Merit Medical Systems, Inc. (Q4 2024 Earnings)
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Corporate Speakers

- Fred Lampropoulos; Merit Medical Systems, Inc.; Founder, Chairman and Chief Executive Officer
- Brian Lloyd; Merit Medical Systems, Inc.; Chief Legal Officer and Corporate Secretary
- Raul Parra; Merit Medical Systems, Inc,; Chief Financial Officer and Treasurer

Participants

- Jason Bednar; Piper Sandler; Senior Research Analyst
- Larry Biegelsen; Wells Fargo; Senior Medical Device Equity Research Analyst
- Steven Lichtman; Oppenheimer and Company; Managing Director, Senior Research Analyst
- David Rescott; Baird; Senior Research Analyst
- Michael Matson; Needham and Company; Senior Equity Research Analyst
- Jayson Bedford; Raymond James; Managing Director, Equity Research Analyst
- John Young; Canaccord; Analyst
- Michael Petusky; Barrington Research; Managing Director, Senior Investment Analyst
- James Sidoti; Sidoti and Company; Analyst

PRESENTATION

Operator^ Welcome to the Merit Medical Systems Fourth Quarter 2024 Earnings 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, sir.

Fred Lampropoulos^ Thank you. And welcome, everyone. I am joined on the call today by Raul Parra, our Chief Financial Officer and Treasurer; and Brian Lloyd, our Chief Legal Officer and Corporate Secretary. Brian, would you mind taking us through the safe harbor statements, please?

Brian Lloyd^ Thank you, Fred. 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 risks and uncertainties.

The realization of any of these risks or uncertainties as well as extraordinary events or transactions impacting our company could cause actual results to differ materially from the expectations and projections expressed or implied by our forward-looking statements.

In addition, any forward-looking statements represent our views only as of today, February 25, 2025, 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 Cautionary Statement regarding Forward-Looking Statements in today's press release and presentation for important information regarding such statements. For a discussion of factors that could cause actual results to differ from these forward-looking statements, please also refer to our most recent filings with the SEC, which are available on our website.

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. A reconciliation of non-GAAP financial measures to the 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 press release and presentation entitled 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 our presentation are available on the Investors page of our website. I will now turn the call back to Fred.

Fred Lampropoulos^ Thank you, Brian. Let me start with a brief agenda of what we will cover during our prepared remarks.

I will start with a summary of our fourth quarter and full-year 2024 results. Then Raul will provide a more in-depth review of our quarterly financial results and our financial guidance for 2025, which we introduced in today's press release. Then we will open the call for your questions. Beginning with a review of the fourth quarter results.

We reported total revenue of $355.2 million, up 9% year-over-year on a GAAP basis and up 10% year-over-year on a constant currency basis. The constant currency revenue growth we delivered in the fourth quarter exceeded the high end of the range of growth expectations that we outlined in our Q3 earnings call.

Specifically, we expected constant currency revenue growth for the fourth quarter in the range of 6% to 9% year-over-year. The better-than-expected total constant currency revenue results were driven by strong organic growth with contribution from acquired products coming in largely in line with what our fourth quarter guidance had assumed.

With respect to our profitability performance in the fourth quarter, we delivered financial results that significantly exceeded our expectations. We leveraged the stronger-than-expected revenue results to deliver non-GAAP operating profit growth of 30% and a non-GAAP operating margin of 19.6% of sales, up approximately 305 basis points year-over-year. We also delivered 26% growth in our non-GAAP earnings per share, which exceeded the high end of our expectations as well.

We were pleased to deliver strong performance in the fourth quarter, capping off an impressive year of operating and financial performance in 2024, highlighted by more than 8% total constant currency revenue growth including 6% organic constant currency growth, significant improvements in our profitability profile with a 51.7% non-GAAP gross margin and a 19% non-GAAP operating margin, both of which are records for Merit.

And perhaps most importantly, we delivered strong free cash flow generation of more than $185 million, up 67% year-over-year. This performance was a direct result of our team's continued hard work and commitment to our strategic objectives. We are very proud of the strong execution our team delivered in 2024.

We believe our fourth quarter results reflect continued strong momentum in the business, and we are confident in our team's ability to deliver the financial guidance for 2025 we introduced in today's press release and which Raul will review in detail later on in the call.

We are focused on delivering continued strong execution, solid constant currency growth, improving profitability, and strong free cash flow in 2025 as well as continued progress in our continued growth initiatives, CGI program, and related financial targets for the three-year period ending December 31, 2026. Now with that, let me turn the time over to Raul for an in-depth review of our quarterly financial results and our financial guidance for 2025. Raul?

