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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Merit Medical Systems' Second Quarter 2020 Earnings Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Fred Lampropoulos, Chairman and CEO. Please go ahead, sir.

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

Thank you very much. Ladies and gentlemen, thank you for joining us today. Usually, we open our comments by stating that our staff is assembled and present. However, like almost all of our activities today, only Raul Parra and Brian Lloyd are with me today. The rest of the staff is virtual, like you.

I would like to turn the time over now to Brian Lloyd to read our safe harbor provision. Brian?

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

Thank you, Fred. I'd like to remind everyone that this presentation contains forward-looking statements that receive safe harbor protection under federal securities laws. Although we believe these forward-looking statements are based upon reasonable assumptions, they are subject to known and unknown risks and uncertainties. The realization of any of those risks or uncertainties, including the unpredictable effect of the COVID-19 coronavirus outbreak which is negatively affecting public health, financial markets and global economic activities, can cause actual results to differ materially from those currently anticipated.

In addition, any forward-looking statements represent our views only as of today, July 29, 2020, and should not be relied upon as representing our views as of any other date. We specifically disclaim any obligation to update such statements.

Please refer to the section entitled Disclosure Regarding Forward-looking Statements in today's presentation for important information regarding such statements. Please also refer to our most recent filings with the SEC for a detailed discussion of the factors that could cause actual results to differ from these forward-looking statements.

This presentation also contains certain non-GAAP measures. Reconciliation of non-GAAP measures to the most directly comparable U.S. GAAP measures are included in today's release and presentation furnished to the SEC under Form 8-K. Both today's preliminary earnings release and presentation are available on our website.

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

Thank you, Brian. And again, thank you, ladies and gentlemen, for taking the time to join us today. We have adapted our business locally as well as globally by conducting project and business meetings and sales training through Microsoft Teams, which has been of tremendous value to us. We have accomplished this without a hitch. The company has adapted to market conditions with health and safety as our primary concern. Because of the lower sales levels, we have had employed various strategies to reduce costs. Some of these programs and reductions will be permanent, while others will be modified in order to keep the company nimble and prepared for opportunity. In some ways, we have had an advantage in that we started many of these programs well in advance of the emergence of the COVID-19 pandemic.

Every day, we hear of new solutions to the pandemic. We also hear about how things are improving. From our point of view, things have improved as represented during the quarter by month-over-month sales improvements. However, over the last few weeks, the momentum has slowed down. We have surveyed physicians who are very tired and worn out. Thus, we are cautious during the third quarter, as we always are, especially with new variables added to the seasonal conditions. We believe in many ways that the health care system and how we conduct business have changed forever. Many of our conversations and negotiations have been with different personnel and administrators which is quite a change from the past. Going forward, we will provide more clinical training and support, while we shift resources from products that simply don't require the resources we have directed previously.

Let me clarify for a moment our direction in the developing of new products. For many years, our core growth, complemented with targeted acquisitions, have helped Merit to have growth numbers in the top quartile of our competitors. We continue those efforts with fewer projects and more focus, which will allow us to get to the market faster.

On that note, I would like to discuss the market areas of interest to us going forward. The company has a number of electrophysiology products ready for release and several in development. We believe this double-digit market segment, which Merit already has a presence, has great promise. As you are aware, our WRAPSODY Endoprosthesis stent system is now cleared in Australia, New Zealand and the European Union. In fact, this very day, we received our first orders from Europe. The company will proceed over the next several months to proceed with the WAVE pivotal IDE, which has been approved by the FDA. This study is the approval process for the WRAPSODY in the United States. This study will take 3 to 4 years to fully enroll and monitor upon which time we'll submit a PMA request to the FDA for consideration. Equally important, however, is the ePTFE technology we have developed, and the numerous opportunities for products in other parts of the anatomy are developed and deployed.

We have also developed a number of new products for testing of patients suspected of COVID-19. This area has been somewhat dormant, in my view, for several years and is awaiting additional innovations. We expect a rapid increase in revenues in this segment, and then topping and settling as we go forward. However, we do believe that this will be a very viable opportunity for Merit for a long time to come.

Finally and importantly, we are looking forward to reporting our financial and growth objectives during the third quarter. What you can expect is a plan which is sustainable, reliable and competitive.

In closing, I would like to announce that Anne-Marie Wright has left the company to pursue opportunities in writing and to spend more time with family. She's been of immense value to me and the company for over 16 years. I, of course, will still see her every day. But I will miss the professional collaboration, the advice and the many long hours she dedicated to several very important areas of the company.

I'll now turn the time over to Raul Parra to discuss the financial data for the second quarter. Raul?

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

Thank you, Fred. Let me now turn to the financial highlights for the quarter. On the revenue front, revenue for the second quarter was approximately \$218 million as reported, a 14.5% decrease over the comparable period of 2019 and 13.6% on an organic constant-currency basis.

Key puts and takes on these results included: FX headwinds of approximately \$2.7 million for the quarter; peripheral intervention products decreased by approximately \$16.2 million or 18.2%, primarily as a result of our biopsy, localization, vertebral compression fracture, Embo therapy, angiography and intervention products; cardiac intervention products decreased by approximately \$13.7 million or 17.1%, primarily related to our intervention access, angiography and CRM/EP products; OEM products decreased by approximately \$2.7 million or 9.4%, primarily related to our angiography and CRM/EP products, offset partially by increased kit, fluid management and sensor sales; custom procedure solutions decreased by approximately \$1.9 million or 4%, primarily related to our kits and trays, partially offset by increased sales of our critical care products, which saw increased demand due to COVID-19, including \$4.4 million sales of our new sample collection and transfer kit used to collect and transport samples for COVID-19 testing. Endoscopy was the hardest hit sales channel, and saw a sales decrease of approximately \$2.7 million or 30.1% as elective procedures stopped.

