MMSI Q2 2026 Earnings Call
July 31, 2026

Corporate Speakers
- Martha Aronson; Merit Medical Systems; President, Chief Executive Officer
- Brian Lloyd; Merit Medical Systems; Chief Legal Officer, Corporate Secretary
- Raul Parra; Merit Medical Systems; Chief Financial Officer, Treasurer

Participants
- Jason Bednar; Piper Sandler; Analyst
- Lilia-Celine Lozada; JPMorgan; Analyst
- Lei Huang; Wells Fargo; Analyst
- Aidan Lahey; Bank of America Securities; Analyst
- Michael Matson; Needham & Company; Analyst
- Michael Petusky; Barrington Research; Analyst
- Sam Eiber; BTIG; Analyst
- David Rescott; Baird; Analyst
- Zachary Day; Canaccord Genuity; Analyst
- James Sidoti; Sidoti & Company; Analyst

PRESENTATION

Operator^ Welcome to Merit Medical Systems' Second Quarter 2026 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 Martha Aronson, Merit Medical Systems President and Chief Executive Officer.

Martha Aronson^ Thank you, Operator. 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^ Thanks, Martha. 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, July 30, 2026, 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 sections 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 Martha.

Martha Aronson^ Let me start with a brief agenda of what we will cover during our prepared remarks. I will begin with a brief summary of the second quarter financial results. Then I will discuss several areas of operating and strategic planning progress in Q2. Raul will then provide a more in-depth review of the quarterly financial results as well as our financial guidance for 2026 which we updated in today's press release. Then we will open the call for your questions.

Beginning with a review of our second quarter results. For avoidance of doubt, all growth figures are on a constant currency basis, unless otherwise noted. We reported total revenue of $418.8 million, up 10% year-over-year on a GAAP basis and up 9% year-over-year on a constant currency basis. Our constant currency revenue results exceeded the high end of the expectations that we outlined on the Q1 2026 earnings call.

Second quarter total constant currency growth was driven by 9% organic growth and to a lesser extent, contributions from our acquisitions of Biolife and the C2 CryoBalloon device, both of which exceeded the high end of our expectations. Our guidance for Q2 called for an acceleration in organic growth from the 3.7% we reported in Q1.

We were pleased to deliver strong organic growth that not only exceeded the high end of our expectations, but also represents the strongest quarterly organic growth the company has delivered in three years. With respect to the profitability performance in Q2, we delivered financial results that significantly exceeded expectations. Our non-GAAP operating margin increased 142 basis points year-over-year to 22.6%. Our non-GAAP EPS increased 18% year-over-year. And we generated nearly $52 million of free cash flow.

Importantly, our financial results included a benefit from tariff refunds in Q2. Excluding this benefit, our second quarter non-GAAP operating margin and non-GAAP EPS results exceeded the high end of our guidance for the second quarter. I want to congratulate our team members all around the world. The stellar growth and profitability performance delivered in Q2 is a direct result of their efforts.

They continue to stay focused on our current three-year strategic plan which we refer to as Continued Growth Initiatives, or CGI. And most importantly, they demonstrate a commitment to our customers each day. We have increased our 2026 revenue and non-GAAP earnings per share guidance to reflect the stronger-than-expected results over the first half of 2026. We remain confident in our team's ability to execute, deliver attractive constant currency growth, improve profitability and generate solid cash flow this year.

Our organization is aligned around our priorities for 2026, specifically to drive strong execution around the globe and to successfully complete our CGI program which includes our previously disclosed financial targets for the three-year period ending December 31, 2026.

Turning now to a brief update on our progress with acquisition integrations. First, we have made considerable progress in our integration of View Point Medical, the strategic acquisition in our oncology platform that we announced on April 1st.

By way of reminder, View Point Medical manufactures the OneMark detection imaging system and OneMark tissue markers. This unique ultrasound-enhanced technology offers an innovative solution to localize more lesions at the time of biopsy, representing an estimated 1.3 million procedures annually in the United States alone. This acquisition expands our portfolio of therapeutic oncology products dedicated for the diagnosis and localization of breast and soft tissue tumors.

The team has managed the multiple work streams we prioritized in preparation for our planned U.S. commercial launch in July including: building the requisite inventory; finalizing our marketing and sales strategies; and training our U.S. field team. This is an exciting time for our oncology team. The launch of the OneMark System follows the commercial launch of Merit's SCOUT MD technology in late May.

The combination of SCOUT and OneMark provides physicians with localization options during the initial diagnostic biopsy which may reduce the need for a separate procedure to mark the location of the tumor prior to surgery.

We are pleased with the initial response from the marketplace following these commercial introductions. The Merit oncology story is resonating with clinicians. And that is you can use OneMark for all biopsies and you can select SCOUT MD when advanced localization is needed. Together, they create a comprehensive breast care offering, spanning diagnosis, localization and surgery.

The strategic rationale for this acquisition is compelling. And the financial rationale is both attractive and consistent with our continued growth initiatives program. We believe this acquisition represents another example of Merit selectively investing to expand our product portfolio in key strategic markets that leverage our existing commercial footprint.

Importantly, the integrations of Biolife and the C2 CryoBalloon have progressed meaningfully over the first half of 2026 as well. We acquired Biolife in May of 2025, adding unique patented hemostatic devices to our portfolio, most notably StatSeal. These products are effective, differentiated hemostatic solutions for percutaneous devices with a broad range of clinical applications including vascular closure and indwelling catheter bleeding complications.