Raul Parra^ Thank you, Fred. I will start with a detailed review of our revenue results in the fourth quarter, beginning with the sales performance in each of our primary reportable product categories. Note, unless otherwise stated, all growth rates are approximated and presented on both a year-over-year and constant currency basis.

Fourth quarter total revenue growth was driven by 8% growth in our Cardiovascular segment and 88% growth in our Endoscopy segment. Cardiovascular segment sales exceeded the high end of expectations we outlined on our third quarter call.

Our total revenue results included approximately $7.6 million of revenue from our acquisition of EndoGastric Solutions and approximately $5.5 million of revenue from our acquisition of the lead management product portfolio from Cook Medical.

Excluding sales of acquired products, segment revenue growth on an organic constant currency basis was 6.1% and 6.5% for our Cardiovascular and Endoscopy segments, respectively. Turning to a review of our fourth quarter revenue results by product category.

Sales of our peripheral intervention or PI products, increased 5.5% and was the largest driver of the Cardiovascular segment upside versus the high end of our growth expectations for the quarter. Growth in the PI product category was driven by the following factors: Sales of our access and Ebola therapy products increased in the low teens.

Delivery systems product sales increased 28% and radar localization product sales increased 9%. Cardiac Intervention product sales increased 7%, slightly above the high end of our growth expectations, driven primarily by strong sales of EP CRM products and to a lesser extent, growth in sales of fluid management products.

Excluding the contributions from the sale of acquired products, Cardiac Intervention product sales increased approximately 1% on an organic constant currency basis. Sales of our Custom Procedural Solutions, or CPS products increased 3.5%, which was in line with our expectations, driven by strong sales of critical care products.

Sales of our OEM products increased 22% in Q4, well ahead of what our guidance assumed. OEM customer demand in the U.S. remained strong as expected. Product sales to OEM customers outside the U.S. were impacted by a more challenging raw material and supply chain environment as discussed on our Q3 call but we were encouraged by the better-than-expected order demand in the quarter.

Turning to a brief summary of our sales performance on a geographic basis. Our fourth quarter sales in the U.S. increased nearly 14% on a constant currency basis and 9% on an organic constant currency basis, exceeding the high end of our expectations.

We were pleased to see continued strong demand from our U.S. customers in the fourth quarter. International sales increased 5% year-over-year and increased 2% on an organic constant currency basis.

Sales results in APAC and Rest of World exceeded the high end of our expectations, while sales in the EMEA region were softer than expected, driven by softness in Russia and distributor markets. With respect to China specifically, sales increased 4%, modestly better than what our guidance had assumed.

We continue to see quarter-to-quarter variability in growth trends related to volume-based procurement programs as expected. That said, we were pleased to see a continuation of the dynamics we have talked about throughout 2024. Specifically, we saw better-than-expected sales of units, which offset continued pricing headwinds related to volume-based procurement. Turning to a review of our P&L performance.

For the avoidance of doubt, unless otherwise noted, my commentary will focus on the company's non-GAAP results during the fourth quarter of 2024, and all growth rates are approximated and presented on a year-over-year basis.

We have included reconciliations from our GAAP-reported results to the related non-GAAP item in our press release and presentations available on our website. Gross profit increased approximately 16% in the fourth quarter.

Our gross margin was 53.5%, up 304 basis points. The increase in gross margin year-over-year was driven by a favorable product, geographic revenue mix, and improvements in pricing, freight, and distribution costs.

Operating expenses increased 9% from the fourth quarter of 2023. The increase in operating expenses was driven by a 6% increase in SG&A expense and a 26% increase in R&D expense compared to the prior year period. Total operating income in the fourth quarter increased $15.9 million or 30% from the fourth quarter of 2023 to $69.7 million.

Our operating margin was 19.6% compared to 16.6% in the prior year period, an increase of 305 basis points year-over-year. Fourth quarter other expense net was $1.1 million compared to expense of $2 million last year.

The change in other expense net was driven by higher interest income associated with higher cash balances, offset partially by higher interest expense associated by higher average outstanding debt compared to the prior year period. Fourth quarter net income was $56.3 million or $0.93 per share compared to $43.1 million or $0.74 per share in the prior year period.

We are pleased with our profitability performance in the fourth quarter, where we leveraged the stronger-than-expected revenue results to drive significant expansion in operating margin and strong growth in non-GAAP diluted earnings per share, both of which exceeded the high end of our expectations.

Note, our fourth quarter non-GAAP EPS results included incremental dilution related to our convertible debt that represented approximately $0.02 to Q4 EPS. Turning to a review of our balance sheet and financial condition. We generated $65 million of free cash flow in the fourth quarter of 2024 and generated more than $185 million of free cash flow in fiscal year 2024, up 67% from 2023.

