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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined the Merit Medical Systems First Quarter 2019 report. (Operator Instructions) As a reminder, this conference may be recorded. I would now like to turn the call over to your host, Chairman and CEO, Fred Lampropoulos. Sir, you may begin.

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

Thank you very much, and good afternoon ladies and gentlemen on this beautiful spring day in Salt Lake City. Thank you for taking the time to join us. And we have I think an exciting report and some good information about the company. We'll start out by having Brian Lloyd, our Chief Legal Officer, read our Safe Harbor provision. 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 available on our website.

Some of these risks are identified in our press release and slide presentation distributed in connection with this call. 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 any 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 forth 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. Ladies and gentlemen, again, thank you for joining us. And as a reminder, you can go to our website, where we have our slide deck in the investor section to follow along and to have some backup for our comments on the business today.

Let me give you a general overview of the business in the first quarter. A reminder that as we have historically guided, in the first part of the year, we have a lot of expense. We have our sales meetings in Europe, in the United States, in Asia. We also have our incentive programs for our top producers. And so we usually see a higher amount of expense in that first quarter, which we have all accounted for.

I think as you look at the business, you will see that we are on the topside. And the first thing I'd like to discuss is our core growth. I think it's a significant issue and opportunity. You will recall that as we looked forward to '19 and to 2020, we had moved up our core growth, and I am pleased that we were on the top side of that, particularly in the first quarter. So I'm very pleased with those results overall.

I'm going to and giving you a little bit more color on our -- on my comments, I'd like to talk about a few things. I'd like to start out by talking about, again, the core growth, the fact that the business is strong and the pipeline is full, and I would say, our business continues to be very robust. Something I want to point out that we've been asked, and we are often asked and I'm sure I'll be asked again after when we get to the Q&A, about Terumo. Raul and I have done a lot of work, in fact, I won't take any credit for it, Raul has done a lot of work in taking a look at the numbers on our products that we sell.

And I think you're going to find these quite intriguing because you all know that Terumo is back in the market. Well, it's hard for us to assess, and we do this for a living every day, the extent, the areas, the shortcomings and so on and so forth. But what I do want to point out to you, on a reported basis, when we take a look at sales of the products that we believe that we compete with, which are our guide wires, our microcatheters, our hydrophilic and diagnostic catheters, our -- some of our sheets and so on and so forth, we find that if you look at those numbers, over the year ago quarter, now this is for the first quarter, our reported growth of those product lines is up 44%.

That does not include the Prelude IDeal, which is a new product, which is Merit's fastest-growing product in years that's been introduced. And that would be on top of that. But if you look at that, I think it speaks to the opportunity that we have spelled out and we have pointed out before about the fact that the momentum in the business and the fact that Merit has a broad product line to compete with anybody in this area. But I think this one speaks volumes as to where the momentum -- and this is in the first quarter.

The other thing I'd like to talk about and add a little bit more color to is Brexit. As many of you know, Brexit came up to a deadline and that has been extended. And that's all well and fine. We were ready in any event. So had it been at the end of March, Merit was ready for it. But we are in full operation in our facilities in Europe and in Great Britain. And so that's something that we're already prepared for regardless of what happens.

But it does bring up, I think, another issue and one that's been raised by a number of investors, and that is, what happens if we get to a single-payer system. Well, this is a lot of speculation and we have dealt with, over the years, the what ifs and all the things that people can imagine. I want to remind everybody that almost 50% of Merit's business comes from international markets. Many of those markets, if not all of them, have what we would call single-payer systems, in Great Britain -- and yet if we look at Europe today, we'll find it's the fastest growing along with China and other areas, sections of our business.

So the argument is, well, you might get lower prices there, but again, if we look at our business, we find that there's quite a bit of ability to distinguish your products, bundle your products. And when you have a full capability of products and you have the distribution that takes care of issues like Brexit, it spells out an opportunity, not something that I think takes away from the business.

To move on. Let's talk about Becton, Dickinson. We are coming down the road on the Becton, Dickinson transaction in terms of moving the facilities. We are now producing some products in our facility in Mexico. And I will say that we have invested heavily in new equipment, in training and in transferring. Remember, we were moving 6 -- products from 6 different facilities. Our guys have done a great job. In addition, Merit will be introducing, before the end of the year, new products that Merit has developed that will enhance and complement the existing product lines in Tijuana as part of our biopsy product line.