Our revenue contributions by sales division based on an organic constant currency were as follows. For the quarter, EMEA, down 16%; U.S. direct down 20%. OEM, down 9%; endoscopy down 30%; and worldwide dealers was flat. COVID-19 impact for the first half of the year resulted in a reduction of approximately \$7 million from the revenue line, which includes \$10 million in Q1 and \$60 million in Q2. The most impacted regions year-to-date are our U.S. direct business, which is \$33 million off-plan. Worldwide dealers currently at \$20 million under plan and EMEA \$12 million below plan. We saw sales improve from the low of April at a steady cadence through June, but have seen a slight slowdown in July in the U.S., EMEA and emerging markets as COVID-19 cases increase and elective procedures in certain areas are limited.

Operating margin. Our Q2 operating margin on a non-GAAP basis was 11.2% for the quarter, a decrease of 210 basis points over the comparable period. The decrease in operating margin is really a function of the lower revenue related to COVID-19. Our non-GAAP gross margin decrease of 400 basis points was mostly related to product mix, obsolescence and increased freight cost, again mostly related to COVID-19. The decline in revenue and the pullback on gross margin were offset by a decrease in operating expenses on a non-GAAP basis by 190 basis points or \$17 million over the comparable period. Additionally, our operating expenses saw additional decreases for the third consecutive quarter, dropping sequentially by approximately \$14 million on a non-GAAP basis.

Overall, we are pleased with our management of operating expenses in these unpredictable times. These cost savings came primarily from lower employee costs, R&D and lower discretionary expenses including travel, trade shows, marketing and promotions. In addition, we continue to evaluate our head count and footprint to increase our operational efficiencies. As part of our operational efficiencies program in 2020, we have decided to close our pack business in Australia, along with the manufacturing site. We expect this to be done by the end of the year and to be accretive to operating margin in early 2021. We continue to be back on track for our previously disclosed improvements.

In addition, we did take a onetime charge of approximately \$18 million for the DOJ settlement. This amount is accrued as of June and is expected to be paid sometime in the third quarter. Tax rate on a non-GAAP basis was 18.1% for the quarter compared to 23.3% for the comparable period. The difference in the tax rate was primarily driven by a change in the forecasted mix of earnings.

On the earnings front, non-GAAP earnings were \$0.31 for the quarter as compared to \$0.42 for the comparable period. Again, we are happy with how we have managed so far through these times, taking advantage of certain opportunities and remain committed to our

operating expense improvement plan, even with the impact of COVID-19 on our revenue.

To wrap up, let me hit a few balance sheet and cash flow items and add some color on COVID-19 for everyone. Debt balance was \$410 million, and our cash balance was \$50 million, putting us at a 2.65 net leverage ratio on an adjusted basis. Available borrowing capacity on a net basis was approximately \$183 million. Our cost of debt is approximately 2.08%. We are happy to report that we had free cash flow from Q2 of approximately \$32 million, which brings our total free cash flow year-to-date to \$47 million. The increase in the quarter was primarily driven by receivables and capital expenditures.

Working capital was \$272 million. CapEx for the quarter came in at \$12 million. D&A of approximately \$24 million and stock comp expense of \$3.4 million.

A little more color on COVID-19. The decline in procedure volumes observed in the first quarter continued through April, and we started to see some level of recovery in May and June, but have seen a slight slowdown in July. We continue to believe that COVID-19 will continue to be a headwind in 2020, but we are cautiously optimistic. We are also seeing some tailwinds. Our sample collection and transfer kit saw sales of approximately \$4.4 million. Visibility for procedures for the remainder of the year is limited, and we are not able to predict when or how quickly procedure volumes will recover nor do we expect the tailwinds to outpace the headwinds. Accordingly, as we previously disclosed, we are not in a position to provide annual financial guidance for 2020.

We continue to feel our broad product portfolio is particularly well suited to weather this storm, but we also cannot be precise on the pace of recovery. Models from some of our markets and more advanced states in the process give us some optimism as we try to estimate the timing and impact of the pandemic on our operations and financial results. However, we can't predict how long it will take to see the rebound, but we know this is a very fluid situation. And with some other areas of our business down, we also have some areas with higher-than-normal sales. We have seen some states open elective procedures, up only to pull back and place limits on access or elective procedures. For example, our U.S. sales 10-day average has seen a 6% decline in the last 10 days.

Having said that, it's our current belief, based on the information we have reviewed, that sales will see a gradual return to normal through the remainder of the year. However, with the fluctuation in models and underlying assumptions, we are not in a position to make any concrete forecast for the year. As many of you know, we historically see a decline in sales from Q2 to Q3 as our business has a level of seasonality to it.

As we look forward and assess the impact of COVID-19, which is causing some anomalies, and we try to forecast for Q3, we anticipate the following based on fluid information: we believe based on current trends, that revenue for the third quarter could be down 5% or up 5% sequentially from Q2; we expect our gross margin to be roughly in line with Q2; and we expect our operating expenses to carefully increase in a gradual direction approaching levels close to Q1 as we used some of the temporary furloughs and salary reductions in preparation of a gradual recovery.

As we continue to manage through the impact of COVID-19, and as we start to see some markets stabilize, our models will continue to improve. In the meantime, we continue to take the following steps: continued execution on previously disclosed operational efficiencies as evidenced by the closure of our Australia pack business. But please reference the slide deck for an update on previously disclosed plans; implementing salary reductions for our executive officers and most nonproduction employees; controlling discretionary spend across the organization, including travel, trade shows and events; deferring and/or controlling capital project spend; adjusting manufacturing capacity based on demand, while ensuring sufficient inventory levels to support current demand.

I'd like to end with thanking Anne-Marie for all her years of service. She had some great insights and made our jobs significantly easier.

We are going to definitely miss her.

In the meantime, as we look to fill her role, we've asked Judy Wagner to take on the Corporate Communications, and Pat McCarty, VP of Finance to take on the IR role. We will be filling the position externally once someone is identified. Fred?

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

Yes, Raul, thank you very much. A lot of information there. I think the cash flow and the free cash flow is a significant issue. I think the focus that we are spending on the transfers of projects and the previously announced projects are on schedule. I think the CapEx budget is well disciplined and well within the parameters which we set. So despite all of these challenges, I think that we are focused on improving the business and preparing the business with new products and new opportunities, while reducing costs, inventory and really spending a lot of time on the business in many ways.

