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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Merit Medical Systems, Incorporated Fourth Quarter and Year End 2018 Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to introduce your host for today's conference, Mr. Fred Lampropoulos. Sir, please begin.

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

Good afternoon, ladies and gentlemen. This is Fred Lampropoulos. I am joined here with our general staff in Salt Lake City and we want to thank you and appreciate your time this afternoon. I'd like to start our meeting today by asking Brian Lloyd, our General Counsel, to 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 and once again, ladies and gentlemen, thank you for your time in joining us this afternoon. It's an exciting day. It always is as we get to this time to talk about our performance and our general thoughts.

Today, we are going to discuss the fourth quarter and then we're going to talk about guidance. And we've done an added clarification on this year, 2019, and then we've added 2020. But as kind of a lead up to that discussion, let me just talk to you about our business.

Let me go first to some recent acquisitions. We'll talk about Cianna and Vascular Insights. Of course, Cianna is the largest acquisition Merit has ever made and I would have to say that to this point, we are very pleased with the transition. As you may recall, we kept the sales force in place for all intents and purposes, and we think that was not only the appropriate thing to do, but we think that it's part of what we expect will drive our business. And then we will add additional Merit sales people and territories as we move throughout the year.

We also have a number of research and development projects moving forward there. And Vascular Insights, again, a much smaller deal but nevertheless, I think we're generally satisfied with the overall business. I think our performance, if I could just slip back for a moment, I think our fourth quarter -- was very excited about it. It was a very busy time because of the transactions, the transitions that we were involved in. So we were very, very busy.

But I think the numbers speak for themselves. I'll let Raul in just a moment will talk about the significance of those numbers and those are essentially out of the rearview mirror. And my job, I believe, is to discuss those. Look to also give you a little insight into the future.

Our business very candidly is very robust. We're busy globally. We've done a couple of really interesting things in terms of taking care of Brexit. In that, we've opened our new Redding, England facility. It is up and running and we are shipping to customers out of that location, as well as our new location in Johannesburg, South Africa. The Johannesburg facility is really going from a dealer to a modified direct approach. And we've been very successful in doing that in the past in a number of locations and we're excited about those prospects.

In a number of the products that we released in the last half of last year and in fact, throughout the whole year, we've been very, very pleased with products like the PreludeSYNC and the Prelude IDeal. In fact, I think that in both cases those have exceeded our expectations and we're very positive about those products going forward.

In terms of guidance, Raul will go through the actual numbers with you but I think you'll see that there's been some things that we've moved, some things that we've added into next year. And these take into consideration the increased gross margin that we'd have from the acquisitions, as well as our commitment to our shareholders about continued improvement in terms of not only the revenues but the

gross margins and the bottom line.

So I think with that said, again, I'm pleased with our fourth quarter. I'm very excited about our business going forward and I'll turn some time over to Raul to kind of go through a lot of stuff, very candidly. So Raul, I hope you're up for us and you'll all set to go, and I'll turn the time over to you right now and let you go through all the numbers. Take your time. There's a lot of information here and our shareholders are going to be interested. Raul Parra.

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

Thank you, Fred. I think I'll cover the fourth quarter and the year-end real quick and then we'll move onto the 2019 guidance, if you're okay with that.

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

Fine. Perfect.

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

So revenue for the fourth quarter was approximately \$233 million as reported, a 22% increase over the comparable period and approximately 13% on an organic constant currency basis. Acquired products contributed revenue of \$19 million and we had FX headwinds of approximately \$2 million.

Full year 2018 revenues were approximately \$883 million as reported, a 21% increase and just over 11% on an organic constant currency basis. Again, acquired products contributed revenue of \$67 million and FX contribution of \$5 million for the year, with all our divisions and most of our products and product lines contributing to both the quarter and the year.

Moving onto gross margin, our non-GAAP gross margin for the quarter was 49.4% compared to 47.9% for the comparable period. During the quarter, we had a decrease of 44 basis points due to FX headwinds and a decrease of 33 basis points from our Australia operational variances. That's a 150 basis point improvement from the comparable period.

For the year, our non-GAAP gross margin was 48.9% compared to 48.1%, which is an 80 basis point improvement over the year. We had a decrease included in that of 27 basis points due to FX headwinds and a decrease of 25 basis points from our Australia variances and the integration of BD earlier in the year.

Operating expenses both for the quarter and for the full year were in line with our expectation of 35%. Our tax rate on a GAAP basis for the quarter end and year-end ended up at 24.7% and 15.2% on a GAAP basis. Tax rate on a non-GAAP basis for the quarter and year-end ended up at 15.1% and 18.3% respectively. The reduced 2018 effective tax rate is primarily related to the reduced U.S. corporate tax rate related to tax reform and the tax benefits related to share-based payments award.

ETF non-GAAP earnings were \$0.48 for Q4 2018 compared to \$0.33 for the same period in 2017, an increase of approximately 47%. Non-GAAP earnings for the full year ended at \$1.69 compared to \$1.28 for the same period in 2017, an increase of 32%. Our increased revenue, margin expansion, operating expense discipline, and the new tax reform continued to drive increased earnings for us.

A few other items for the quarter too. Debt balances were \$395 million at the end of the year with a leverage ratio of 2.39 on a gross basis and 2.02 on a net basis. Also, a D&A of approximately \$19 million and stock comp expense of \$1.6 million.