The year-over-year improvement in free cash flow generation was a result of growth in net income and significant improvements in cash used in working capital, particularly in terms of cash used for inventory. We used $23 million of this free cash flow to pay down our term loan in the fourth quarter, bringing our total debt paydown to $99.1 million for the full year 2024 period.

As of December 31, 2024, Merit had cash and cash equivalents of $376.7 million, total debt obligations of $747.5 million, and outstanding letter of credit guarantees of $2.9 million with an additional available borrowing capacity of approximately $697 million. Compared to cash and cash equivalents of $587 million, total debt obligations of $846.6 million, and outstanding letter of credit guarantees of $2.7 million with additional available borrowing capacity of approximately $626 million as of December 31, 2023.

Our net leverage ratio as of December 31 was 1.9x on an adjusted basis. Turning to a review of our fiscal year 2025 financial guidance, which we introduced in today's press release. For reference, we have included a table in our earnings press release, which details each of our formal financial guidance items and how those ranges compare to the prior year period.

Our 2025 guidance ranges assumes the following: GAAP net revenue growth of 8% to 10% year-over-year, which we expect to result from, net revenue growth of approximately 7% to 9% in our Cardiovascular segment, and net revenue growth of approximately 36% to 40% in our Endoscopy segment and a headwind from changes in foreign currency exchange rates of approximately $3 million or approximately 20 basis points to growth year-over-year. Excluding the impact of changes in foreign currency exchange rates, we expect total net revenue growth on a constant currency basis in the range of 8.6% to 10.1% in 2025.

Among other factors to consider when evaluating our projected constant currency revenue growth range for 2025 are the following items: First, the midpoint of our total constant currency growth range assumes 10.6% growth in the U.S. and 7.5% growth outside the U.S. Constant currency growth outside the U.S. at the midpoint is expected to be driven by low double-digit growth in EMEA, high teens growth in the Rest of the World region and approximately 1% growth in the APAC region.

The modest growth we expect in APAC sales is substantially related to China, where we project growth in unit sales on a year-over-year basis, but we expect total revenue to face continued headwinds related to volume-based procurement. Second, our total net revenue guidance for the fiscal year 2025 also assumes inorganic revenue contributions from the acquisitions of assets from EndoGastric Solutions and from Cook Medical closed on July 1, 2024, and November 1, 2024, respectively, in the range of $45 million to $47 million in the aggregate.

Excluding this inorganic revenue, our guidance reflects total net revenue growth on a constant currency organic basis in the range of approximately 5.3% to 6.6% year-over-year. Third, for the full year 2025 period, we continue to forecast U.S. revenue from the sales of Wrapsody CIE in the range of $7 million to $9 million.

Our full-year 2025 U.S. Wrapsody CIE revenue range continues to assume a larger weighting of revenue in the second half of 2025 versus the first half and a larger weighting of revenue in the fourth quarter versus the third quarter.

With respect to profitability guidance for 2025, we expect non-GAAP diluted earnings per share in the range of $3.58 to $3.70, representing an increase of 4% to 7% year-over-year. Note, our financial guidance for 2025 does not factor in the anticipated impact of any new tariffs or modified tariffs that could be imposed by the government of the U.S.

or any other jurisdiction. The tariff situation and potential retaliatory measures by other countries remain unclear. The ultimate impact of any changes in tariffs on our business will depend on the timing, amount, scope, and nature of such tariffs. Among other factors, most of which are currently unknown, our 2025 financial guidance assumes that the 2025 tariff structure will remain substantially unchanged during 2025.

Additional tariffs or retaliatory actions or changes to currently announced tariffs could change the anticipated impact to our business. This is a rapidly changing situation, which we are monitoring carefully. Given the frequency of recent changes in tariff policy, we do not intend to provide interim updates in response to each news item or related rumor.

Rather, we will provide updates as we deem appropriate on our quarterly earnings calls or in other public formats as we gain further visibility and certainty regarding the situation. For modeling purposes, our fiscal year 2025 financial guidance assumes non-GAAP operating margins in a range of approximately 19.4% to 19.7%, up 40 basis points to 80 basis points year-over-year.

Non-GAAP interest and other expenses net of approximately $5 million compared to non-GAAP income of $1.1 million last year. non-GAAP tax rate of approximately 21% and diluted shares outstanding of approximately 61.7 million. Note, our weighted average share count assumption reflects incremental dilution of approximately 1.8 million shares related to our convertible debt facility.