We did not comment, and won't comment today, as I mentioned in our previously prepared comments, on the DOJ. But after that is finalized, we will have an opportunity to explain the structure of the deal and why the deal was made. And we'll do that in the future. And we look forward to that opportunity to essentially tell our side of the story.

All of that being said, I hope you're pleased with the revenue line. I hope you're pleased with the things that we're doing. A lot more to come and a lot more work to do. And we wish and thank you all again for being on the call, taking the time today in a very busy week for earnings calls.

So with that said, we'll go ahead and turn the time back over to the administrator, and we will take your calls and your questions. And we will also be here for a good hour or 2 following the questions for clarifications of issues that you may not have understood or need clarity. So that being said, thank you, again, and we'll go ahead and turn the time over to our administrator to go ahead and present the calling structure for comments.

QUESTIONS AND ANSWERS

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

Okay. Well, the administrator is away. So thank you again. We'll go ahead and take Larry Biegelsen's call first. So Larry, I don't know if they have to unmute you, but if you can speak, we are here.

Operator

I'm sorry. I was on mute. (Operator Instructions)

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

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

Can you hear me, Fred?

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

I can, Larry, thank you.

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst*

Okay. Good. Well, congrats on a better-than-expected result in a tough environment and the free cash flow result is nice to see. Fred, I wanted to understand the trends through Q2 and the recovery a little bit better, Thank you for all the color. Is it -- are you willing to kind of give us what your growth rate was in June on a worldwide year-over-year basis? I assume it was better than the 14% decline. And the

July comment was helpful to hear, although a little disappointing to see that it got worse in the U.S., the negative 6% decline you talked about. But on a worldwide basis, is July worse -- the year-over-year growth in July worse than what you saw in June? So June growth on a worldwide basis, and is July trending worse on a worldwide basis?

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

Yes. We've seen a slowdown, Larry, a little bit in China, just a little bit there. We're still seeing some issues in Europe with dealers, still a little bit slow. We -- it's -- and again, remember, this is a 10-day average. If we go back and look to watch the trends and in June, we saw something and then it came back strong on the end. So what we're just trying to say is we just don't quite know. But the one thing I do know is this. In talking to physicians, as I mentioned in my comments, we thought this year, well, there's this pent-up demand, they're still busy. And in talking and surveying our customers, and I talked to no less than 5 or 10 physicians in different countries. They're saying, "Look, we're tired. We're worn out. We're going to go ahead and take our holiday." And when I hear that, it sounds to me like what I would normally see in a summer quarter. So -- and then there's a little bit of an issue, at least for 10 days. And remember, now it's a full month.

The first half of the month was reasonably strong and then slowed just a little bit. It just tells me that people are going to take a break. And I just was concerned that although we've seen sequentially every month that you could see in the quarter, maybe July slows down just a bit. And we -- and that's the big problem. We just don't know. We see signs of this, and then it turns around reverses, and you see this or that. So the point is, it's difficult to predict. We -- from a seasonal point of view, every year, we always see that kind of slowdown. And we always kind of talk about a 5% decline in the third quarter. But in this -- we said plus 5%, minus 5% because it's -- maybe we end up neutral. But remember, we're -- we've seen April, May and June all improved sequentially. I'm not going to talk about this month. We did see there's a little bit of a slowdown. We're just trying to say that we just don't know. I don't know how else to say it any better, and we still have 2 months. I'm going to let Raul comment it for a moment. Raul?

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

Yes. Larry, maybe to give you some color on what the quarter kind of progressed like, we were roughly -- and these are rough numbers, note, 22% down April. May looked a little worse than April, but only because of the number of selling days. So when I factor that in, you're talking about approximately 18%. And then in June, you saw roughly 1% to 2% decline in sales. So hopefully, that gives you a color of the cadence of how things were progressing. And as Fred mentioned, July, we saw a little bit of a step back. But I think we're optimistic of how things are trending.

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

Yes. I think one of the other things that's interesting, and these are comments, Larry, that we get from administrators it's not as much as -- in the U.S. at least, that they're not there that they haven't dealt with and modified both the -- where they could treat patients and still do electives as much as it is according to the people that talk to us about the willingness of people to go back to a hospital. So we were talking, for instance, to a hospital on the East Coast, and he was saying that their OBL is swamped and the hospital is very quiet. So it's going to take some time for patients to want to get back to the hospital and have confidence that they're not going to have a problem there.

And again, I don't think that -- the demand is there. It's just that it's not at the treatment point, at least in our view. And we're hearing the same thing, by the way, in Great Britain. So it's somewhat consistent, the same story that it's patients that are foregoing. Unfortunately, that means these problems may go from being acute to chronic. But that's -- I mean, I'm just telling you what people are telling us is that they're worried about the patients and they're willing to get back to the hospital.

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

That was very helpful. Just 2 quick ones for me, and I'll drop. One, China is a big market for you, about 10% of sales. Could you -- Raul, are you willing to kind of disclose what the growth was in China in Q2? And Fred, the sample kit, I know you said \$4.4 million in the first half in the slides that it's difficult to predict, but you did say in your prepared remarks, one of you said that you could have -- that could be a good opportunity for you, a rapid increase in revenues. I think I heard, any way to -- any color you can provide on how big that opportunity could be in the second half or going forward, Fred?

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

Yes. Let me have Raul answer the first part of it on China, and then I'll come back on the test kits.

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

Yes. On an organic constant currency basis, it was about 12%, Larry, growth.

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

But that's compared to 20%, what we've seen in the past like last year...

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

Year-over-year growth.

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

Yes. So let me go to the test kits. We're awaiting approval of our VTM, viral test media, from the FDA, we believe that approval is imminent. And I think that's part of what drives the ability to take the business and ramp up from there. So the swabs are all well and fine, but it really is the kit and the entire solution. Another thing that we are doing, Larry, is by -- I'm going to say September, 1st of September, Merit will have its -- all of its own vials, so we are tooled. And once those are qualified, they'll be molded here and then we'll have all of the pieces. And so I think that's really what drives it. And the biggest limitation right now is the ability to get those vials from other vendors.