Adding StatSeal to Merit's hemostatic portfolio is intended to provide health care partners with an additional effective solution that complements a wide range of percutaneous procedures including interventional radiology and cardiology, dialysis, electrophysiology, biopsy and drainage. Biolife operations have been fully integrated within Merit. And their stand-alone manufacturing facility has requisite capacity to meet our growth objectives. The team continues to execute on our commercial strategy including launches in markets outside the U.S.

Revenue contributions from our acquisition of Biolife exceeded our expectations in the second quarter and first half of 2026. And we now expect annualized revenue of approximately $23 million this year versus our original expectation of $18 million to $20 million. The integration of our acquisition of the C2 CryoBalloon and related technology from PENTAX Medical last November is also progressing well.

The C2 CryoBalloon treats Barrett's esophagus as well as a less common vascular disorder known as GAVE, or Gastric Antral Vascular Ectasia syndrome, by freezing and eliminating abnormal cells while still maintaining the integrity of surrounding tissue structures. This acquisition strengthened our position in the multibillion-dollar gastroenterology market and provides opportunities to treat more patients from the effects of chronic gastroesophageal reflux disease, or GERD.

Production has been transferred to our South Jordan facility. And we have added an additional production line to support future demand. Revenue contributions from this acquisition exceeded our expectations in the second quarter and first half of 2026. And we continue to expect revenue in the range of approximately $8 million to $9 million on an annualized basis.

While relatively small, this acquisition represents an important strategic transaction that not only expands the portfolio of solutions our endoscopy sales team has to offer customers, but also positions the endoscopy platform to accelerate growth and gain market share in the coming years. I would like to highlight three other noteworthy developments from our second quarter before turning the call over to Raul.

First, on May 19th, we announced that shareholders elected Scott Ward to the company's Board of Directors at Merit's Annual Meeting. Scott brings more than 40 years of experience in the medical device industry including nearly three decades at Medtronic, where he held numerous senior leadership roles. He most recently served as CEO, President and Chairman of Cardiovascular Systems, Inc. up until its acquisition by Abbott.

Several of his roles were in markets where Merit competes today. Scott also brings extensive experience in both venture capital and private equity. Merit's Board of Directors has appointed Scott to serve on its Governance and Sustainability Committee as well as the Finance and Operating Committee. Scott's deep medical device experience and proven leadership track record will bring an invaluable perspective as we continue to build on our foundation and advance our strategy.

Second, as discussed on our recent investor calls, during 2026, in addition to staying focused on delivering each quarter, we are developing our strategic plan for the period of fiscal years 2027 through 2029. While doing this important work, our team remains focused on delivering our continued growth initiative commitments.

Specifically, for the three-year period ending December 31, 2026, we are targeting an organic constant currency revenue CAGR of 5% to 7%, a non-GAAP operating margin in the range of 20% to 22% and cumulative free cash flow generation of more than $400 million. As our 2026 financial guidance indicates, we are tracking nicely toward these CGI financial targets.

Let me share with you a bit more about our strategic plan work. During the first quarter, we took time to align with our top global leaders on where we felt our strengths were as a company and where we felt we wanted to devote more focus. We took the pulse of these leaders with belief audits and converged on several key themes. We came away with multiple work streams focused on our drivers of growth for the future, our optimal organizational structure and necessary leadership capabilities for the future and our systems and processes necessary to grow.

During the second quarter, our work stream leaders collected additional data on our global markets and engaged in dialogue and debate about our product pipeline. Importantly, each work stream engaged across functions and geographies to capture key stakeholder perspectives.

While doing so, we continued our work on SKU rationalization. And we are examining our registrations around the world for additional rationalization opportunities. We also worked on building out our M&A playbook and broader capital allocation strategy.

Now in Q3, we are rolling up our global forecast, prioritizing our investment opportunities in both our product pipeline and potential tuck-in acquisitions. Alongside that work, our efforts around optimal organizational structure, productivity and efficiency are well underway. As we mapped our company's core competencies with where we feel our growth opportunities lie, there is a strong correlation.

Within each platform, we are highlighting where we feel we have the right to win, whether we are focused on high-growth procedures where we offer foundational products or an entire procedure where we offer a suite of both foundational and therapeutic products.

At the same time we're asking ourselves tough questions about product families and whether they still make sense to be part of our longer term portfolio. In key geographies around the world, we are defining how best to win and what it will take to do so. We look forward to continuing our strategic planning process. And we intend to share the key highlights of this strategy and new three-year financial targets related to this strategic plan following the completion of our current CGI program.

I'm proud of the team for not only delivering strong execution and better-than-expected financial results over the first half of fiscal 2026, but also engaging so fully with this important strategic planning process.

Finally, I want to highlight an enhancement to our presentation of revenue in our second quarter earnings press release. As discussed on our first quarter earnings call we transitioned our revenue reporting to focus on two primary product categories; Foundational; and Therapeutic. This decision aligns how we talk about the business externally with how we plan to execute each of our underlying platforms. It also enables greater ownership and accountability for each platform. As part of this transition in reporting, we provided four years of historical revenue for the eight platforms within the Foundational and Therapeutic categories.

We provided this level of detail in the interest of transparency and to help our stakeholders better understand our business today, along with the underlying growth drivers of our business in recent years. As we continue to share the Merit Medical story for both long-standing as well as new investors, we continually look for ways to help people understand our complex business.

