

Merit Medical Systems (MMSI)

\$33.32 (As of 01/06/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Merit Medical Systems sustained growth in the recently introduced EmboCube and the Torpedo embolic products, and robust Cardiovascular unit fuels optimism. Management is optimistic about Merit Medical's Becton Dickinson deal that is set for completion at the end of 2019. The acquisitions of Cianna Medical and Vascular Insights continue to contribute to results. Merit Medical exited third-quarter 2019 on a weak note. Escalating operating expenses remain a concern. Contraction in gross margin is also worrisome. Headwinds like stiff competition and higher consolidation in the healthcare industry add to woes. Shares of the company underperformed the industry in a year's time.

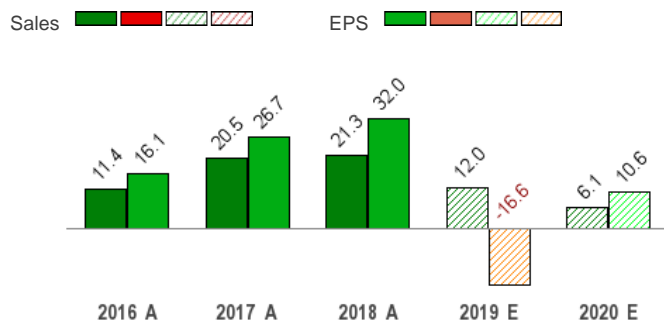
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.64 - \$19.50
20 Day Average Volume (sh)	863,722
Market Cap	\$1.8 B
YTD Price Change	6.7%
Beta	1.14
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 38% (97 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-37.8%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	21.5
P/E F1	21.4
PEG F1	1.8
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	253 E	269 E	259 E	269 E	1,049 E
2019	238 A	256 A	243 A	252 E	989 E
2018	203 A	225 A	222 A	233 A	883 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.33 E	\$0.43 E	\$0.39 E	\$0.42 E	\$1.56 E
2019	\$0.37 A	\$0.42 A	\$0.28 A	\$0.34 E	\$1.41 E
2018	\$0.31 A	\$0.43 A	\$0.47 A	\$0.48 A	\$1.69 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

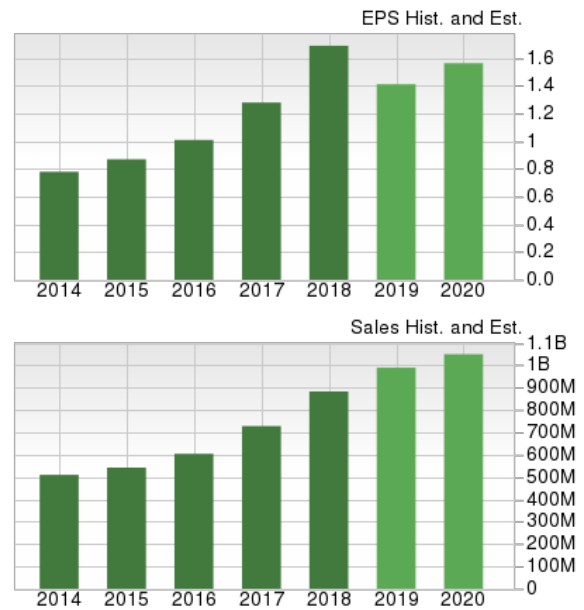
Overview

Headquartered in South Jordan, UT, Merit Medical Systems, Inc. (MMSI) provides various peripheral and cardiac intervention products to cure cardiac conditions specific to interventional cardiology and electrophysiology.

The company offers products focused in five core product groups: peripheral intervention, cardiac intervention, interventional oncology and spine, cardiovascular and critical care as well as endoscopy. However, the company operates in two revenue segments — Cardiovascular and Endoscopy Devices.

The Cardiovascular Segment: The segment includes peripheral intervention, cardiac intervention, interventional oncology, spine, cardiovascular and critical care product groups.

The Endoscopy Devices Segment: Within the Endoscopy division, the company's flagship Merit Endotek integrates advanced non-vascular stent technology with balloon dilators, inflation devices, guide wires, procedure kits and other devices that are used by endoscopists in interventional gastroenterology, interventional pulmonology as well as thoracic and general surgery. Merit Endotek has a dedicated marketing and sales organization serving the underpenetrated emerging economies.



2018 at a Glance

Merit Medical reported worldwide revenue of \$882.8 million, up 21.3% on a year-over-year basis.