So those are just the highlights for the Q4 and 2018. We'll get into the 2019 guidance now.

So reported revenue will be in the range of \$1.01 billion to \$1.03 billion, a 15% to 17% increase over reported revenue of 2018, of which \$62 million to \$62 million is non-core revenue related to Cianna, Vascular Insights, BD, NinePoint, and a couple of other acquisitions. And that includes \$5 million to \$7 million in FX headwinds, which brings our core growth on a constant currency basis to approximately 8% to 10%.



Gross margin on the non-GAAP basis will be between 50.6 and 51.3. That's a 165 basis point to 200 basis point improvement over our 2018 ending non-GAAP gross margin of 48.9. The margin improvement is built up of several different pieces, specifically from a mix of operational efficiencies, cost saving initiatives, and our recent acquisitions. We do plan on moving our Malvern manufacturing into our Mexico facility, which we expect to contribute \$3 million to \$5 million in savings once fully transferred.

Those transfer expenses are included in our guidance and we started the transfer in Q4 of 2018 and we expect that transfer to be fully complete in 2020.

We plan on keeping the operating expenses in line with our historical spend of approximately 35% of revenue to ensure we continue to invest in our growth, increased regulatory requirements, clinical studies, and support for our therapeutic products.

Moving onto the tax rate, our forecast includes tax rate of approximately 22.5% to 24.5%. Again, we continue to be conservative here as more guidance on tax reform comes out and we have a good understanding of the new tax rules.

[EPF] GAAP will range between \$1.02 and \$1.13 for 2019. On a non-GAAP basis, the range will be between \$1.97 and \$2.08. With the increases coming from our core business, acquisitions, and continued benefits from tax reform, and as a reminder, this also includes the additional 4 million shares from our follow-on.

I know that was a lot of information but I think our 2019 guidance shows that the business continues to be robust, which allows us to cover the investments we need to make for our continued growth and margin expansion. And this includes our investments in the new European regulatory requirements, MDR, clinical studies for our Rhapsody Project, consolidation of our Malvern manufacturing to Mexico, and the geopolitical and FX headwinds everyone is dealing with.

The bottom line is we're pretty excited about 2019. And one more note. We have a new [lease] standard coming out for 2019. Just wanted to let everybody know the impact of that. It will be about an \$80 million gross up of our balance sheet with an \$11 million reduction in working capital but no impact to our income statement.

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

And this is something, Raul, that is -- everybody is going to have to deal with. And if I could add that, listen, there was a lot of things out there going on. We still have the Brexit deal that we think we prepared for. I have the new MDR and I think we've estimated that's \$3 million or \$4 million of expense that we've put into our numbers.

It's just an uncertain world all the time, but what we are certain of is the momentum, the new products, just the overall efficiency in the business, and the focus of our operational group. And I think the work that's coming out of our FP&A group in terms of the discipline, and very candidly, the ability to look and to watch the business, and to make sure it's performing and that we're leaning it out, and we're adding left rudder, right rudder. And I'm speaking in aircraft terms but just making sure that we're on course.

Now, we didn't talk about 2020 and I think you probably want to leave that to me or do you want to take that one, Raul?

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

I'll let you take it.

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

So we're a couple of months into 2019 and I think we have pretty good visibility, when you take into account all the various issues that are out there. And we've decided that we'd add this additional year of 2020.

And we essentially look at, again, a number of new products, our pipeline, our distribution, wholesale to retail. I mean, I could go through a number of things that we look at. But we're comfortable on our 2020 announcing that we believe that our revenue line on the top line will grow 8% to 10%. We will still see 100 to 150 basis points of gross margin improvement. This is in addition to the step up that you're seeing this year.

And then our bottom line will look at, I think, \$0.14 to \$0.19. And that's a little bit larger -- that's a change but that's where our guidance is this year and where we think -- and I may have said cents. I meant to say percent. So thank you very much. So it's 14% to 19% on the bottom line.

So listen, by any measurement, in my view this is an exciting time. The business, as I said is very robust. I noticed that Raul said it was robust. I think if you can get the CEO saying very robust and the CFO saying robust that you have the right mix.

We're excited about business, as I think you can hear on this call. And I think Raul, do you want to add anything else that maybe I missed? Do you want to add anything else to what we said?

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

No. We continue to see a lot of momentum in our business. We're very excited. I know the sales department is very excited. Cianna, there's a lot of excitement around that. I think there's just -- things are looking pretty good.

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

Let me just add a little color on Cianna one more time. We've talked a lot about it on this call, or at least in these comments. But I had the opportunity a few weeks ago to actually scrub into a case and this was down in Dallas.

And there's nothing quite like being on the battlefield and watching a skilled physician treat a patient. And I think this physician made a couple of comments about how important this technology was. I watched the physician, the surgeon, use the Cianna probe at least 30 times as she was excising a mass on this patient.

And I became more convinced that this acquisition is an extraordinary opportunity for the company. And so I just want everybody to know of our confidence in that. But I also want to make sure that as we look at kind of the scorecard for last year, look at it, standalone devices up 33% almost 34%. Custom kits a little bit slower at 7% and it's one of the areas that we're not pushing. So those are the lower margin products.