And then finally, in Cianna, I want to talk about that. Listen, we are performing slightly ahead of our expectations. And again, in the first quarter, when you can do that I think it bodes well for the balance of the year. So we're excited about Cianna. We continue to believe it's a great opportunity. And the fact that we are in fact through the transition period. By that I mean we are shipping inventory out of Salt Lake City and out of Richmond. We're doing all the billing. We've maintained the sales force. We have essentially had no fallout other than we've had a couple of situations where there were a couple of issues or things that we had to make some changes. But our goal to maintain the sales force, maintain the R&D and develop new products out of Cianna, I think, is moving along.

So all in all, I would say that the first quarter met and exceeded our expectations and we expect that it's a good foundation for growth for the balance of the year. Now with that said, I'm going to turn some time over to Raul Parra, our CFO. And Raul, I'll let you go through the numbers and kind of massage those a bit.

Raul Parra *Merit Medical Systems, Inc. - CFO & Treasurer*

Sure. Thank you, Fred. So let's start with the revenue. For the first quarter, it was approximately \$238 million as reported, a 17% increase over the comparable period of 2018, and approximately 10% on an organic constant currency basis.

Acquired products contributed revenue of \$20 million of which Cianna was \$12.8 million of that, and we had excess headwinds of approximately \$5 million. With most of our divisions contributing for the quarter, we had strong sales in stand-alone products, catheters and CRM.

Our gross margin on a GAAP basis for the quarter was 43.9% compared to 43.4%, a 50 basis point improvement for the comparable period. Non-GAAP gross margin for the quarter was 49.2% compared to 47.5% for the comparable period, a 170 basis point improvement. We picked up 30 basis points of our 165 to 240 basis point improvement we are looking from our 2018 full year baseline of 48.9%. So pretty strong start there.

OpEx, Q1 2019. Total operating expenses as a percentage of revenue on a non-GAAP basis were approximately 37%, which is in line with our expectations for the quarter. And that's -- we guided that higher expenses, Fred mentioned it in his opening statement, sales meetings and shows and it's just a -- it's a heavy operating expense quarter for us.

Tax rate on a GAAP basis for the quarter was 10% and 17% -- compared to the 17% for the prior year period. Tax rate on a non-GAAP basis for the quarter was 21% compared to 23%. And we continue to benefit from stock option exercise and the tax reform.

EPS. GAAP earnings were \$0.11 compared to \$0.10 for the comparable period. Non-GAAP earnings were \$0.37 for Q1 compared to \$0.31 for the comparable period, a 19% increase over the same period. A few other items of interest for everyone. Debt balance was \$384 million. A leverage ratio of 2.2 on a gross basis and 1.97 on a net basis. We paid our debt down by \$11 million. Working capital was \$243 million, CapEx for the quarter came in at \$18.3 million, D&A of approximately \$22.4 million and stock comp expense of \$1.8 million. So overall, we have 3 quarters left, but I think we're off to a good start. Fred?

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

Well, Raul, thank you very much. Listen, I know there are other calls going on today, I think that gives you the core of what we wanted to talk about. We continue to be enthused about the business and the opportunities. As I mentioned, the pipeline is full. We've recently received a number of regulatory approvals. We don't generally talk about those and I won't go into those specifically, but the business is poised to, I think, respond and to take advantage of the marketplace and the opportunities.

So with that said, I think that pretty well covers it. So we'll get to the questions and try to keep this at a minimum. But the lines will be open. And as a reminder that after this call and the questions, for clarification, Raul and I will be around for an hour or 2 to answer questions that you may have and to clarify points for you.

That being said, with that being done then we'll go ahead and turn the time back over to our administrator and we'll start answering your questions to the best of our ability. Thank you again for attending.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jim Sidoti of Sidoti & Company.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

Can you hear me?

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

Yes we can, Jim.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

Great. Fred, when you were talking about products that compete against Terumo being up 44%, you said that excluded the Prelude IDEal I think? Can you give us a little more color on how the Prelude IDEal is doing?

