherlands. So it's very -- a very, very active time.

A few more comments and that is on the -- in our notes, you will see this issue, this opportunity that we talk about with NinePoint Medical. NinePoint Medical is located in Bedford, Massachusetts. I hope that you will look at the slide deck, where we have a slide to explain the technology and you will also have an opportunity to go to their website. But as one individual said to make, "If I were going to have to have a procedure, this is the technology I would like to use." I think you will find this very interesting. We think it's a compelling technology. It's part of our long-term strategy to move from accessories to a more therapeutic model. But incidentally, this has accessories. So it has balloons, probes and other product opportunities that are part of this and fits and resides in our Endotek division.

So I was able to welcome yesterday the group of salespeople that will be coming over. And this is a technology, an opportunity, that we will be talking about a lot in the future.

So the net of it is this: Our transitions and acquisitions are working well. Our capacities and our initiatives are in place. And our pipeline is full. So we feel comfortable with our projections. And I think with that said, I'm going to turn the time over to Bernard Birkett, who maybe give us some color and let's talk some numbers, Bernard, for a moment. Go ahead, fire away.

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

Thanks, Fred. So just a quick update on the numbers. On a -- from a revenue perspective, we did \$203 million approximately in the quarter. That's up 18.7% as reported. Organic growth was 10.1% as reported and 7.1% on a constant currency basis. The main product drivers within that were catheter sales, endoscopy sales, inflation device sales and standalone devices all showed considerable growth. And from a regional perspective, again, we saw our OUS business coming in with very strong performance, so China, AsiaPac, Europe, Middle East and Africa and our endoscopy division all contributed to those overall growth rates.

From a margin perspective, our non-GAAP gross margin was 47.5% for the quarter. And just to bear in mind that we had talked about this on our Q4 call, that there will be some impact on margin in the first quarter, based on the level of integration that we were doing with the various acquisitions that we have completed at the -- within Q4 of '17 and the BDX acquisition that we completed in Q1. We've also said we saw some shift in our mix in the quarter, which contributed to the high revenue number that we've seen. So again, in line with what we would have expected.

From an OpEx point of view, if we exclude the integration cost and the TSA cost, again, that we had spoken about, we're pretty much in line with the Q1 '17 numbers as a percentage of sales. So again, OpEx on track for us there. And then overall from an earnings perspective, EPS at \$0.31 compared to \$0.28 for Q1 '17. And that also included an increase in our share count in Q1 of '18 of about 13%, when we compare that with Q1 of '17. So again, significant improvement in profitability. So all in all, we're on track.

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

So I think -- thank you, Bernard. I think that on the revenue side, I mean, clearly, we got a little more than we thought we would. I think the thing that's even maybe more surprising, not surprising, but interesting about that, is that in this first quarter, you always have a little bit of kind of getting going from the first of the year. We had all of our sales meetings, and so we had people out of the field for a while. And so I think when you look at all of that, and you think about the production getting back, ramped up after the holidays and then look at the numbers. And again, I don't think there were any surprises for us, generally speaking. The business is always very active and various things going on. But I mean, I think this is what we had talked about. There are some additional costs in this first quarter, there was additional expenses.

And so I think as we look forward to the balance of the year -- I know that I had talked to one analyst who was concerned about the jump from the first quarter on their numbers, these are the consensus numbers that they had, up to the second quarter. And I think this, hopefully, will give some people some comfort that we were able to move that forward. But we're comfortable with our numbers. It doesn't mean there is not a lot of work to do, because there is. But I think the BD transaction is exactly what we had hoped for. We have other products to launch that will complement that particular area. Our inflation devices were very, very strong. Our standalone business was strong. There were a couple of areas that I'm sure you'll have questions about. But again, the bottom line is, is that the business is robust. And we're looking forward to future reporting.

So there you go. A quarter that, I think, in my view is extraordinary. But you guys get to say and give us your views on that. And of course, we're here now to answer questions. So with that being said, we will turn the time over to our administrator. I know it's a very busy day for you and hopefully, this has been kept to be in the right amount of time and we'll take your questions. Following those questions, Bernard and I will be here for a couple of hours to clarify any of the specific issues. All, of course, in compliance with the law of the things that we can share with you. So that being said, I think it's time to turn it over to the -- our administrator. And we will look forward to your questions. Thank you again.

QUESTIONS AND ANSWERS



Operator

(Operator Instructions) And our first question comes from the line of Larry Biegelsen from Wells Fargo.

Lawrence H. Biegelsen Wells Fargo Securities, LLC, Research Division - Senior Analyst

So Bernard, I just wanted to start on the guidance. I didn't see any guidance in the press release. Are you just -- should we just assume you're reiterating all the guidance you laid out on the Q4 call?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

That's correct. And based on integrating these acquisitions that have taken place, we decided to just maintain guidance. And, again, I think it was strong guidance that we laid out there on the Q4 call. So we're still confident that we can deliver on that.

Lawrence H. Biegelsen Wells Fargo Securities, LLC, Research Division - Senior Analyst

The tax rate, Bernard, came in a little bit lower than we were expecting. Is there any reason why the tax rate this quarter of 23% wouldn't hold for the rest of the year?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

So it was a little bit lower based on a stock comp benefit that we kicked off. So that was about 2.8%. So that effectively translates about \$0.01 of EPS. So if you back that out, then we're within the range that we guided to.

