BofA SECURITIES

Merit Medical

Catalysts ahead in '24 Merit a look, but multiple expansion limited; Initiate Neutral

Initiating Coverage: NEUTRAL | PO: 87.00 USD | Price: 78.62 USD

Catalyst-rich year but reflected in price

We are initiating coverage on Merit Medical (MMSI) with a Neutral rating and a $87 price objective, implying 10% upside. The disposable medical device maker has several potential catalysts in 2024. It is expected to introduce a new long-range plan (LRP) later this month, is hosting an innovation day in March and may see FDA premarket approval (PMA) for WRAPSODY (hemodialysis stent graft) by year-end or early 2025. However, Merit trades at a premium to comparable SMID cap medtech peers, so we see limited multiple expansion from here unless the LRP beats expectations and/or we get more visibility on the potential for WRAPSODY in the US.

Foundations for Growth a success, updated LRP coming

Merit wrapped its three-year Foundations for Growth (FFG) program at the end of 2023. While we do not have full 2023 results, it appears that the company hit its primary targets for revenue, operating margin and free cash flow. Delivering on that in a challenging environment (Covid, supply chain challenges) should give investors confidence that Merit can sustain its revenue growth and margin expansion. A new long-term plan could prove to be a catalyst for the stock if it exceeds the Street's reasonable expectations of 5.5% three-year revenue CAGR and 250bps of operating margin expansion by 2026.

WRAPSODY shows promise but potential not yet known

Merit's WRAPSODY, an implant to preserve adequate blood flow for hemodialysis patients, has shown promising early clinical data. It received the FDA's Breakthrough Device Designation which provides priority review and allows for interactive communication with the FDA throughout the approval process. WRAPSODY is part of the company's push to gain a competitive position in dialysis and build out a portfolio to address full end stage renal disease. Merit believes that the device could be a $100m revenue opportunity over time but hasn't said much more. We expect the company to gradually provide more specifics as we get closer to potential approval.

Valuation looks full without clear upside to numbers

Our $87 PO is based on a 17x EV/2025E EBITDA multiple, pro forma for the recent convertible debt offering. MMSI currently trades at 18x on EV/2024E EBITDA, a 3x premium to SMID cap medtech peers. At current levels, we think the stock can only move meaningfully higher if investors believe that Merit can drive substantial upside to Street numbers over the next several years.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	2.38	2.70	2.98	3.40	3.66
EPS Change (YoY)	44.2%	13.4%	10.4%	14.1%	7.6%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	33.0x	29.1x	26.4x	23.1x	21.5x
EV / EBITDA*	23.3x	21.1x	18.4x	17.0x	15.4x
Free Cash Flow Yield*	2.6%	1.5%	2.4%	4.4%	4.7%

* For full definitions of *IQmethod*℠ measures, see page 18.

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Refer to important disclosures on page 19 to 21. Analyst Certification on page 17. Price Objective Basis/Risk on page 17. **12656364**

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Stock Data

Price	78.62 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)	4,540 USD / 57.8
Free Float	97.5%
Average Daily Value (mn)	50.20 USD
BofA Ticker / Exchange	MMSI / NAS
Bloomberg / Reuters	MMSI US / MMSI.OQ
ROE (2023E)	14.4%
Net Dbt to Eqty (Dec-2022A)	12.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

*iQ*profile℠ Merit Medical

iQmethod℠ **– Bus Performance***

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	9.8%	11.0%	11.9%	12.2%	12.0%
Return on Equity	13.6%	14.3%	14.4%	14.9%	14.4%
Operating Margin	16.1%	17.0%	18.2%	19.0%	19.8%
Free Cash Flow	119	69	108	198	212

iQmethod℠ **– Quality of Earnings***

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.7x	0.8x	1.2x	1.2x
Asset Replacement Ratio	0.3x	0.6x	0.4x	0.4x	0.4x
Tax Rate	18.0%	19.0%	19.6%	21.0%	21.0%
Net Debt-to-Equity Ratio	16.8%	12.2%	13.8%	-1.6%	-14.7%
Interest Cover	32.8x	30.8x	15.3x	15.8x	17.3x

Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,075	1,151	1,258	1,329	1,399
% Change	11.5%	7.1%	9.3%	5.6%	5.3%
Gross Profit	529	561	636	676	716
% Change	16.7%	6.0%	13.3%	6.3%	5.9%
EBITDA	207	228	262	284	313
% Change	23.2%	10.4%	14.6%	8.4%	10.3%
Net Interest & Other Income	(6)	(3)	(13)	1	(2)
Net Income (Adjusted)	**136**	**156**	**174**	**200**	**218**
% Change	**46.1%**	**14.3%**	**11.7%**	**15.2%**	**8.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	136	156	174	200	218
Depreciation & Amortization	84	82	89	93	98
Change in Working Capital	(18)	(71)	(81)	(19)	(25)
Deferred Taxation Charge	(5)	(15)	0	0	0
Other Adjustments, Net	(51)	(37)	(38)	(39)	(39)
Capital Expenditure	(28)	(45)	(36)	(37)	(39)
Free Cash Flow	**119**	**69**	**108**	**198**	**212**
% Change	**0%**	**-41.9%**	**56.6%**	**82.5%**	**7.1%**
Share / Issue Repurchase	21	20	11	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(109)	(45)	84	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	68	58	111	309	522
Trade Receivables	152	165	175	186	196
Other Current Assets	262	306	352	362	380
Property, Plant & Equipment	372	383	385	391	394
Other Non-Current Assets	794	752	824	763	701
Total Assets	**1,648**	**1,664**	**1,848**	**2,011**	**2,192**
Short-Term Debt	8	11	4	4	4
Other Current Liabilities	228	209	187	189	192
Long-Term Debt	234	187	282	282	282
Other Non-Current Liabilities	138	112	109	109	109
Total Liabilities	**608**	**520**	**582**	**584**	**587**
Total Equity	**1,040**	**1,144**	**1,266**	**1,427**	**1,605**
Total Equity & Liabilities	**1,648**	**1,664**	**1,848**	**2,011**	**2,192**

* For full definitions of ***iQ***method℠ measures, see page 18.

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	638,518

Quarterly Earnings Estimates

	2022	2023
Q1	0.53A	0.64A
Q2	0.73A	0.81A
Q3	0.64A	0.75A
Q4	0.79A	0.78E

Contents

Investment Thesis

Merit Medical sells a broad range of disposable medical devices primarily used across a variety of cardiology, radiology, oncology, critical care, and endoscopy procedures. Merit was founded 37 years ago and its current CEO, Fred Lampropoulos, was one of the founders. Over the years, Merit has evolved through product development and M&A to focus more on higher growth, higher margin products.

In November 2020, Merit introduced its Foundations for Growth (FFG) three-year plan to re-focus the business to accelerate revenue growth, to expand margins and to generate more free cash flow. Within FFG, Merit established three-year financial targets through 2023 and the company appears to have reached the primary targets. The FFG program has been a huge success in shaping the future of the company and building investor confidence in Merit's execution. Merit shares are up 44% (vs +32% S&P) since the end of 2020.

We see several catalysts for Merit ahead in 2024 which we discuss below in more detail. Later this month, Merit will introduce a new three-year LRP which if better than Street estimates could move the stock higher. We expect updates throughout 2024 on Merit's WRAPSODY endoprothesis including its premarket approval (PMA) submission in the coming months. WRAPSODY is a covered stent graft to preserve adequate blood flow for hemodialysis patients. Assuming submission in the next couple of months, approval could come in late 2024/early 2025. Merit is also hosting an innovation day at its headquarters in March where we may learn of new products in development or an updated innovation strategy as management has alluded that it plans for more internally developed products.

Merit currently trades at a premium to its SMID cap medtech peers and therefore think multiple expansion is likely limited. For the stock to move higher, investors need to believe in significant upside to Street numbers. We think the Street is modeling reasonable revenue growth (5.5% CAGR) and operating margin expansion (+250bps) over the next three years, so we would not be surprised to see the LRP inline with Street numbers. Merit believes that WRAPSODY could be a $100m opportunity over time, but we do not expect investors to give Merit full credit until the company provides additional information.

Investment Highlights

Next phase of LRP coming later this month

Merit will introduce a new long-range plan (LRP) when it announces full Q4 results on February 28. Merit's current long-range plan, Foundations for Growth (FFG), ended at the end of 2023. While we do not know full 2023 results yet, the program was a big success as Merit delivered on its targets and restored credibility with investors.

