

Merit Medical Systems (MMSI)

\$32.88 (As of 03/11/20)

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:B

Value: C

Growth: C

Momentum: B

Summary

Merit Medical exited fourth-quarter 2019 on a strong note. The company sustained growth in the recently introduced EmboCube and the Torpedo embolic products, and robust Cardiovascular unit fuels optimism. The acquisitions of Cianna Medical and Vascular Insights continue to contribute to the results. Further, the company stands to benefit from the execution of the global growth and profitability plan. New regulatory approvals, a robust pipeline of new products and other internally developed products that are ready for launch instill investor optimism in the stock. However, 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 have underperformed the industry in a year's time.

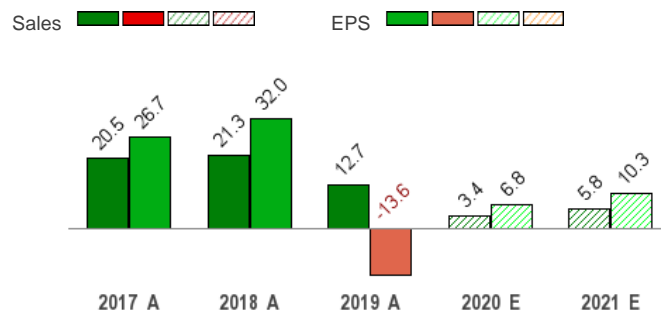
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.64 - \$19.50
20 Day Average Volume (sh)	517,299
Market Cap	\$1.8 B
YTD Price Change	5.3%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 18% (46 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.7%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	04/28/2020
Earnings ESP	0.0%
P/E TTM	22.4
P/E F1	21.2
PEG F1	1.8
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	244 E	282 E	275 E	294 E	1,089 E
2020	233 E	264 E	258 E	274 E	1,029 E
2019	238 A	256 A	243 A	258 A	995 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.52 E	\$0.36 E	\$0.52 E	\$1.72 E
2020	\$0.27 E	\$0.41 E	\$0.37 E	\$0.45 E	\$1.56 E
2019	\$0.37 A	\$0.42 A	\$0.28 A	\$0.40 A	\$1.46 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 03/11/2020. The reports text is as of 03/12/2020.

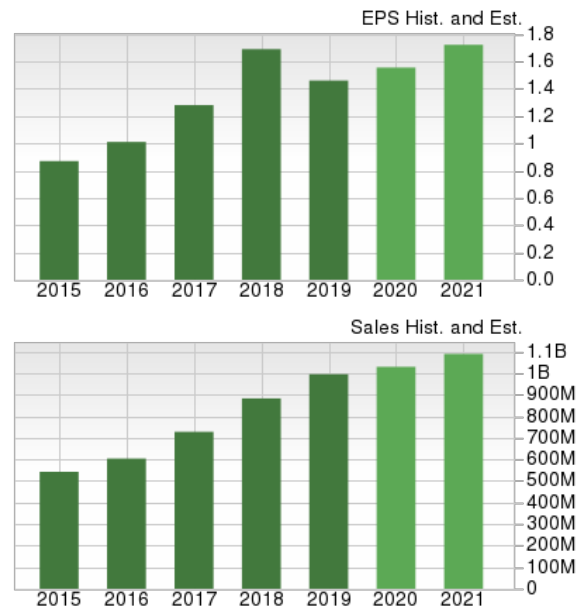
Overview

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.



2019 at a Glance

Merit Medical reported worldwide revenue of \$994.9 million, up 12.7% on a year-over-year basis.

The Cardiovascular segment recorded revenues of \$960.9 million (96.6% of net revenues).

The Endoscopy devices segment recorded revenues of \$33.9 million (3.4% 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 company has gained significant momentum on the back of new products and is optimistic about the product pipeline, including radio and electrophysiology products, going forward.

Merit Medical expects to launch its significant Aspira pleural drainage, pleural effusion and peritoneal drainage products between second and third-quarter 2020 in Europe, Canada, Australia and other locations. Another important product – Surfacar – is a device in which the company has an equity interest in.

It is important to note here that the company will move 14 new products from Salt Lake City and one or two other facilities to either Texas or Mexico. This transfer process will be done in 2020 and on an annual basis the company anticipates the savings to range between \$6 million and \$10 million a year.

- ▲ **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 2020 guidance. For 2020, the company projects revenues in the range of \$1.04-1.06 billion. The Zacks Consensus Estimate for the same is pegged at \$1.05 billion.

Adjusted earnings per share is anticipated between \$1.58 and \$1.68. The consensus mark for the metric is pegged at \$1.56 per share.

Adjusted operating margin is estimated between 13% and 14%.