Lawrence H. Biegelsen Wells Fargo Securities, LLC, Research Division - Senior Analyst

Great. And Fred, you grew 7% organic in Q1. So congrats on a strong start to the year. And that's your toughest comp for the year. How are you feeling about being able to deliver on the 7.5% to 8.5% organic growth for 2018? And what are some of the drivers of that, besides easier comps?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Yes, we never look at easier comps. We let you guys do that. I think, Larry, the business is robust. It's strong. We did this in a quarter where everybody was very actively engaged in this transaction, getting it closed and getting those wheels moving. You had the holidays and we had sales meetings. So things start out a little bit slow; you have sales meeting; we had this transaction. And despite all of that stuff, the business was robust. In terms of organic growth, it's my belief that, that will actually be well in and probably on the high side of our estimates, because of these new products and what we're seeing. So I'm very excited about the business. This IDeal product, by the way, that I've discussed, is a really big deal. We really have just one competitor. It's a product that ranges, depending on the configuration, from \$45 up to \$85. We have capacity and so we're very excited about that. And several other new products that we'll be rolling out in the inflation device area. And as you can see from the numbers, inflation devices continue, this is a legacy product, continue to be very, very strong.

Just a couple other points, if you will just indulge me for a moment. It's interesting to note that our Impress catheters were up almost 17% in the first quarter. Now this is essentially the Cook deal. A lot of people asking about Cook. It's reintroduced their product, and yet we're seeing, and I believe we will continue to see Merit continue to take market share. So they have some new embolic products coming out. There are new materials and new products. I'm not going to speak to anything more than that. But we have some new products this year. So we have a lot of stuff that's ready to roll, a very active, engaged sales force. So I'm excited about the business and for good reason. I'm always excited, but now I'm even more excited, if you can imagine such a thing.

Lawrence H. Biegelsen Wells Fargo Securities, LLC, Research Division - Senior Analyst

Last from me. So the BDX deal closed a little later than you expected. It sounds like, Fred, the integration's gone very smoothly. Can you share some additional details with us on where you are in that process? And what would have to happen for you to come in at the high end of the BDX guidance for sales and EPS this year?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

So the time frame really had to do with MOFCOM and the regulatory issues that had to get cleared up and get approved. So we weren't in control of any of those things. We just had to sit back and wait and we wished it would have been sooner. But I think maybe the more



important issue, Larry, is the work that was done and the speed in which our staff was able to really roll over this order to cash.

So let me tell you what I mean by that, so there is no misunderstanding. We're taking all the orders. All of the inventories essentially have been moved to our distribution centers. There are some outliers that have to do with regulatory approvals. So it's not all done. But in Canada, the U.S., Europe and soon in other locations, we will have that in total control. So what restrains us is just simply the ability for, and the agreement that we have with BD to provide the inventory. So we're, I think, going to be just fine in terms of our range. We're very likely to be on the -- I'm going to say today at midrange instead of the lower range. And then as I see more of that product being delivered, I may go up to the high end of that. But I also have to have the supplies provided. So I need to have a little bit of room here to make sure. But I would say that at this point, everything has gone exactly as planned. And I think the Laurane Medical has part of to do this. Now, this is the bone biopsy. But these things are kind of hand-in-glove, and then the Corvocet. So I think this whole biopsy business is going to be something that you're going to hear a lot about.

And in addition to all that, in that stack of products that we talked about and new projects in R&D, we have new biopsy devices already under develop -- under development and in things that are going to help to enhance this market, which Merit is very excited about. So the real issue now remains to get the manufacturing transferred. So that plant is in place, with the very same people that moved all the products. They have our Salt Lake people, but mostly our Mexican facilities and personnel who moved all the products when we moved and did the transition to Mexico after the last 2 to 3 years. So under Ron Frost's guidance and our folks in Mexico, we're ready to go. And we've got a great team to do it. So we're confident in our ability to do that and have all that wrapped up. And then we will start to expand even further the offering and the opportunity. So that's the best answer I can give you. And I appreciate the question. I think we will then move on to our next question.

Operator

And our next question comes from the line of Bruce Nudell from SunTrust Robinson Humphrey.

Stanislav Nykola Fediuk SunTrust Robinson Humphrey, Inc., Research Division - Associate

This is actually Stan Fediuk on for Bruce. Just first question, more for modeling. Is the expected acquisition dollar and FX that was mentioned previously, \$37 million to \$42 million for BD, \$13.5 million for other acquisitions and FX \$5.5 million to \$6 million still stand?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Yes, it does.

Stanislav Nykola Fediuk SunTrust Robinson Humphrey, Inc., Research Division - Associate

Okay, great. CRM and EP came in a little bit lower than expected. Was there any impact in that segment?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Which segment, I didn't hear that?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

EP.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

No, I think it's just part of the, the -- Stan, we did have a little bit delay on some products. We had one product coming out of the EP area that had some production issues. But other than that, for the year as we see it going, I don't see any issues that will get in the way of that at all.