This represents an impact of approximately $0.11 to our non-GAAP EPS in 2025. Finally, we expect to generate a free cash flow of at least $150 million in 2025, inclusive of the expectation that we invest approximately $90 million to $100 million in capital expenditures this year. The step-up in CapEx investment this year is directly related to a new distribution center in South Jordan, Utah.

We would also like to provide additional transparency related to our growth and profitability expectations for the first quarter of 2025. Specifically, we expect our total revenue to increase in the range of approximately 8.2% to 9.7% on a GAAP basis and up approximately 8.8% to 10.3% on a constant currency basis.

The midpoint of our first quarter constant currency sales growth expectations assumes approximately 13% growth in the U.S. and 5% growth in international markets. Note, our first quarter constant currency sales growth expectations include inorganic revenue in the range of $16 million to $17 million. Excluding inorganic contributions, our first quarter total revenue is expected to increase in the range of approximately 4% to 5% on an organic constant currency basis.

With respect to our profitability expectations for the first quarter of 2025, we expect non-GAAP operating margins in the range of approximately 16.7% to 17.1% compared to 17% last year. And we expect non-GAAP EPS in the range of $0.73 to $0.76 compared to $0.75 last year. I will now turn the call back to Fred Lampropoulos for closing comments. Fred?

Fred Lampropoulos^ Thank you, Raul. Before we open the call for questions, I just wanted to add that the U.S. Wrapsody CIE program is progressing well and we are very much looking forward to the presentation of 12-month AVF data from our Wrapsody WAVE trial at the Society of Interventional Radiology on Sunday, March 30.

That wraps up our prepared remarks. Operator, would you now open the lineup for questions?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the first question today will be coming from the line of Jason Bednar of Piper Sandler.

Jason Bednar^ Congrats on a nice finish to the year here, guys. Raul, I want to start with the EPS guidance. I've gotten a few questions here. I think it's the one thing that maybe surprised folks just given how strong the business has been because it's a little bit lighter than the Street.

It seems like maybe some of that's coming from the accounting on the convertible note. But are there any other factors that you'd identify as maybe influencing the conservative EPS guide or things that we should be thinking about that maybe weren't in Street models before today?

Raul Parra^ Yes. No, look, it's a great question. Obviously super excited about the year that we're putting together. Super excited about the performance for 2024. I think it was probably one of the best, if not the best, financial performance we've ever put together, just a solid, strong beat all around.

But organic constant currency on the revenue side, 5.3% to 6.6 40 to 80 basis points on the operating margin. As far as the EPS growth, there are two things that I want everybody to kind of consider. The first one is we've got an additional $5 million of interest expense versus the interest income of $1 million last year. Recall we had kind of a large cash balance last year.

We did the acquisitions. So when you think about that, that's roughly about $0.08 of headwind to EPS growth. And then the second one, which is probably more important, I want to make sure I highlight it because there's a disconnect between the hedge that we bought and the GAAP accounting on how you treat the dilution for the convert.

So that's going to be $0.11. There's an incremental 1.8 million shares that we've added that essentially impacts our earnings by $0.11. When you kind of factor those two things in, we end up somewhere around 9% to 12% growth if you exclude those items. So I think that's probably more in line with what everybody was expecting, but that the dilution on the convert does have a significant impact.

And again, we have a hedge in place that covers us up until we get above $114. And so there is a disconnect between the economic benefit of that hedge versus how we treat it from a GAAP standpoint, which is a little disappointing, but that's just the way GAAP works, and that's how we're going to account for it.

Jason Bednar^ I want to take a stab at something here. I know just if we take a step back and think about the '26 margin targets that you had out there, the business is already looking different today than it did a year ago due to M&A with EGS and Cook. Also you've got Wrapsody in there.

I guess is the 20% to 22% margin target still the right range to use? Or maybe I should ask, do you feel better at the upper end of that range or the midpoint or better of that range in light of the benefits that you're seeing from some of these factors?

Raul Parra^ Thanks for that question, Jason Bednar. I think you probably already know how I'm going to answer it. But look, we're committed to a minimum of 5% organic constant currency, and we're committed to a minimum of 20% operating margins and a minimum of $400 million in free cash flow.

We're confident, obviously in the LRP like I just said, we're super excited about year one of CGI and how 2024 played out. Right now we're just hyper-focused on making sure that we execute in 2025. And yes, that's all I'll say. But great question. man.

Operator^ And the next question will be coming from the line of Lawrence Biegelsen of Wells Fargo.

Larry Biegelsen^ Where should I start? On OEM, Fred, really strong 22% in Q4. I imagine these are like long-term contracts, Fred. So how should we think about OEM growth in 2025? Is that a good jumping-off point? In other words, that 22% for the next few quarters until it laps in Q4?