If you look at inflation devices, I think it's just very interesting to note that they were up almost 16% for the year and we have a couple of new entries into the marketplace for Merit this year. And we believe that our market share is going to continue to grow in that particular area as we look forward.

We look at catheters at 22% and we look at our EP business at 16.5%. The only one that I think maybe needs a little explanation is our embolization devices and these are things like our Embosphere and our QuadraSphere. And I think we've had a lot of competition coming to that market area. And so I hope that defines. You know who the names are that we're competing with.

We do have a new product this year called the EmboCube. We've released that product. It is getting a very, very good response. It's very convenient for physicians. So it's my belief that that will start to add into this number and we'll see improvement this year.

And then if we go look down at the endoscopic business, Endotek at 22%. So if you look at that, you look at the new products, you look at the efficiencies of the business going forward, it makes us comfortable with our '19 and our view of the 2020 business in terms of what Merit hopes and plans to deliver.

So listen, I think that pretty well speaks to it. I'm going to go ahead now and turn some time back over to our administrator. And just a reminder that Raul and I will be here for an hour or two following the call for clarifications. No new information but just clarifications on various aspects that you may have that you're interested in.

So that being said, let's turn the time over to the administrator and we are ready now for your questions.

QUESTIONS AND ANSWERS



Operator

(Operator Instructions) Our first question or comment 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 for starters on Cianna, would love to hear a little bit more about the integration there, sales force retention, and do we think about that business adding after you get through this year something on the order of magnitude of 100 basis points to 150 basis points of organic growth going forward? And then sorry for such a long-winded question, but the rest of the business this year and next year would still have to be delivering quite a bit of growth. So where does all that come from? Is it emerging markets, new product introductions, et cetera?

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

There was a lot of stuff there and I was pondering your question. On the Cianna business, the integration I think is going as well as could be expected, and by that, I mean we're spending a lot of time. I've been down there 2 or 3 times to Southern California. We had a team down there yesterday. We've gone order to cash in terms of the sales force. Everybody is essentially online. We recently had President's Club and we invited their best producers to join us at that meeting. They joined us in all of our national meetings and international meetings.

I will tell you that when I was in Europe recently, all of the salespeople over there were coming to me saying that they get 2 or 3 inquiries a week as to when will the product be available. We're expecting approval at any time. It could be late this quarter but very likely second quarter for the Cianna business. So that's important.

So I think everything is working quite nicely. The R&D guys, there's I think on the administrative side, some of those positions have turned over. Those have been essentially voluntary where people who have worked in startup companies moved to another startup company. But in terms of the sales force, which ultimately in my view is the most important factor, we've essentially had no turnover in that particular area. I think that's a good start.

As I mentioned, when you get out in a procedure and you see how the physician uses this product, this physician said to me, in Dallas, that this was the greatest innovation in women's healthcare and breast care in 50 years. Now, that's not my quote. That was her quote. And so I think that the other thing that helps in being in those procedures, Matt, is you get to see what it means in terms of the importance in other products.

There were several other ideas that came up and we have no less than 4 or 5 R&D products and that R&D team is still in place as well. So I think we've managed this correctly. In terms of the growth going forward, we, I think, are trying to be conservative. Our job is to make sure that whatever we give you is something that we can attain and then to move onto the opportunities.

Now, I personally don't have the number in front of me in terms of its growth going forward, but I will tell you that I have higher expectations personally, than I had when we first bought the business because I understand it even better. And I did due diligence. I did a lot of work on the operations, the manufacturing, sales force. I talked to customers. But I can't say enough good things about Cianna and what I think ultimately it will mean to this business going forward. That's a long answer.

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

It's a long question so I appreciate that, Fred. And then as a follow-up question, just the topline outlook looks great. The gross margin outlook looks great. The bottom line outlook in total is great but it does account for some higher either SG&A or R&D spending than I had modeled. So can you just help us understand where some of that extra spend comes from in either of those two line items.

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

Raul, I'm going to let you answer that.



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

Yes, operating expenses are in line. They're about 35% for 2019. Interest expenses is in there too so you might be picking that up. I'm not sure what you modeled there but we do have some additional expenses that I talked about in the guidance and that relates to MDR. We're moving the Malvern facility over to Mexico. We've got some new regulatory requirements, which I just mentioned, the MDR, and then we also have the clinical studies for the Rhapsody. So those are expenses that are being baked into our guidance.

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

Matt, if I could jump in on that too. I mean I think that we've always tried to say that as Merit makes this transition between the company that we have been in the past to these more therapeutic products, that it takes more clinical support. It takes the studies on the R&D line. And rather than miss or do this and that on those kinds of operating expenses, we've chosen now for the last several years to keep those maintained so that we can put those types of structures, clinical training, and those things, and make sure that they're a priority.

So again, what we're really focusing on is making sure that any acquisition we make is into one of our silos, that it is a product that helps to be an improvement in gross margins. And I think we've been able to do that. So the formula that we've used for the last 4 or 5 years has worked and worked very, very well. And I think we believe that those things will continue to work in the future. So that's our general -- Raul, anything further?

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

No, I think that's good.

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

Okay. Very good.

Operator

Our next question or comment comes from the line of Bruce Nudell from SunTrust.