Stanislav Nykola Fediuk SunTrust Robinson Humphrey, Inc., Research Division - Associate

Okay, great. And in the previous call, you mentioned that there were licensing and regulatory requirement hurdles in international markets. Can you just provide an update on how that's progressing?

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Yes, that's doing quite well. Some of it was issues that just had to be signed over in China, some issues in Japan and a few other places, including Australia. All of those are on track or will have been completed, we believe, in the second quarter. Most of that will all be completed and those things will be behind us.

Operator

And our next question comes from the line of Bob Hopkins from Bank of America.

Robert Adam Hopkins *BofA Merrill Lynch, Research Division - MD of Equity Research*

So I just wanted to ask a couple of quick questions on gross margins. I was wondering if you could quantify the integration costs that manifested here in the quarter. And when do those start to fade away here?

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

We'd expect to start to see them gradually shift at the back end of the second quarter. And then into the third quarter, we should start to see the major effect having taken place. So in the first quarter, we saw about a 50-basis-point effect from all of the -- on-boarding all of the acquisitions. And we had talked about that on the Q4 call. So it's really in line with our expectations. So you'll see, again, some in the second quarter and then by the end of the third quarter, we should have absorbed most of it.

Robert Adam Hopkins *BofA Merrill Lynch, Research Division - MD of Equity Research*

Great. And then could you just talk about a little bit from here, what drives margins higher over the course of the rest of the year? And then just maybe, if you wouldn't mind, giving us a sense for the cadence of gross margins over the rest of the year, to go from where you are starting at 47.5 and ending up somewhere in that guidance range you gave previously of around 49.7, I guess, to 50.8. So just maybe the cadence of gross margin over the course of the rest of this year and the big drivers.

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

Typically, we don't guide by quarter, but you will see progressive improvement Q2, Q3 and into Q4. So it will increase quarter-over-quarter. And the major drivers are, as we said earlier, improvements in mix, on-boarding the BDX assets and then delivering on cost savings initiatives that we have already identified coming from our operations groups. So there's a number of fronts where we will see the improvement, plus the introduction of higher margin products coming through our R&D pipeline. So again, the Prelude IDeal products, the Corvocet biopsy devices, the Laurane Medical products starting to gain some traction will increase revenues...

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

You need to throw the Sync in there. You need to throw the Choice in there. You need to throw the Tau in there. So there's a whole bunch of products that will contribute to that.

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

So as we said, the margin improvement will come from a number of different areas.

Robert Adam Hopkins *BofA Merrill Lynch, Research Division - MD of Equity Research*

Okay, great. So basically, no real change from what you were saying at the beginning of the year?

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

That's correct.

Robert Adam Hopkins *BofA Merrill Lynch, Research Division - MD of Equity Research*

And then lastly from me, I'm sorry if I missed this, but given the slightly lower tax rate, that sounded like that was sort of a just a 1 quarter thing. Has your expectations for the tax rate for the full year changed?



Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

No. So we're still within that range of 25% to 27%. We, as I said, we had that \$0.01 benefit in the first quarter. And again, that's something that's kind of hard for us to predict on the stock option side.

Operator

And our next question comes from the line of Matthew O'Brien from Piper Jaffray.

Matthew Oliver O'Brien Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Just a follow-up real quick on Bob's question on gross margins. Just given the mix dynamic, Bernard, that you're talking about, should we model for the full year closer to the lower end of the range versus somewhere in the middle?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

No, I think we're still on track, and based on what we can see, to be on the midpoint.

Matthew Oliver O'Brien Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Got it. Fair enough. And then 2 questions from me on the top line. The international strength that we've seen in the quarter was, obviously, fantastic. Can you just talk a little bit about the -- what's driving a lot of that performance and the durability that you're seeing internationally?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Yes, I mean, I think some of it is the situations in both Korea, Japan, continued strong growth in China, all of Southeast Asia. If you look at Vietnam, Thailand, all of those areas are doing well. Canada is doing well, for us as well. So it really is kind of that continued effort that we've seen for a long time. We've put some more resources in. New product registrations that are being approved and coming online in those areas. Joe Wright, anything you want to add to that?

Joseph C. Wright Merit Medical Systems, Inc. - President of International Division

Yes, the biggest strength is China, continues, so...

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

So it's really China.

Joseph C. Wright Merit Medical Systems, Inc. - President of International Division

Yes.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

China is the big winner.

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

And that's where we continue to make investments. We're investing in the sales force in the Chinese markets. We are continuing to register new products there and then seeing growth in our legacy products, again, remaining very strong.