So we have decided to share the global platform revenue results each quarter. My hope is that investors will see more clearly the value of our various platforms and how they contribute to our steady growth. With that, I'll turn the call over to Raul for an in-depth review of our quarterly financial results and our updated financial guidance for 2026. Raul?

Raul Parra^ Thank you, Martha. I will start with a detailed review of our revenue results in the second quarter. Note, unless otherwise stated, all growth rates are approximated and presented on both a year-over-year and constant currency basis. Second quarter total revenue increased $33.4 million or 9%, exceeding the high end of the expectations we outlined on our Q1 call. Our total revenue increased 9% on an organic constant currency basis, exceeding the high end of our expectations by approximately 210 basis points.

As detailed in our earnings press release, organic constant currency revenue excludes revenue from acquisitions in the second quarter of 2026 of $4.7 million and revenue from our divested DualCap product line of $5.3 million from the second quarter of 2025. By geography, our total revenue in Q2 was primarily driven by growth in the U.S., where sales increased $26.1 million or 12% and international sales increased $7.3 million or 5%. Turning to a review of our revenue results by product category.

Second quarter total revenue growth was notably balanced between our two product categories. Sales of Foundational products increased $17 million or 6% and sales of Therapeutic products increased $16.4 million or 14%.

In terms of organic growth, in Q2, excluding the contributions from acquired products of $2.4 million in the current period and divested products in the prior year period of $5.3 million, sales of Foundational products increased 7.8%. Excluding $2.3 million of acquired product revenue, sales of Therapeutic products increased 11.7%.

Organic growth in the Foundational product category was driven primarily by our Vascular intervention and Access platforms, again in the second quarter. We also experienced notable improvement in OEM growth trends as expected. Organic growth in the Therapeutic product category was driven by strong growth in our cardiac therapies and Endoscopy platforms and contributions from solid growth in our Vascular Interventions and oncology platforms.

Growth in the Therapeutic product category also benefited from the improvement in OEM sales trends mentioned earlier. A couple of items to bear in mind when evaluating our constant currency growth results detailed in the presentation of revenue by platform in our earnings release.

First, as noted earlier, we were pleased to see improving growth trends in our OEM business in the second quarter. Our total OEM sales increased 15% year-over-year in Q2. We expect to see continued improvement in OEM year-over-year growth trends over the second half of 2026. Second, sales of Procedural Solutions products declined 12% on a constant currency basis. This is entirely due to our divestiture of the DualCap product line. Excluding this impact, Procedural Solutions sales increased 5% on an organic basis in Q2.

Finally, sales of Renal Therapies products declined 2%, but increased approximately 10%, excluding the impact to our business resulting from the product recall discussed on our Q1 call. 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 second quarter of 2026. 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 most directly comparable non-GAAP item in our press release and presentation available on our website. Gross profit increased 15%. Gross margin was 55.8%, up 262 basis points year-over-year.

Excluding $6.9 million of refunds related to previously paid i.e. for tariffs recognized within cost of sales, gross profit increased 12% and our gross margin was 54.2%, up 98 basis points year-over-year. Gross margin, excluding tariff refunds, exceeded the high end of our expectations. This performance is particularly impressive given the approximately $2 million incremental impact from tariffs incurred year-over-year, representing an approximately 50 basis point impact to gross margin in that period. Operating expenses increased 14%.

The increase in operating expenses was driven primarily by a $15.5 million or 16% increase in SG&A expenses and to a lesser extent, a $1.2 million or 5% increase in R&D expense compared to the prior year period. Total operating income was $94.6 million. Excluding the tariff refund, operating income increased $6.8 million or 8% from the prior year period to $87.7 million.

Our operating margin, excluding refund, was 20.9% compared to 21.2% in the prior year period, a decrease of 22 basis points year-over-year. Operating margin, excluding refund, exceeded the high end of our expectations by approximately 56 basis points.

Second quarter other expense net was $2.3 million compared to $2.3 million for the comparable period last year. Second quarter net income was $71.3 million or $1.19 per share compared to $61 million or $1.01 per share in the prior year period. Excluding the after-tax benefit from tariff refund of approximately $0.09, second quarter EPS was $1.10, exceeding the high end of our guidance range by $0.09. Turning to a review of our balance sheet and financial condition.

As of June 30, 2026, we had cash and cash equivalents of $448.7 million, total debt obligations of $747.5 million and available borrowing capacity of approximately $697 million. Our net leverage ratio as of June 30 was 1.6x on an adjusted basis. Our cash and cash equivalents at June 30 were essentially flat year-to-date, driven by a combination of strong free cash flow generation of $76.6 million and $25.5 million of proceeds from our divestiture of the DualCap product line, offset partially by $90 million in cash used for the View Point Medical acquisition. Turning to a review of our fiscal year 2026 financial guidance.

For the 12 months ending December 31, 2026, we now expect total GAAP net revenue growth in the range of 7.6% to 8.4% year-over-year and 6.9% to 7.6% year-over-year on a constant currency basis, excluding an expected 80 basis point tailwind to GAAP growth from changes in foreign currency exchange rates. There are a few factors to consider when evaluating our projected constant currency revenue growth range for 2026 including: first, the increase in our revenue guidance range reflects the flow-through of our better-than-expected results in Q2.

Second, our constant currency growth range assumes sales of foundational products increase in the mid-single-digits year-over-year and sales of Therapeutic products increase in the high single to low double digits year-over-year. Third, we now expect organic constant currency growth in the range of 6.9% and 7.5% compared to 6% to 7% previously.

