

Merit Medical

New 3-year LRP inline with Street

Reiterate Rating: NEUTRAL | PO: 87.00 USD | Price: 80.13 USD

Q4 rev up 8% organically; delivers on prior LRP targets

Q4 revenue of \$325m (+8% y/y organic) was 2% better than the Street. Strength was driven mostly by Peripheral Intervention which was up 14% organically. Q4 EPS of \$0.81 beat the Street by 6%. FY24 revenue guide of \$1.312-1.325bn (+4.8-5.9% cc) was slightly below the Street (\$1.326bn) largely due to a \$15m headwind (120bps) from expected SKU rationalization. The EPS guide of \$3.28-3.35 bracketed Street consensus of (\$3.29). As expected, Merit introduced a new 3-yr plan for organic growth, operating margin and free cash flow which was inline with Street expectations. Merit hit its targets 3-yr plan which ended at the end of 2023. The final FDA submission for Wapsody is still expected in Q2 and approval (expected late 2024/early 2025) could be a meaningful catalyst for the stock. Notably, any US Wapsody sales would be incremental to Merit's 5-7% 3-yr organic revenue CAGR. We reiterate Neutral as Merit would have to beat numbers to move the stock meaningfully higher from here.

New 3-yr plan generally inline with Street expectations

MMSI introduced its new three year plan named the Continued Growth Initiatives Program following the completion of its Foundations for Growth Plan. The CGI calls for organic revenue CAGR of 5-7% (vs Street's 5.5%) which does not include any acquisitions or big pipeline products. The OM target is 20-22% (vs Street's 20.7%) which implies 180-380bps of margin expansion above 2023's 18.2%. The move to get to 20% OM will largely be driven by GM expansion. To get closer to the higher end, Merit would likely need to drive opex leverage. Merit also expects more than \$400m of cumulative free cash flow through 2026.

Wapsody still on track for US approval

Merit has filed the first three modules and the final module will include the data which is being reviewed and packaged to submit to the FDA. Merit remains on schedule to submit in April or May suggesting that an approval by the end of 2024 or early 2025 is possible.

2024 guidance details

Merit expects cc growth of 4.8-5.9% in 2024 which includes 80bps of inorganic growth and 120bps of impact from its SKU rationalization plan. The midpoint of growth assumes US growth of 7.6% and OUS cc growth of 2.3%. The EMEA and ROW regions should grow HSD, offset by -4% growth in APAC due to China vbp. OM is expected to be 18.65-18.9% (+50-75bps expansion). We update our model for Q2 results.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.70	3.01	3.31	3.60	3.95
EPS Change (YoY)	13.4%	11.5%	10.0%	8.8%	9.7%
Consensus EPS (Bloomberg)			3.29	3.62	3.95
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	29.7x	26.6x	24.2x	22.3x	20.3x
EV / EBITDA*	21.1x	18.4x	17.0x	15.2x	13.6x
Free Cash Flow Yield*	1.5%	2.4%	3.3%	4.7%	5.4%

* For full definitions of *IQmethod*SM measures, see page 4.

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29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,328.8	1,320.2
2025E Rev (m)	1,399.3	1,390.4
2026E Rev (m)	1,473.2	1,464.2
2024E EPS	3.40	3.31
2025E EPS	3.66	3.60
2026E EPS	4.07	3.95

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Stock Data

Price	80.13 USD
Price Objective	87.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-9
52-Week Range	62.58 USD - 85.62 USD
Mrkt Val (mn) / Shares Out (mn)	4,642 USD / 57.9
Free Float	97.5%
Average Daily Value (mn)	38.58 USD
BofA Ticker / Exchange	MMSI / NAS
Bloomberg / Reuters	MMSI US / MMSLOQ
ROE (2024E)	15.3%
Net Dbt to Eqty (Dec-2023A)	19.6%
ESGMeter TM	High