Matthew Oliver O'Brien Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Okay. And then, Fred, we haven't heard specifically about the PAE device -- or I'm sorry, technology, and where that's at. And what is that contributing here in Q1 to growth? And how are the symposiums that you are conducting? Are they still packed? How is the conversion of docs that are coming in to get trained on that approach to treat BPH? And are you still as bullish as far as where that revenue contribution can be in a couple of years?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Matt, let me just kind of refresh everybody's memory on the whole PAE process. It is not a large embolic sale. In many cases, you use maybe just 1 vial, versus UFE, which you could use 5 or 6. That's not the big player. The big part of this thing is really the products like the

SwiftNinja, things like the IDeal, the True Form Guide Wire. It's all of those other products that can bring Merit up to \$3,300 to \$3,500 per procedure. And the best way for me to talk about the enthusiasm is what we saw at the SIR meeting in Los Angeles just a month ago. And we did a symposia there and -- at our booth. We had 200, 250 physicians, actually blocking some of our competitors, good companies. We were asked to kind of move away from the booth. I mean, there were 250 people in front of our booth. I've got video of that and a scan of that. The -- and the dynamics behind that, Matt, are that this is something that really is unique to interventional radiologists. This is something that, because of their imaging capabilities and their knowledge, really kind of the, I'll say the best group of physicians, I'd really like to say the only group of physicians that can really do this well. So we continue to be very enthusiastic about it. Again, a reminder that a lot of the products that come out of these are in the accessories and the catheters. And you will see that show up. If you take a look at our catheters that are up 12%. You take a look at some of our stand-alone products, they are up 21% for the quarter. So that's where you need to look, in those areas. It's really -- that's always been the challenge with this procedure, and it's not one big bolus with one product, it's a number of products. But most of it coming to access, accessories and support, wires, catheters, but the embolics are the smallest part of that, so -- but I'm still as enthusiastic. We have training classes here on-site and we're doing them now offsite, and they're all filled up, I think, from now until the end of the year. So it's still a lot of interest from interventional radiologists. And of course, that helps us in our entire portfolio of products.

Operator

And our next question comes from the line of Jason Mills of Canaccord.

Jason Richard Mills *Canaccord Genuity Limited, Research Division - MD of Research & Analyst*

Bernard, I wanted to start with you and just continuing on the discussion of gross margin, asking in a different way. So gratified to hear your commentary about the rest of the year. And it sounds like you're bullish to get to the midpoint of that range. It would imply, obviously, that you're going to be somewhere in the low 50, maybe 51, 51.5%, some point in the back half of the year. Investors are obviously investing in the stock to own it, it seems, most of them, over the longer term. And one of the things we hear from those long-term investors is the continuation of margin expansion in this business is something Fred committed to and talked about. So from -- I just wanted to make sure, I know you haven't given guidance for outer years, but you have sort of given us a multiyear plan here, and it's included 100, 150 basis points of margin improvement a year. So as we think about the latter part of the year being in that 51%, maybe 52% range, how should we think about progression from that level next year?

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

Well, as we had already guided and communicated, it is at 100 to 150 basis points improvement year-over-year. And obviously, we strive to keep at the high end of that achievement, but our guidance hasn't changed at this point. It's still 100 to 150. So our overall target kind of in a longer term, is obviously to get to the mid-50 -- like mid-50s on gross margin. And that's what we will continue to track towards.

Jason Richard Mills *Canaccord Genuity Limited, Research Division - MD of Research & Analyst*

Got it, got it. And Fred has talked quite a bit about your product portfolio. It sounds, Fred, like you think it's one of the best portfolios that you've had ever, perhaps. And so my question is really 2 part. Fred, maybe to comment with respect to its breadth, both geographically and from a product -- from a customer standpoint, breadth both geographically and from a customer base. And then Bernard, for you on the margin side, what that product portfolio portends, looking forward from a margin perspective? Does it give you more confidence in that higher end of the range? Or in other words, is the product portfolio, the new products coming out, they tend to be those higher margin products that give you confidence in your longer-term margin assumption, I guess is what I'm asking.

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Well, let me take the front-end of that, Jason. Listen, there is no question that the products that Merit is developing are more difficult to produce, they take more time, but they have more value, both to the clinician and to the company. It's full, and I've used this lot, but it still holds true. It's the stick to stitch. But it doesn't mean that the stick is cheap either. And everything in between is moving up the food chain in terms of its complexity, but the value that it brings that physician and consequently, we get a higher price and margin on it. The IDeal is, I think, the prime example of that. If you look at sheath, you might be talking about maybe a \$10 range. But with these particular sheaths, because of their unique capabilities and specifications, you could be talking \$55, \$65, \$70. So it's that kind of movement in products.



Now as you also know, the company is complex, with lots of products. And it's one of the hard things for, I think, analysts, is there are so many pieces to all of this. But that being said, we continue to add products that our customers need, where we see opportunities globally. And so it always takes a little bit more time to get these things overseas. Let's take an example, China. It could take 2 to 3 years before the products that we're talking about today are going to be there and approved. But that being said, I think that speaks volumes to the sustainability of margin improvement and growth. So it's something we've done for a long time. We have infrastructures in place. And in many of these locations, where we've used distribution in the past, we now have direct or modified direct system there. So whether it be logistics, whether it be face-to-face with customers and closer to the point-of-sale, the pipeline itself. And let's not forget things like the Rhapsody, which is going to be first in man in August. Now this is a product that we talked a little bit about. You will start to hear more about this. This is a fully covered central venous stent. So as we start to move down the road, you're going to see continued therapeutic types of devices that have substantially better margins. But listen, Merit -- when Merit walks in the lab, we are there to help every aspect of that procedure. And I think that's what makes Merit really unique. Things that other people ignore, we don't. We think there is a huge opportunity for service to our customers and to our shareholders. So I couldn't be more pleased with where we are as a company today, and maybe more importantly, where we are heading. Bernard?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Yes, R&D and delivering on more therapeutic-based products, higher margin products, is a key part of our strategy. And we've outlined that over the last 3 to 4 years as a key component in delivering higher margins in the future. But again, when we are looking at margins, that's one aspect of it. There's a number of different drivers, as we've already spoken about on this call. But again, that does give us confidence that we can hit these higher margins.