Our organic growth guidance excludes revenue from acquisitions in the range of approximately $18 million to $20 million compared to $17 million to $20 million previously and product sales and royalty revenue from our divestiture of DualCap of $20.3 million in 2025 and approximately $1.6 million of sales in Q1 2026. Fourth, our total net revenue guidance for fiscal year 2026 continues to assume U.S. revenue from the sales of WRAPSODY CIE of approximately $7 million.

With respect to profitability guidance for 2026, we now expect non-GAAP diluted earnings per share in the range of $4.25 to $4.35, up 11% to 14% compared to $4.01 to $4.15 previously. For avoidance of doubt, our 2026 non-GAAP EPS guidance now assumes a 12-month tariff impact of approximately $16 million or $0.21 per share compared to $15 million or $0.19 previously and $9 million or $0.12 per share realized during the last eight months of 2025.

Finally, we would like to provide additional transparency related to our growth and profitability expectations for the third quarter of 2026. Specifically, we expect our total revenue in the range of $408 million to $413 million, representing growth of 6% to 8% year-over-year on a GAAP basis and up approximately 6% to 7.5% on a constant currency basis. Note, our third quarter organic constant currency growth is expected in the range of 7% to 8%, excluding revenue from acquisitions in the range of approximately $2.8 million to $3.8 million and revenue from our divestiture of DualCap of $5.2 million in the prior year period.

With respect to our profitability expectations for the third quarter of 2026, we expect non-GAAP operating margins in the range of approximately 19.6% to 21.5% compared to 19.7% last year and non-GAAP EPS in the range of $0.98 to $1.08 compared to $0.92 last year. With that, I will now turn the call back to Martha for closing.

Martha Aronson^ Thanks, Raul. As I reflect on my nine months since joining Merit Medical, I continue to be inspired by our global team and their commitment to customers and patients. This team delivered an excellent Q2 and has strong momentum as we move into the second half of the year. I want to reiterate how pleased I am that we are on track to meet our three-year CGI goals. And while staying focused on that goal, this team is putting the hard work into our global strategic plan.

Simultaneously we are integrating several acquisitions and evaluating additional tuck-in possibilities.

Once again, my hat goes off to the team. And I am energized by the opportunities I see ahead to enhance our strong growth profile and to create long-term value for our shareholders. Operator, we would now like to open up the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question or comment comes from the line of Jason Bednar from Piper Sandler. Your line is open.

Jason Bednar^ Hey good afternoon thanks for taking the question and congrats on a really impressive quarter for your team. I'll start big picture. There's been a lot of questions across the med tech community with respect to procedure volumes, different data points painting different pictures. With Merit posting such a strong top line result, this seems maybe a little silly question to ask, but I'll ask it anyways.

Have you seen any slowdown in procedure volumes tied to ACA subsidy changes across any of your end markets? Or do you anticipate any moderation in volumes tied to this issue when you look at the second half of the year?

Martha Aronson^ Yes, Jason, thanks very much. And obviously we've been hearing some of the various reports, as I'm sure you have as well. But we've been doing very regular checks with our field. And at this point, we have not seen a slowdown in procedures. So currently, that's the reports we're getting from the field. And as you said, I think given the strong results from the quarter, that checks.

Jason Bednar^ All right. Perfect. Very helpful. And then, Raul, just as I think about 2Q guidance, you just put up a smash on margins this quarter, is really impressive. If you try to normalize for EPS, I think you said $1.10, excluding those tariff refunds. Usually, you get a little bit of a step down, maybe $0.05 or so 2Q to 3Q in most normal years when I look back to past years. Your guidance range is maybe a little bit wider than I would think, $0.10 for 3Q.

What are you baking in, in terms of the conservatism or the puts and takes on bottom end and top end there? Because it is a little bit of a wide EPS and wide margin range coming off of a really strong 2Q.

Raul Parra^ Yes, Jason, I think just with the ever-evolving tariffs, right? I mean we just had an announcement right on Friday. It's just so hard to kind of predict what's going to happen with that and when they're going to be in place, with the Section 122 still out there, obviously with NAFTA -- USMCA, sorry. There's just a lot of variables. And we thought just in this environment, with that being out there, let's just go a little wider.

Obviously feel super confident about the back half and our guidance for the year and obviously just put up a stellar second quarter. So it's really just more of a reflection of just kind of the changing dynamic in tariffs that seems to come at us like on a weekly basis. And so just a little bit of coverage there. But obviously feeling pretty optimistic about the third quarter and the fourth quarter.

Jason Bednar^ Great. Undertsood thank you.

Operator^ Thank you. Our next question or comment comes from the line of Robbie Marcus from JPMorgan. Mister Marcus your line is open.

Lilia-Celine Lozada^ Hi this is Lilia on for Robbie thanks for taking the question. 9% organic growth is a really big number. So can you walk through what drove that strength and the sustainability of this sort of growth? How much of that was catch-up following some of the dynamics that pressured growth in the first quarter versus true underlying demand?

Martha Aronson^ Yes, Lili, thanks very much. Look, I think as we mentioned in the first quarter, our OEM business is a business that fluctuates a bit just by nature of the business. And we were obviously really pleased to see a 15% uplift in the second quarter on the OEM business. And we continue to see that business, right, in the -- annually in the sort of mid to high single-digit range.

So that was certainly one of the drivers. I think we also saw our Access platform as well as our VI or Vascular Intervention platforms on the Foundational side, along with Cardiac Therapies and Endoscopy having very strong quarters on the Therapeutic side. So really pretty broad-based results for the second quarter.

