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PRESENTATION

Operator

Hello, ladies and gentlemen, and welcome to the Merit Medical Systems, Inc. Foundations for Growth Conference call. (Operator Instructions) Please note that this conference call is being recorded and that the recording will be available on the company's website for replay shortly.

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

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

Thank you, and welcome, everyone, to Merit Medical Systems Foundations for Growth Conference Call. I'm joined today in the call by Raul Parra, our Chief Financial Officer and Treasurer; and Brian Lloyd, our Chief Legal Officer and Corporate Secretary. Brian, would you mind walking us through the safe harbor provisions?

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

Thank you, Fred. Before we get started, I would like to remind everyone that this presentation contains forward-looking statements that receive safe harbor protection under the 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 these risks or uncertainties, including the unpredictable effect of the ongoing COVID-19 pandemic as well as extraordinary events or transactions impacting our company, could cause actual results to differ materially from those currently anticipated.

In addition, any forward-looking statements represent our views only as of today, November 10, 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, except as required by applicable law. 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 discussion of factors that could cause actual results to differ from these forward-looking 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. This presentation also contains certain non-GAAP financial measures.

Reconciliation of non-GAAP financial measures to most directly comparable U.S. GAAP measures is included in today's press release and presentation furnished to the SEC under Form 8-K. Please refer to the 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 financial measures in addition to, not as a substitute for, financial reporting measures prepared in accordance with GAAP. Please note that these calculations may not be comparable with similarly titled measures of other companies. Both today's press release and presentation are available on the Investors page of our website.

I will now turn the call back to Fred.

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

Thank you, Brian. Let me start by outlining the primary objectives of the call and what we intend to discuss during our prepared remarks. First, pursuant to the formal announcement of Merit's financial targets for the 3-year period ending December 31, 2023, which we announced in a press release this afternoon, Raul and I want to provide additional color on a number of areas, including the process of developing our Foundations for Growth program to date, the profile of the Merit business today and the expected financial profile of the company at the end of 2023 and the key assumptions supporting the significant improvement in profitability and cash flow generation we expect as we execute the Foundations for Growth program over the next 3 years. Following our prepared remarks, we will open the call for your questions.

Now please note that we have prepared a slide presentation to accompany this discussion, which we have furnished to the SEC and is available on the IR portion of our website. And with that, let's get started.

I want to begin by providing a brief update on the progress we have made in a number of operational areas this year. As evidenced by the strong results we reported on our quarter 3 call on October 28, Merit has been focused on improving our operating and financial performance for more than a year now with progress in a number of areas, including our continuation of efforts to move products to our facilities in Mexico and Texas, and we are on track to complete transfer of all 14 product lines.

We have completed the closure of our Malvern and West Jordan manufacturing facilities. Our pack business in Australia is scheduled to be closed by the end of the year, and we have recently secured a subtenant, which agreed to cover approximately 80% of the lease expenses beginning in 2021. Our Temecula site has been closed, and production has been moved to our Texas facility. And our R&D efforts are ongoing, and we expect to continue our track record of new product introductions going forward.

We are sharing these updates to highlight that the formal announcement of our Foundation for Growth program in this afternoon's press release should be viewed as incremental to the notable progress we have made so far this year due to the hard work and dedication of our team and that we are not embarking on the Foundations for Growth program from a standstill. Rather, we believe that the formal kickoff of the program should be viewed as an acceleration of our progress to date.

I want to share a little background on the process to develop the Foundations for Growth program as it illustrates the thorough strategic efforts invested in developing this multiyear program. Merit has had a very strong legacy of growth. From our founding more than 30 years ago, we built a business that we believe soon will surpass $1 billion in revenue and spans all major geographies in a widening range of segments where our innovations are delivering value and improving patient outcomes.

As we look forward to the next few years, we intend to continue to drive our top line through innovation and exceptional customer engagement. But to ensure our growth is sustainable and profitable, we also need to adapt the company to recognize and exploit -- excuse me, and to exploit the scale, breadth and depth of our business.

To set up our company for success over the coming years, we have initiated a company-wide program, which we are calling Foundations for Growth as this program involves an evaluation of all aspects of our business to position us to deliver the next $1 billion of growth and to deliver this revenue growth and an enhanced profitability profile.