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

Yes. You know, Mike -- Jim. It's been one of the most successful products we've done in years. I was looking at some numbers earlier today, again, it was a product that we just launched last year, in March of '18. And in that month, we did \$57,000 worth of revenue for the month of March. This year, we did \$570,000 in revenue. And the reason it's so successful is that we're selling it in Japan, we've got -- recently got approval in Japan. It's on U.S., Canada, Australia. And this is this metal reinforced sheet for radial procedures. So Jim, it's -- when you do these R&D projects, it's nice when you have one like this, they don't come along very often, but to be able to essentially pick up about a 10% market share in your first year is I think extraordinary. And we just have a lot of high hopes for this product line as we go forward.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

Right. And my second question has to do with the deal announced last week Medline acquiring NAMIC, there's positives and negatives to that. And I think Medline might have been a customer of yours. Can you give us some sense on how you think this all plays out?

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

Yes. Well, first of all, Medline is one of our customers as well. We work with Cardinal and Medline and Avid, Owens & Minor, through distribution where hospitals require or have agreements and Merit provides certain parts of kits or stand-alone products. So that's kind of ongoing. I would generally say this that first of all, I think it's interesting to note, Jim, that when we started this company, it was to emulate NAMIC, they have great products. But whenever you have disruption and you have a product moving from a noncompetitor to a competitor, and by that I mean, you've got it moving out of AngioDynamics and then into a company that competes with several other companies in that distribution and in that front-line manufacturing. It creates opportunities both on the national accounts level and that sort of thing.

I can tell you that there are a number of conversations going on as people try to figure this whole thing out. The net of it all, Jim, is that I believe that it's a net plus-plus to Merit. And of course now all this has to -- you've got, first of all, this deal sitting out here, it's going to take several months for it to close. But we view it as a big opportunity for the company not just in the U.S. but globally because no one really knows what's going to happen with all of those relationships. And it creates doubt. Whenever you have doubt and you have disruption there's opportunity there. So I think that's the best way for me to answer your question. Raul, do you have a different idea? Would you -- do have any other thoughts on that?

Raul Parra Merit Medical Systems, Inc. - CFO & Treasurer

No. I think this is...

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

No. Okay. All right. Okay, Jimmy, go ahead, please.



James Philip Sidoti *Sidoti & Company, LLC - Research Analyst*

All right. And then the last for me. You didn't make any comments regarding your guidance you gave for '19 and '20, so I assume based on the results today that everything you were thinking 3 months ago is pretty much intact.

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

Yes. I mean, I think our business is -- I don't see that anything has changed. I think that there are a number -- if I were to have said -- well again, let me restate that. No, I do think there have been some positives that are over and above some of the things we talked about. There are always headwinds but I think there are more tailwinds. We're feeling the breeze to our back. And I'll just kind of leave it at that, Jim, without going into any detail. But I think I am -- I would be more positive about our business, just kind of looking at it today from what I did just because of some recent developments and opportunities.

James Philip Sidoti *Sidoti & Company, LLC - Research Analyst*

Right. I think historically, you've always kind of maintained outlook after the first quarter. It takes you at least to the back half of the year before you make any changes. So I assume that -- I didn't expect you to make any big changes this afternoon.

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

Yes. No. We wouldn't do that, especially as you pointed out as we went and expanded these years in that core growth. I think it's prudent for us to watch this next quarter. It will then be ending the summer quarter. But based on what we see and how we feel about the business and our optimism, we'll play it by ear and we'll see where we are in another 90 days or so.

Operator

Our next question comes from the line of Larry Biegelsen of Wells Fargo.

Adam Carl Maeder *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

It's Adam Maeder on for Larry. I wanted to start with one on the top line and ask about the cadence of growth for the remainder of the year. You did 10% organic in Q1. To hit your full-year guidance, 8% to 10% implies high single-digit growth in the second half of the year against more challenging prior year comps. So what gives you the confidence in achieving that level of growth in the back half? And then I had a follow-up.

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

Yes. I think it's the new products. I think it's the momentum of products like the IDeal, the SYNC, which is the closure device. I think a number of new products that are in the pipeline, some of which you can see on our website. I think it's generally, I was talking to a salesperson yesterday, you can talk about -- I don't know that there's any better information than information you get from your sales force. I was talking to one of our salespeople yesterday in California, they were talking about a new account -- in fact, I had called them because I noticed that they opened a new account and I was happy with the result. And as I talked to them, they started talking to me about these other evaluations and things that had passed the VAC committees.