Bruce M. Nudell SunTrust Robinson Humphrey, Inc., Research Division - MD

Fred, as others have articulated, the guidance, it looks great and I have two pretty simple questions. One, next year, organic guidance is 8% to 10%. What are kind of the factors that could kind of push you to the low-end and conversely push you to the high-end?

And secondly, it's kind of unusual but welcome for a company to put out -- of your size -- to put out 2020 guidance. And what gave you the confidence to really take that forward-looking step? That's it.

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

Thank you. A number of things, Bruce. Here we are 2 months into the year and as we go down another month or so, we're already being asked by analysts, what about 2020, what about this, and what about that. And we've thought to ourselves, look, we're confident. We've had 2 or 3 months now of Cianna. Our confidence is built there. I would say the same thing about Vascular Insights. There's opportunities for us there as well. That's a smaller deal.

But I think there are things like the PreludeSYNC. This is the wristband and then we've added to it a product that really nobody else has right now and that's the distal Radial Sync, and that's a product that you come into the area known as the snuff box. It's a different approach and I remember last night, I got a text from someone that was tweeting out. There was a picture of a bunch of physicians who had just adopted it, and it was the first hospital to adopt that system in Louisiana. So that's important.

The IDeal is probably, I don't want to call it a surprise, but the Prelude IDeal, which gives us a larger ID and a smaller OD. So it allows you to put a larger device and gives you flexibility. It's a sheath but this sheath is selling for in the range of \$50 to \$80. And when you take a product like that, that it's a big hit in Australia, it's a big hit in Canada. And Canada, we've had a little bit of a problem just kind of keeping up with it. We've brought additional capacity on.

And then when you look at the pipeline of products. The EmboCube, as I mentioned in my comments, is a product that has a gel foam

that is produced in our facilities in France. And the product is a convenience to physicians. In fact, the best response from customers that see it, why didn't I think of that. And when you hear that from a customer that's kind of a nice thing. They know that what you're doing is solving a problem for them. So I think that's part of it.

We take a look at some new spine products that we have that are coming our way. We take a look at new balloons. We take a look at new inflation systems. Kind of across the board in endoscopy, in our cardiac regions, in our peripheral medicine. I mean just everything. Again, go through the slide deck and it's a good time for me to make sure that everybody -- because what we tried to do is to put into the slide deck kind of a preview of coming attractions.

And whether it be the TEMNO Elite. Now, so here's Merit. I'm giving you a long answer but so here's the just now anniversaried the Becton Dickinson deal. So that I think was on February 14. We already have a product that you'll see called the TEMNO Elite, which again along with our CorVocet and other products, we believe are things that just put us first in class.

And so as we work through that manufacturing and bring that online at we think attractive manufacturing prices. In one of the slides, I think it's on Page 9, you'll see our Nu-STAR ablation system. This is a big deal. You'll see a new device that we use in the electrophysiology area.

So again, we put a lot of slides in here to again support and answer your question about the new products that we have coming online this year. So it's all of that. It's the maturing of the sales force. It's the stability of the sales force, Raul, I'll let you jump in on this.

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

I think we've been getting questions since November essentially on what 2020 was going to look like or what we were going to do with our long-term plan. But I think it was only -- I think it made sense just to extend that. Originally, I think Fred and I felt we might do something in June, but I think we felt confident enough in the numbers and our momentum that we went ahead and put out the 2020 guidance.

Bruce M. Nudell *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Just to follow-up. I'm sorry, 2019 guidance, 8% to 10% organic. What gets you to 8%? What gets you to 10%?

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

These are good questions. So I think it's getting our approvals and getting on the market. So you're always sitting here. A number of these products that you're seeing on here are scheduled to release. Some of them require approvals. Some of them this or that and the disruption of Brexit.

One of the things that we have found is that in Great Britain, having a presence there brings a big deal in terms of the confidence of customers. We had recently a conversation with, I want to be careful how I say this, but with those who run the healthcare system, who having that presence and know that we've prepared for Brexit by having that facility is a big deal. And some companies haven't done that.

And so clearly, no matter how it goes, they'll look at Merit as a company that's made a commitment. We've been in Great Britain for a long time but it's a situation. We're seeing a lot of growth in those opportunities.

So it's the international business. China. I was slowing down in my own mind on China a little bit, but you know what, it hasn't slowed down at all. In fact, Joe Wright, who is responsible for Southeast Asia and the Pacific Rim, as we look at Vietnam and all these places. So I just think that the momentum, the preparation, the new products, it's not all stacked into one silo. These are high-margin products.

So I think that -- and by the way, just kind of go through it. If you take a look at what we did, and Raul, why don't you give us the numbers for our core growth last year for the year?



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

11.4% for the year and then 13.1% for the quarter.

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

Yes, 11.4% and 13.1% but I mean those are for the year. So we've moved this up because our confidence has grown and our - South Africa. We've gone and now have our own warehouse and our own sales force there simply because the margins are extraordinary. But getting the product there was always the problem. So now, we have a warehouse. We can deliver same day to our customers. That gives us a huge advantage over competitors and we get retail prices instead of wholesale.

So on the down side, because I've always just talked about the upside, we've got -- did we miss anything on Brexit? Are there any public policy issues that come into play. Geopolitical. Disruptions. Weather. Last year, when we had Maria, that slowed everything down a bit. And that affects us.

