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Aug 18, 2020

Merit Medical Systems (MMSI)

$47.92 (As of 08/17/20)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/30/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: C | Momentum: C	**2-Buy** VGM:B

Summary

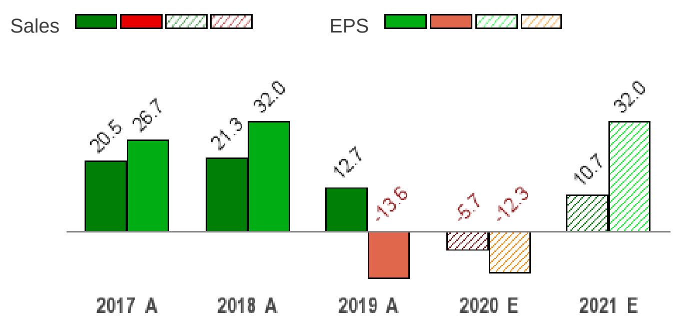
Merit Medical exited the second quarter of 2020 on a strong note, with earnings and revenues beating estimates. The company witnessed key regulatory approvals during the second quarter. The acquisitions of Cianna Medical and Vascular Insights continue to contribute to the company's results. Despite COVID-19, the company has witnessed robust demand for several of its critical care products, such as hemodynamic monitoring, peritoneal dialysis catheters and insertion tools apart from its infection control products.The stock has outperformed its its industry over the past year.However, revenue decline at every key operating segment is concerning.Contraction in both margins is a concern as well. Also, stiff competition and higher consolidation in the healthcare industry are dampeners.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$48.42 - $19.50
20 Day Average Volume (sh)	376,199
Market Cap	$2.7 B
YTD Price Change	53.5%
Beta	1.07
Dividend / Div Yld	$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 30% (75 out of 252)
Last EPS Surprise	933.3%
Last Sales Surprise	13.0%
EPS F1 Est- 4 week change	23.9%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	35.0
P/E F1	37.4
PEG F1	3.2
P/S TTM	2.8

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	248 E	265 E	251 E	269 E	1,038 E
2020	244 A	218 A	219 E	257 E	938 E
2019	238 A	256 A	243 A	258 A	995 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.34 E	$0.44 E	$0.40 E	$0.47 E	$1.69 E
2020	$0.38 A	$0.31 A	$0.19 E	$0.38 E	$1.28 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 08/17/2020. The reports text is as of 08/18/2020.

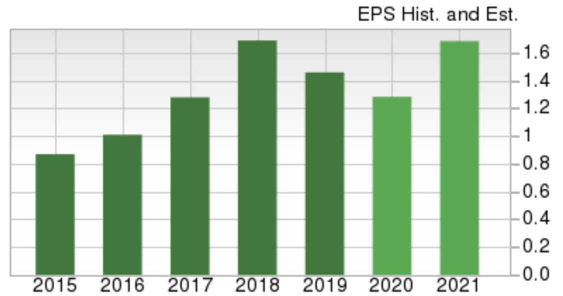
Overview

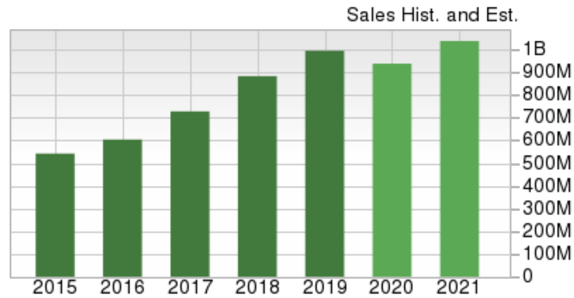
Headquartered in South Jordan, UT, Merit Medical Systems, Inc. (MMSI) provides various peripheral and cardiac intervention products to cure cardiac conditions specific to interventional cardiology and electrophysiology.

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:

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.

▲ **Share Price Performance**: Merit Medical outperformed the industry over the past year. Shares of the company have gained 36.6%, against the industry's fall of 2.2%. The company witnessed key regulatory approvals during the second quarter. The acquisitions of Cianna Medical and Vascular Insights continue to contribute to the company's results.

▲ **New Products**: The company has continued to gain 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 – Surfacer – is a device in which the company has an equity interest in.

The company has a number of electrophysiology products which are on track for release and several others in stages of development.. The company has also developed a number of new products for testing of patients suspected of COVID-19.

In April 2020, the company initiated production of a sample collection and transport kit, consisting of a nasopharyngeal swab and transport vial, used to collect samples with suspected presence of COVID-19. In March, the company announced the addition of the new SCOUT Access Guide to its wire-free radar localization portfolio. This slim Guide option has been developed to further enable oncoplastic breast surgery and greater ease of lymph node dissection.

In January, the company commercially launched the Arcadia Steerable and Straight Balloons for vertebral augmentation.These have been developed to enable physicians achieve controlled, acute cavity creation during unipedicular or bipedicular vertebral augmentation procedures.