Raul Parra^ Yes. I mean I'll add that it was also very balanced between our two product categories, between Therapeutic and Foundational. So the beat was really broad-based. And again, when our portfolio -- because kind of the index style portfolio that we have when it all kind of is hitting, you get these type of growth rates. So it was really exciting to see.

Lilia-Celine Lozada^ Great. And maybe just to follow up on that. Last time you were pointing to a continued ramp in organic growth in the back half of the year as some of the trends around supply, the Medtronic agreement, OEM improved. Now it looks like 3Q is going to be a slight step down on an organic basis. So do you think you've seen all of those improvements already? Or is this just some conservatism? Thank you so much.

Raul Parra^ No. That's a great question and thank you for asking it. I always have to remind everybody. There is a level of seasonality in our business with Q3 usually having a step down. Now that wasn't true last year, but most years it is. I'll always just highlight that Q1 and Q3 are typically our softer quarters from a revenue standpoint.

Q2 and Q4 are our strongest. And so really, what you're seeing that step down is not that we're not confident. We're very highly confident in the business and how it's performing. It's really just that seasonality we're adjusting for.

Operator^ Our next question or comment comes from the line of Larry Biegelsen from Wells Fargo. Mister Biegelsen your line is open.

Lei Huang^ Hi it's Lei calling in for Larry thanks for taking the question. Just on the first one, going back to the Q3 guidance, can you dive a little bit more into the 6% to 8% and maybe by business, what slows down a little bit seasonally in Q3 versus Q2 to get you to the 6% to 8% versus the 9% we saw in Q2? And I have a follow-up.

Raul Parra^ Yes. Again, we're not going to get into the details. We guide on total revenue, obviously giving you some commentary on what we think Q3 will be, so you guys can work your models. Again, it's really just the seasonality in our business that we're adjusting for. As most of you guys know it's the summertime. Doctors take time off. Patients don't go in for procedures. That's very typical for us to see a step down and then a pretty strong rebound in the fourth quarter.

So from our standpoint, if you look at kind of the back half of the year, we think it's pretty consistent with what we're doing for -- what we did with the first half. So again, really optimistic about how the business is doing. And we see a lot of momentum. It's really just us adjusting for that seasonality.

Lei Huang^ Got it. That's helpful. And for my follow-up, you're absorbing obviously tariffs. There's the View Point dilution, the convert dilution. But you're still looking to grow EPS faster than the top line. Can you just remind us what's giving you the operating leverage there? And thank you again.

Raul Parra^ Yes. I mean look, it's obviously broad-based, just like our revenue beat, if I'm just being honest. I think when you look at, obviously the performance that our sales team has put up, it's excellent. I mean these guys have been delivering for a better part of 30-plus years. So what's another quarter for them.

But kudos to them for going out and just performing again. Obviously we've had -- we're in the last year of our CGI program. The progress that we continue to develop there with the programs that we have in place, you're seeing those kind of come through. Gross margin was a big part of that. When we announced CGI, we said that a big piece of it would come from gross margin. And you're seeing that kind of come through.

I think when you look at the gross margin specifically, I typically -- this wouldn't be a Merit Medical earnings call if I didn't throw the kitchen sink comment out there and I'll throw it out there again, but it really is. And I'll give you guys a little more detail, but it's our sales force focusing on pricing. It's them focusing on the right product mix. It's the acquisitions that are ahead of plan from a gross margin standpoint and sales.

I mean you guys saw us tick that up a little bit. And our operations group, too, right? I mean I don't think they get as much credit as they should. I mean it's been a really challenging, I would say, five years with tariffs and COVID and supply chain issues, labor shortages. I mean you name it, they've had to deal with it. But they've done some really good things.

I mean we've moved -- just in the last year or so, we moved one of our largest -- actually the largest manufacturing department that we had to Tijuana. We're starting to see the benefits of that. We've implemented some automation. You're starting to see the labor efficiencies come through on that.

We're looking at our supply chain and our distribution network and getting more inventory on the water which is obviously less cost than freight -- air freight. You're starting to see the benefits of that. So again, it is a kind of a kitchen sink approach and I hate describing it that way. But I just don't know how else to do it other than to say we're looking at everything. We don't want any leakage.

And this is kind of the result that you get because we're hyper focused on making sure that we put a ring around the gross margin and we protect it. Even when we see things, or things come our way that we don't anticipate, right, like the tariffs. I mean I don't think anybody anticipated the whipsaw on the tariffs that we're seeing. But again, it's working and we're just going to continue to do it. We've been doing this for a long time.

I think when you look at foundations for growth for that matter and CGI, I mean when you look at the operating margin improvement through the end of 2025, almost 850 basis points. If we hit the high end of our guidance for this year, you're looking at almost 950 basis points of operating margin improvement. So that gross margin, we're letting it flow through, while also looking at making the right investments in the business. You can see, operating expenses grew.

But we're very specific in how we're investing those dollars. We're very controlled in the way we do it, making sure that the gross margin is coming in where it needs to be and making sure that the sales are coming through, too. So we're just a lot more focused on the entire P&L and it's clearly showing. And obviously we're doing -- we're neck deep in strategic planning right now. And we continue to look to see what else we can do. And we're excited to announce that when we get done with that. But there is more to be had. And we can't wait to present that.

Operator^ Thank you. Our next question or comment comes from the line of Travis Steed from Bank of America Securities. Mister Steed your line is open.