So it's mostly those kinds of unpredictable issues on the downside and maybe our enthusiasm on the upside. Raul?

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

I think I would only add, you're going direct on a couple markets and just making sure that you understand that and if there's any hiccups, we've got a little bit of room there.

Operator

Our next question or comment 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. Congrats on a nice finish to the year. I wanted to start with one on the topline. Just curious how should we be thinking about the quarterly cadence of organic growth in 2019? The year-over-year comps look more challenging in the back half and Cianna doesn't anniversary until Q4.

But then conversely, BD counts as organic growth, as you mentioned, this month and some of the smaller deals roll off throughout the year. So just trying to think through the quarterly progression and recognize you don't give quarterly guidance but any color there would be helpful. And then I had a follow-up.

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

I'll just kind of talk about the things -- talk about history. If we take a look at the first quarter, it's always a little slow to get started up out of the international markets. You have Chinese New Year. You have a little bit slower in Europe. And we have a little bit more expense in the first quarter because of our sales meetings, which we like to get done early.

So if you look at that and then you look at the third quarter and summer. Now, this year, we had the Terumo situation, which gave us a little bit of a boost. But generally, you see the third quarter is a little slower because people shut down in Germany, and in France, and in different areas that affects the business.

I think if we look at the cadence of history, I think you'll pretty well find that it will fall generally into that same category. Raul?

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

Yes, I think the only thing that would help is that it would be a Q1 is the FX rate. So just bear that in mind. But again, Q1 operating expense heavy. Just bear that in mind.

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

And that's something we always talk about that first quarter because of the meetings and Chinese New Year.



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

And then my second question is on the gross margin outlook. I think the guidance is roughly 170 basis points to 240 basis points of improvement year-over-year. How much of that is underlying improvement versus accretion from M&A? And can you just remind us of the different levers for gross margin improvement this year?

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

I'd say it's about 50/50 on the gross margin improvement. Some of the items that will help us there will be the -- obviously, operational efficiencies. We always have a goal on where we can get more efficient. We always have a cost cutting initiative. So we're making sure that we hit those goals. And then also, our recent acquisitions will help us in those areas.

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

Okay and then just levers, sorry, for the year.

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

Those are the levers. That's what we expect to do.

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

We didn't mention mix but I think if we continue to see the growth in the IDeal, this is a product that whenever you start up, you have to apply the overhead and as the volume increases, we start to get some benefit. So if we see the same type of performance we saw this year and that trending, those things are going to be important. The Embo Gel, any of these newer products that have higher margins can be levers that help to improve performance.

I think Raul touched on this, but I think for the last several years, our operational group has done such a very nice job in terms of efficiencies, whether it be molding and habitation, things that they have in place, the incentives they give internally to reduce costs. I mean I can tell you, my lawyers don't like it when I say this, but I mean this week alone just in the hallways talking to my operational group, there's over \$1 million in savings that have come to me from our -- and I'm looking at my operations guy and his head is going up and down and he's agreeing with me. Over \$1 million just this week in earnings or savings that would happen over this year.

And those things have to do with resins. They have to do with issues in which rather than going through distributors, we're going directly to the sources. I could give you a number of those kinds of levers that help to produce higher leverage and help to reduce cost for us. And these are active.

So mix. Operational and many aspects of that. Moving of Malvern down to Mexico is already started. Those things will help to add opportunity on the upside if we're able to execute all of those plans.

Operator

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

David Rescott

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

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

We are. Thank you.

David Rescott

Fred, so first, quick question. Wondering if you could provide any more color at least on cost or revenue synergies seen kind of through the acquisitions over the past year and how we should think about these acquisitions improving revenue and earnings profile respectively, especially as we move into 2019. And maybe areas where you see within there from the acquired product to see the most upside.



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

Well, listen, there's no question that the Cianna, which was Merit's largest acquisition, has the most opportunity. We're seeing the stability, as I mentioned earlier, in the sales force and in the operating staff. And by that, what I mean by stability, we haven't lost anybody. And those who have gone or been on the operational side that we already have replacements for. So it's not a big deal.

But I think the momentum and the enthusiasm from the sales group -- you know, what's been interesting is the letters I've gotten. Now, you guys can't read those but people writing me from Cianna team saying, this is exactly what we had hoped for. It's nice to be part of an organization with this type of culture and the culture of innovation. We're looking forward to building this business for the long-term. Those sort of things.

And I'm not going to say that I haven't had those in the past but I don't know that I've had a more enthusiastic group. Now, there's another thing about Cianna too. The other thing that -- these are highly trained, clinical personnel. All of the sales force or a good majority of them have a higher level, and I hope this doesn't -- I've got a lot of my sales people on the line and I don't mean to offend anybody. But there's a higher level of clinical understanding and support.

And I think we're starting to see that as our products get more complicated, we need to have these folks who know how to sell, interface with surgeons, and have a strong knowledge of physiology and anatomy. It's not that our other folks don't. But I've got to tell you, when someone is holding a scalpel in their hand and trying to make the critical decisions about the types of borders and the kinds of areas that you need to have that are going to save somebody's life, whether it's here or even in our electrophysiology areas when we're going and doing work there. These are critical issues.

So those things add value and these are the kinds of things I think that are going to drive the business to the upside.