The Cardiovascular segment recorded revenues of \$849.5 million (96.2% of net revenues).

The Endoscopy devices segment recorded revenues of \$33.3 million (3.8% of net revenues).



Reasons To Buy:

- ▲ **New Products:** By the end of the fourth-quarter 2018, management at Merit Medical announced that new products like EmboCube Embolization Gelatin, the basixTAU Inflation Device, the Prelude Prestige Splittable Sheath Introducer, the Prelude Ideal Sheath Introducer, the PreludeSYNC Radial Hemostasis Device are likely to expand the company's customer base.

The Prelude Ideal platform has been gaining traction in the markets of Australia and Canada as of fourth quarter of 2018. It is also the company's fastest growing product in years. Further, Merit Medical plans to introduce new products developed to enhance and complement the existing product lines in Tijuana as part of its biopsy product line. These products are set to be launched before the end of 2019.

The company remains optimistic about several new products that are in the pipeline and slated for introduction in the second quarter of 2019. These are expected to aid the company's growth and margins.

- ▲ **HeRO Products (Hemodialysis Reliable Outflow):** Merit Medical's HeRO product line has been a key contributor to growth. HeRO Graft, Super HeRO Adapter and HeRO Ally Revision Kit are the three platforms within the company's HeRO family of dialysis devices. Considering the solid global prospects of hemodialysis solutions, the HeRO product line is likely to provide Merit Medical with a competitive edge in the MedTech markets. Per a report by MarketWatch, the global hemodialysis and peritoneal dialysis market is estimated to reach a worth of \$84 billion by 2024, at a CAGR of 6%.

Notably, the HeRO product line was acquired by Merit Medical from CryoLife in 2017. Per management, the 'Think HeRO Graft Training program' in the HeRO platform is likely to provide substantial scope over the long run.

Of all the three HeRO lines, HeRO Graft is the most important given its strong cost-saving efficiencies. HeRO Graft is a fully subcutaneous vascular access system, intended for use in maintaining long-term vascular access for chronic hemodialysis patients who have failing fistulas, grafts or are catheter dependent due to a central venous blockage.

Per management, HeRO Graft offers cost savings of more than \$3,100 (per patient/year) to the dialysis center when converting catheter-dependent patients to the HeRO Graft.

- ▲ **Peripheral Intervention Unit Holds Promise:** The company's peripheral intervention consists of Peripheral Drainage & Biopsy, Peripheral Angiography, Peripheral Intervention and Peripheral Access Portfolio. Merit Medical also offers low-profile ASAP Aspiration Catheters, which offer clinicians two options for the safe and efficient removal of fresh, soft emboli and thrombi from vessels. These products have been contributing enormously to the company's top-line growth.

In the recent past, Merit Medical announced a new project of biopsy devices that are under development. This is likely to boost the company's R&D prospects in the quarters to come.

- ▲ **Guidance Strong:** Merit Medical issued 2019 guidance. The company expects 2019 revenues in the band of \$1.01-\$1.03 billion. Adjusted EPS are expected between \$1.97 and \$2.08. The company expects adjusted gross margins within 50.6-51.3%.

Merit Medical expects core revenue growth of 8-10%. The company also expects an addition of 100-150 basis points to gross margin, and net income improvement of approximately 14 - 19%.

- ▲ **Acquisitions to Drive Growth:** Merit Medical has been leveraging on bolt-on buyouts to drive inorganic growth. The company remains optimistic about Merit Medical's Becton Dickinson deal, the acquisitions of Cianna Medical and Vascular Insights, and the execution of the global growth and profitability plan.

The Cianna transition has been completed and sales continue to grow per management's expectations. In the first quarter, acquired products contributed revenues of \$20 million, of which \$12.8 million was attributable to Cianna. The company remains focused toward developing new products out of Cianna.

Apart from this, Merit Medical recently acquired a small U.S.-based entity, Laurane Medical with manufacturing operations in Europe. The purchased company specializes in the bone biopsy business. Management at Merit Medical expects accretive returns from this deal with Laurane Medical. Laurane Medical has already been consolidated into Merit Medical's Irish facility.