The good news is we've invested -- capital's still staying within the restraints of our CapEx, and -- that we've promised. But we have capacity that can be both for OEM as well as for our own kits. So we will provide the demand for full kits to customers and then we will use our excess for OEM. So those are the factors. It's getting the final approval, which could be, as I mentioned, imminent. What does imminent mean? In the next week or so, 2 weeks, in my view. And then having our own molding. So it's kind of a hand-to-mouth on the molded parts on the vials right now. Once those things are in-house, then I think it changes the dynamics and allows us to ramp pretty quickly to meet the demand.

Operator

Next question comes from the line of Steven Lichtman with Oppenheimer.

Steven Michael Lichtman Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

As we look at the OpEx savings sequentially into 2Q, how much of that would you say is sort of durable expense savings looking ahead versus obviously some of the temporary shutdown that you -- in response to COVID?

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

Yes. I think that's a great question. If you remember back to kind of our original guidance, we essentially were keeping operating expenses flat. Since then, we've identified a few other cost-saving measures. So I think essentially, if you compare it to Q1, I think Q1 is a better number on kind of where we expect operating expenses to be from a kind of a more permanent standpoint. I think Q2 obviously has a lot of the furloughs and salary reductions and some of the temporary things we've done. So I think Q1 is a better baseline, I think if you're kind of trying to point to where we should be. And that's before any new identified cost savings.

Steven Michael Lichtman Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

Okay. Got it. And then just a clarification, Raul. So you mentioned that 10-day down in the U.S. So that was year-over-year, that growth rate you were talking about. It was down year-over-year in that 10-day average?

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

Yes. No, that's really just comparing it to our most recent trends, right? So as we compare to the prior 10 days, we looked -- we noticed that we saw a little dip, just a slight dip.

Steven Michael Lichtman *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Got it. And then lastly, Fred, you mentioned in your prepared remarks, obviously, lots of changes in the delivery of health care, a lot is fluid. Just wondering what that means to you, and how things are changing at Merit to prepare for that?

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

Yes. Thank you. Listen, one of the things that we do, and I alluded to this in the release, and that is that for instance, like on the issues of test kits, that's almost done at the administration level and at the level where you're working with Premier and those guys. That's what's kind of driving that part of it. And although we always contract for various types of products, that's where it's being driven, not down on the unit level or down like you would if you were in the cath lab or in the special lab. So I think that is an important part of the things of changing.

And I think the other thing that -- and thank you for asking this question, one of the things that -- and I wanted to use this word and I didn't but I'll say it here today. Some pieces of our business are very sticky. And by that, I mean, there are things that people use routinely, and products that people get used to using, and although they may be parts of bids and this and that and the other national accounts, they are things that people like. They like Merit products.

I think one of the things that we've been looking at, and Raul alluded to it somewhat, and that is, as we take a look at the resources that we're directing to those kinds of products, I think we're going to ease up a bit -- not just a bit, but quite a bit and say that some of those can stand on their own or have much -- a lower level of support while we take the much higher-margin products, like the WRAPSODY in Europe, like our biopsy products, like our Cianna products. And those areas that we require more technical support but have higher margins, I think we're just going to shift kind of the emphasis on the areas that give us higher margins and where we have a much more proprietary position than we do, and I'll say, on some of our legacy products. So that's one of the things that we've learned.

And then finally on this, and I'm sorry to go on and on it. But I've got 3 people in my room right now. We've been operating this way for now 4 months. And I think that one of the things that we look at is to say, you know what, we've been doing this in the past, and we've been doing that in the past, and we don't need to do those things. I really truly believe that the way business looks and the way we do business will change dramatically, and we'll see things and costs and the use of the Teams and Zoom and all these things for training and this and that at a lot less money. So we can take and use that money elsewhere or just put it into the coffers. And I think business for Merit is going to change structurally how we've done business in the past. And Raul, do you want to comment on that because we've -- we talk about this every day. So...

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

Yes. No, I mean, I think everybody is probably experiencing this. I think people like face-to-face, and they're used to doing business face-to-face. I think what this allowed was really kind of a big testing environment to see how things would work out via webcast. And I think business has been conducted just fine. We haven't skipped a beat. And I think a lot of people are finding that. So I think as we look at our office space, our meetings, our sales meetings and our shows, I think all those things we've got to really think about and see what type of ROI we're getting.

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

Well, and very candidly, even investor conferences.

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

Yes.

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

Think of all that time we spend week after week going back and forth, the cost and all those things, I think we're going to be the virtual guys. We can do a virtual Investor Day. There's a lot of things we think that we can do that will be more efficient for us, less costly and allow us, very candidly, to get our message out I think better than we have in the past. So those would be my comments, Steve.

Operator

Our next question comes from the line of Cecilia Furlong with Canaccord.

Cecilia E. Furlong *Canaccord Genuity Corp., Research Division - Associate*

Fred, I guess I just wanted to start with your commentary around prioritization of your pipeline and really your focus on EP, and just see if you could provide a bit more color in terms of what your targets there are and what your focus areas are.

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

Yes. There were a number of those, Cecilia, that we could have picked, and I was trying to point out a couple of areas. But let's go to the EP area. Access coronary sinus cannulation, the various types of products for closure, bail-out balloons and things that you need to do to help to preserve life if you have a problem when they're removing leads, I could go on and on and on of those opportunities. Many of the bigger boys, and we know who they are, I mean we talk about Abbott, St. Jude, you talk about Medtronic, and then, of course, Boston and others, really are doing the defibrillators, the pacemakers, those sorts of things. But almost all of those players that I just mentioned use our delivery systems. And being a double-digit growth area and one of the few in the cardiovascular area, we have just -- I think we have 7 or 8 products that we have developed and several more. So we've got this full pipeline.

And people, no matter what they buy on the other side, Medtronic, Abbott, whoever, Boston, they almost all use our delivery system and all these other ancillary products, which are high margin, and have that Merit quality and things that we're good at. I mean, whether they be any sort of things that came out of the Thomas Medical acquisition years ago, transeptal needles, steerable catheters they can sell up to \$1,000. Those sorts of things, which we do well, we have focused a lot in that development, and we see a lot of opportunity there.