The Foundation for Growth program was established with 3 clear objectives in mind. First, maintain growth above market, designed to preserve our proven ability to innovate together with our customers and deliver unique solutions to the market that fuel our top line growth. Second, significantly improve our non-GAAP operating margins with operations designed to exploit scale where it exists while preserving autonomy and flexibility where it matters. And third, build a foundation for sustained success, we'll continue to invest in our people, and we'll continue to build new capabilities to meet the evolving needs of our changing health care markets.

From the outset, we wanted to use the Foundations for Growth as a vehicle to think holistically and comprehensively across the business, to challenge the status quo and to deliver an ambitious improvement in profitability while preserving our historically market-leading growth profile, leading of customer-driven innovation and strength of the Merit culture that has served us so well to date.

As many of you know, we have engaged advisers from the Boston Consulting Group to bring their experience, insight and advice as we develop the Foundations for Growth program. The BCG team has been working alongside our team on the ground since August and has complemented our people with their tools, benchmarks, best practices and methodologies to develop a comprehensive program of change that activates the best of our company. The partnership has been very collaborative from the start and has included close engagement of the entire executive team and the important oversight of our Board of Directors and its operating committee.

Phase 1 of our Foundations for Growth program has touched every aspect of our business. Over 500 Merit employees have been engaged, providing input on our operations, insights on our customers and markets and contributing ideas for improvement. With the formal kickoff of the program, we have completed Phase I, and we are now moving on to Phase II. Work streams have been established to touch every line of the P&L, from improving our commercial operations and adapting to the evolving realities and impacts of the COVID-19 pandemic on our customer engagement model, to optimizing our portfolio, to emphasize our innovation and high-growth products while streamlining our legacy product portfolio, to improving our operations and supply chain to capture the benefits of increasing scale and ensuring resiliency with better focus and simplification.

We also intend to adapt our support functions to allow for more efficient shared services at the core, while providing high-quality and more effective support to our in-market teams and operations around the world. While we anticipate significant cost savings and related operating margin improvement over the 3-year Foundations for Growth program, we also want to emphasize that we will continue to invest in the core of our business, our people, our ways of working and our pipeline of innovation.

Importantly, our planned investments include building foundational capabilities and processes to improve the governance and steering of our business as well. This includes establishing more diligent processes for product cycle management, stronger human resource capabilities that will improve our ability to attract, develop and retain top talent and structures and tools to drive commercial excellence across our regions.

Now let us now speak in more detail about the targets and expected impact from the Foundations of Growth program before we go deeper into the specifics of how we intend to deliver. As we formally kick off our Foundations for Growth program, it is important to understand that we have an organization that is fully committed to both the continued execution of activities that we started in the third quarter of 2019 and the successful execution of the new Foundations for Growth program going forward.

Together, we believe our efforts will result in Merit ending 2023 with more than $1.1 billion of revenue and non-GAAP operating margins of at least 18%. We also believe our efforts will drive cumulative free cash flow generation of more than $300 million over the period during the 3 fiscal years ending December 31, 2023, which will significantly enhance our balance sheet and financial condition. We believe the expected free cash flow generation may be no better representation of why the Foundations for Growth program is such a worthy endeavor.

Now with that backdrop, let's get into the details of the financial targets, which the Foundation for Growth program is designed to achieve and I'll discuss the revenue growth profile and then I'll turn it over to Raul to discuss the P&L and cash flow in further detail.

So what drives the forecasted organic constant currency revenue growth CAGR of 5% to 7% from 2020 to 2023? Frankly, we believe there are multiple drivers of the forecasted growth, including geographic mix, compelling market growth expectations by major product, procedure category, and of course, the related market share gain projections we believe we can drive over the next 3 years.

Importantly, the 5% CAGR at the lower end of the target range reflects the projected growth of our exiting portfolio of commercialized products and our projections for growth as a result of the continued penetration of existing markets and countries around the world.

We also expect the activities directly related to the Foundations of Growth program to drive incremental growth from shifting more of our business to a direct model and focusing our product portfolio on the areas that we believe offer the highest growth and the highest margin opportunities in the years to come.