- ▲ **Deal with MedTech Behemoth - Becton Dickinson:** In February, Merit Medical closed the purchase of assets from Becton, Dickinson and Company ("BD"). The deal is related to BD's recently-completed acquisition of C.R. Bard, Inc for \$100 million. The assets acquired are soft tissue core needle biopsy products sold under the trade names of Achieve Programmable Automatic Biopsy System, Temno Biopsy System, Tru-Cut Biopsy Needles, Aspira Pleural Effusion Drainage Kits and the Aspira Peritoneal Drainage System. These products will be sold by Merit's global direct sales force and distribution partners. Notably, the transaction is expected to expand Merit Medical's operating margins and increase its cash flow.

Merit Medical's management expects the acquisition to boost the company's annualized adjusted earnings per share in 2019.

Per management, transition of the Becton, Dickinson deal continues to be on track with some of the acquired products currently being built in the facility in Tijuana, Mexico. The entire transition program is scheduled for completion by the end of 2019.

- ▲ **International Exposure:** In the fourth quarter of 2018, Merit Medical received a number of orders from the Middle East for their flagship products. Per management, the company foresees solid opportunities there in the quarters to come. Additionally, Merit Medical eyes a global pipeline for Europe, Asia and South-east Asia. It is important to note here that around 50% of Merit's business comes from international markets.

Merit Medical's acquisition-driven strategy is expected to boost growth by expanding existing product offerings across all business segments. Strong prospects in the HeRO product line is a positive.

▲ **Favorable Tidings on Regulatory Front:** Positive feedbacks and approvals from the top-notch regulatory bodies have favored Merit Medical in most times. In recent times, Merit Medical confirmed that it has more than 50 active R&D products in its portfolio.

Of the major approvals, the company's recently-approved Prelude Ideal product by the FDA deserves a mention. It is a unique vascular sheath. Strong demand for this product has boosted the company's prominence in the MedTech markets. Apart from Prelude Ideal, the company recently received a 510(k) for a distal access SYNC and the Merit Pursue Microcatheter.

Complications associated with Brexit, consolidation of notified bodies and the new European Medical Device Regulation (MDR) has slowed down new product approvals. Nonetheless, the company expects to receive approval of the SAVI SCOUT for sale in Europe in the near future.

▲ **Solid R&D Focus:** Merit Medical's strong focus in research and development (R&D) is a positive. The company's strong commitment to innovation led to the introduction of several new products, improvements in the existing products and expansion of product lines as well as enhancements and new equipment in the R&D facilities.

As of fourth quarter of 2018, Merit Medical had a number of active R&D projects. The company's R&D analysis goes on in Ireland, Texas, Pennsylvania and Salt Lake City. In the quarter, the company made solid R&D investments in the new European regulatory requirements, NDR, clinical studies for WRAPSODY project and consolidation of Malvern manufacturing to Mexico.

Merit Medical's R&D expenses were approximately \$59.5 million, \$51.4 million and \$45.2 million in 2018, 2017, and 2016 respectively. In the first quarter of 2019, Merit Medical registered research and development expenses of \$16 million, up 12% year over year.

Reasons To Sell:

▼ **Unfavorable Stock Performance:** Merit Medical underperformed the industry in a year's time. Shares of the company lost 35.6%, compared with the industry's gain of 2.9%. The current level also falls behind the S&P 500 index's rally of 24.5%. Stiff competition in the MedTech space remains a concern.

▼ **Higher Consolidation in the Healthcare Industry:** Healthcare costs have risen significantly over the past decade. Thus, in order to provide healthcare solutions at a cheaper rate and eradicate competition, large cap MedTech behemoths have started consolidating with mid cap and small cap companies. This enables the availability of healthcare products at cheap prices in the market.

Per management, such trends compel Merit Medical's customers to ask for price concessions in its products, which act against the on-going business strategies. This may also exert a solid downward pressure on the prices of Merit Medical's products and reduce customer base.

▼ **Cutthroat Competition in MedTechSpace:** The medical products industry is highly competitive. Merit Medical competes globally in several market areas, including diagnostic and interventional cardiology; interventional radiology; neurointerventional radiology; vascular, general and thoracic surgery; electrophysiology; cardiac rhythm management; interventional pulmonology; interventional nephrology; orthopaedic spine surgery and many more.

In the interventional cardiology, radiology, gastroenterology, endoscopy, general surgery, thoracic surgery and pulmonology markets, Merit Medical competes with large international, multi-divisional medical supply companies such as Cardinal Health, Boston Scientific Corporation, Medtronic, Abbott, Teleflex, Becton, Dickinson and Company, Stryker Corporation and Terumo Corporation.