Foundation for Growth program a success. In November 2020, Merit introduced the Foundations for Growth program which was designed to deliver both short and long-term improvement to the company's financials. The big picture goals were to maintain above market growth, to significantly improve operating margins and to build a foundation for sustained success. The priority areas for change included commercial excellence, innovation and portfolio optimization, operations excellence and supply chain management, employee development and engagement and shared services and support function delivery.

The program established three-year financial targets to reach by the end of 2023. The revenue target was at least $1.1bn in 2023, representing a 5-7% compounded annual growth rate (CAGR). The operating margin target was 18-21% and cumulative cash flow in 2021-2023 was to exceed $300m. Merit has not yet reported full 2023 results but its revenue ($1.255-1.259bn) and OM (18.2-18.4%) guidance are above the targets. Merit's

organic growth CAGR of 9% was well ahead of its initial 5-7% goal. Merit has not provided FCF guidance, but we expect it to be close to the $300 million target.

Exhibit 1: Foundations for Growth Financial Targets & 2023 Guidance
Merit appears to have exceeded the three-year financial targets the company laid out in November 2020

	November 2020 3-yr Guidance	2023 Guidance (midpt)
Revenue	$1.1bn	$1.26bn
organic revenue growth	5-7%	~9%
Gross margin	51.6-52.4%	50.6%
Operating margin	18.0-21.0%	18.2%
Cash flow	$300m+	TBD

Source: Company filings

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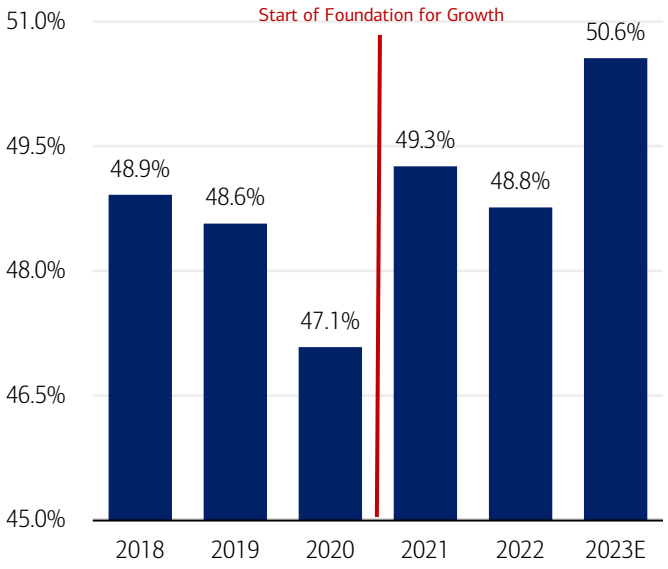
Merit hit OM three-year target despite challenging environment. The operating margin and cash flow targets were met with the most investor skepticism when the Foundations for Growth program was first introduced. In the three years preceding FFG (2018-2020), Merit's OM was 13.6%, 11.7% and 13.7%, respectively. Current guidance suggests that OM will be 450bps higher than what it was in 2020 despite the challenges caused by subsequent Covid variants and supply chain challenges. Merit's expansion is meaningfully higher than most other medtech companies over the same period. Much of the expansion came from GM which based on guidance expanded 350bps, also well ahead of most medtech companies. Merit's first FFG steps were to transfer product lines to different facilities, shut down certain manufacturing sites and exit certain products which all had a favorable impact on GMs.

Exhibit 2: Gross Margin (OM) – 2018-2023E
Merit's GM has expanded 350bs since 2020 when it implemented Foundations for Growth plan in 2021



Source: Company filings, BofA Global Research
Note: 2023E GM is the midpoint of MMSI's updated guidance