David Rescott

And maybe just thinking about as we kind of -- you know you mentioned as far as the anniversary, competitor product recalls as well as kind of what seems like a calibration in growth in most of the core products. Can you talk a little bit about -- I know you mentioned a little bit about the cadence but kind of how we think about anniversary kind of these stronger comp groups in 2018 and how you see those playing out in 2019?

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

Going back to the issue of the biopsy business. Now, remember when we talked about size, we were talking about value. In other words, cost. But if we take a look at the Becton Dickinson deal, we ended up getting about \$35 million to \$40 million worth of revenue. I think it was \$40 million -- \$42 million -- and I think that exceeded our expectation.

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

It was on the high end of our expectation.

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

Yes, from \$36 million to \$40 million but released on the high end. I think as we initially went through just the transition and the disruption is always a big deal. And yet, we were able to hold on not only to that business but we were able to grow that business and be on the high end of expectations. That is not easy to do.

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

And it's going to be a competitor to core growth.

So that's going to be a big contributor this year and then on top of that, the CorVocet, which is our biopsy [Range] product, which came on midyear, which had already anniversary but had to be transferred. And some of these newer biopsy products. So I think a biopsy is going to be a big driver this year.

And very candidly, we get to put the Merit name on the product. Not right away because they're still building some product, but we've

started some production of products and by the time we get to the fall and late this year, everything essentially will be being produced by Merit and Merit labels.

And I think the BD labels and their brands have been great. I just simply think that with the new production, new tooling, new CNC automation, the things we're doing, we'll have a better product. We won't have all the disruptions and the worries about product coming out of the Dominican Republic and 6 other factories.

We have not launched the Aspira. This is pleural effusion and peritoneal drainage. Has not been launched in Europe. We couldn't because we had to get this part of it done. So that's something we haven't even talked about. And when you start thinking about the products that have been anniversaried but have never been introduced, those sorts of things.

Another thing that was just brought to my attention is pull through. When we look at ClariVein, you have a device but there's all the vascular access products that go with it. These are all core. They're all the kits, and the drapes, and the specialty items that go along with essentially a therapeutic device.

And so we have all of those things that the original company, Vascular Insights, didn't have or didn't produce and Merit does. We also brought the salespeople on for that overseas. So I think when you add all of this up, you'll come back hopefully with the same enthusiasm that we have. And remember, this is going to sound funny to you, but we're tempering our enthusiasm. Can you believe it? We're just trying to stay cool here and stay steady.

And by that, I mean my job isn't to just stay calm and stay steady and I don't think you've seen that in our business. We have a great opportunity here for Merit Medical.

David Rescott

If I can squeeze in one last one, specifically around where Cianna and Vascular Insights are going to be reported in the revenue line and whether or not there's any contribution from them in the fourth quarter?

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

There was about \$6 million in the fourth quarter and they're going to be on their own separate line when we disclose it in our 10-K or 10-Q. If you look at our product disclosure, it will be a standalone line item.

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

We'll be talking about it a lot in other words.

Operator

Our next question or comment 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 and I apologize if these are repetitive. I missed part of the call. But Raul, you talked about the additional cost in the business. I think you talked about MDR \$3 million to \$4 million. You talked about moving Malvern down to Mexico. And you mentioned there's cost involved. What is the dollar amount of cost related to this move? And is that assumed in your 35% OpEx guidance?

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

It's assumed in our OpEx and it's also assumed in our margin.

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

And is it similar cost at \$3 million or \$4 million or the MDR or what's the dollar value?

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

MDR is about \$3 million to \$4 million. Then the Malvern move is somewhere in the neighborhood of \$3 million.

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

The essence of that is all of that \$6 million to \$7 million is being absorbed. That's pretty significant.

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

I would agree. And then as you the move down to Mexico, I think you mentioned that will be \$3 million to \$5 million in incremental savings in 2020, assuming that that's the completion date. Correct?

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

Yes, essentially it will be kind of a wash because some of the lines will be completed this year in 2019. But it will wash with some of the expense we'll have as we do dual manufacturing in locations. So 2020 is when we'll start to see some of the benefit, and I'd say probably in the third to fourth quarter.

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

And Fred, just along the last line of questioning, getting approval for some of those BD products outside the U.S. What's the rough timeline on that?

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

So those products, the BD products, I think if you're referring to the new manufacturing sites and those sort of things versus the former, all of those regulatory things are either in process or have been approved. We've had the BSI and all those. And am I correct on this that we've added those to our certificate and that we're approved in Mexico to produce these products for BSI, which mean there would be no disruption and essentially they'll all stay in place.

Any of those who are not, where we have to refile, are not significant and that we build adequate inventories to make sure that with growth in those markets that we have adequate inventory on the shelf. So we book extra product for let's say a place like China where you have to go back. And it's not a big business in China but it could be bigger in the future, and it will be bigger in the future. Where we build product with the existing registration so those are all covered. And then we've already filed or we will file on the new ones.

So those are not material. The material markets of Europe and the United States are all covered. Now, one other thing on this too. And some of our folks aren't going to like to hear this. But the other thing is we'll also have coming on over the next couple of years a number of distribution partners that will go direct. So that's another thing that will continue to be essentially wholesale to retail. And Merit, on its existing biopsy devices, will sell those only through our direct sales force.