Jason Richard Mills Canaccord Genuity Limited, Research Division - MD of Research & Analyst

That's helpful. I appreciate it. Just a few cleanup ones, and then I'll get back in queue, guys. I appreciate the color. Bernard, you mentioned to an earlier question, FX. FX seemed to help you more than we were expecting this quarter, although you would have beaten nonetheless. But the FX impact seemed to cover what you were sort of modeling for the year. And so I'm wondering what you expect from currency fluctuations for the balance of the year? And sort of whether or not you are being a little bit conservative with respect to the positive revenue impact? And then, on the flip side to that, is it having any negative earnings impact, whether it be to margins or to earnings as you go down the balance there -- or the P&L?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

On the first part of the question, we had modeled in most of the FX impact to happen in the first quarter. So it's just kind of in line with where we had forecasted to be. On the impact on earnings and on margin, pretty neutral impacts based on what we've seen. But again, a lot of that FX we had predicted in our models, that would happen in the first quarter. So again, it's in line with our expectations. Not as much FX impact in the remainder of the year.

Operator

And our next question comes from the line of Mike Matson from Needham & Company.

David Joshua Saxon Needham & Company, LLC, Research Division - Associate

This is David Saxon on for Mike tonight.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

David, we're happy to have you onboard. Just to remind you, you're our newest analyst, Group Mike, coming onboard just last week. And so let us welcome you to the Merit family.

David Joshua Saxon Needham & Company, LLC, Research Division - Associate

We're definitely looking forward to working with you guys. So first, I guess, just can you talk about your leverage ratio? And where it was at the end of the quarter and if you have a target for year-end?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Yes. We'll go ahead and I will have Bernard answer that. Bernard?



Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Yes, on the leverage ratio, it was 2.7. And on a net basis, 1.94 -- sorry, 2.7 on a net basis, 2.91 on a gross basis in the quarter.

David Joshua Saxon Needham & Company, LLC, Research Division - Associate

Okay. And do you have a year-end target?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Typically, we operate within like 2.5 to 3, and would be the range that we will be in.

David Joshua Saxon Needham & Company, LLC, Research Division - Associate

Okay. And then I guess, just following off that, I mean, would you consider funding an acquisition with stock? Or are you going to hold off until you pay down a little more debt?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

No, listen, if it's the right acquisition and we're able to do it with company currency, we'd look at that. I get asked this question all the time and that is, "Well, are you have done?" Listen, we're always looking. There are opportunities that come to us and we look at them and we see if they fit within the parameters and our commitments to the shareholders that we've made.

So I think all these things have to have -- they have to fit. So we, certainly, are not saying that we have a deal pending or anything like that. We don't. But what we are saying is that we are always looking and we are engaged in a number of conversations at various levels, at any given time.

David Joshua Saxon Needham & Company, LLC, Research Division - Associate

Okay, great. And then another one on PAE. Could you talk a little about the referral pathway? And I guess, what the incentive is to a urologist for referring a patient over to an interventional radiologist?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Well, it's not my practice to talk about referral patterns. However, what I will say is that in listening to people who have the procedure and listen to the physicians, so I'll just give you what they've told me. A lot of these things are coming from word-of-mouth. A lot of these things are people that are hearing about it in various articles and newspapers. So it starts out like that, because many times, physicians don't like to refer away their patients. But that's usually where it's coming. And we saw the same thing in UFE, by the way. There were not physicians willing to give away their patients. But people heard that there was an alternative, it was less invasive. And we're seeing kind of the same patterns. But listen, as a man, when you look at the choices, if it's me, I'm having a PAE. I think that's a good sales slogan.

Operator

And our next question comes from the line of Jayson Bedford from Raymond James.

Jayson Tyler Bedford Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst

Just a couple. Getting back to the margins, Bernard, if I heard you right, I think you said that OpEx as a percent of sales would have been the same in 1Q '18 as it was in 1Q '17, excluding the integration and TSA cost. Is that correct?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Yes, yes, that's correct.

Jayson Tyler Bedford Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst

And when do those integration and TSA costs lift?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

We will probably see -- you will see them in Q2 and then possibly in the first half of Q3 and then they should lift after that.



Jayson Tyler Bedford Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst

Okay. Inflation devices up, what, 20-plus percent. Was there anything kind of one-time there? And if not, can you just talk about what's driving that accelerated growth?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Yes, there was no one-time, per se, but as I mentioned on some of the previous calls, and going back probably 2 or 3 quarters, that we signed a co-exclusive agreement with HPG for -- and a couple of other companies were removed and Merit and Abbott were the 2 winners there. But I do think that there are some things going on there. And incidentally, this is something, as you'll maybe recall, Jayson, I've talked about, it's at least my belief that not only will you see it this level, but I think that you will actually see this accelerate.