When we go over to and talk about the WRAPSODY, the technology around the WRAPSODY, in terms of -- and again, I don't want to give away my competitive advantage. But even as an example, we have a product that we buy that we're paying \$750 for as part of one of our advanced products. We can make it for \$75. And in fact, had developed it. And we will file for a 510(k) in about 60 days, I think by the end of the year. It's some of those technologies using ePTFE that we've developed for the WRAPSODY.

And while I'm on the WRAPSODY, I made a misstatement, I want to correct it. I said that we had approval in Australia. It's pending. What we do have is we've done a number of procedures there based on the special access capabilities that you file with the government and the physician file. So I misspoke on that, and I want to take that opportunity to correct it.

So Cecilia, those are some of the areas -- and very candidly in the test kit area. Again, as I talk about, it's been an area that's been just kind of going along. And what we found that there was a lot of things that we did here with molding, and science, and coatings and things like that we think can open up. And while everybody is just really trying to meet that need, what we found is this, is the quality of products that Merit produces is highly appreciated. There are still a lot of offshore products coming in, in which people have a low level of confidence in. And then there's a lot of things that we do and capabilities we have here to advance those arts instead of just trying to meet existing demand. We like to be able to have the newer products and new ideas that come along with it. We have a number of those.

So -- and maybe just one more area of clarification. We're not stopping our R&D. What we've done is where we had maybe 50 projects, we've cut that to 25, increased the team size. And we've actually had some reductions in head count there, too. But what we've done is we've focused more on the things that will have the biggest impact and so we brought it down. We focused more on it, and we think that will have an impact, both on revenues, on our ability to focus on -- sometimes Merit has too many products. And we can get better focus on things that will have a better impact and higher margins for the company. So I want to make sure I get -- maybe address that. So Cecilia, thank you. Any other questions?

Cecilia E. Furlong *Canaccord Genuity Corp., Research Division - Associate*

Yes, just one follow-up, and thank you for that, Fred. I was just wondering if you could talk a little bit about your outlook around Cianna going forward. Just your relative view versus other potential areas of strength and your evolving portfolio focus and how you really view the ability to unlock the full potential of that?

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

Yes. It's a good question. And one, it was one of those areas because it had a capital part to it, it was really essentially elective. And it's interesting, we're talking about a woman with breast cancer, and that's elective. I mean I think that's part of this whole balancing issue that had to be looked at. We're doing cases now that are starting in Europe. We've placed units in Europe. Of course, now we've missed 3 or 4 months with all this, but we are starting to see light coming into it. And I was talking to a physician the other day, who took the time to call me and said he had used a competitive product. And he took the time to call me and say, "I want you to know that I looked at this. Yours is the best product. And I want to get into these other hospitals." So there's that part of it, and that's always comforting.

And one of the things that we hope to do in -- I don't know if it will be in the fall or early part of next year, but we have not stopped the R&D in that particular area. And we have, I think, some of the most exciting things we have to advance the art from where it is today, even beyond that point. And those are the kinds of things that we'll be talking about as we start to deliver our forecast and talk about next year or the year-end results. So we've been actively engaged. People in the office practicing all the things that we should. But there's a lot of activity and some pretty neat stuff we're working on. So we've not lost any enthusiasm for -- in Cianna. I want to make sure that's very clear. We think it's a terrific technology. We think it's a market-leading technology, and we have something that's going to increase our lead from a technology point of view in the future.

Operator

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

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

So Raul, I guess, second half of last year '19, you guys did stub your toe, and you -- I think you and I were out and you sort of reassured investors, "hey, we're going to start delivering free cash flow next year." Thanks for delivering on that. Can you just speak to maybe the 2 or 3 biggest contributors to sort of turning that metric around in a pretty significant way.

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

Yes, focus. I think there isn't a day that goes by that we talk about free cash flow. Fred, and I, we essentially -- with the help of our FP&A group, changed how we monitor CapEx. We're meeting every 3 weeks on it and making sure that we understand what's going out the door, what's coming down the pipeline. So I think that's a big driver, really the focus. And also kind of the reduction in R&D projects, as Fred mentioned. That also helps ease the pressure. We've developed essentially a process that's very nimble for our liking. And so we're able to make decisions and that quickly on opportunities that we see.

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

Mike, if I could just -- it's about data. It's about having the information and having a budget, and then being able to essentially have a pay for attitude. If we're going to do this, then what we have to do is we have to give up this. And the data comes forward, we sit down with the ops group, the R&D group and Raul, FP&A and myself and say, okay, here's the budget. Where do we stand? And if we need to do this, then we have to -- we're going to have to back off on this or defer that. So it's about having the data from the FP&A group, bringing it forward and just keeping an eye on it. And I think that's kind of -- it's new. And we should have been doing it a long time ago. So I think it's really great credit goes to a lot of folks who have to have the dividend -- or the discipline, but the problem is if you don't have the data. So we're looking at the front window and not looking at the rearview mirror. And that's a big help. Raul?

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

So one thing also, receivables and the collection, obviously, with the drop in sales, that helped out in Q2. Maybe to give some color on what -- going forward. I think Q2 was a very good quarter for us. But obviously, if sales start to rebound, we will eat into that. Specifically in Q3, we've got a payment that's going out to the DOJ of \$18 million. We might -- depending on the demand, inventory builds might eat into that a little bit, too. So I think we're still excited about the number we can hit for the year. But just want to kind of level set

expectations for Q3 as we move forward. But we're very excited about it, Mike. And obviously, the focus is there, and we're -- we want to continue to deliver on it.

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

Excellent. Okay. So just turning to sales and specifically to the commentary around Q3 expectations. I guess I'm having a hard time believing that the range, particularly the bottom end of the range, is anything other than super conservatism because you're comparing -- the plus or minus 5%, you're comparing to a quarter in which April and May, 2/3 of the quarter was down in aggregate 20%. So it's hard for me to see unless you're -- the minus 5% assumes just a severe deterioration in terms of corona, and just sort of widespread shutdowns. It's hard for me to see how 5% down is a realistic expectation. Can you just speak to what's anticipated in a down 5%?