Medium-size companies like B. Braun, Uresil, BTG, Olympus Medical, Edwards Lifesciences, Argon, CONMED, AngioDynamics, Medcomp and U.S. Endoscopy are the most aggressive competitors of Merit Medical.

▼ **Lack of Direct Sales and Marketing Capabilities:** Merit Medical lack direct sales and marketing capabilities in many countries. The company wholly depends on third-party distributors for the commercialization of products in these countries. These countries include China, Japan, Russia and India. Per management, because of inefficiencies in the distributor base, Merit Medical often fails to successfully commercialize its products in these countries.

Adding to the woes, the company's distributors often fail to comply with all applicable laws regarding the sale of products, including anti-competition, anti-corruption, anti-money laundering and sanctions laws. This results in disruption of operations and business in the region.

Higher consolidation in the healthcare industry exerts downward pressure on the prices of Merit Medical's products. Cutthroat competition and lack of direct sales in many countries are other headwinds.

Last Earnings Report

Merit Medical Q3 Earnings & Revenues Miss Estimates

Merit Medical Systems, Inc. reported third-quarter 2019 adjusted earnings per share of 28 cents, lagging the Zacks Consensus Estimate of 45 cents by 37.8%. The bottom line also declined 40.4% from the year-ago quarter.

This Utah-based provider of peripheral and cardiac intervention products reported worldwide revenues of \$243 million, up 9.6% from the year-ago quarter. On a comparable constant-currency basis, the metric improved 4.3% year over year. However, the top line missed the Zacks Consensus Estimate of \$247.1 million by 1.7%.

Segmental Analysis

Cardiovascular

The Cardiovascular unit reported third-quarter revenues of \$234.4 million, up 10.5% year over year. The upside can be attributed to year-over-year increase of 5.9% in the segment's Stand-alone devices to \$96.3 million.

Further, revenues from Catheters improved 9.4% to \$44.4 million. However, Embolization devices dropped 0.5% to \$12.3 million.

Moreover, revenues at the CRM/EP unit increased 11% to \$13.5 million. Further, revenues from Custom kits and procedure trays unit, under the Cardiovascular segment, rose 2.6% to \$33.9 million. Inflation devices revenues declined 3.1% on a year-over-year basis at \$22.2 million.

Endoscopy Devices

Revenues from the Endoscopy devices totaled \$8.6 million, down 9.3% year over year.

Margins

In the quarter under review, gross profit totaled \$104.1 million, up 2.1% on a year-over-year basis. Gross margin came in at 42.8% of net revenues, down 320 bps year over year. Adjusted gross margins contracted 170 bps on a year-over-year basis to 48.1% of net revenues.

Merit Medical registered selling, general and administrative expenses totaled \$86.9 million, up 30.9% year over year.

Meanwhile, research and development expenses amounted to \$16.9 million, up 16.9% year over year.

Operating loss in the quarter totaled \$2.9 million, against the year-ago quarter's operating income of \$21.1 million.

Financial Update

Cash and cash equivalents came in at \$37.3 million, down 76.2% sequentially.

Total assets came in at \$1.76 billion, up 1.7% sequentially.

Guidance Revised

For 2019, the company projects revenues in the range of \$986-995 million (down from the previously guided range of \$1-\$1.03 billion).

Adjusted earnings per share is expected to range between \$1.40 and \$1.46 (down from the previously guided range of \$1.74-\$1.97).

Adjusted gross margin is estimated to range between 48.4% and 48.7% compared with prior guidance range of 49.2-49.9%.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-1.65%
EPS Surprise	-37.78%
Quarterly EPS	0.28
Annual EPS (TTM)	1.55

Valuation

Merit Medical's shares are down 42.5% and 35.6% in the past six months and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical market are down 12.7% and up 4.2% in the past six months, respectively. Over the past year, the Zacks sub-industry and sector are up 2.9% and 4.7%, respectively.

The S&P 500 index is up 9.3% in the past six months and 24.5% in the past year.

The stock is currently trading at 21.26X Forward 12-months earnings, which compares to 17.32X for the Zacks sub-industry, 21.3X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.95X and as low as 10.5X, with a 5-year median of 24.85X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 22.29X forward 12-months earnings.

The table below shows summary valuation data for MMSI.