Let me tell you why. We have the Touch product, which I have to tell you, is one of the products that gives me the most pleasure, because everybody said it was not a good idea. The fact of the matter is, it was a tremendous idea and the numbers show it. We have now the new DiamondTOUCH. It's a -- the Blue Diamond with the Touch chassis. We have 2 more inflation devices this year. And we have another one next year. So Merit is the market leader. Merit has 2 technologies, or several technologies. And remember, these are used in all kinds of procedures, GI. They are used in peripheral procedures. They are used in coronary. But there are different products and different needs, sizes, pressures, and so on and so forth. And so I think the thing that we have done is meet the needs of all of customers using a core technology that has different aspects. So a coronary inflation device is different than a peripheral. And a peripheral is different from one you are going to use in a GI case. And then we -- just like any market, we have several choices for customers. It's not just the inflation devices, but also the hemostatic valves that go along with them. And I think it's a wonderful business school story to tell about a market, about meeting the needs of the customers, and not having a one-size-fits all, which is generally what's out, other than Merit. They have one device and there you go, good luck. So I think that's what makes Merit unique and why, without having a stent, Merit is the global leader. So there you go. Thanks for asking that question. I like those kinds of questions.

Jayson Tyler Bedford Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst

All right. Last one from me. And Fred, my sense is that you are kind of itching to talk about NinePoint a little bit, so I'll take the bait here. Can you talk about what you are selling? Meaning, is it just the imaging device? It's been a while since I've looked at the company. Is there anything else in the portfolio? And then are you also bringing on some selling resources? It was a little unclear in the comments.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Okay. Well, I haven't been itching. I have been very calm. I didn't throw it in. I think you are itching. So I will go ahead and give you a scratch here. Here we go. NinePoint is a company that we've known for a while. They have been a customer, to go to exactly what I just spoke about, they use our inflation device. It's a different device, but using the BIG60 chassis. So instead of using fluid, it uses air in the esophagus. We are going to be selling the console. We are going to be selling the balloons. And there are several other products and improvements that will be coming shortly and we'll be selling those. The company has only been selling in the United States. And that's because they've had limited resources. But they have -- or we will have -- we will go through the regulatory path for this. And I believe -- I just want to make sure if they have a CE Mark? And they don't. So they haven't gone to the effort of the CE Mark in Europe for varied reasons. But Merit will do that. So this will be a product that is -- will be sold globally by Merit and there will be several iterations. I think OCT technology is the best, especially if you get into the esophagus. But if you start looking at a number of other areas, lung, biliary, colon, there's a number of places, to and including vascular. Now these products, some of them actually could be used after appropriate legal filings. But I am very excited about what this means. And I think it falls right in line with the discussion that we've had about kind of moving up the food chain. This is a terrific product that came out of MIT and then out of Mass General Hospital. They had 9 salespeople or 9 personnels. Some of them were clinical and some of them were sales. They had essentially 4 people selling this product. So when you take this and combine this, it will be both the console and the disposable. The console sells for about \$200,000 and the disposable for somewhere between \$1,200 and \$1,500. We think it fits perfectly. Those resources will come over both clinical and the sales, and we'll continue to build this out over the next several years. And there are new and exciting opportunities on the R&D side.

Now if you look at the website for NinePoint, there's a little thing that says Learn More. If you just click on that and see how this is used, there's a little video in there. And it is -- one of the reasons I'm so excited about it, generally today, you're going to use what we call white light. You're going to go down with a scope, you are going to look at it, and you can identify Barrett's esophagus. They will go in and take



biopsy samples. Oh, and interesting word, biopsy samples, how interesting. And then, now you're starting to itch again, and then they will go in and they will use various techniques to take care of that issue. But with our system, we can go in and we can look beneath the layers. We could then ablate or better yet, mark with a laser, the area, so when the physician goes back down to ablate or use cryo or other therapies, we know where it is, we're not guessing. And so I think that this -- if you look at this, you will see this is a great opportunity for the company. It's a great opportunity for NinePoint and for Merit and for global expansion. And it adds, I think, a great technology into our Endotek group. It will have a lot of pull-through of all of our other products and give us an opportunity there as well. So I hope I have scratched your itch.

Operator

And our next question comes from the line of Jim Sidoti from Sidoti & Company.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

You went from one of the younger analysts to one of your oldest analysts.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Well, we didn't do that on purpose. We just take them in the order they pop up here. So my apologies if you had to wait. I'm just delighted to hear your voice, Jim. You're not that old.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

So in the press release, you talked about some capacity constraints for the Laurane Medical product. Is that product now in full production? And should we see those levels accelerate through the rest of this year?

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Yes, so when we bought this product, again, this was a product where a number of physicians said, "You guys need to have this, I love this product." And we developed a relationship with the owner and eventually we bought the product. The problem was is they really could only meet their existing demand and maybe 15%. That was it. And it was in a very small facility in Southern France. So -- and we've talked a little bit about this, but again, to refresh everybody's memory, we said there are not going to be much improvement in revenues. We are going to maintain the business. And then what we're going to do is we're going to move this entire manufacturing capability to our Irish facility. All of that has been completed and now the Irish facility is building first lots to stock, which will substantially improve our capabilities now to go out and actually launch the product. So you take that product, along with the BD products, along with the Merit products, all of a sudden Merit has got a very, very exciting biopsy portfolio, that's really almost unmatched by anybody else. It's -- so it's going to be another, I'm going to say, 45 days, maybe 60 days, before we are launched. And then it will be a full launch. We'll have full capabilities and capacity and you will start to see that, particularly on the last half of the year, but they will be launched in this quarter.