- ▲ **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 fourth quarter, acquired products contributed revenues of \$16.1 million, of which \$13.8 million was attributable to Cianna and \$2.3 million to ClariVein. 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.

Per management, transition of the Becton, Dickinson deal remained on track with some of the acquired products currently being built in the facility in Tijuana, Mexico. The entire transition program was concluded in 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

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.

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.

- ▲ **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.

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.

During February 2020, the company received approval for its SwiftNinja, steerable microcatheter. Additionally, Merit Medical received approval for its Amplatz, Guide Wires. Further, the company got approval for its SureCross support catheter. All of these approvals are significant with respect to driving the company's performance.

- ▲ **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. In the fourth quarter, research and development expenses amounted to \$16.2 million, up 5.8% year over year.
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Reasons To Sell:

▼ **Share Price Performance:** Merit Medical underperformed the industry in a year's time. Shares of the company have lost 45.6%, compared with the industry's decline of 14.6%. The current level also falls behind the S&P 500 index's rise of 1.5%. 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 Q4 Earnings & Revenues Beat Estimates

Merit Medical Systems, Inc. reported fourth-quarter 2019 adjusted earnings per share of 40 cents, which beat the Zacks Consensus Estimate of 34 cents by 17.6%. However, the bottom line declined 16.7% from the year-ago quarter.

For the full year, adjusted EPS was \$1.46, down 13.6% from that of 2018. However, the figure outpaced the consensus mark by 3.5%.

Quarter Ending **12/2019**

Report Date	Feb 24, 2020
Sales Surprise	2.24%
EPS Surprise	17.65%
Quarterly EPS	0.40
Annual EPS (TTM)	1.47

Revenues in Detail

This Utah-based provider of peripheral and cardiac intervention products reported worldwide revenues of \$257.9 million, up 10.6% from the year-ago quarter. On a comparable constant-currency basis, the figure improved 8.5% year over year. Moreover, the top line surpassed the Zacks Consensus Estimate of \$252.3 million by 2.2%.

For the full year, the company reported worldwide revenues worth \$994.9 million, which improved 12.7% from the previous year. The top line beat the Zacks Consensus Estimate by 0.6%.

Segmental Analysis

Cardiovascular

The Cardiovascular unit reported fourth-quarter revenues of \$249.4 million, up 10.8% year over year. The upside can be attributed to year-over-year increase of 11.9% in the segment's Stand-alone devices to \$106.2 million. Further, revenues from Catheters improved 8.1% to \$45.1 million. Moreover, Embolization devices climbed 12.7% to \$13.9 million.

Moreover, revenues at the CRM/EP unit increased 7.9% to \$13.7 million. Further, revenues from Custom kits and procedure trays unit, under the Cardiovascular segment, inched up 0.6% to \$34.6 million. Inflation devices revenues declined 2.8% on a year-over-year basis at \$22.2 million.

Endoscopy Devices

Revenues from the Endoscopy devices totaled \$257.9 million, up 10.6% year over year.

Margins

In the quarter under review, gross profit totaled \$111.6 million, up 6.7% on a year-over-year basis. Gross margin came in at 43.3% of net revenues, down 160 bps year over year. Adjusted gross margins contracted 110 bps on a year-over-year basis to 48.3% of net revenues.

Merit Medical registered selling, general and administrative expenses totaled \$82.1 million, up 8.5% year over year.

Meanwhile, research and development expenses amounted to \$16.2 million, up 5.8% year over year.

Operating loss in the quarter totaled \$3.4 million, against the year-ago quarter's operating income of \$13.7 million.

Financial Update

Cash and cash equivalents came in at \$44.3 million, down 34.2% from the year-ago quarter.

As of Dec 31, 2019, total assets came in at \$1.76 billion, up 8.5% from \$1.62 billion at 2018 year end.

2020 Guidance

For 2020, the company projects revenues in the range of \$1.04-1.06 billion. The Zacks Consensus Estimate for the same is pegged at \$1.05 billion.

Adjusted earnings per share is anticipated between \$1.58 and \$1.68. The consensus mark for the metric is pegged at \$1.56 per share.

Adjusted operating margin is estimated between 13% and 14%.

Recent News

On **Dec 9, 2019**, Merit Medical Systems announced the commercial launch of the ReSolve Mini Locking Drainage Catheter, the most recent addition to Merit's line of innovative ReSolve Locking Drainage Catheters.

Valuation

Merit Medical's shares are up 5.3% in the year-to-date period but down 45.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical market are down 8.2% and 7% in the year-to-date period, respectively. Over the past year, the stocks in the Zacks sub-industry and sector are down 14.6% and 7.6%, respectively.