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

Yes. Let's just maybe -- if we talk about it in the terms of the prior year, so last year, we did around \$243 million. Assuming you kind of have the same growth rate as you did in Q2, that kind of puts you at that 5% bottom, you'd essentially kind of be at 15% year-over-year growth for Q3. If you go kind of to the top, that 5% increase sequentially, that gets you to roughly 6% decline in sales over Q3 of 2019. So I think what -- if you kind of look at it that way, you do see some progression in kind of the decline in sales from Q2 to Q3. But look, again, historically, we do see a decline in sales. And so we've got to factor that in too along with what we're seeing on COVID-19. Does that help out a little bit?

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

Yes. Yes. And I guess last one for Fred. Fred, you're part of that committee that's sort of trying to come up with a longer-term target, and I think particularly maybe operating margin. Is there any chance the uncertainty around COVID causes you guys to sort of punt that down the road? Or are you guys coming out with sort of a long-term sort of normalized target and come hell or high water, you're going to speak to that in Q3?

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

Yes. The -- I mean, I don't like this term but I'll use it. You can't spit into the wind. I think what we want to do is take a look and analyze the business, and we are doing that. We're having other people help us. Consultants looking at the longer-term situation. And we've met at least 5 or 6 times. Lonny Carpenter is the Chairman of that group. And again, I mean, that's a recommendation that goes to the Board. But I think what we want to do is to make sure that under normal conditions, that we would see these kinds of goals -- listen, if you take a look at our operating income, if you take a look at our growth rates, if you look at this, we want to make sure that we can have a plan and the goal and we want to be responsible in doing that.

Here's what I do know. Mike, when we've set goals before and we get the entire team working on it together, whether it be this free cash flow, whether it be on improving gross margins, whether it be on this, that or the other, we've been very successful in doing so. And you're seeing some of that already with the plant consolidation. Many of the things that we'll be talking about going forward, some of those things we've already done.

I mean, this is -- we don't need a consultant to tell us this and that. But we have engaged the Boston Consulting Group. And we are working with them to analyze -- they worked with many of the larger companies, and we're going through the process of making sure that what we look at is bona fide, it's professional, it's looked by third parties. So that when we bring those numbers forward, they are realistic, they're -- as I pointed in my comments, they're sustainable. And I think the way we're going about it is quite different than we have in the past. And try to say over a period of time, we can see this kind of growth, and these will be our goals. Compensation will be tied to it, and every employee of the company will be working towards those goals. And we've already started some of this stuff, and there'll be a lot of work done, not only in the next 90 days to formulate that, which you'll hear at the end of the third quarter. But then there's the other part of it, it's developing the plan and then it's implementing the plan to make sure that we can reach that.

And really kind of claim out of this, I don't want to call it being unreliable, but being something that people can look at Merit as being a premium company, being a star, being able to do things that you've seen some other companies do in the past. And I think we wanted to

kind of up our game, but we couldn't do it by ourselves. We need other people. We need to kind of take the prejudices and the preconceptions off the table and lay it out to have a really academic and honest answer about where we can go with the business in the future. We think with the technology and all the things that we're doing. And then we've taken Pat McCarty, who works in our FP&A group, and we've complemented those guys several times today, to be the kind of a champion. Raul and I have to run the business on a day-to-day basis. But in terms of all of the various areas, whether it be SKUs, whether it be facilities, whether it be in rationalization or this and that, we've got to have somebody. And I think we're structuring ourselves to deliver those kinds of knowledge.

But you first have to have something -- ask yourself the question, to be honest with yourselves, and I think we're going through that process. And we are engaged and enthused about the possibilities that we see with the company. And that's what we're working very hard on, while dealing with all these other issues. And I think you're starting to see -- you saw the fourth quarter, you saw the first quarter, you've seen the second quarter. And we're going to continue to work to deliver the results that we think that are necessary and are required of a premium company, right? We just got to get back on that track and we will. Raul?

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

Yes. No, I mean, I think we did carve out Pat, who was head of our FP&A group, that's going to be his dedicated job. He's the day-to-day guy, and he's going to lead the transformation. Fred and I and along with Ron Frost will sit on the committee. And we're laser-focused on it. And as you can see, by dedicating one person and carving that out as a specific job and a long-term job, we're serious about it.

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

Yes. On that note, the other members of the committee have really melded into the business. And by that, I mean, we haven't convinced them that we're right. What I'm saying is they are people who are experienced who've been through taking \$1 billion company to several billion. They've been on the other side of -- they even had to go through this. So this isn't like foreign to them. They've all had to work at these things and to have the benefit of these directors who are on the committee -- and remember, it has to go to the full Board for approval. But I think we have developed this Board and the members of this Board into a really good fighting unit. I mean, it is a good group of people who are working hard. There's -- no one's offended. No one's threatened. We're working towards a common goal. We're all in it together, and it's been an improvement in our business. I would just flat out say, it's improved our business, and we're working together all well, and you'll see that as we move forward. You've seen some of it already, but you'll see even more, in my view.

Raul, anything else you want to add?

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

No, I think that covers it.

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

Okay.

Operator

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

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

I appreciate all the detail. I got on the call a little late, so I apologize if any of this has been covered. You mentioned the U.S. softness in July and I guess a bit in China. Are you seeing any relative softness in other geographies in July?

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

Yes. I mean there's places like Brazil has just been -- has never recovered. It's been very slow in some of those. But it's a small part of our sales, but there's a few places like that. We had a good -- I think Russia has kind of heated up. But there are a few little areas. They've been a little slow in Southeast Asia.

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

Yes. I think if you think about it, the emerging markets is kind of -- and again, we're taking slight softness here. So I don't really kind of want to point that out. Just a general slight slowdown, not as good as June, but just enough...

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

Yes. And remember, this average we saw -- and we're talking about July, is a 10-day rolling average. So I mean, we need to make sure that we keep that in perspective. But I think -- I'm not going to say it spooked us, but I said, okay, well, let's make sure that we're conservative and that -- and we can't ignore things that have happened in the past or what you do is repeat them, and we don't want that to happen. So I think we're trying to be conservative but realistic. And maybe tomorrow, it picks back up on the other side in the next 10 days, takes that off the table. But I mean, it would be irresponsible if we didn't pay attention to this. And we have, and we will.