Fred Lampropoulos^ Yes. Well let me just say that, first of all, it was well ahead of what our guidance assumed in the third quarter call. Our OEM customer demand, Larry, in the U.S. remains strong as we expected. Products on the OEM side outside the U.S.

were impacted more by challenging raw materials and some supply chain thing, but I think we've discussed that in the past. But the bottom line is we're just getting better-than-expected order demand. We do have some contracts.

But again, it goes back to what's always been the hallmark of Merit's OEM business, it's reliability and quality. And at the end of the day, that's what carries the day for Merit and always has. So we were confident in the numbers, and I think Mike Black and his team did a really good job. And we had to build all the stuff and deliver, which we did.

Raul Parra^ Yes. I mean Larry, I mean maybe adding, we don't really guide to the underlying product category growth. But obviously we have a high level of confidence in OEM and their execution and what they've been able to do over the last several years. So I think everything that we expect out of OEM is baked into our numbers.

Larry Biegelsen^ One on Wrapsody, multipart here. So just early feedback, Fred, on Wrapsody. I think, Raul, you said you'd give us sales by quarter. And just lastly, Raul, the -- you said the 5% minimum organic.

I seem to recall that doesn't include Wrapsody in the U.S. So Wrapsody contributes about 60 basis points this year. Is that the right way to think about it?

Raul Parra^ Yes. So obviously we gave the yearly guidance onÊWrapsody, $7 million to $9 million. We did not say that we were going to provide actual revenues by quarter. But CGI is organic constant currency growth, Larry, and we did not include the U.S. launch of theÊWrapsody if that's what you were asking about.

Larry Biegelsen^ Yes. Any early feedback, Fred?

Fred Lampropoulos^ We're just excited about the product. The initial market response is great. I think the RTG group, the renal therapy group, and those products and that whole program we put together are performing as we hoped it would.

And we're looking forward to introducing the 12-month data by physicians and a full discussion of that at the SIR meeting. And we're confident in the numbers. The first couple of months have been very encouraging. And it's nice. We invested a lot. We took a lot of time. We're excited about the product and what it means to us, Larry, in the long run.

Operator^ And the next question will be coming from the line of Steven Lichtman of Oppenheimer.

Steven Lichtman^ Gross margin was a standout in the quarter. Wondering, Raul, what gross margin is implied in the 2025 operating margin guidance? And if you could talk about some of the drivers you're seeing on the gross margin line?

Raul Parra^ Yes. Well first of all, I'm going to take the time to run around the basis on what was a home run hit on the gross margin, to be honest with you. Steve, you've heard me say this that -- and a lot of our investors have heard me say this along with a lot of our covering analysts.

When we go after gross margin, we really kind of throw the kitchen sink at it. And with knowing that there's going to be things that are not going to work out in our favor and there's going to be other things that are going to be better.

And it's just our approach is just to tackle it from pricing to efficiencies, to logistics, essentially the kitchen sink. And what happened in the fourth quarter is we essentially kind of hit on everything, and that's what you see, the execution there.

I mean a 300 basis point improvement in the gross margin is just outstanding. The mix was great. OEM was strong. The U.S. was strong. Our mix was strong. Our operations group, I just have to call out, because they executed at a really high level.

Steven Lichtman^ Unit growth?

Raul Parra^ And yes, unit growth was strong. So everything that we would have wanted in gross margin really hit in the fourth. Now as far as the 2025 guidance, as you know we don't give gross margin guidance. We do give operating margin guidance.

And as you can see, we feel really strongly about what we're giving. We're going to give 40 to 80 basis points in 2025. When we originally launched CGI, I think we were pretty clear that we would -- most of the operating margin accretion, at least on the low end, would be coming from gross margin. And on the high end, there would be a mix of gross margin improvement and OpEx leverage. And so I'll just leave it at that, but I think that plan has not changed.

Steven Lichtman^ And then I guess just building on that for the second question, what are the types of investments that you're making in WRAPSODY this year? I know you talked about sort of the training seminars. Can you talk about, I guess, qualitatively, I guess, some of the things that you're doing to lay the groundwork?

Fred Lampropoulos^ Yes. I think, Steve, it comes down to training, understanding, going through the exercise of the appropriate reimbursement exercises and the sort of things that we've talked about with NTAP and PPT and going to the trade shows, highlighting the project, meeting. The things that -- we're not running away from it. We're running with it. And a lot of people--

Raul Parra^ Registry.