And you start to get a sense about how things are going, what the momentum is, people that are attaining to meet the leadership clubs. And you just -- you start to feel the momentum of the business. You start to see things. So I mean a lot of -- of course, it's numbers, but it's really attitude that drives numbers. And I talk to 2 or 3 or 4 of our salespeople every day. When I see something that they do I call them up and thank them. So it's really just the feel of the momentum. When you go to a basketball game like the Utah Jazz, when they're playing the Houston Rockets last night, you could just feel that there was that momentum and it wasn't going to wane, and it didn't. And we beat them by 16 points. Please don't remind me that we have to go to Houston on Wednesday. So that's the answer to your question, momentum, watching the activity and listening to the sales force. It's like anything else in sports or anything else, it's a game and it's all about attitude and momentum.



Adam Carl Maeder Wells Fargo Securities, LLC, Research Division - Associate Analyst

And then, Fred, as a follow-up. You've talked publicly about a competitor device that's going off patent in mid-May in the U.S. I think you've said that's knee inflation devices space. Any more details you can share? What's the magnitude of the opportunity from a revenue standpoint? And what's embedded in the guidance for this potential opportunity? Should we be thinking about this purely as upside? Just trying to understand how you're thinking about things.

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

Thank you. Well, let me just put it this way that we have a product that will launch on or about the 19th of May. So we're less than a month away. We've been selling the product with great success in international markets for the last 3 years, sold hundreds of thousands of units. It comes off patent and we can combine it with a number of our products. That's really where I'm going to limit it now. But I will say that it's -- I'm just trying to think if we put it in our forecast or not, I'm looking around the room, it is not in our forecast. So it is upside. And it's -- I can tell you that it's a high-gross margin product, well above our corporate average and something that we think is going to be a great advantage to us.

But, again, we'll let it play out and you'll see it show up in the numbers. You can see a little bit in the second quarter, you'll start to see it ramp from there throughout the year. And once that date comes past, we'll talk about it openly in our next call. But until that time, we're going to keep it kind of limited to what I have talked about in these comments.

Operator

Our next question comes from the line of Jason Mills of Canaccord Genuity.

David Kenneth Rescott Canaccord Genuity Limited, Research Division - Associate

It's David on for Jason. Can you hear me all right?

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

That's fine.

David Kenneth Rescott Canaccord Genuity Limited, Research Division - Associate

First on Cianna. Coming in stronger than expected. Could you provide some color around kind of the rollout so far? And whether or not there were any kind of one-timers or big customers that contributed to the growth in the quarter? And then kind of how you think the impact -- or how you think kind of growth will be on the top line and gross margin contribution given the growth in the quarter?

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

Yes, well, first of all, I think with Cianna there's a couple of things I think that are important. We -- as you will recall, we did not -- we maintained their sales force. And we think that was a critical thing to do. We also didn't try to go out and one fell swoop and then throw it all into our Merit sales force. We thought we'd get out there, have enough time to absorb it, to understand it, build the confidence of the former Cianna now Merit sales force. And yet with all of that and through the transition and through all of those things that go on in those in these situations, we were able to come slightly above where we had expected. So I think there is a lot of momentum there. There were no large single customers or anything like that. It was just good old guts hardball selling and executing. So I think that's probably the best.

But I guess the bottom line is, it's as probably a good of a transaction and transition that we have done. I think it may be the best one. I mean we've done a lot of small deals. But I think that speaks volumes to Jill Anderson and her team. And just the way that our team has worked. We kept all the R&D people, we kept the sales people, we've done, I think -- they fit into the family actually quite easily. I've been down there several times. I'm going to head down there again soon. So I think all in all, it was a transaction and a business that -- I don't know how you could do it any better, to be honest with you. I think we've done it well. And then we have new products and we have new projects underway. So we're very excited about Cianna and what it means.



David Kenneth Rescott *Canaccord Genuity Limited, Research Division - Associate*

All right. And moving to the balance sheet or cash flow. Can you provide any detail around kind of what free cash generation was within the quarter and kind of how that looks for the rest of the year? And I know it looks like net operating cycle kind of lengthened a bit within the quarter. I'm wondering if there are any onetime occurrences that led to this and more or less in general kind of what initiatives you really have planned to kind of improve cash conversion going forward through the rest of the year.