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

Okay. If I back out the \$60 million in, let's call it, loss COVID-related revenue, I think that implies about 8%, 9% underlying growth. And I realize that the \$60 million is not an exact science here. But I guess the question is, do you think you can sustain high single-digit revenue growth, even with the slimmed down cost structure?

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

Yes. Well, I'm just going to say that -- and I did address this a little bit. I think what this has taught us is we put and wait certain things with certain amounts of cost. And what we've seen through this without a salesperson being in and without this and that, there are certain areas of our business that are -- I used the word sticky. And then as -- people like our products, they like our products, they're competitively priced and because of the breadth of our portfolio, they buy several products. I think we're going to take and kind of redirect resources for the areas that we think have higher growth opportunities. So what I'm really saying is it's kind of there's some areas on the legacy side that don't require as much support and expense and other areas that we think have higher margins and higher growth opportunities, and we're going to focus and pivot to those areas. So we do think that we can sustain growth. But we're just looking at it, again, through a different set of eyes than we would have, let's say, 6 months ago or a year ago.

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

Okay. Okay. That's helpful. Gross margin, is there a revenue level where the overhead absorption becomes a little less of a drag. And maybe if you can just kind of identify the key drivers here that could help gross margin expand from these levels.

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

Yes. I mean I think a lot of it is really kind of sales driven, right, unfortunately. So we had some negative variances, obviously, that we created during April and May. June actually turned out to be a fairly good month. And we've got obsolescence, which some of it's related to COVID-19 we're looking at. That is one of the initiatives that we're working on because we think there's leverage there to be had. And freight, to be honest with you, we had less revenue, less shipping to customers, but the freight costs are up. So as a percentage of revenue, they're kind of almost fixed in kind of squeezing the margin. So I think as we progress and revenue grows, I think we should see the gross margin rebound, specifically as some of these higher-margin products start to come back.

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

Yes. Cianna, as our business -- our esophageal business, which is coming back. GI business, it's starting to come back. I think it's also has to do with mix. So if you take a look at our critical care business, we had a lot of demand in the last quarter to meet needs of a national health service, with CBCs, pressure infuser bags and some of those things that are all relatively low margin. So what will happen there is we think that will shift back over to some form of normalization at some point. And then I think you'll see as those products come along, including WRAPSODY. That starts to go in and those costs drop, and it's just a matter of absorption there. So I think it was really the effects of COVID, and the mix of what customers were buying, tubing products and things like this. And they've started to slow down. We're not seeing as much there as already that we're going forward. So we now just need to come back in with those other products. And I think you'll see an improvement over time of the gross margins back to the areas that we've seen previously.

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

Okay. And just last one for me. I think you mentioned closing the pack business in Australia. Do you -- or shutting it down, I'm just trying to figure out, is there a revenue impact to that move? Or are you manufacturing those products elsewhere?

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

No. So we manufacture and sell those products in Australia. The revenue impact would be about \$10 million. But it'll be immediately accretive once that's fully shut down. So sometime in Q1 of 2021.

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

Accretive to margins, or to EPS?

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

That's accretive to EPS, gross margins and operating margins.

Operator

Our next question comes from the line of Jim Sidoti with Sidoti & Company.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

So just a couple of quick ones. You got WRAPSODY approved in Europe. But can you launch it? Or are you kind of being -- putting a holding pattern now until your reps are able to get in to see physicians?

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

No, no. It is not in holding. We have, in fact, launched it. We've received orders. We have, I think, another 3 or 4 cases before the week is out. Now all that being said, Jim, the access and the ability and things like this are not what they were before. But I will tell you that there's so much enthusiasm because as you'll recall, we did most of our first in man -- all of our first in man were done in Europe. And many of the physicians and hospitals, this is a product that's a superior performance gives you, in my view, superior outcomes and that's what people -- especially for these dialysis patients. You want to keep them out of the hospital. So if you have a product that can reduce restenosis, thrombus and those sorts of things, that's pretty important. So no, it is launched. It is starting up. It's slower than I'd like it to be, but it's not slower than what I've expected. So it is out there. And then as I mentioned, we've done some cases in Australia under special access and were approved in New Zealand. Remember, we'll be talking about the WAVE study, the WAVE study, the WRAPSODY arteriovenous efficacy product, and that's a big deal. There's about 30 U.S. hospitals that will be engaged in that. And again, it's going to be -- it's an exciting future for this company. Very exciting future.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

Are you able to start enrollment of patients now even with COVID? Or are you waiting for COVID to calm down before you start enrolling patients in the next...

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

Yes. We don't get to say, Jim. It's the hospitals. But we are in the enrollment. We have a number of the hospitals already. They're all tied down in contracts and more that are being negotiated. And as things get up in hospitals, are able to find the proper mix of how they treat COVID patients and how they treat elective, so-called elective procedures, those procedures will come online. I actually had -- I mean to give you kind of an example. I had an individual call me who is a KOL from an East Coast hospital yesterday and was arguing -- not arguing, but was trying to convince me that they ought to be -- "please, we need to be in this study. This is significant." So I've got them calling me. And that's kind of a nice thing to see. So we've seen that as well.

James Philip Sidoti Sidoti & Company, LLC - Research Analyst

All right. And then the last one for me. On the legal, I know you have the settlement that you that you're going to announce details from -- details on next quarter. But it's been kind of a drip, drip, drip the last couple of years with legal expenses and the lawyers. Now that this is resolved, does that go away? And about how much were you spending on that?

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

Yes. All of this is in our K. In our Q, it's all disclosed there, and all that information is in there. I would say it was a little more than a drip, drip, drip. It was a lot of money to defend ourselves and to go over 4.5 years. Now that all being said, Jim, I've said, and I'll say to you, what we've agreed to do is the final documents will be done, we think, in the next 4 to 8 weeks. But again, this is the government. And

when they're done, they'll make their statement, and then we will have our so-called, if I could use this, our day in court. We'll get to tell our side of the story. And I think it will become very, very clear to you exactly what the situation was and something that is I'm looking forward to telling the story. Let's just put it that way.