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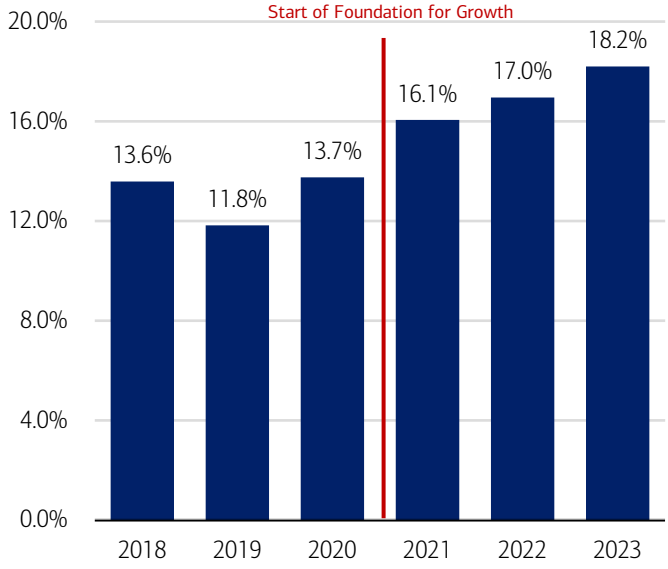
Exhibit 3: Operating Margin (OM) – 2018-2023E
Merit's OM has expanded 450bs since 2020 when it implemented Foundations for Growth plan in 2021



Source: Company filings, BofA Global Research
Note: 2023E OM is the midpoint of MMSI's updated guidance

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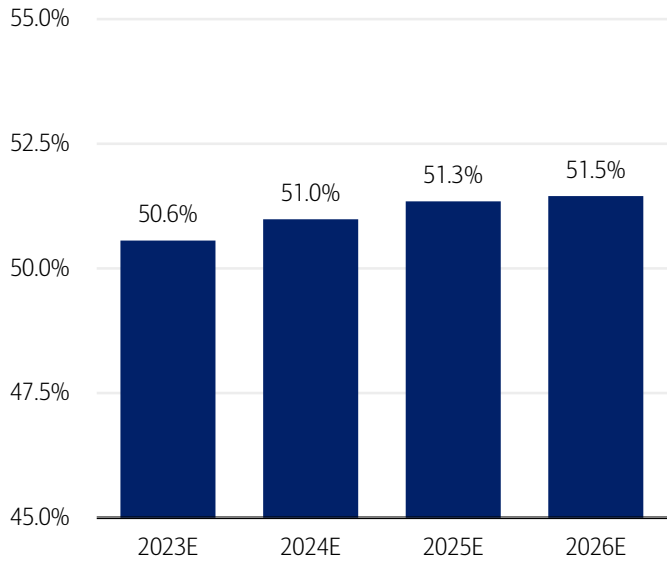
Street margin numbers over next three years look reasonable. A goal of FFG was to position the company for sustainable financial success. We expect Merit to introduce a new three-year plan when it reports Q4 results at the end of February. We expect the three-year revenue CAGR targets to be similar to the initial FFG target (5-7%). We do not expect Merit to commit to the same level of margin expansion. The Street is modeling revenue CAGR of 5.5% and 250bps of OM expansion over the next three years. The Street only expects one-third of Merit's margin improvement to come from GM. We think the Street expectation for OM expansion is reasonable given the margin improvement seen over the last year despite the significant challenges Merit and the entire medtech sector faced.

Exhibit 4: Street GM estimates over next several years
The Street expects 90bps of GM expansion over the next three years, assuming 20-40bps per year



Source: Bloomberg, BofA Global Research

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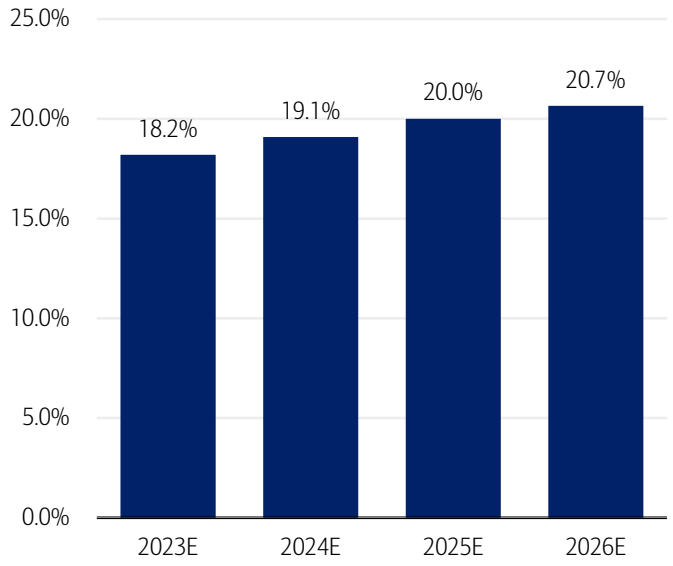
Exhibit 5: Street OM estimates over next several years
The Street expects 250bps of OM margin expansion over the next three years, assuming 90bps over the next two years