Fred Lampropoulos^ Yes. The registry. We're almost -- I think we're on 420 or so out of the 500 and people look at that. And those are important things. So the investments we've made, we continue on. And maybe most importantly is the psychology of the sales force.

Raul and I just left our U.S. and I was also at the European, but just in the U.S., just a high level of enthusiasm for the business and what we're doing and the role that they play. So it's nice to know that you can win, and that's how our people feel just across the board with all of our products.

Operator^ Our next question is coming from the line of David Rescott of Baird.

David Rescott^ Congrats on the strong finish to the year. Two questions from us, and I'll ask both of them upfront. First, on Wrapsody, I want to make sure I heard it. Clearly, you have the guide for revenue set this year and the -- that you laid out today and the 7% to 9% would be incremental on top of that from Wrapsody.

If that is the case, would it be fair to assume that any incremental kind of margin benefit that you could have from that would also be an upside to the EPS guide that you set for the full year?

And then on the Endoscopy segment for the guide for the full year, I'd say maybe it was a little a touch lower than what we were kind of assuming. So I'm wondering if there's anything you can talk about on Endoscopy, either as it relates to the underlying business or the EGS deal and how that's being integrated when you thought about setting out the guide for Endoscopy this year?

Raul Parra^ Yes. So on the Wrapsody piece, just to be clear, and sorry if I confused you, when I meant the 7% to 9% was not included in the original CGI goals, David. So just to be clear, right? Obviously clearly, the 7% to 9% that we've already disclosed in 2025 as far as our yearly revenue target for Wrapsody is included in the guidance we already gave you. So is that clear?

David Rescott^ Yes. Okay. That makes sense. Sorry.

Raul Parra^ And as far as Endotek, I think we feel pretty strongly about the guide that we've got out there. If you remember, we've got an integration of two sales forces going on. I think what we've done here is just one a measured guidance for that group, knowing the complications of integrating two sales forces.

We are super excited about the products. I know Fred just mentioned, we were at the U.S. sales force. I talked to a lot of our endoscopy sales team, and they're excited about having the new products, but there is a learning curve. And I think we've tried to -- as you know we guide with realistic and achievable guidance. So I would say there's really nothing to see here other than that's what we've done.

Fred Lampropoulos^ And David, so you'll be aware, and we may have discussed this in the past, but the product is fully integrated into our operations in Salt Lake City. All the TSAs are closed, and we did that ahead of time. And I think we did a magnificent job of training and transferring. So that part has all been completed as well.

Operator^ And the next question is coming from the line of Mike Matson of Needham & Company.

Michael Matson^ I guess I want to start with the currency impact you're expecting to revenue this year. I think you said 20 basis points. It seems kind of low relative to some of your peers. I mean I've seen companies talking about 1% to 2% headwinds in '24. Can you maybe talk about -- I don't know if you're doing any kind of hedging on the revenue level or something maybe.

Raul Parra^ Yes. I mean we do, do hedging. As you can imagine, our hedging program is a rolling program. We try and minimize the impact from FX. We think we're on the right track here and feel good about the number.

Remember, our U.S. sales number has also kind of as a percentage of revenue has also climbed. So we're more heavy or U.S.-centric than we have been historically. Before we were more 50-50. Now we're kind of sitting closer to 55-45 in that range, Mike. So I think that obviously helps. But we do have a hedging program in place, and that helps minimize some of the impact.

Fred Lampropoulos^ Can I just add, it's consistent, Mike? We don't change it. We don't horse around. We don't time markets. We don't speculate. It's been consistent year-over-year for many, many years.

Michael Matson^ And then just one on Wrapsody. I know you've given guidance for the U.S., but -- and I know you're probably not going to give any numbers for OUS. But what I am wondering is, has the data from the pivotal trial in the U.S. helped at all outside the U.S.? And what -- just how well is the product doing in international markets? I know it's kind of a pricey product. I don't know if that's kind of an obstacle in some of those more price-sensitive markets.

Fred Lampropoulos^ Well I'll just simply say that it has not been an obstacle, and we left the European sales meeting with the encouragement of the sales force on the product. And even though we don't have an RTG group there because of the different geographies, I think that RTG group is carrying that in other products. And we're quite pleased, as we have said, with the with Wrapsody, and we continue to receive strong positive responses on the product.

And so we're looking forward to some of the events coming up like the SIR meeting and others that will discuss the detail by the professionals, they can interpret and give you their impression, not a bunch of manufacturing folks and that sort of thing. So we're quite excited about that.

Operator^ And the next question will be coming from the line of Elaine Hu of Raymond James.

Jayson Bedford^ It's Jason. A couple of questions here. Was there anything anomalous or one-time in the very strong fourth-quarter gross margin number?