These efforts may involve SKU rationalization or discontinuing existing product categories entirely. But the goal here is to minimize or eliminate the areas of our business that are dilutive to our overall return on invested capital. We believe we have a solid foundation for the 5% CAGR we expect at the lower end of our target range by a combination of opportunities for growth in our existing products and markets with the added tailwind to growth from the implementation of the initiatives we have planned through the Foundations of Growth program.

But we're also excited about the opportunity to drive growth towards the upper end of the range to the extent that we realize stronger market share gains, enter new OUS markets and countries and execute our new product development, clearance and commercialization activities over the next 3 years.

We're excited about the opportunities ahead and believe in our ability to drive organic constant currency growth, revenue growth, CAGR in the range of 5% to 7% from '20 to 2023. We project that the successful execution of our strategy will result in generating annual revenue of more than $1.1 billion by the end of 2023.

Now let's turn to a more detailed discussion of some of the key assumptions driving the lower end of the target growth range, which we believe will demonstrate why we believe this organic growth profile is both realistic and achievable for Merit over the next 3 years. For the avoidance of doubt, all references to our '20 financial -- excuse me, 2020 financial profile are based on our financial guidance for the 12 months ending December 31, 2020, which we have reaffirmed in our press release this afternoon. Specifically, we expect total revenue in the range of $950 million to $959 million for the full year 2020 period.

Importantly, the organic constant currency growth and growth CAGR commentary that follows assumes a tailwind from foreign currency exchange rates on our GAAP revenue results of approximately $4 million for the 12 months ending December 31, 2021, and assumes no material change in the impact on our business from the global pandemic COVID-19 and no extraordinary transactions.

We project that the lower end of the 5% growth CAGR will drive approximately $160 million of cumulative revenue from the growth from 2020 to 2023. More than half of this cumulative revenue growth would come from sales outside the United States, which we forecast to grow at a 7% to 9% CAGR from '20 to 2023, with the balance of the cumulative revenue growth coming from sales in the U.S., which we project will grow at a 4.5% to 6% CAGR from 2020 to 2023.

Now starting with our international business, we project international revenue growth in the 7% to 9% CAGR range to be driven primarily by balanced contributions from growth in our 2 largest regions, APAC and EMEA, which we forecast to grow at CAGRs of 6% and 7%, respectively, over the period.

In the APAC region, we still believe we will see solid growth contributions in China, Japan, Southeast Asia, Australia, New Zealand and Korea. In the EMEA region, we forecast a 7% growth CAGR driven by our continued penetration of the 25-plus commercial countries we are in today through a combination of increasing customers and overall market share gain.

In terms of our U.S. business, we project our growth in the U.S. in the 4.5% to 6% CAGR range to be driven primarily by our peripheral interventional business, which we expect to grow at a CAGR of 7% over the period. We expect our peripheral intervention business to be fueled by strong market growth of approximately 5% per year and Merit market share gain from sales of our biopsy, drainage, radar localization and VCF products, while we project strong contribution to our U.S. growth through 2023 from our cardiac intervention business, where we focus strong market growth of 4% per year and Merit market share gain from sales of our EP/CRM product lines to drive a revenue growth CAGR of close to 6% over the period.

Finally, we project our U.S. OEM and U.S. endoscopy businesses to grow at a 6% CAGR through 2023, more than offsetting the forecasted decline in the sales of our CPS business as we work through a SKU rationalization strategy focused on reducing or eliminating lower-margin products in the coming years.

Now with that said, I'll now turn the time over to Raul for a review of the improvement in profitability and cash flow generation we project over this period. Raul?

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

Thank you, Fred. As indicated in our press release and presentation, we believe we can leverage a solid mid-single-digit organic growth profile into meaningful improvement in our operating margins over the next 3 years. Specifically, our 2020 financial guidance assumes roughly a 13% non-GAAP operating margin, from which we believe we can generate at least 470 basis points of margin improvement by the end of 2023.

We believe the substantial majority of the projected improvement in operating margin over the period will come from gross margin improvement as we believe we will continue our recent track record of leveraging G&A while exercising prudent operating expense controls and focusing our spending in key areas like regulatory, clinical and R&D, which are all focused on supporting our long-term growth strategy.