Source: Bloomberg, BofA Global Research

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Expanding renal care offering and exciting WRAPSODY opportunity

In June 2023, Merit acquired renal care assets from AngioDynamics which complemented and beefed up its existing renal care offering. With the acquired products, Merit improved its competitive position in dialysis and its portfolio can now address the full end stage renal disease (ERSD) continuum of care. The larger renal care product offering positions Merit's pre-market approval (PMA) candidate, WRAPSODY, for a successful launch once approved. WRAPSODY is a covered stent graft for arteriovenous fistula (AVF) and arteriovenous graft (AVG) stenosis or occlusion, both major complications associated with vascular access for dialysis. Merit has provided little detail on financial expectations for the product except for calling it a $100m revenue opportunity over time. A competitive product generates $150m of revenue in the US, but that may include indications beyond AVF/AVG stenosis/occlusion. WRAPSODY is an attractive growth driver for Merit, however, even at $100m, it would only represent less than 10% of the company's total revenue.

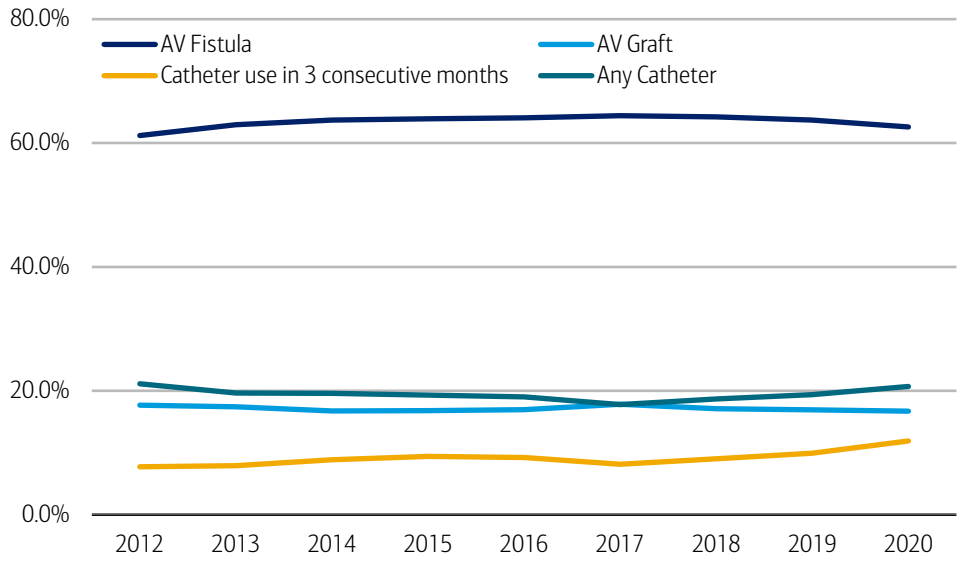
Chronic kidney disease is growing global problem. According to the International Society of Nephrology, globally there are over 850 million people that have chronic kidney disease. In the US, 37 million people have some stage of kidney disease and there are more than 800,000 in the US that are living with ESRD. ESRD is the most advanced stage of kidney disease where the kidneys can no longer function, and a person needs dialysis or a kidney transplant. In 2020, there were 130,000 Americans newly diagnosed with kidney failure and 97% of them began dialysis.

Dialysis is most common treatment for ESRD but has several limitations. When kidneys fail, blood is not filtered properly and waste and toxins build up in the blood. At this point, a patient will need dialysis or a kidney transplant. Approximately 70% of ESRD patients are treated with hemodialysis or peritoneal dialysis and the other 30% receive transplants. Dialysis does the work of your kidneys and filters a patient's blood and removes the toxins from the body. There are two dialysis types – hemodialysis and peritoneal dialysis. Hemodialysis, which represents ~90% of all dialysis treatments, uses a machine to filter a patient's blood and return cleaned blood. Peritoneal dialysis uses a solution to absorb waste products from the blood vessels in abdomen.