Aidan Lahey^ Hi this is Aidan on for Travis. I guess one question on SCOUT MD. I know you said it started shipping. Can you remind us what the clinical benefits are there? If there's a price uplift or a margin benefit? And then I have one follow-up.

Martha Aronson^ Yes. So the main clinical benefit of SCOUT MD is that you have these four distinct shapes of the reflectors. So it makes it super easy to see these on x-ray. So that's really the primary advantage of SCOUT MD. And as we said, I think right now our Merit Oncology team is just super excited. This has been a platform where we've really only had sort of one product for quite some time.

So to have SCOUT and now have the improved SCOUT MD and then combine that with OneMark from the acquisition of View Point, it just provides us with a really comprehensive offering. And I think as you heard me say in the scripted comments that the way we think about it is you can really use the OneMark technology for all biopsies.

So that really expands the market. And then when you really want advanced localization, you select SCOUT MD. So our team is super excited. And we just got everybody trained up in the last month and they're ready to go.

Aidan Lahey^ Great thank you. And then obviously a great quarter. You're raising by the beat. And from your comments, it sounds like the underlying operating environment is really strong. So I guess why not raise more than the beat if you think that's going to continue into the second half?

Raul Parra^ Yes. I mean that's just not our style, right? I mean I think we typically will take what we did this quarter which is we take the first half beat, flow it through. And we typically just leave our back half unchanged and that's essentially what we did. But we obviously remain fully confident in our full year guidance and look forward to a strong finish to our CGI program.

Aidan Lahey^ Okay. Thanks very much.

Operator^ Thank you. Our next question or comment comes from the line of Mike Matson from Needham & Company. Mister Matson your line is open.

Michael Matson^ Yes thanks. So I just wanted to follow up again on the OEM business. So it's good to see it recover. Is there anything you would call out there? Did you get new contract wins? Or -- and is this level of growth sustainable in your view now? Or is there just -- is this just sort of an inherently lumpy business quarter-to-quarter?

Martha Aronson^ Yes. So yes, OEM is inherently lumpy, definitely, right? And I think, as we shared in the last quarter, we were very confident that we'd have a nice rebound in this quarter. And as you heard, we saw a nice 15% increase in this quarter. So a big shout out to our OEM team.

And we believe, though, again, in terms of it being a bit lumpy, that it will -- annually should really perform in our mid to high single-digit range. So I think we shared last quarter. And I know that one of our OEM customers put out a press release that we've done some work with them. So that accounts for some of our growth. But frankly, this team just got out there, did a lot of the hard work.

And there was some increase in stocking due to some transfers that we had done in the last three to six months and that's all come due this quarter, too. So again, just an outstanding result by our OEM team. But you do have to expect that business to go a bit up and down.

Michael Matson^ Okay understand.

Raul Parra^ We still continue to believe that mid to high single digits.

Michael Matson^ Yes. Okay. And then just want to ask one on WRAPSODY. I mean I heard you reiterate the $7 million target. Just, what are you hearing, seeing out in the field from the physicians? And is there a potential for that to kind of ramp more aggressively over the next few years?

Martha Aronson^ Yes. So again, we're really pleased with how WRAPSODY is doing in the U.S. The clinician feedback we're getting continues to be strong. We're continuing -- I think as we've talked about previously WRAPSODY is being used in the hospital setting as well as nonhospital settings. And our team, frankly, is pursuing both very vigorously and aggressively and frankly, having good success in both locations.

And again, we continue to see the competitors not standing still. We knew that, right? So it's a day-to-day battle out there for sure. But again, the feedback on how it's -- the delivery system is working well. All very positive clinical feedback. And we continue to be on track to meet the $7 million guidance that we've given for this year.

Michael Matson^ Okay great thank you.

Operator^ Thank you. Our next question or comment comes from the line of Michael Petusky from Barrington Research. Mister Petusky your line is open.

Michael Petusky^ Thank you very much. So congrats. And I did not hear if you mentioned it. Did you make any comments around how the quarter was in China? And if not, if you could speak to that?

Raul Parra^ Yes. I mean it essentially came in as expected, right? I mean I don't think there's anything significant there. It was in line with our expectations. VBP was a little bit lower than expected, but still no changes to our expectations for China for this year. It continues to kind of move along.

Michael Petusky^ I mean was it flat or slightly down?

Raul Parra^ It was in line. So I think it was slightly up.

Michael Petusky^ Slightly up. Okay.

Raul Parra^ Low single digits.

Michael Petusky^ Yes. Okay. Great. So I guess then turning -- I know that you guys are highly focused on the current CGI and you want to get that done. But I feel like you did open the door talking about the strategic planning starting for the '27-'29 period.

And I would just love to ask Martha, if -- just in terms of how you guys think about like key metrics that you may want to attach to any kind of public three-year plan? I mean are there different ways that you think about the thing -- sort of the key goals, obviously currently revenue growth, OP margin, free cash flow.

I mean are there other metrics that you think are important for investors to understand or important goals to target? I'm just wondering if you have a different way of thinking about how to sort of talk about longer term plans and how you might communicate that with investors? Thanks.

Martha Aronson^ Yes. Thanks very much. Look, I mean I'm super excited about the work that this organization has undertaken on our strategic plan. It's a big lift, as you know. And I think for this team to be doing it. We are engaging a pretty large swath of our global leaders to do this work because we really want to get all the input across functions, across geographies.

So to do that and deliver the kind of quarter we did, it really is just very thrilling, quite frankly. So -- but to get to your point, to your question, we are talking about various metrics, right? We are in debate and discussion. And I'd say healthy debate and discussion within the management team.