And again, going back to what I think we do really well, we've got these great teams in Ireland and these other locations, to be able to move products, make sure that they are covered. I mean, it's complex. You've got to have the CE Mark, you've got to get approvals, you've got to get qualifications. But those things are done and they are now producing those first lots to stock and it will be exciting to talk about this in the future.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

Okay. And then just one for Bernard. Interest expense, I know it was probably a little bit lower than it will be for the rest of the year, because of the timing of the BD acquisition. Where should we expect interest expense to fall on a quarterly basis for the rest of the year?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

We are about probably \$3 million to \$3.5 million, I think you should be okay.

Operator

And our next question comes from the line of Mike Petusky from Barrington Research.

Michael John Petusky *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

A couple of questions. I guess, last few years, you guys have really executed at a high level. And I guess I'm curious as to what you've learned in terms of capital allocation. I mean, is investment internally in R&D, even into sales or processes? I mean, is that your best use of capital? Is it M&A? I mean, what have you guys learned over the past few years of -- where you've really executed against targets in terms of where your best returns come?

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Yes, well, I'll answer it and then I will let Bernard weigh in on it. I think we've learned a lot of things, Mike. I think that one of the things that we did is, a long time ago, is to put a lot of capacity, global capacity and infrastructure in place. What I've learned is people don't like that necessarily, because those are expenses, those are investments. But if you don't do that, then you can't perform at this level. So I think at this point, we look at does it fit in our product line, are there other alternatives? I think this is something that Bernard and his staff have brought. Can you look at it this way, look at it that way? Which is the lowest cost of capital? What fits, what doesn't fit? Those sorts of things. And does it meet the models that we put forward? I think we've gotten better in our modeling. You make mistakes and it doesn't always -- but I think if you go back and look at a couple, of the last 2 or 3, they've all been pretty big time. I mean, compared to what was done, they've been the biggest deals. Generally, they have been pretty good. They haven't always worked out. But I think we've also learned that you never bet the company. You don't do some transformative type of thing that messes up the plan. So I think we look at the 3-year plan, which has now become a 5-year plan, looked at it and said what does this do? Does it allow us to be able to stay on track? And then we are just like anybody else, we see performance in the company. We see that we are rewarded for that. And then what we want to do is we want to keep that going. So I think those incentives, that performance, dialogue around the kinds of products and the opportunities, so there's a lot of aspects. It's a really -- it's a good question, but it's a tough question, because the lessons are many. Bernard?

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

Yes, on the capital allocation side, it's really a diversified approach, where we are looking at investment in research and development. We're looking at investment in process improvement and facility improvement, but we are also looking at investment in acquisition. And if you look at over the last 3 years, that's what we've done. So we've allocated our capital across each of those areas to drive the best returns that we can and also to diversify some of that risk. But also to put infrastructure in place in each of those areas to help support the growth rates that we're seeing. So we're not overly reliant on one area, it's all about investing the capital across each of those areas to drive continuous growth.

Michael John Petusky *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

Right, I guess I was wondering -- and all that detail is fantastic. But I guess what I was wondering is have you sort of over the past 3 years, seen, oh gosh, well, when -- our investment dollars in R&D, our investment dollars in processes or in M&A or whatever the case may be, this really does drive a higher ROI than these other 2 areas? Or have you seen anything like that to this point? You have been executing at a pretty high level for a while now.

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Yes, I mean, I think we do look at markets and say should we be doing anything here versus this opportunity over there and how long does it take it to mature. Yes, I mean, I think we go through those exercises. Bernard makes faces at me. His eyebrows go up. He might not talk to me for a day. I have an idea and I don't want to talk to him about it. I mean, it's the same old type of stuff. But I think the driving point is the execution, the plan. I mean, and we're sitting here now, every member of the staff is sitting in this room. I think they know what these numbers are. They know what their role is. So I think there are other internal things that we've done to do a better job of institutionalizing the performance and the expectation. I think we've learned that each person has a part. Bernard talked about them. There's the internal cost savings, the automation, the mix, the sales strategies. We tried it and I think we're doing a much better job on those things, which seems just like words, but it's like a game plan. And if you have a game plan -- I'm going to talk about the Utah Jazz. They have a game plan. And they're just whooping those boys from around the Oklahoma City area. Why? You've got 3 members of the Hall of Fame on the team. But it's the strategy, it's the coaching, it's the team. You can't win with an individual, you win with the team. And that's what we have here.

Michael John Petusky *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

Okay. Two more, one will be super quick. Bernard, do you have any comment on kind of your expectation for CapEx for the year? And if you do have it handy, what was CapEx in the quarter?