Once a patient goes on hemodialysis it is likely they will be on it for the rest of their life. Hemodialysis requires access to a patient's bloodstream multiple times a week for several hours at a time. Before starting hemodialysis, a patient will need a minor surgical procedure to make accessing the bloodstream easier. The most common methods for hemodialysis vascular access are AV fistula and AV graft. An AV fistula is a surgical connection between an artery and vein typically in your arm. An AV graft occurs when a surgeon uses a soft plastic hollow tube to connect an artery and vein. Both AV fistulas and AV grafts enlarge the connected artery and vein which helps blood move in and out of the body faster to allow for better hemodialysis.

According to the United States Renal Data System 2022 Annual Data Report, AV fistulas represent more than 60% of vascular access for prevalent (over three months of treatment) hemodialysis patients while AV grafts represent 17%. AV fistulas are generally the preferred vascular access method because they last longer and have fewer complications than other methods.

Exhibit 6: Vascular access used in prevalent (>3 months of treatment) hemodialysis patients
Slightly more than 60% of patients on hemodialysis use an AV fistula for vascular access



Source: United States Renal Data System 2022 Annual Data Report

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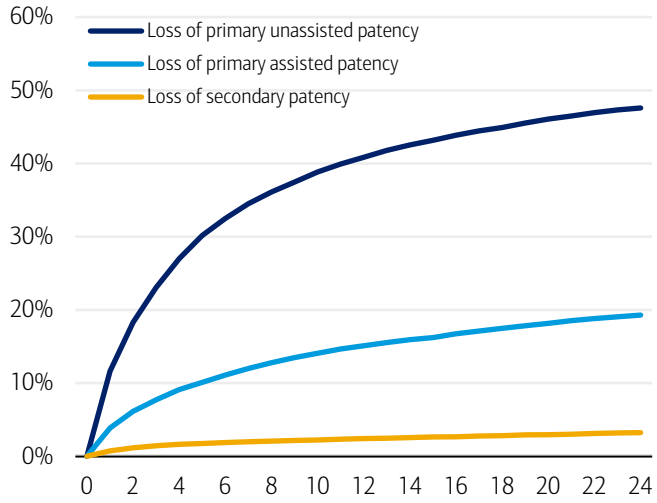
The problem is that these access circuits created by an AV fistula or AV graft are prone to complications such as stenosis and occlusion which reduce patency and limits the effectiveness of the dialysis. Patency is the degree to which blood vessels are not blocked or obstructed (higher patency means less blockage). As vessels become blocked, a procedure to improve patency is necessary but many of these treatments have limited effectiveness. The standard of care is percutaneous transluminal angioplasty (PTA) which studies show does not have good results. Drug coated balloons (DCB) have shown promise in certain studies but less effectiveness in others. Other stent grafts have strong initial patency rates, but effectiveness falls quickly. Exhibits 8 and 9 below show how quickly patency loss occurs following AV fistulas and AV grafts.

Exhibit 7: Loss of patency after dialysis AV fistula
A patient loses 41% primary unassisted patency 12 months and 48% 24 months after AV fistula access for dialysis



Source: United States Renal Data System 2022 Annual Data Report

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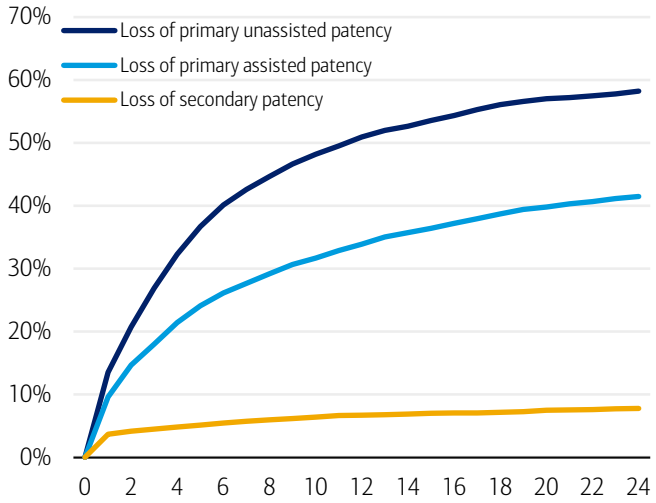
Exhibit 8: Loss of patency after dialysis AV graft
A patient loses 51% primary unassisted patency 12 months and 58% 24 months after AV graft access for dialysis