▲ **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.

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.

However in the second quarter, the Peripheral Intervention unit saw 18.2% decline in revenues, due to its biopsy, localization or Vertebral Compression Fracture endotherapy, angiography and intervention products.

▲ **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 acquisitions of Cianna Medical and Vascular Insights continued to contribute through the second quarter.

▲ **Deal with MedTech Behemoth - Becton Dickinson:** In February 2018, 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**: 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.

The company witnessed an uptick in sales from the end of April which continued at a steady rate through June. However, there was a slight slowdown in July in the United States, EMEA and emerging markets as the number of COVID-19 cases increased and elective procedures in certain areas got restrained. In July, the company received its first orders of WRAPSODY Endoprosthesis stent system from Europe.

▲ **Favorable Tidings on Regulatory Front:** Positive feedbacks and approvals from the top-notch regulatory bodies have favored Merit Medical in most times. Per the second-quarter 2020 earnings call, the company has cut down its 50 R&D products to 25 but remains focused on boosting the same.

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.

In April, the company was granted two additional Breakthrough Device designations by the FDA for the Merit WRAPSODY Endovascular Stent Graft System. The system is a flexible, self-expanding endoprosthesis. This regulatory clearance is expected to bolster the company's cardiovascular segment.The CE mark of the product came through in May 2020.

In the second quarter, the company's WRAPSODY Endoprosthesis stent system attained regulatory clearance in Australia, New Zealand and the European Union.

It also attained FDA approval for the WRAPSODY Arterial Venous access Efficacy (WAVE) IDE trial.The company will proceed over the next several months with the WAVE pivotal IDE. This study is the approval process for the WRAPSODY in the United States. This study will take three to four years to fully enroll and monitor after which the company will submit a PMA request to the FDA for consideration.

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 second quarter, research and development expenses amounted to $14 million.

▲ **Stable Liquidity Position**: Merit Medical is well capitalized having the second quarter with cash and cash equivalents of $49.7 million, compared to $50.1 million sequentially. The company also generated free cash flow of approximately $32 million in the second quarter of 2020. The long-term debt level of $474.7 million, down from $510 million sequentially, is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of $20.4 million in the quarter, down from $19 million sequentially, is in fact much lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, it has sufficient cash for debt repayment.

Reasons To Sell:

> 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.

- **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.

Last Earnings Report

Merit Medical Beats Q2 Earnings and Revenue Estimates

Quarter Ending	06/2020
Report Date	**Jul 29, 2020**
Sales Surprise	**13.01%**
EPS Surprise	**933.33%**
Quarterly EPS	**0.31**
Annual EPS (TTM)	**1.37**

Merit Medical Systems, Inc. reported second-quarter 2020 adjusted earnings per share of 31 cents, which beat the Zacks Consensus Estimate of 3 cents. Moreover, the bottom line fell 26.2% from the year-ago quarter.

On a GAAP basis, loss per share came in at 34 cents against EPS of 12 cents in the year-ago quarter.

Revenues in Details

This Utah-based provider of peripheral and cardiac intervention products reported worldwide revenues of $218.4 million, down 14.5% from the year-ago quarter. On a comparable constant-currency basis, the figure fell 13.6% year over year. However, the top line surpassed the Zacks Consensus Estimate of $193.23 million by 13%.

The **Cardiovascular** unit reported second-quarter revenues of $212.2 million, down 14% year over year due to a year-over-year decrease of 18.2% in Peripheral Intervention revenues to $72.6 million. Further, revenues from Cardiac Intervention fell 17.1% to $66 million. Moreover, revenues from Custom Procedural Solutions fell 4% to $45.3 million. Also, OEM revenues fell 8.9% to $28.2 million.

Revenues from the **Endoscopy** devices totaled $6.2 million, down 30.1% year over year.

Margins

In the quarter under review, gross profit totaled $84.2 million, down 24.8% on a year-over-year basis. Gross margin came in at 38.6% of net revenues, down 525 basis points (bps) year over year.

Adjusted operating profit totaled $3.4 million, down 96.4% year over year.

Adjusted operating margin in the quarter came in at 1.6%, indicating a contraction of 3586 bps year over year.

Financial Update

The company exited the second quarter with cash and cash equivalents of $49.7 million, down from $50.1 million at the end of the first quarter.

2020 Guidance

Due to the continued uncertainty and rapid change in the global environment on account of the coronavirus pandemic, management has been unable to provide any financial guidance for the remainder of 2020.

Valuation

Merit Medical's shares are up 53.5% and up 36.6% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 6.5% and 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 2.2% while the sector is up 7.6%.

The S&P 500 index is up 4.5% in the year-to-date period and up 15.4% in the past year.