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

So the fact that, that expense goes away in 2021, we should see improvement in cash flow from then as well.

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

Yes. I mean it was a big drain of both time and money for something that we'll talk about in the future.

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

We spent about \$6.5 million in legal costs last year. And \$5.6 million...

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

Yes. That's more like a bite, bite, bite instead of drip, drip, drip.

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

Okay. But all that should go down to free cash flow?

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

That's correct. That's correct.

Operator

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

Michael Stephen Matson *Needham & Company, LLC, Research Division - Senior Analyst*

Since the call is going over an hour, I'll just limit to 1 question here. But can you just talk about the WAVE trial design for WRAPSODY and your expectations around the timing of enrollment and the follow-up and when you could potentially have that product launched in the U.S. -- the WRAPSODY product start to launch in the U.S.?

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

Yes. Let me hit a couple of pieces of that. We'll start enrolling patients in January. So we still have a few months to get everything squared around, make sure we have all the inventories in place. In many of these sites, micro places where you don't have one, you've got maybe 30 to 50 stents in there, and you can have 30 accounts. So I'm just saying, you've got to put them in there, and then they'll size them according to the patients.

My estimates that I'm hearing from my regulatory staff is 3 to 3.5 years to get it fully done and to go through and follow through with the appropriate follow-ups. I don't have all of the information on that. But I will say that -- and I'm looking -- it's 350 patients. I've got my regulatory guy here sending me a text making -- filling me in. And what else do I want to say about it, 350 -- oh, don't forget that we have breakthrough status on 3 of the cohorts that are involved with this that were issued by the FDA. And incidentally, getting approved from an IDE is a very long and cumbersome process in which we had to take the first-in-man data. We worked with the FDA. They -- by the way, they are working fabulously. They believe, and at least this is my assessment, that this is an important product.

And so we've worked well with them, and we've come to an agreement on all of the numbers and all the things that need to be done. We'll start in January. And then with -- it's all about the data, and -- but the first-in-man data, which, by the way, we hope to publish sometime in the very near future, I think will answer the questions for a lot of people as to the significance of this product. So that's the best way for me to answer it. And I'll have some more stuff from my regulatory minds if we have a follow-up. So nothing that's out of line, but just more to your questions.

Operator

Our next question comes from the line of Matthew O'Brien with Piper Sandler.

Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst

I'll ask 2 here together and then drop. Raul, the free cash flow, and I know you've got a DOJ payout here coming, and you've had a benefit from collections on the COVID -- due to COVID and inventory benefits, et cetera. But if you were to net out those benefits you've seen on the COVID side, what does the free cash flow for the year look like? And can we extrapolate that kind of performance -- I don't know if it's \$20 million year-to-date if you exclude the COVID benefits, if there is such a thing? Or is it \$25 million, would that have been \$40 million or \$50 million for the full year, just excluding the DOJ, which is onetime? How do we think about that metric specifically? And where do you use that cash, not necessarily this year as you're probably hoarding cash, given what's going on around you? But are you paying down debt aggressively next year? How do we think about that?

And then for Fred, just on the operating committee side of things, who makes the final decision as far as what exactly you're going to commit to? And then what kind of metrics should we be thinking about beyond just the typical operating margin kind of commentary. Are you going to give more on gross margins exactly where the benefits are going to be derived from, products that you're going to stop selling in the future, lower margin stuff, things like that? What else should we expect come next quarter?

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

Sure. So real quick. I think originally, at the beginning of the year, we had thrown out free cash flow of \$40 million to \$50 million. I think given everything that's happened, we'd love to be somewhere in the \$35 million or closer to \$40 million range.

Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Yes. But just -- so Raul, that's the adjusted number, so...

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

That's excluding the DOJ -- yes, that's the adjusted number, adjusted number. Yes.

Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst

So then why would you be at the lower end of the range if you're making these improvements on the CapEx side of the business elsewhere? Why would you be \$35 million to \$40 million versus \$40 million to \$50 million?

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

Because you're going to have AR that will come back as sales come back. And then you're also going to have inventory. I think a little bit -- a few questions ago, I did mention that Q3, we expect to see essentially negative free cash flow just because of the working capital component of that and as things bounce back. So you'll eat into the \$47 million for year-to-date, and then we'll see how much of that we can retain in Q4. But right now, we're shooting for -- we'd love to hit that -- the low end of the range. But I think there's upside, Matt. I think, hopefully, we can get there. We'll see how it works out.

Matthew Oliver O'Brien Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Okay. And then, Fred, on the operating committee side?

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

Yes. So again, it's the 3 new directors and myself. The ultimate decisions made by the full Board. Let me just say that we have met with a number of advisers and analysts, including Starboard and looked at various types of models of what others have done, how they've done it. And we're analyzing the capabilities and what we think that we can do and analyzing -- we don't want to do something that's irresponsible. We don't want to get out in front of ourselves, and I don't want to get in front of the committee.

So we are meeting, I think, every 2 weeks, and we have committee assignments in between that. And then we will bring that thing

forward. We -- as I mentioned, I don't know if you were on the call, we brought in the Boston Consulting Group that's going to walk through our business. And as those things are all formulated and the staff buys in to the recommendations, and we will have a negotiation with that consultant who works for Merit and then we will bring on the committee. We will go ahead and establish what they think is realistic, what they think is sustainable. And then we will make that recommendation to the full Board. The full Board will decide, and then we will make that presentation to the shareholders at the end of next quarter. So that's kind of the scenario.

Operator

I'm showing no further questions in the queue. I'll turn the call back over to management for closing.

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

Well, again, ladies and gentlemen. I know it's been a busy day. We had Boston, and we had CONMED and a whole bunch of people out there reporting today, and so we appreciate the time you've taken to be on the call. I'm pleased with this quarter. I'm -- I think the entire staff is committed, and we look forward to the next call. And we're engaged, and we like the challenge. So I want to thank you again. Raul and I will be here for the next couple of hours if you need clarification on some things. And again, we thank you for your interest in the company and wish you a good day. We'll sign off now from Salt Lake City. God bless you all and thank you. Good night.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for participation. You may now disconnect. Everyone, have a wonderful day.

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