With respect to the gross margin improvement implied by our Foundations for Growth program financial targets for 2023, it is important to understand that the improvements are not only related to the programs initiatives but we also believe we can drive roughly 150 basis points of improvement through continued efficiencies and benefits from initiatives we have been working on over the last 18 months. This 150 basis point improvement in non-GAAP gross margin is a direct result of the projected improvements in our base business margin profile we believe we can realize over this period.

The initiatives we have identified through the development of the Foundations for Growth program are projected to drive non-GAAP gross margin improvement of more than 350 basis points through 2023 and are projected to be driven by a variety of strategies, including network consolidation, lean manufacturing initiatives, better human resource efficiency and sharper material inventory and logistics spending.

When it comes to our operating expenses, the story is similar. We are diligently looking for ways to drive efficiencies and to ensure -- and to secure operating leverage as the business continues to grow. However, as we mentioned earlier in today's call, we are looking to reinvest some of these efficiency gains in new capabilities and new ways of working to improve both our commercial operations and the quality of service that our support functions provide to the various parts of the business.

We believe we can drive significant improvements in our margin profile over the next 3 years and look forward to achieving adjusted non-GAAP gross margins in excess of 51% and adjusted non-GAAP operating margins in excess of 18% by the end of 2023.

Finally, as indicated in our press release this afternoon, our Foundations for Growth financial targets include our expectations for free cash flow generation over the period. Specifically, we project to generate cumulative free cash flow in excess of $300 million during the fiscal years 2021, 2022 and 2023. We currently intend to use this cash to continue to enhance our balance sheet and financial condition, including reducing our borrowings and increase our cash position.

With that, I'll turn the call back to Fred.

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

Thanks, Raul. And that wraps up our prepared remarks. We'll turn the time over to our administration, who would now like to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Matthew O'Brien with Piper Sandler.

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

I guess, Fred, can we start on the top line? Obviously, we've got a weird year here in 2020. I just want to make sure expectations are kind of appropriately set for this 5% number that you're talking about at the bottom end of the range. So I would assume '21 is -- it's got easy comp. So it's going to be a little bit above maybe that 5% to 7% CAGR that you've laid out, maybe '22 is a little bit below that, and then we get kind of back to a normalized level in '23 in that kind of midpoint of the range kind of 6%-ish. Is that the right way to think about it? And then kind of bundled within that question, do you assume any kind of meaningful contribution from WRAPSODY from '20 through '23?

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

Yes. Just a reminder, Matt, and again, kind of like our call that we did on our earnings that we are sticking strictly to a CAGR over a 3-year period. So I'm not going to comment on each year at all, other than to say that it is a 3-year plan. And I'm going to stick to that.

Now let's go to the WRAPSODY. The WRAPSODY is released in Europe. It's in the plan, but we do not anticipate as this program was developed and as we deliver it today, that the WRAPSODY will have any meaningful contribution because of the approval process during the -- with the FDA. So it is not in the U.S. numbers or in the number for the 3 years. Only the contributions that would come out of Europe and other approved countries.

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

Got it. Okay. That's helpful. And then turning to the operating margin improvement. I'm assuming that's -- that the cash flow will get most attention from the press release and the commentary. So you gave a lot of difference -- a lot of different areas where we're going to see improvement. Your gross margin is one of those and facility consolidations as well. Can you just be a little bit more granular with where some of the sources of these improvements are coming from so investors can really get comfortable that these are readily achievable type of targets to be setting out? Because, again, I think it's a bit above what most people have been modeling over the next several years.

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

Yes. So I think there's really 2 components, Matt. First of all, out of our kind of base business, we expect somewhere around 150 basis points and that's really driven by revenue mix, product and geography mix and scale. So for example, PI growing faster than CPS, EMEA growing faster than -- kind of offset by EMEA growing faster than the U.S.

So -- and then the next component, the bigger component would be the Foundations for Growth and the related activities to that. So we're looking to get about 350 basis points on the low end there from those activities. And that, again, is network consolidation, which -- and lean manufacturing initiatives. You've seen us kind of perform on some of those already, some of the site closures. Better human resource efficiencies. And then also just making sure that we're sharper on our materials inventory and logistics spending.