Raul Parra *Merit Medical Systems, Inc. - CFO & Treasurer*

Yes. So free cash flow was negative \$4.8 million. We had some building close in Maastricht. We had some -- our building across the street here in South Jordan, we had some equipment down in Mexico for the BD stuff. So it was expected and it was budgeted. We did give guidance on CapEx, somewhere in the \$60 million to \$65 million range. So we are working on free cash flow, it's something we're paying attention to.

The problem that we run into is maybe if we step back a little bit. If you look where our growth is coming from. I guess maybe just breaking free cash flow up, and you think of some of the big drivers, specifically around working capital, you've got AP, AR and inventory. So accounts payable. Obviously, we could go out and try and negotiate a longer term with our customers. If you do that, they're going to ask for typically a higher cost because you're financing the inventory. Well, that hurts us in the gross margin, so we don't really want to do that. We've got to really play it safe there. On the receivables side, our growth is coming from the U.S. They have longer terms out there, that's just historically what's going on there. That's the cost of doing business in Europe. So trying to manage that is hard also.

Inventory, I think, we can make some -- we can make a little bit -- we can improve that a little bit. And we've got a new inventory policy that we're working on and we're trying to improve that. So I think there's a little bit we can do. We are keeping an eye on the free cash flow. We know it's important to people, but we've got -- we're long-term planners and so to kind of turn on a dime when it's an area of increased focus is hard for us, specifically given the planning that we've done.

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

Well -- and I think a couple of other things. Let me just add some more color. Raul addressed it a bit, but we've discussed this. We have a new 135,000 square-foot facility that's under construction in Salt Lake City. And growth has its cost and a lot of benefits, but you have to invest to have capacity for the future. And as we look down the road, and we've talked about this, about what we look is our growth this year and next year, but we look well beyond that. And as we look at those things, we say these are the capacity issues. It also includes Richmond where we are now -- I think the number was thrown out to me today, that's somewhere around 50% or 60% of our shipments, Ron, I hope I'm right on this one, but are now being shipped out of Richmond. So we've had to put more capacity there to have better service to our customers on the East Coast.

We have a facility, the same issue in the Netherlands, in Maastricht. So as you can see, we're investing our money in capacity and in, really, customer service and leading it to that level. But again, I think we're comfortable with what we said at the beginning of the year, what we think we'll generate in terms of free cash flow and where we are on CapEx. I don't think anything has changed there. So we're on task for those commitments we made earlier in the year.

Raul Parra *Merit Medical Systems, Inc. - CFO & Treasurer*

And I will point out that we did have \$11 million pay down on debt. So I mean we're working on that.

Operator

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

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

I'll keep it to two. You mentioned the new MDR initiatives in Europe and the fact that that could have impacted or that's impacting product approvals in Europe. You mentioned SAVI SCOUT. Are there any other products that have been perhaps delayed from a regulatory standpoint in Europe?

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

Yes. Well, I think -- listen, if you take a look, Jayson, at the whole environment over there right now, you've got the Brexit, you've got MDR, and then you've got the MDR consolidation, I'll call it, of notified bodies. I mean they're just simply are not the number of bodies. By the way, I actually believe, in the long run, that, that's actually better for the industry but in the meantime, until everybody can catch up whether it be our notified body or the other ones that are there -- incidentally, someone told me, again, I think this is correct but somewhere around 80% of all the products that go into Europe go through a notified body in Great Britain.

When you start to think about what that means and especially with all this Brexit stuff, it has slowed all of that stuff down. So I don't believe that there is anything there that will affect our goals and our forecast. I think that it's just frustrating sometimes when you have just the delays and even the lack of communication. So if it's -- all of a sudden, the FDA has become our sweetheart because they'll talk to us and we can get things done. And the United States very candidly has become the area of preference. So we will now -- and many things go to the U.S. first where previously, we would go to the CE Mark first or go to Europe first. So I think that's flip-flopped but nothing that would affect our overall performance as a company.

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

Okay. And then on the cost side, SG&A was a bit higher than we expected and perhaps we mis-modeled that line item. But is there any way to quantify the costs that are unique to SG&A here in this first quarter? I realize you mentioned sales meetings. I imagine bringing together Cianna is also an increased cost. So I'm just wondering is there any way to kind of quantify the impact in the first quarter there?