The S&P 500 index is down 10.5% in the year-to-date period but up 1.5% in the past year.

The stock is currently trading at 20.7X Forward 12-months earnings, which compares to 15.9X for the Zacks sub-industry, 19.3X for the Zacks sector and 16.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.9X and as low as 10.5X, with a 5-year median of 25.1X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 22X 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	20.71	15.88	19.32	16.58
	5-Year High	35.95	19.57	21.08	19.34
	5-Year Low	10.5	13.7	15.82	15.18
	5-Year Median	25.05	16.56	18.86	17.42
P/S F12M	Current	1.74	0.32	2.61	3.05
	5-Year High	3.87	0.36	3.84	3.44
	5-Year Low	1.06	0.23	2.46	2.54
	5-Year Median	1.95	0.28	2.96	3.01
P/B TTM	Current	1.91	3.39	4.27	3.88
	5-Year High	4.92	4.93	5.05	4.56
	5-Year Low	1.2	2.53	3.44	2.85
	5-Year Median	2.4	3.45	4.32	3.63

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 18% (46 out of 253)



Top Peers

Computer Programs and Systems, Inc. (CPSI)	Outperform
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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	MMSI Neutral	X Industry	S&P 500	CERN Neutral	EVH Neutral	MDRX Neutral
VGM Score	B	-	-	B	C	C
Market Cap	1.82 B	1.54 B	19.20 B	21.32 B	586.28 M	1.03 B
# of Analysts	4	5	13	14	7	12
Dividend Yield	0.00%	0.00%	2.31%	1.05%	0.00%	0.00%
Value Score	C	-	-	C	C	B
Cash/Price	0.02	0.07	0.05	0.02	0.18	0.11
EV/EBITDA	19.04	11.09	11.76	16.25	-22.46	16.69
PEG Ratio	1.67	1.71	1.73	1.61	NA	0.89
Price/Book (P/B)	1.91	3.45	2.64	4.94	0.63	0.80
Price/Cash Flow (P/CF)	9.70	11.94	10.55	14.56	2.93	3.07
P/E (F1)	19.41	19.39	15.66	21.73	NA	8.70
Price/Sales (P/S)	1.82	1.53	2.06	3.75	0.69	0.58
Earnings Yield	4.71%	4.00%	6.38%	4.61%	-5.20%	11.57%
Debt/Equity	0.53	0.32	0.70	0.24	0.39	0.50
Cash Flow (\$/share)	3.39	1.35	7.01	4.69	2.36	2.06
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	17.93%	8.88%	10.85%	5.82%	NA	17.51%
Proj. EPS Growth (F1/F0)	6.51%	10.13%	6.02%	17.38%	50.20%	8.21%
Curr. Cash Flow Growth	15.85%	9.18%	6.09%	6.07%	781.20%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	21.55%	12.65%	8.52%	11.81%	58.24%	10.24%
Current Ratio	2.50	1.65	1.24	2.04	1.19	0.69
Debt/Capital	34.70%	27.49%	42.57%	19.39%	28.07%	33.46%
Net Margin	0.55%	3.00%	11.69%	9.30%	-35.68%	-10.28%
Return on Equity	8.67%	15.19%	16.74%	16.66%	-6.97%	5.71%
Sales/Assets	0.57	1.02	0.54	0.81	0.52	0.55
Proj. Sales Growth (F1/F0)	3.45%	3.83%	3.55%	3.51%	13.99%	0.95%
Momentum Score	B	-	-	B	F	F
Daily Price Chg	-8.59%	-3.30%	-5.37%	-1.14%	-10.83%	-3.22%
1 Week Price Chg	4.36%	0.00%	-0.67%	5.90%	-14.07%	1.33%
4 Week Price Chg	-16.49%	-11.30%	-20.57%	-10.86%	-37.83%	-30.85%
12 Week Price Chg	5.35%	-1.33%	-17.57%	-5.28%	-5.34%	-34.07%
52 Week Price Chg	-45.58%	-7.90%	-8.21%	18.75%	-47.01%	-40.25%
20 Day Average Volume	517,299	419,774	2,882,511	2,804,574	1,004,864	2,665,884
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-2.02%
(F1) EPS Est 4 week change	-0.58%	-0.06%	-0.23%	0.42%	-48.59%	-5.68%
(F1) EPS Est 12 week change	-0.58%	-0.18%	-0.60%	0.25%	-77.50%	-7.41%
(Q1) EPS Est Mthly Chg	-18.81%	-0.31%	-0.52%	1.63%	-27.74%	-15.88%

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	C
Growth Score	C
Momentum Score	B
VGM Score	B

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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