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

Okay. Raul, I'm sorry to follow-up on that. But just to be specific on that 350 basis points. Is the network consolidation the biggest chunk of that? And I guess I was also surprised to hear how much gross margin expansion there is going to be given that APAC and EMEA, and maybe I'm wrong on this, are going to be growing faster than the U.S? So I thought there might be a little bit of a headwind there, but it just seems like there's a lot of offsets that you have to still get to that 150 bps. Is that the right way of viewing it?

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

So yes. So we're not going to disclose kind of what the individual levers make up the 350 basis points. Again, we feel comfortable that we've got a good amount of levers to hit that 350. And we've contemplated that mix, Matt. As I mentioned on the base business, 150 basis points is revenue mix and product and geography mix. So as our PI business grows faster, you've got accretion there to the gross margin and then you do have some offset that we've accounted for as the EMEA grows faster.

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

Unidentified Analyst

This is Kevin on for Larry, and I'll echo Matt's comments. A lot to digest. Definitely, some good stuff. I just had one -- I had 2 questions. One, just a big picture question on the top line. I'm curious, which segments of your business on a worldwide basis, you're thinking of as above, in line or below the corporate average? Just trying to get a sense for the big growth contributors for you in the coming years. And then what is the outlook for Custom Procedural Solutions, that segment? I didn't see it within your remarks. And then I just have a follow-up on the margins.

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

So on the international side, we look at a 3-year CAGR at 7% to 9%, U.S. at 4.5% to 6% on a CAGR. And again, we're not talking about year-by-year, but just the CAGR itself over the 3-year period. In terms of the custom pack solutions, again, as we said in our prepared comments that we will look at all aspects of the business and evaluate those as we go forward. And I think that's what we're going to limit our comments to today.

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

Yes, Kevin, I think if you look at our opening remarks, I think we do give a little bit of color there to the level that we want to take it to. So we break it down by geography and then also some of the product lines in the U.S.

Unidentified Analyst

Okay. That's fair. And then on the operating margin improvement, it's very impressive, 18% to 21%. Just 2 follow-ups there. One, should we assume the cadence through 2023 is roughly linear? So if we take your guidance from 2020, it's around 200 basis points per year at the midpoint. Is that the right way to think about it? And then second, it is a big range. So I'm curious on your thoughts of what gets you to the low and the high end of that range?

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

Well, yes, Kevin we talked about some of that in the prepared remarks, but I want to make sure that everybody hears that we're not giving annual details. It's the target by the end of 2023. It's a 3-year program, and we will discuss guidance for 2021 in February. So we're not going to comment on cadence at this point. We'll give you the first point when we talk in February after we finish this year.

Operator

Our next question comes from Jayson Bedford with Raymond James.

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

Just a few for me. Just on the Procedural Solutions SKU rationalization. Has that started already? Or is there a time frame here where -- in which it will commence?

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

Listen, we are looking at all aspects of the business globally. We're looking at -- just focusing on the portfolio in the areas that we will be able to offer the higher gross -- highest growth -- excuse me, the highest margin opportunity in the years to come. So we're looking at every aspect and in every SKU in the business.

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

Okay. The gross margin, you offered a range on op margin. Is there an associated range with gross margin? I heard north of 51%, but I wasn't sure if there was a range associated with gross margin?

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

There's no range associated with that. It's just the 3 aspects that we talked about. Raul, do you want to add to that?

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

Yes. Again, I'll just be -- I'll be very -- our target, just want to be clear, is the 5% to 7% 3-year CAGR and operating margin of 18% to 21%, and free cash flow of greater than $300 million. In order to get -- and we gave some details on what the lower end of that gross margin was, the 150 basis points on the base, 350 on the Foundations for Growth-related activities. Really, in order to get to the higher end of the range, it reflects incremental 100 basis points, primarily driven by scale. So just -- that's about as much color as we want to give.

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

Okay. And then, Raul, what's the R&D profile look like here as a percent of sales? I'm just wondering if there's any deviation from your historical spending level?