So eventually those two rivers will meet and build the grand river. So those are other things that give us comfort on our core growth and make sure we're maintaining the business. And going back to that issue, and I hope everybody caught that, is that when you do these transitions, almost all the time when we model these, we pull back and say that you're going to lose some business. And if you look at the way that we modeled the business, BD, that in fact -- I mean we were on the top side of the expectation.

And I think that speaks volumes to the work that we did and the relationship we have with the customers. Because it was in our same sales point. So I think that's an important thing to consider about the strength that Merit is building as a brand and how we can compete with bigger companies.

Operator

Our next question or comment comes from the line of Mike Matson with Needham and Company. Your line is open.

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

It's David Saxon on for Mike. Been jumping around between calls so I apologize if you've answered them. First, I understand you're going to be breaking out the ClariVein and Cianna going forward. Just wondering how much of those two are baked into 2019 guidance?



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

We haven't changed the guidance that we disclosed when the acquisition happened. So for Cianna, we're doing \$50 million to \$56 million. A portion of that is in core growth. It anniversaries some time in mid-November. And then ClariVein is \$10 million to \$11 million. That anniversaries in mid-December. Cianna will be on a standalone basis. You'll be able to see it. But ClariVein will go in standalone products.

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

Okay, understood. And then just with regards to leverage, do you have any targets for where you want to end the year? And then can you just kind of talk about what you're seeing in terms of assets out there and the M&A pipeline?

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

I think no the leverage, we're going to shoot -- our pay down on debt is probably going to be about \$60 million, \$50 million, somewhere around there.

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

And let me pick up the issue on the marketplace. At any given time, we're looking at no less than 4 or 5 deals in one form or the other. There are teasers that come across. There are things that we have signed agreements on to gain further insight and that sort of thing. We have our eye on a number of opportunities. But again, let's go to the criteria because that's important.

They have to be scalable. In other words, wherever they are, we've got to be able to grow them. And they've got to be able to grow and exceed, candidly, our core business. I've got to be able to see it has gross margin contribution. I've got to be able to see that's in our silos and our sales area. I'm not going to go jumping off. And maybe more importantly than all of that, I've got to afford it and be able to manage it. And I think like we've done these other opportunities that we've seen, I think they've all worked for us and there continues to be more of these opportunities.

But we're not in any hurry. It's interesting, we had one that we were looking at. They decided to go someplace else and now, they're back talking to us. Those kinds of things happen. You just have to be patient and it has to fit your criteria, and you have to pay a reasonable price for the assets. And then execute.

So I think we've done a good job of those things. Our people are seasoned at it. We have a great business development team. We've got a great operational team. I think, again, I don't know that everybody really appreciates, and I'm sorry to keep going on here, but I don't think everybody really appreciates what it takes to pull off something like the Becton Dickinson deal, where you're moving product from six factories and multiple countries to a single location while you're serving those customers and not being -- missing a beat. And then hitting it on the high side of expectations while you're developing products to enhance those product lines. That is symphony. That's what it is.

And again, at the end of the day, we get judged on topline, all these improvements. But if you just look at that, it's an extraordinary effort by the people that are sitting in this room to get something like that done that oftentimes isn't individually appreciated, but hopefully, it's appreciated when you look at the overall performance of the company.

How's that one guys? Did you like that one?

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

That was very helpful.

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

I've got all these smiling faces in the room. Give me another question like that one so I can keep people smiling.

Operator

Our next question or comment comes from the line of Mike Petusky from Barrington Research.



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

So Raul, just a couple questions. I caught the D&A and stock comp. Did you give CapEx for the quarter by any chance?

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

I didn't but let me get it for you here. It's always one that's in my numbers here. CapEx is -- sorry, \$16.3 million.

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

And then what are you guys thinking even in a range for CapEx for this coming year?

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

Our CapEx this year, we have an estimated range of \$60 million to \$65 million.

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

As you look at '20, should that come down a bit or will that stay elevated?

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

No, and I'll tell you why. If we take a look at the growth of the business and take a look at where we want to head and what we think the opportunities are, we have to add some capacity, whether it be molding. You just can't grow a business at these kinds of rates without having capacity. So we want to make sure that at least that in our thinking, we do it that way and that we don't get out of sync with people saying, well, all of this is going to go to pay down debt or do this or do that.

We have to put things in place to be able to maintain this growth rate. So that's why we're not going to pull it back down. Now, if you will recall, Mike, people back, oh, I'm going to say now probably four or five years and then come forward, we reduced CapEx after we went on a major building plan that at the time, people got after me about. And looking back at it, it was exactly the right thing to do. Thank you for all your notes and letters to that effect after the fact. I appreciate them.

But you can't grow a business or a couple of thousand people if you don't have a place to house them. So we're not going to go on building a new city. But we are, piece by piece, just like we did this year, starting projects or adding some capacity, or remodeling, or doing the various things. So we'll be much more disciplined in our approach, but at the same time, in order for us to take this business where we think it can go to -- now, we've got the first billion. The question that I have to ask myself and that I have to plan for is how do we get the next billion and over what timeframe. And I have my own thoughts on that. And I'm planning to make sure I can systematically and disciplined, put capacity in place to be able to grow the business.

So it's a long answer but Raul, do you want to?

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

I think that's exactly right. I can't add anything.