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

I'm going to let Raul -- do you have an answer to that? I mean, I think -- while they're looking and I think some people are pulling some numbers or having conversation, let me just say that you are right. But we also have the Vascular Insights, so that is the ClairVein that was part of that. You had the training for a number of other new products. You had -- very candidly, we had our President's club, you had -- and we did this not just in Europe, but we did it in the U.S., we did it in Asia. It's something that you can look forward to every year because we try to get those things done and out of the way so we can get about business. So do you have any quantity, I mean, do you want to put anything to that in terms of...

Raul Parra Merit Medical Systems, Inc. - CFO & Treasurer

Yes. It was about \$2 million to \$3 million, is kind of what those expenses...

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

Okay. So it's about \$2 million to \$3 million of additional expense in that first quarter or I think, we were at 37% -- we would usually like to be somewhere around the 35% range on expenses. So a couple hundred basis points.

Operator

Our next question comes from Matthew O'Brien of Piper Jaffray.

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

Just a quick clarification one, Fred, upfront. Are you saying that SCOUT is going to be delayed a little bit in Europe past the Q2 time frame that you provided earlier this year?

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

No. I'm not saying that. I'm just -- no. No, we're not expecting that. We expect it will be in the second quarter still.

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

Got it. And then Raul, just on the gross margin side. Big step up here in Q1, great to see. But I think for the rest of the year, in order to get to the midpoint of the range, you have to average about 51.6% on the gross margin line to get to the midpoint of the range that you provided. So first of all, are you comfortable with that? And then, if so, can you just give us a sense of where some of that improvement comes from here in the last 3 quarters?

Raul Parra Merit Medical Systems, Inc. - CFO & Treasurer

Yes. I think if you look at the cadence that we had last year, Matt, I think it's going to follow a similar path. We expect pretty strong gross margin improvement in Q2 and Q3. And then typically we tend to kind of level off a little bit in Q4 or be slightly better. So I think we feel comfortable with it and we don't see a need to adjust that.

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

Okay. And then last one for me. And Fred I love asking you about new products and previous products, but haven't heard much on the PAE side in the last few quarters. Would just love to get an update there. And then also same question goes for Rhapsody and how the development of that product is proceeding.

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

Yes. Let me go to PAE. It's always the really hard one. You'll recall, Matt, that when you look at PAE, you really use small amounts of embolics, you'll use maybe one vial, whereas with a UFE you would average somewhere between 3 and 5, maybe, let's say, 4. So there is a big difference in terms of utilization there for PAE. The other thing is that you see a number of products in PAE. And I think as we were going and talking a little bit earlier about the products that compete with Terumo, and we said, as we look at that area, the area that was up 44% on constant currency, those products, many of those like the NINJA, the radial approach to that, wires, the hydrophilics, many of those are the same products that feed into PAE. So it's always hard because just the nature of the procedure and how it's broken down.

So -- but we are still doing training classes on it. We got back from SIR and that's still the -- I think an area that interventional radiologists feel like they can compete, that they have a unique skill set that others can't interfere with because of their knowledge of imaging. So I think that it's still high on our priority. Justin, I think we have some more classes come up. Do you want to comment on that?

Justin J. Lampropoulos Merit Medical Systems, Inc. - EVP of Commercial

Sure. No, I think, Fred, you pretty much laid it out. I would point that key products like SwiftNINJA in the United States, I think, grew in excess of 30%. The accessories and the periprocedural products used in the PAE procedure continue to be a significant growth factor for us. But it's an area I think of continued development. As Fred mentioned, the interventional radiologists continue to put heavy focus on it. And as such we continue to address it with not only our embolic products but all the other products that are experiencing substantial and significant growth.

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

So Matt, I don't think you should read into our lack of communication. I think we try to hit the points like the acquisitions making sure Becton, Dickinson and those sorts of things. Now let me come to the Rhapsody. We are doing a study in Europe and we now I think have done -- I think it's close to 10 patients, give or take. And our plan is to do 30. We should be bringing on 2 more locations, one in Scotland and one in Greece. And we believe that those 2 will be on -- we still believe and I'm looking over at my regulatory officer, but I believe -- John, do you still believe that we're going to be -- being able to wrap up that full safety study by, let's say, June or by July give or take?

John Knorpp Merit Medical Systems, Inc. - Chief Regulatory Affairs Officer

It's maybe a little longer than that.