Raul Parra^ No. I mean just -- again, it was just really strong execution by our team.

Jayson Bedford^ What's left to do from an operational standpoint to integrate Cook and EGS, if anything?

Raul Parra^ Yes. So EGS is fully integrated. The only thing that this year is the first year, Jason, as you know where we have a combined sales force. So as you know last year, we did leave EGS and our endoscopy sales group as two separate sales forces as they were training on how to sell the products, the different products. January 1, that went away, and there's a combined sales force now.

So other than that, everything is already done with EGS and fully integrated. We're manufacturing the products and everything. On the Cook side, we continue to work under a TSA. Order to cash for the most part, is done. There is a few countries some of the major European APAC countries that are not on board yet, but we have a substantial amount of order to cash done. Manufacturing continues to be done by Cook.

We're looking to obviously integrate that sometime this year, if not early part of next year. But yes, everything continues to be on pace, if not ahead in certain situations.

Jayson Bedford^ And just lastly, I know you've called out SKU rationalization, I think, last year. Is there anything notable around SKU rationalization in '25?

Fred Lampropoulos^ Listen, I think what we did before, we had a pack business and those sorts of things. But there's always a continuous part of our CGI to take a look at things that -- the smaller amounts of products and moving customers over to something where we build 5,000 a month instead of 50 or 500. That's an ongoing program that fits into the objectives we have internally.

Raul Parra^ Yes. I mean we continue to work on, as Fred mentioned, product life cycle management. To the scale of what you saw last year as far as the pack business that Fred was talking about, that we don't have any material impact this year. But obviously clearly, SKU rationalization is just part of what we're doing going forward.

Operator^ And our next question will be coming from the line of John Young of Canaccord.

John Young^ Congratulations on a strong end of the year. I just want to first start on Wrapsody. Did you guys get the TPT application in before the March one deadline yet?

Fred Lampropoulos^ Yes. I'm sorry. I kind of jump in that. The answer is yes, the NTAP and the TPT were filed on time. Both of them are in.

John Young^ And then the supply chain challenge you highlighted on the OEM OUS business, obviously did not really materialize. Should we still expect any impact going forward in 2025 of any supply chain challenges?

Raul Parra^ Yes. I think there are two components to the supply chain issues that we were having last year. And if you remember, one of them was being able to get sufficient raw materials for one of our products.

And then the secondary one was can we ramp up production fast enough for one of the products that had a strong demand. And so I think we, for the most part, have solved those issues. I would say that we continue to keep an eye on them. But I think our level of confidence is significantly higher than it was, say, during our third quarter call.

John Young^ And then maybe I could just sneak in a third. You were pretty crystal clear on the tariff impacts are not included in the guidance today or you're not really going to quantify anything today.

But more high level, just the ability to move manufacturing for you guys from Mexico to other facilities like Ireland or Utah, what is the ability to do that for Merit? And maybe have you taken any near-term mitigation or hedging efforts at this point?

Raul Parra^ I mean there's things we've done internally to try and mitigate the impact. They're minimal, quite frankly. And if I'm just being honest, John, things are changing so drastically and so fast that making any investments and moving manufacturing from one area to another just does not make sense.

I think you had a lot of people do that in the last Trump administration or not a lot, but you had some people that did it. And now those countries are also included in the target tariffs or could be because we don't know what's going to happen.

And so I think for us, it's business as usual, let's control what we can control. Let's be hyper-focused on our 2025 goals, let's execute to those. We're very nimble, and we'll just adjust the best we can when something is announced that is official.

Fred Lampropoulos^ John, I've always said to the team that we've survived eight American presidents and eight administrations in the history of our company. We've dealt with tariffs before.

And the one thing we don't want to ever do is to overreact. But I think we have our thumb on it. We're watching, we're listening, but it's really, as Raul pointed out, changes just during the conversation we've had with you. So as soon as we can get something clear, we'll talk more about it when it's appropriate.

Operator^ Our next question will be coming from the line of Michael Petusky of Barrington Research.

Michael Petusky^ So Raul, I may have missed this. I was briefly distracted if you've addressed this, forgive me. But the R&D expense, I'm assuming the pop-in that in Q4 had a lot to do with Wrapsody activities. But can you just sort of speak to that and then sort of speak to if this is closer to a new normal or if it's likely to back off as we head into the first half of '25?

Raul Parra^ Yes. I wouldn't say it's a new normal. Look, Mike, to be honest with you, the gross margin was pretty strong. We felt like we needed to make some short-term investments in R&D. There were some kind of some things we wanted to look at from a consulting standpoint.