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

A couple quick ones. What's the interest rate -- average interest rate on your debt currently?

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

On the December at year-end?

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

Sure.

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

3.25.



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

Is that roughly sort of the modeling for '19?

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

No, we've got two interest rate hikes towards the tail end of the year in our model.

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

And then just last, FX headwinds assumption for this year?

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

\$5 million to \$7 million on the topline and then about \$0.02 dilution on the bottom.

Operator

Our next question or comment comes from the line of Jim Sidoti with Sidoti and Company.

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

Good afternoon. Can you hear me?

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

We can. Jimmy, how are you?

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

I'm well. Fred, you've got to start giving your guidance in billions, not millions.

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

I think that was a compliment, Jim.

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

Two quick ones from me. You mentioned briefly the Terumo issue that helped last quarter. Is that resolved at this point?

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

Oh, the Terumo. Okay. No. They have come back on the market but we continue to take on new business, particularly on our guide wires. So our Laureate guide wires continue to grow. I think last month, we produced a record amount to meet this demand. So we still see places. I mean it's not as hot as it was during the summer, but we've been able to maintain a lot of that business.

And I think that's the -- the important part of all this is whether it be some of the issues we've seen in the past with opportunities from other companies as they've had misfortune. Or whether it be Terumo, it does nothing but to build our reputation and to give us help, and more importantly, help customers that are kind of in a bind.

So that's been good business for us. It's helped to build our reputation for reliability with our customers. So no, it's still continuing to grow.

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

Okay. And then any change from the tariffs or has that gotten any better or worse the last 3 months?

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

We added about \$1.2 million in tariffs that we thought we would see on the initial round. Essentially, those are in place and I'll ask Raul in just a second if those tariffs are still in place. But that was what we initially thought. And then everything else has been put on the back burner since that time. We haven't seen anything.

But on another subject, Jim, that I want to throw in. When we look at our 2020, we said this before but I think it's significant. We've

added -- and I don't what other people are doing -- but in our 2020, we assume that the medical device tax comes back. And we have taken that and we have embedded that into our numbers as an expense. If that gets suspended again, I actually think that's what's going to happen. There will be a tradeoff between the Cadillac tax and the medical device tax. But if it doesn't, it's already built into our numbers.

So I just wanted to make sure that everybody hears that. It's an important part of I think this overall conversation. It's about \$7 million, \$7.5 million of expense that we've loaded into 2020 that may or may not be there. So just a point of interest.

Operator

Our next question or comment comes from the line of Mark McGrath from Kenmare.

Mark McGrath

Just a question on the balance sheet. It looks like the net debt went up by almost \$171 million relative to last quarter. And I wonder -- I looked at my read of the press releases for the Cianna and Vascular deals were that up front, it was \$165 million of cash payment. Were there other payments for those deals in the quarter? Had you already started to pay the contingent?

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

We have not paid any contingent payments. I'm watching Raul here. Raul, go ahead and give that answer.

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

It's \$135 million for Cianna and \$40 million for Vascular.

Mark McGrath

It's \$135 million?

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

Yes.

Mark McGrath

I see. So that's about the growth. Okay. That answers it.

Operator

Our next question or comment comes from the line of Christopher Hillary with Roubaix Capital.

Christopher Edmund Hillary *Roubaix Capital, LLC - CEO and Portfolio Manager*

I just wanted to ask relative to your positive outlook, is there anything that would augment your margin expansion opportunities? And if that were to occur, would you anticipate seeing the come through the P&L? Or would you anticipate reinvesting that?

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

Well, I'll answer that generally that Merit has always been a reinvestor. That's been our mode in building this billion-dollar business is to reinvest. Now, that being said, there are a number of areas. Is there some upside opportunity? We hope so and we hope it's the higher-margin products.

So listen, I can say this and that is we could grow the business even more if we wanted to, but it would be in lower margin products and I think that the important part of us is to meet our commitments. And those commitments are that the core growth, the topline, the gross margin expansion, I think we've done a pretty good job. And by the way, some other folks, Christopher may say why do you do this. It really has, we've found, has been a very, very good tool to keep everybody in this room, and there are 40 people sitting here with me, focused on what the goals are and how we go about running our business. It keeps everybody's eye on the ball and I think we've found it's been very, very helpful to do that.

So we hope that we get the right mix. We have some high-margin products, things like EmboCube, things like Cianna, other products



that Merit is coming out with, in our mix of products are going to be very, very important. So I just think if we get lucky, we've got some new products that are coming on to our DualCap and other things like that. The Sync.

So there's plenty of products that could give us the upside -- additional upside momentum. So that's where it will come from and most of those are very high-margin products.

You wanted to clarify something, Raul?

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

I do. I just wanted to clarify on the interest rate, I got ahead of myself. The interest rate at year-end was 3%, approximately 3%. And then we've got the two rate hikes that we built in for 2019.

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

The longer you stay on the call, the better you get it operating efficiencies. Good for you, Raul. Okay. Well, ladies and gentlemen, look, it looks like we have now made all the calls we've been on now for almost an hour. I want to thank everybody for their time. We want to thank you for your good questions. Raul and I will be here, as I mentioned, for the next couple of hours. Thank you very much and we'll wish you a very good evening from Salt Lake City. Good night.

Operator

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

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