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

We're looking at all line items on the income statement, quite frankly. We're not going to disclose specific assumptions for OpEx. However, as we noted in our opening remarks, we are looking to gain efficiencies and reinvest some of that in the areas of growth, R&D being one of them.

Operator

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

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

I guess with the 5% to 7% revenue growth, that -- I think what you're saying is that, that is net of any of the rationalization that you're expecting, correct?

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

That's correct.

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

And so if your historical growth has been a couple of points higher than that, should we assume that you're factoring in kind of 2 or 3 points of kind of headwind from those actions?

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

Again, we're not going to get to that level of detail. We believe our -- the low end of our CAGR is both realistic and achievable.

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

Okay. That's fine. And then with the international growth guidance, I guess I was a little surprised to see that APAC was lower than EMEA because it seems like with -- especially given your exposure to China, it seems like most companies out there are seeing faster growth in Asia than in Europe, so -- given China. So why is China -- or why is APAC lower than Europe?

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

So it's -- obviously, it's a combination of factors. And then when we talk about the APAC region, really, the contribution is coming from China, Japan, Southeast Asia, Australia, New Zealand and Korea. As you know, in China, we're giving the 3 -- the APAC region, we're really giving a 3-year CAGR. So we've tried to anticipate some of the items that you're seeing happening in China. So I think we feel comfortable, and we think this is a realistic number.

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

Okay. And then finally, do you have any kind of restructuring plans along the way? Any kind of reductions in workforce baked in here or anything like that? Or are you not -- maybe not willing to comment on that at this point?

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

Yes. I think we're not going to comment on that today. We'll -- as I mentioned, in February, we'll go through our forecast for the year, and we'll comment further at that time, but not today.

Operator

Our next question comes from Steven Lichtman with Oppenheimer & Company.

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

Just building on that last question. Just generally, should we be factoring in any cash charges associated with the programs you talk about? And if so, is that factored into your free cash flow outlook?

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

Yes. And how we're going to approach that is, we'll give you guys updates on a quarterly basis as they happen. We're just not going to -- we're not going to try and pin those down by quarter. We'll give you the color on those as they happen within the quarters. They'll be represented in our GAAP numbers, and then we'll exclude them from our non-GAAP financials.

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

Okay. Got it. And then...

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

But they are figured in our free cash flow numbers.

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

And then, Fred, on U.S. growth, I appreciate the product segment details you provided. I'm just wondering at a high level, what you see as the weighted average market growth for your business in the U.S.? Should we be assuming at the low end of your target range, it implies modest share gains and at the high end, more robust share gains?

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

We believe that the numbers that we put forward are above where market growth is. So we think the issues of market share are important, and we believe that our numbers are above market share or market growth.

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

Yes. I think just to give you a detailed answer. If you look at the slide deck, specifically in the U.S. colors that we gave there for the 4.5% to 6% CAGR, we do talk about the market growth for both PI and CI and give you some color there. So a big driver of those CAGRs is the market growth.

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

Got it. And then, Raul, just lastly, as you look out over the next few years, any additional comments you could provide on tax rate and your ability to leverage that line as well?

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

That's a -- it's a great question. We've essentially assumed a 26% tax rate, just given the dynamics of kind of the election and who knows what's going to happen. We've -- again, we're going to stick with the 26% tax rate, and we'll go from there.

Operator

Our next question is from Bob Hopkins with Bank of America.

Unidentified Analyst

You actually have Brad on for Bob today. I appreciate all the color you guys have given. It's very helpful. I just wanted to kind of give you an opportunity to see like what kind of gives you confidence in the margin expansion after some of the compression we saw back in 2019? And also how quickly you think you can sort of snap towards putting these initiatives, given all the craziness going on with the pandemic and everything? Really appreciate it.

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

Yes. Well, first of all, let me just say that we have worked, as we mentioned in our prepared comments, and had kind of a running start to this, we started almost 18 months ago. And I think you can see from the progress that we've made, that we have a good place to start. And as we mentioned in our comments, we accelerate from here. And the other part of it is, this isn't something where it's just 4 people or 6 people sitting in a room coming up with numbers, there's been over 500 people engaged in various parts with the Boston Consulting Group. And this has been a team effort to put this together and to come up with numbers that we are confident in and committed to. So that's the best way I can answer your question.