We have these discussions with our Board of Directors as well as we do think about what are the possibilities and what makes the most sense just given where we are in our evolution as a company. So again, right now as we said, we want to keep our teams very focused on finishing out CGI this year. We'll continue these discussions. But tonight it's a little early for me to start listing off some of the other metrics. But suffice to say, it's a very important part of the discussion.

Michael Petusky^ Thank you.

Operator^ Thank you. Our next question or comment comes from the line of Sam Eiber from BTIG. Mister Eiber your line is now open.

Sam Eiber^ Hey good afternoon thanks for taking questions here and congrats on the nice quarter. Maybe I can just get a status check on the endoscopy business. I know it's still relatively small today. But you've done a few deals over the past few years. C2 sounds like it's going well. Are we far enough in the integrations at this point where you feel like you have the right team in place, the right product portfolio to better compete and maybe this is the start of accelerated growth to come from here?

Martha Aronson^ Yes. Thanks for the question. And I think the answer is it is, right? I mean again, I think it's fair to say that our endoscopy platform was definitely a contributor to our growth this quarter. So super excited about that. And I think, as you said, the team really has come together.

It is a team I've actually spent a decent amount of time with. And it was actually pretty exciting even at the recent DDW meeting. I mean one of the things, as you all know during the second quarter, there's a lot of these medical congresses. And during DDW which is a Digestive Diseases Week, a critical one for that platform, we had some results actually presented from a multicenter RCT that we're comparing the cTIF procedure to the standard of care Nissen Fundoplication procedure.

And it really -- the room was packed. And it was really exciting data that shows that the cTIF procedure which uses our EsophyX product, represents an effective alternative to the Nissen Fundoplication for patients who have chronic GERD. So again, you all know the GERD market is a very big one. So this was a really nice additional bit of clinical evidence for our endoscopy business. And then as you said, the C2 integration is going well.

And I think we had just launched our Resilience through the scope product at the end of Q1. And that business -- sorry, that product line has also continued to do very, very nicely for us throughout Q2. So I think there is a lot to be excited about when it comes to that -- to our endoscopy team.

Sam Eiber^ Okay. Really helpful color there, Martha. And maybe just a follow-up question on the renal. And I know growth was impacted this quarter by the recall. But I guess, does the guidance assume an immediate recapture of any lost revenue there? How should we be thinking about that?

Martha Aronson^ Yes. I mean again, so I'd say a couple of things. Again, hats off to our team here. I think we shared last quarter that we would probably resolve the issue in the second half of the year. And we got that resolved before the end of the quarter.
So that was some really good work by our internal team.

So we are back in the market and it will take some time. I mean we definitely had some accounts that obviously had to go to somebody else in the absence of our product being on the market. So that will definitely take some time. But honestly, we don't feel that, that's really a material impact for the second half.

Sam Eiber^ Okay great thanks for taking the questions.

Martha Aronson^ Yes.

Operator^ Thank you. Our next question or comment comes from the line of David Rescott from Baird. Mister Rescott your line is now open.

David Rescott^ Can you hear me?

Raul Parra^ Yes.

David Rescott^ Oh sorry. Great thanks for taking the questions and congrats on the results here. I want to follow up on some of the comments you provided already just on OEM in China and Asia Pac. I know that part of the weaker growth you saw in OEM in part was due to some stuff in Asia and China. And maybe at least it sounds like that's not massively getting better or at least the bigger driver of the outperformance in OEM in this quarter. So when you think about -- if that's true, I'd love to hear that.

But when you think about growth in this, what sounds like a reiterated OEM guide for the full year of 2026, does -- what, I guess, are the bigger factors to either, a, just hitting that expectation that you have in the back half of the year? Or b, whether or not this is something that potentially from a mid teens growth number in Q2 is something that likely could sustain in the second half of the year?

Raul Parra^ Yes. I mean we did see a little bit of better results in China, specifically for our OEM business. But at the end of the day, I mean I think we feel pretty confident. As you know we've signed new agreements with customers. We know those are going to be strong in the back half of the year. And the beat was broad-based with customers coming back after kind of some of the destocking that they had. So we're pretty confident.

Obviously OEM beat our expectations. So from our standpoint, they're kind of ahead of where they need to be for that mid to high single-digit expectation that we have for them. And so there was no adjustments. We repeated that. I just repeat it again. It is lumpy business. But we do have visibility and feel confident that we can hit that mid to high single digits.

David Rescott^ Okay. That's helpful. Martha, I appreciate the comments you made on some of the longer term strategic planning goals. And I know you're not going to comment on that upcoming three-year outlook. But when you think about the potential M&A, maybe some divestitures in the portfolio, can you help us maybe think about what the goals or metrics are around how you're thinking about that next three-year plan?

Meaning, is this the case where you get some of these slower business segments out and it naturally raises the weighted average market growth of the portfolio? Are there some key segments that even though they are slower growth, are still pretty decent from a contributing operating margin expansion story? How, I guess, should we gauge, I guess, what this longer term strategy, as you're going through the process, ultimately could become?

Martha Aronson^ Yes. I mean again, these are all the questions we're asking, right? We're asking ourselves. And I think it's fair to say everything is on the table, right? And there's not really a stone that we're leaving unturned in this process. And we really are looking across the entire portfolio. And we are looking at product families. And yes, asking ourselves those questions, what's the strategic rationale?