Valuation Multiples - MMSI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.26	17.32	21.3	18.71
	5-Year High	35.95	19.99	21.31	19.34
	5-Year Low	10.5	13.7	15.91	15.17
	5-Year Median	24.85	16.67	18.98	17.44
P/S F12M	Current	1.75	0.35	2.79	3.47
	5-Year High	3.87	0.35	3.8	3.47
	5-Year Low	1.06	0.23	2.42	2.54
	5-Year Median	1.91	0.28	2.93	3
P/B TTM	Current	1.94	4.39	4.46	4.41
	5-Year High	4.92	4.93	5.01	4.45
	5-Year Low	1.2	2.53	3.42	2.85
	5-Year Median	2.4	3.45	4.27	3.6

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 254)



Top Peers

Inovalon Holdings, Inc. (INOV)	Outperform
Cerner Corporation (CERN)	Neutral
Cognizant Technology Solutions Corporation (CTSH)	Neutral
Evolent Health, Inc (EVH)	Neutral
IQVIA Holdings Inc. (IQV)	Neutral
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral
Premier, Inc. (PINC)	Neutral
Computer Programs and Systems, Inc. (CPSI)	Underperform

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	MMSI Neutral	X Industry	S&P 500	CERN Neutral	EVH Neutral	MDRX Neutral
VGM Score	D	-	-	B	F	B
Market Cap	1.84 B	1.45 B	23.72 B	23.24 B	788.56 M	1.57 B
# of Analysts	5	6	13	15	8	14
Dividend Yield	0.00%	0.00%	1.79%	0.97%	0.00%	0.00%
Value Score	B	-	-	B	D	A
Cash/Price	0.02	0.06	0.04	0.03	0.27	0.09
EV/EBITDA	17.73	11.06	13.90	16.38	879.81	7.74
PEG Ratio	1.81	2.01	2.00	1.73	NA	1.20
Price/Book (P/B)	1.94	3.85	3.34	5.27	0.70	1.26
Price/Cash Flow (P/CF)	11.31	12.17	13.67	17.39	33.83	5.57
P/E (F1)	21.00	21.53	18.72	23.55	NA	12.58
Price/Sales (P/S)	1.90	1.40	2.66	4.14	0.98	0.89
Earnings Yield	4.68%	4.15%	5.31%	4.24%	-1.93%	7.95%
Debt/Equity	0.53	0.32	0.72	0.24	0.27	0.51
Cash Flow (\$/share)	2.95	1.80	6.94	4.26	0.28	1.74
Growth Score	D	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	19.24%	8.77%	10.56%	6.89%	NA	21.95%
Proj. EPS Growth (F1/F0)	10.76%	13.35%	7.42%	17.74%	75.04%	12.29%
Curr. Cash Flow Growth	36.41%	9.29%	14.83%	4.25%	-289.80%	24.91%
Hist. Cash Flow Growth (3-5 yrs)	20.46%	12.65%	9.00%	13.59%	1.35%	8.69%
Current Ratio	2.88	1.72	1.23	2.21	1.19	0.66
Debt/Capital	34.70%	26.85%	42.92%	19.06%	20.98%	33.83%
Net Margin	1.94%	3.65%	11.08%	9.02%	-15.02%	12.00%
Return on Equity	9.23%	15.73%	17.16%	15.61%	-6.93%	5.98%
Sales/Assets	0.57	1.02	0.55	0.80	0.48	0.55
Proj. Sales Growth (F1/F0)	6.08%	5.44%	4.15%	4.10%	8.10%	4.13%
Momentum Score	F	-	-	C	F	B
Daily Price Chg	2.59%	0.09%	0.10%	0.22%	4.02%	0.57%
1 Week Price Chg	3.94%	0.00%	-0.30%	0.75%	1.24%	-2.63%
4 Week Price Chg	12.80%	0.10%	2.33%	3.57%	18.42%	-2.76%
12 Week Price Chg	17.08%	6.93%	7.02%	9.23%	40.78%	-6.70%
52 Week Price Chg	-35.21%	11.04%	24.61%	42.48%	-55.45%	-7.32%
20 Day Average Volume	863,722	230,011	1,589,897	1,478,260	1,930,503	1,660,734
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-8.17%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.20%	-8.17%	0.00%
(F1) EPS Est 12 week change	-23.33%	-0.22%	-0.56%	-2.33%	-14.88%	2.38%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-10.73%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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