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

Yes. No -- and I think, again, I'll reemphasize something. Again, our targets are the 5% to 7% CAGR and the 18% to 21% operating margin. When we look at the gross margin, I mean we're talking about kind of expansion of the base business, so 150 basis points. Some of those initiatives we've already kind of implemented, as Fred talked about. In addition, we think we have a pretty robust plan to get the additional 350 basis points on the low end. So again, I think we gave a lot of color on how we get to that low end. And we feel pretty confident about it.

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

Very confident.

Operator

Our next question is from James Sidoti with Sidoti & Company.

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

Can you hear me?

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

We can, Jim.

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

Great. Very helpful today. Just want to go over a couple of things. The $300 million in free cash flow, should we assume that, that will be used for debt pay down? Or do you think you'll continue to look at acquisitions?

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

Well, as I think we mentioned in the comments, but if we didn't, this does not include any acquisitions. And what we would do is use it to pay down our debt and strengthen our balance sheet.

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

Okay. And the guidance you gave, it includes the trial cost of the WRAPSODY, correct?

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

That's correct.

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

So I know there are a lot of people on this call that are [smarter] than me, but I'm just looking at the numbers. If you have $1.1 billion in revenue, 20% operating margin, and you would think lower interest costs, without any radical changes in share count, you're looking at earnings north of $3.50 by 2023? Am I missing something?

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

Well, you came up with your own numbers. We've given you the guidance, we'll let you run your models and come up to your own conclusions.

Operator

And our last question comes from Matthew O'Brien with Piper Sandler.

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

Just 1 quick follow-up. You mentioned this move to a direct model in certain locations. How big of a revenue contributor might that be over the next several years?

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

Yes, Matt, unfortunately, we're not going to discuss that particular part today for many reasons. But as those things occur and they are solidified, we'll discuss when appropriate. Raul?

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

Yes. I mean essentially kind of what Fred said, I mean we can tell you that roughly 20% of our revenue was sold through distributors and roughly -- about half of that is the international, so to give you some -- a little bit of color to kind of navigate that...

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

Yes, [opportunities], yes.

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

Any targets maybe over the next -- to the end of the 2023 time frame as far as where that could be? Or do you just not want to go there today?

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

Yes. We're not going to go there today, Matt. But when they occur, we'll discuss them.

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

Got it. Got it. Okay. I guess, sorry, one more real quick one. Just you've given us a lot of commentary on the top line and gross and operating margins. What do you think about yourself as an EPS grower? How should we think about that? I mean there's a ton of leverage here. So how do you think about yourself from an EPS growth profile?

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

Raul, do you want to comment?

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

Yes. Look, I mean, obviously, I'm going to sound like a broken record, but again, 5% to 7% 3-year CAGR, 18% to 21% operating margin. We did indicate free cash flow of greater than $300 million. However, I guess, our execution on these targets will naturally drive strong earnings growth over this period. And so I think maybe to help you guys out a little bit for illustration or modeling purposes at the low end 5% on the CAGR for revenue and 18% on the operating margin. And if we kind of just assume the same borrowing amount and interest expense of $10.5 million to $11 million and a 26% tax rate with the same share count, I think obviously, you get to high teens. So -- but again, we've got our 3 targets that we're focused on, and that's what we're committing to. And I'll let you guys kind of work through the math.

Operator

And I'm not showing any further questions in the queue.

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

Well, again, everybody, we've stayed on the tracks. We wanted to get across the 3 points that we've discussed. I think you can see that there's a commitment to focus here. That's exactly what we're doing. And of course, when appropriate to do so, we will come forward with additional information and color. We want to thank you for your time. We just did our earnings call 10 days ago. And we've been actively engaged in discussing and contemplating and building this program for today's conversation. We appreciate your attendance.

Raul and I will be around for the next couple of hours, and we have some calls scheduled. We look forward to talking with you. However, I want to remind everybody to stay on the rails. We are only going to discuss the issues that are in the press release or in the slide deck. So make sure you stay on the rails, and we look forward to talking to you guys in a few minutes privately. Thank you very much. Have a good evening.

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

Good night.

Operator

That does conclude our conference call for today. Thank you for your participation.