What's the financial profile of these? Are they part of procedures that are going to continue to be high -- fast-growing procedures around the world? So again, all the things that we're talking about. And again, I'm looking forward to discussing this with all of you when we've completed the work. But we're still a little bit in process here.

Raul Parra^ Yes. I mean I think we're very pragmatic about the way we approach these long-term plans. I mean you guys saw us execute for Foundations for Growth. We're on target to execute on CGI, obviously clearly focused on not dropping the ball at the yard line. We want to make sure that we get that across the finish line.

But these take a lot of work. And we want to make sure that we get everything right. And then when we come out with our long-range plan that we're giving you something that we think is realistic and achievable. And I'll just highlight again. We've done 850 basis points of operating margin improvement through 2025.

Like I said earlier, if we hit the high end of our guidance, we'll be somewhere around 950 basis points. So we still think there's more to be had. But this does take a lot of detailed work. We're neck deep in that. We're all very excited about the work that Martha is leading here. And we're just excited about the opportunity that Merit has on a go-forward basis.

Operator^ Thank you. Our next question or comment comes from the line of John Young from Canaccord Genuity. Mister Young your line is now open.

Zachary Day^ Hi thank you for taking the question. It's Zachary on for John. When you think about SCOUT MD and OneMark, can you maybe get a little more granular on the cross-selling potential with the 1.3 million soft tissue localization TAM? Thank you.

Martha Aronson^ Yes. Yes. Thanks for that. So when we only had SCOUT in our bag, we felt like we were looking at probably about 400,000 procedures per year. This is U.S. -- really mostly U.S. data right now. And so when we add in OneMark, that expands by about three to 4x, up to maybe 1.3 million procedures because those tend to be the lower risk biopsies that happen. So that's how it really expands the market.

We also -- these are two separate technologies, right? One uses ultrasound, one uses more radar technology. So part of it is physician preference. And then there is a price differentiation, too. And so in some cases, people want a lower price point and where they feel like it's a higher risk, potentially higher risk biopsy situation, they feel like that's maybe where the SCOUT MD makes more sense to be used. So that's really how it's getting differentiated. And again, I think our team has done an outstanding job.

The good news is, right, they already know these customers very, very well. And they know a, the physician preferences; and b, they understand the various hospitals and sites of service and what their economics tend to look like. And so they're able to sell in the most applicable and useful technology to them.

Zachary Day^ Great thank you for that. And for my follow-up, I know you talked about WRAPSODY, you still feel good about it in the long-term. But can you talk more about what you're seeing in terms of sensitivity to pricing in the outpatient setting given that you don't have add-on payment? Thank you very much.

Martha Aronson^ Yes. I mean look, the outpatient setting, now again, it depends if that outpatient is connected to a hospital or more of a freestanding ASC or OBL type situation, right? And certainly, in office-based labs, you have a far more price-sensitive sites of service. And again, we're not going to share pricing detail, obviously.

But I think it's fair to say we have asked our commercial organization to be very competitive. And that's what they're out, there doing. They're being competitive and yet being smart, I would say. So we're not ones to give up on price if we don't -- if we certainly don't need to. So overall, as I said, though, we are seeing a range of prices because we are seeing the range of sites of service.

Operator^ Thank you. Our next question or comment comes from the line of Jim Sidoti from Sidoti & Company. Mister Sidoti your line is now open.

James Sidoti^ Hi good afternoon and thank you for taking the questions. Inventory is up a little over $20 million in the quarter. Is that due to the View Point acquisition? Or are you ramping up inventory in anticipation of higher sales in the second half of the year?

Raul Parra^ Thanks, Jim. I'll take the opportunity to kind of -- just kind of take a victory lap here on free cash flow, right? So as you guys know CGI, our goal was $400 million. We hit that essentially at the end of last year. We're still focused on the $200 million for this year. As you just mentioned, we spent a lot of cash on inventory. It's been strategic, I would say.

So we had a couple of product lines last year where we thought the inventory could be better. So we increased the inventory there. We talked -- I talked a little bit earlier about moving more -- from a shipping standpoint, moving more to the ocean. So we've done that. That takes more inventory because it just takes a little bit longer. And we've also -- we're strategic as the Middle East kind of conflict plays out about buying resin and certain raw materials to make sure that we had enough on hand for any disruption that may happen.

We haven't seen anything yet. We also haven't really seen any pricing increases. So I think we're pretty well managed right now. And I would expect that to taper off the rest of the year, but continue to be excited about shooting for that $200 million for this year.

James Sidoti^ Okay. Got it. And do you anticipate any additional tariff refunds? Or do you think what you received in the second quarter is what you'll have for the year?

Raul Parra^ So we've essentially received just about everything that we were expecting. There is still, I'd say, about $1.5 million or so that's going to come from a third-party who's our freight forwarder and they're responsible for submitting -- It's a large shipper. And I'm sure they have a lot of customers that they're kind of dealing with.

So I wouldn't expect anything back this year. If we do, great. But I know they have a lot of customers that they're working through. And I know they've tried to keep us up to date.

They're working through the process. And so hopefully, we'll get that here in the next year or so. But for the most part, we've gotten everything that we were expecting.

James Sidoti^ Great thank you.

Operator^ Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Martha Aronson for any closing remarks.

Martha Aronson^ Well thanks very much. And again, I just want to thank our global team for delivering the strongest quarterly organic growth in three years, just an outstanding result. So hats off to them. And again, I appreciate all of our investors for taking your time today to be with us. We appreciate your attention and your interest in Merit Medical. Thank you very much.

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