Bernard J. Birkett *Merit Medical Systems, Inc. - CFO & Treasurer*

The CapEx in the quarter was \$16.2 million. Our target for the year is between \$50 million to \$55 million. Of that CapEx, we did have some investment in land and buildings that were -- and we had projected that to happen, so we knew it was going to be a little bit higher in the first quarter. And then we've also had some CapEx spend regarding adding production lines from the BDX acquisition in our Mexico facility. So for the year, \$50 million to \$55 million.

Michael John Petusky *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

Okay, and then last one for Fred, although I don't know if this is a quick one. Obviously, you've executed, stock has worked. You've gotten a multiple, but there are probably things, or at least 1 or 2 things, that you think, hey, investors don't fully appreciate this about the Merit business and the way we have transformed it. Is there 1 or 2 -- are there 1 or 2 things that you feel like, hey investors never ask us about this. This is really underappreciated about what we're doing here, or what we're about to do here. Can you just speak to that?

Fred P. Lampropoulos *Merit Medical Systems, Inc. - Chairman, CEO & President*

Well, as I mentioned previously, I think it's hard to understand Merit. It's not an easy company to understand because of its breadth of products. And there is a lot of -- we've always talked for years about Merit hits a lot of singles. Every once in a while, we hit a double. But I think we're getting to the point where we've actually got a little bit of muscle on us, and we've hit a couple -- or there's a couple we can hit out of the ballpark. And by that, it's not going to change dramatically. But I'm just saying we're getting better at what we're doing. But I think it's hard to explain all the little pieces that go to this. And that's the toughest part. I think that we've talked about this, so maybe I'll kind of tease everybody here, but I think one of the things we'd like to do in the future is to maybe have an Investor Day in New York, where we can bring out and show the breadth of products so people understand it. When they come here, and I would invite anybody that's listening to come out and visit us. I think when you come here, you see the depth of technology, you see the depth of the product mix and things like that, that you have a greater appreciation. I know one of our largest shareholders came out here about 4 years ago. And he was concerned, we weren't doing quite as well he thought we ought to be doing. But after he left here and could see with his own eyes the investments that we've made, and I think that, that just kind of changed his whole point of view and he's been well rewarded. That fund has been well rewarded, because they hung in there with us. So I think that's part of it. I think the investments that I talked about on this call about building out a global infrastructure. It's important. And I've always believed that you needed to be at the point-of-sale and be with your customer. And the other thing with that product -- all these products, is you don't put the business at risk. You have one product and something goes away or you have some problem, you don't have that here. So if I could be so bold, is to say, in many ways, we are like a much, much larger company because we can spread the risk. So it's the products, it's the infrastructure, it's the global presence. And those are going to continue to help us execute our plan for years and years to come. Central, South America, warming up. Look what we've done in Asia. Look what we've done in Canada, Australia, Russia, Saudi Arabia, the whole Middle East. All of this stuff have been long term. And one of the things I also talked to, and you were right, it's not a short answer. But we talk about a 100-year business plan. That drives people nuts because they want to talk about 90-day business plans, and that's fine, too. But because I cannot tell you the advantages that you have when you really think about things in the long term and you build out a plan, whether it be with property, facilities, infrastructure, products, full-line product development. The IDEal, which you are going to hear a lot about, because it's a big deal, it's a great product with great margins. But without doing things 13 years ago, there would be no IDEal. So those are the things that I think that are underappreciated. But I've been saying those things for years. But I think what it's done is that we've executed on the plan and we will continue to do everything we can to do what we've said and more. So there you go.

Operator

(Operator Instructions) And our next question comes from the line of Mark McGrath from Kenmare.

Mark McGrath

Just a quick one. It looks like net debt went up by about \$106 million in the quarter. I know you spent about \$100 million for the B&D -- or BD acquisition. And then I hear that you had about \$16 million of CapEx in the quarter. And I'm just curious, as you look through the year, what you're thinking is with regard to free cash flow generation?



Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

Yes, we expect to see an improvement in that area. We have a big focus on working capital management. And again, as I said on the CapEx side, with the \$16 million, was probably close to the high point for the year, and so we expect to see improvement in free cash flow.

Mark McGrath

Can you characterize it more than just improvement? Or is that how you'd like to leave it?

Bernard J. Birkett Merit Medical Systems, Inc. - CFO & Treasurer

That's how we'd like to leave it. We haven't guided on free cash flow.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Mark, let me, if I could, just comment, Mark. I want to thank you for your patience. You've been hanging on that line for a long time and we appreciate your patience with us, so thank you.

Operator

Thank you. And that concludes our question-and-answer session for today. I'd like to turn the call back over to Fred Lampropoulos for closing remarks.

Fred P. Lampropoulos Merit Medical Systems, Inc. - Chairman, CEO & President

Well, listen, ladies and gentlemen, thank you for the time. A lot of you spent, I mean, we've now been on answering questions for 45 or 50 minutes. Bernard and I will be here. We appreciate, again, your continued support, your interest, and very candidly, your thoughts that help us to understand better and hopefully explain better. A lot here, a lot to talk about, a lot to talk about in the future. Thank you again. We will be around. We look forward to your calls. And we will sign off now, wishing you all a very good evening from Salt Lake City, with a final statement of, "Go Jazz." Good night.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.

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