The stock is currently trading at 31.2X Forward 12-months earnings, which compares to 18.9X for the Zacks sub-industry, 22.2X for the Zacks sector and 22.9X 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 25.9X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $50 price target reflects 32.7X 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	31.17	18.99	22.16	22.85
	5-Year High	35.95	19.84	23.17	22.85
	5-Year Low	10.50	13.63	15.89	15.25
	5-Year Median	25.97	16.47	18.97	17.58
P/S F12M	Current	2.66	0.37	2.80	3.70
	5-Year High	3.87	0.38	3.41	3.70
	5-Year Low	1.06	0.23	2.22	2.53
	5-Year Median	2.27	0.28	2.89	3.05
P/B TTM	Current	2.86	3.54	3.76	4.52
	5-Year High	4.92	4.73	5.07	4.56
	5-Year Low	1.20	2.54	2.94	2.83
	5-Year Median	2.56	3.44	4.28	3.74

As of 08/17/2020

Industry Analysis **Zacks Industry Rank:** Top 30% (75 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
IQVIA Holdings Inc. **(IQV)**	Outperform	2
Cerner Corporation **(CERN)**	Neutral	3
Computer Programs and Systems, Inc. **(CPSI)**	Neutral	3
Cognizant Technology Solutions Corporation **(CTSH)**	Neutral	3
Evolent Health, Inc **(EVH)**	Neutral	3
Inovalon Holdings, Inc. **(INOV)**	Neutral	3
Allscripts Healthcare Solutions, Inc. **(MDRX)**	Underperform	3
Premier, Inc. **(PINC)**	Underperform	5

Industry Comparison Industry: Medical - Dental Supplies

	MMSI	X Industry	S&P 500	CERN	EVH	MDRX
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	C	A	B
Market Cap	2.66 B	2.46 B	23.75 B	22.25 B	1.13 B	1.51 B
# of Analysts	5	5	14	15	7	14
Dividend Yield	0.00%	0.00%	1.62%	0.99%	0.00%	0.00%
Value Score	C	-	-	B	C	B
Cash/Price	0.02	0.06	0.07	0.02	0.14	0.14
EV/EBITDA	25.80	14.81	13.49	17.24	-36.80	22.49
PEG Ratio	3.22	3.19	3.03	2.15	NA	1.65
Price/Book (P/B)	2.86	4.69	3.18	5.54	1.75	1.21
Price/Cash Flow (P/CF)	14.14	15.95	12.85	15.52	5.60	4.50
P/E (F1)	37.44	36.71	22.17	25.64	NA	14.87
Price/Sales (P/S)	2.76	2.75	2.49	3.96	1.20	0.88
Earnings Yield	2.67%	2.33%	4.32%	3.90%	-2.27%	6.70%
Debt/Equity	0.51	0.44	0.77	0.33	0.57	0.62
Cash Flow ($/share)	3.39	1.35	6.94	4.69	2.36	2.06
Growth Score	C	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	15.56%	9.48%	10.44%	4.11%	NA	7.28%
Proj. EPS Growth (F1/F0)	-12.05%	-3.80%	-5.97%	6.04%	57.74%	-7.14%
Curr. Cash Flow Growth	15.85%	3.87%	5.22%	6.07%	781.20%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	21.55%	12.37%	8.52%	11.81%	58.24%	10.24%
Current Ratio	2.56	1.53	1.33	2.04	1.12	0.78
Debt/Capital	33.82%	32.99%	44.59%	24.99%	36.18%	38.15%
Net Margin	-3.10%	0.23%	10.13%	9.23%	-53.56%	-3.06%
Return on Equity	8.10%	11.36%	14.51%	18.19%	-4.68%	5.55%
Sales/Assets	0.55	0.90	0.51	0.82	0.64	0.53
Proj. Sales Growth (F1/F0)	-5.72%	0.00%	-1.67%	-3.68%	20.07%	-4.87%
Momentum Score	C	-	-	F	B	C
Daily Price Chg	2.85%	0.00%	-0.02%	-0.07%	4.92%	-0.11%
1 Week Price Chg	4.13%	-0.02%	1.09%	4.10%	-3.45%	0.16%
4 Week Price Chg	7.23%	0.00%	4.83%	2.02%	32.83%	28.12%
12 Week Price Chg	6.94%	6.12%	13.09%	8.29%	62.73%	44.08%
52 Week Price Chg	36.64%	11.35%	2.77%	1.43%	78.54%	1.76%
20 Day Average Volume	376,199	515,521	1,932,479	1,728,088	1,717,574	1,714,762
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	23.94%	2.34%	1.80%	-1.06%	16.18%	6.02%
(F1) EPS Est 12 week change	23.94%	0.35%	2.88%	-0.90%	18.56%	1.09%
(Q1) EPS Est Mthly Chg	-4.62%	0.00%	0.80%	0.71%	25.41%	-0.48%

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	C
Growth Score	C
Momentum Score	C
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.

Disclosures

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