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

Okay. But, I mean, we believe that sometime in the second, early third quarter, we'll have that safety study. We'll then take a look at filing our IDE in the United States and that process will start. So I think the good news is that all of those cases have been very successful and the comments I get physicians is, well, I will start and I will change over to use this because of some of its features and benefits and deployment over other products. So, again, those numbers are also, as we look at that, none of that is in our forecast of course. We only forecast products that have been launched. And all these other things are see and what gave us confidence as we look down the road when we gave our '19 and our '20 year full year guidance.

Operator

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



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

Fred and Raul, it's David Saxon on for Mike. Thanks for taking the questions. I guess I'll start with one on Cianna. Just wondering if there are any opportunities to either develop or acquire additional products for those reps to sell?

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

Yes, I mean I think the answer is yes. Going to a comment that we make quite regularly that there is no less than 5 different opportunities on the table at any given time and probably another 5 in the queue, opportunities we believe that the healthcare market is still consolidating. We like women's health, we like it a lot. I personally, as I think I've mentioned previously, have been in a number of cases, there is a big meeting coming up in Dallas in a couple of weeks, I'll be there. So we still believe this is an area of a lot of interest to our company, and very candidly I think an area that needs to have interest. I think there is a lot of room for improvement and a lot of opportunity in women's health.

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

Okay. And how is the business in China performing? And can you talk about your strategy in other emerging markets like Southeast Asia and Latin America?

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

Well, I thought no one would ever ask. You'll recall that maybe 6 months ago when all of the political rhetoric was filing -- going past and forward that that's all anybody could talk about is, do you have exposure. Our business continues to grow at 20% or better at a higher level in Southeast Asia, particularly as we look at Malaysia, Indonesia, Singapore, Vietnam, Thailand. Joe Wright, you're in the room with me, he oversees all that, Joe, would you like to comment?

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

Yes. The business continues to be very strong in China. We continue to get solid penetration in interventional radiology, and we're busy expanding into the Southeast Asian countries.

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

Yes. So the expansion plans are online. We're seeing really nice improvements, particularly products like the Ideal in Canada, New Zealand and in Australia. So I mean our business plan, we're much more aggressive and interestingly enough something that -- a country that no talks about other than in news and as it pertains to immigration issues is Mexico. So we've opened up or in the process of opening our first sales office in Mexico City. So we think that there's a lot of opportunity there, and Joe oversees Central and South America as well and we continue to see growth.

So I mean I don't want anybody to be bored, but as someone said to me, well, the thing about you guys it's just like tick, tick, tick, you just kind of like doing things all the time. And the answer is we're just executing our business plan. I do believe, and I've said it may be a couple of times in this call today, that there are a couple of things out there, I'm feeling a very nice breeze at my back and I do believe that there are some things out that that could put that into maybe a 10 to 15 knot wind. That's not meant to mean 10% to 15% or any other type of growth numbers, I want to clarify that. I'm just -- I want to make sure -- as soon as I said it, I shouldn't have said it. But what I mean by that is I am feeling a breeze but I believe that breeze is going to get a little bit stronger, and I'm starting to feel it. Raul, do you want to add to that?

Raul Parra *Merit Medical Systems, Inc. - CFO & Treasurer*

I think you would say very robust, and I would say robust.

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

Okay. Yes. There you go. Raul says robust and I say very robust. Be careful of what Raul says, if he says very robust sometime then I'm going to start to worry about it. But the business is very robust.

Operator

Our next question comes from Bruce Nudell of SunTrust Robinson.



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

This is Stan Fediuk on the line for Bruce Nudell. Just a quick one on your catheter segment. Came in better than we expected, I was just wondering if there are any onetime items embedded in the quarter?

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

You know I'm looking at Raul and I'm looking at Justin and Joe, and I -- we don't see any onetime events there. Just kind of that, part of that breeze I was talking about.

Operator

At this time, I'd like to turn the call back over for any closing remarks.

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

Yes. Well, first of all, we try to keep this, I know there are other calls going on today and we've tried to keep this as tight as we could and as informative as you can. Listen, we'll be here for the next couple of hours. We appreciate your interest in the company and we'll look forward to talking to you. Thank you very much, and signing off from Salt Lake City, wishing you a very good evening. Good night.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may disconnect your lines at this time. Have a wonderful day.

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