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iQprofileSM Merit Medical

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.0%	10.4%	9.5%	9.7%	10.0%
Return on Equity	14.3%	15.0%	15.3%	15.0%	14.8%
Operating Margin	17.0%	18.2%	18.8%	19.8%	21.0%
Free Cash Flow	69	111	152	219	249

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.8x	1.1x	1.2x	1.2x
Asset Replacement Ratio	0.6x	0.4x	0.6x	0.3x	0.3x
Tax Rate	19.0%	19.2%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	12.2%	19.6%	6.3%	-8.9%	-22.3%
Interest Cover	30.8x	14.7x	13.8x	15.3x	17.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,151	1,257	1,320	1,390	1,464
% Change	7.1%	9.2%	5.0%	5.3%	5.3%
Gross Profit	561	634	671	712	754
% Change	6.0%	13.0%	5.8%	6.1%	5.9%
EBITDA	228	262	284	317	354
% Change	10.4%	14.7%	8.3%	11.6%	11.9%
Net Interest & Other Income	(3)	(11)	(1)	(4)	(5)
Net Income (Adjusted)	156	176	195	215	239
% Change	14.3%	12.9%	10.7%	10.3%	11.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	156	176	195	215	239
Depreciation & Amortization	82	90	96	101	107
Change in Working Capital	(71)	(70)	(27)	(25)	(23)
Deferred Taxation Charge	(15)	(5)	0	0	0
Other Adjustments, Net	(37)	(45)	(56)	(38)	(36)
Capital Expenditure	(45)	(34)	(56)	(35)	(37)
Free Cash Flow	69	111	152	219	249
% Change	-41.9%	60.1%	37.2%	43.9%	13.9%
Share / Issue Repurchase	20	16	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(45)	552	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	58	587	739	958	1,207
Trade Receivables	165	178	186	195	206
Other Current Assets	306	344	351	369	384
Property, Plant & Equipment	383	384	403	397	386
Other Non-Current Assets	752	833	773	714	654
Total Assets	1,664	2,325	2,452	2,632	2,837
Short-Term Debt	11	0	0	0	0
Other Current Liabilities	209	204	192	195	198
Long-Term Debt	187	823	823	823	823
Other Non-Current Liabilities	112	97	97	97	97
Total Liabilities	520	1,123	1,111	1,115	1,117
Total Equity	1,144	1,202	1,341	1,518	1,720
Total Equity & Liabilities	1,664	2,325	2,452	2,632	2,837

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

MMSI is a leading global manufacturer of disposable medical devices used in interventional, diagnostic and therapeutic procedures. Merit's devices are used in a variety of procedures across cardiology, radiology, oncology, critical care, and endoscopy.

Investment Rationale

We rate MMSI Neutral. MMSI has delivered relatively consistent high-single digit revenue growth and strong margin expansion over the past three years. MMSI also has several catalysts in 2024 that have the potential to move the stock. However, we think those catalysts are likely priced into the stock and we would need to see a better than expected new LRP or more visibility into WRAPSODY revenue contribution for the stock to move higher.

Stock Data

Average Daily Volume 481,437

Quarterly Earnings Estimates

	2023	2024
Q1	0.64A	0.72E
Q2	0.81A	0.88E
Q3	0.75A	0.84E
Q4	0.81A	0.86E

Price objective basis & risk

Merit Medical (MMSI)

Our PO of \$87 is based on 17x EV/2025E EBITDA which is a premium to SMID cap medtech peers trading in the mid teens. We believe a premium is warranted given Merit's recent strong execution, potential for solid MSD to HSD top-line growth and meaningful margin expansion.

Upside risks are higher than expected revenue growth, faster than expected margin expansion and increasing free cash flow generation.

Downside risks are slower than expected growth, weaker than expected margin expansion, China tenders, and WRAPSODY approval delays.

Analyst Certification

I, Craig Bijou, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed



US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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Merit Medical (MMSI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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