And so we had our consultants in and help us with some work that we thought was long overdue. And so we took advantage of that. And I think we feel comfortable with the historical levels of our R&D.

Obviously clearly, as time progresses and we focus more on therapeutic products, that will tend to trend upwards. But I think we don't -- we're not looking to blow R&D out of the water either. I think the investment that we've made is effective, and we think at the right levels. Sufficient for our plan.

Michael Petusky^ And then I'm wondering the cadence of CapEx. Obviously it's going to be a number this year. Do you have any guidance first half, second half? Or just where that's likely to sort of come in because it will really matter in terms of free cash generation.

Raul Parra^ Mike, I wish I had a good response to you. We keep waiting for winter to show up. And so we continue to build the facility across the street. We were talking about pouring footings just day. Just today, yes.

Normally, the ground freezes and you don't necessarily want to do that or can't do that. And so you hold off till spring or summer. And so the weather has been pretty mild here in Utah. And so the building continues. Now this is Utah. We could have a snowstorm, four feet of snow here in the next two hours, and we don't even know it.

It happened on May 25. We could. We've had one before. So I'm not going to provide you with a kind of a cadence other than to say, obviously we clearly talked about the additional CapEx that we would do as part of our CGI program because we wanted to build the facility, which we think will make us more efficient over time.

And obviously I'd be disappointed if I didn't just didn't highlight the strong free cash flow number that we had for last year. I mean $186 million $66 million in the fourth quarter. I mean it's just outstanding. We're focused on that number. We'll control CapEx as we've done over the last several years. But yes, I think that's all I have for you. We're just going to keep executing is the goal.

Michael Petusky^ Congratulations. It really was a fantastic year and quarter.

Operator^ And our next question will be coming from the line of Jim Sidoti of Sidoti & Company.

James Sidoti^ Just following up on that CapEx question because I think I heard you say CapEx at $90 million to $100 million for the year, which is about double -- a little more than double what you've done in the last couple of years. What do you get from that distribution center? How is that going to help you?

Raul Parra^ Well we've essentially -- in two ways. The first one is just from an efficiency standpoint. The system we currently have, Jim, is almost 20 years old. So it's essentially kind of met its end of life. There are a lot better systems out there that we're using at two of our other distribution centers.

And we think we can just be significantly more efficient with the new system. And so we've squeezed all the juice that we can out of the current system, and we postponed it, I think, sufficiently.

We've been talking about this for probably five years, and we finally felt like we were at the right kind of size to make sure that we did what we needed to do from a distribution standpoint.

Fred Lampropoulos^ I was going to say, Jim, the other side of it is we have and are spending a lot of money to have stuff like resins and things stored offsite. They'll be in this building that will eliminate that expense and the convenience of having to go pick it up downtown and bring it back out.

So there's that efficiency. But I think the biggest one, too, is that we have Richmond for the East Coast, and it keeps creeping to the West. And we need to get it back so there's an equilibrium so we can serve our customers as well.

So there's all the reasons we've discussed here. And the second would be capacity. I mean those of you who have visited our South Jordan site have seen the molding machines. Yes. We can't add any more molding machines there. Luckily, we have additional capacity in Mexico.

But yes, as we look to expand and need additional capacity for our molding, we will have additional room that is opened up by moving our distribution that currently sits on the main cap in Si right across the street. So that's the goal.

James Sidoti^ It sounds like you're still going to generate some pretty good strong free cash flow even with this increased CapEx.

Raul Parra^ Let me repeat those numbers again. We hit $186 million. Thank you for the opening there, Jim. But no, look, we'll do a minimum of $400 million under CGI. I think we're well on our way with the $186 million we just did. We think we can do somewhere at least $150 million. But yes, I think we're feeling pretty confident there.

James Sidoti^ So the last couple of years, a large part of that has gone to debt paydown. Will that be the case again in 2025?

Raul Parra^ We'll continue to put cash on our balance sheet, Jim, and wait for opportunities that make sense for us. We've obviously got a clear strategy on the M&A front. I think you guys have started to see that. We're finding assets that are margin accretive that can help us with adding additional growth and also are at call points that we feel really comfortable with and allow us to get deeper in the bag.

Operator^ Thank you. That does conclude the Q&A session for today. And I would like to turn the call back over to FredÊLampropoulosÊfor closing remarks. Please go ahead, sir.

Fred Lampropoulos^ Well ladies and gentlemen, thank you. I know it's a very busy time during the earnings season. We appreciate your interest, and we look forward to reporting events as necessary. Best wishes to all signing off from Salt Lake City. Good evening.

Operator^ Thank you for participating in today's program. This does conclude today's conference call. You may all disconnect.