Source: United States Renal Data System 2022 Annual Data Report

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The WRAPSODY solution and opportunity. Merit's WRAPSODY is an endovascular covered stent graft was developed to improve long-term vascular access. It has different layers designed to limit thrombus (blood clots) inside the stent, prevent cell migration in the middle layer and promote tissue ingrowth on the outer layer. In November 2019, WRAPSODY was granted Breakthrough Device Designation by the FDA. The FDA Breakthrough Device Designation provides priority review and interactive communication from clinical trial design through commercialization.

Clinical results from WRAPSODY's first-in-human study showed strong patency – 98% at six months and 86% at 12 months for patients that had received an AV fistula or AV graft. The study was relatively small (46 patients) and conducted at only three European sites, but the data was used for WRAPSODY to receive its CE Mark. The high patency rates were seen irrespective of access type or location of lesion. WRAPSODY is on the market in Europe and Brazil where Merit says it is doing very well.

The WRAPSODY Arteriovenous Access Efficacy (WAVE) study is a prospective, randomized, controlled, multicenter study comparing Merit's WRAPSODY to percutaneous transluminal angioplasty (PTA) for treatment of stenosis/occlusion in the venous outflow circuit in patients undergoing hemodialysis. While the early clinical data are promising, it is important for the WRAPSODY WAVE data to demonstrate a similar clinical benefit on a larger scale in a randomized controlled trial. The WAVE study finished enrollment in August 2023 and the six month follow up for the last patient was expected in late January/early February. Merit expects to file with the FDA for premarket approval (PMA) in the coming months. Assuming a normal timeline, we think an approval by the end of 2024 or early 2025 is possible.

Innovation day could unveil future innovative products

Part of Merit's transition has been an increased focus on more advanced therapies. Those that sell for higher ASPs and have better margins but typically take longer to develop and more investment than what Merit has traditionally done. The development of WRAPSODY is a good example of Merit's expanding focus. While management has touted its product pipeline is has revealed few details on these products. We may get a closer look at the some of these development programs at Merit's event in at its headquarters at the end of March.

One example of the clinical work Merit is doing is the MOTION study. Merit recently announced the first patient was enrolled in its MOTION study to compare genicular artery embolization (GAE) using Embosphere Microspheres to corticosteroid injections to treat knee osteoarthritis (OA). Merit's Embosphere Microspheres were given a breakthrough designation for GAE in 2022. The MOTION study is a randomized controlled trial designed to enroll 264 patients with knee OA. The study will evaluate primary safety and effectiveness of Embosphere Microspheres at six months and follow through to 24 months.

Convert gives M&A firepower and is EPS accretive

In early December 2023, Merit raised close to $750m in convertible notes. Net proceeds were ~$658m which will be used to paydown ~$138m of revolver and ~$50m of term loan. The remaining proceeds will remain as cash on the balance sheet. Pro forma net debt as of Q3 2023 was ~$319m, including ~$528m of cash and $847m of debt ($748m convert + $99m remaining term loan).

Increases M&A firepower. Merit has traditionally been an acquisitive company but has been more prudent over the last several years as the company focused more on its FFG initiatives and company valuations were elevated. Merit completed its first acquisition in nearly three years in June 2023 which may be a sign that the valuation expectations have fallen to a more reasonable level and Merit may get more acquisitive. With the convert offering, Merit now has more than $500m of cash on the balance sheet.

EPS benefit on lower interest rate. The convert offering and associated debt paydown reduces non-GAAP net interest expense in 2024 by ~$15m or $0.20 EPS. The new convert has a 3% coupon has a positive impact on net interest expense in 2024. Of the remaining ~$100m debt, $75m is swapped at a ~1.6% interest rate and the remaining is floating. This assumes that the $500+m cash on hand earns slightly more than 5% interest in 2024.

Valuation

Our $87 PO based on 17x our EV/2025E EBITDA (pro forma for the convert offering in December) which is a premium to SMID cap medtech peers. MMSI currently trades at 3x premium to similar-sized SMID cap medtech peers driven by Merit's recent HSD growth and impressive margin expansion. We think several 2024 catalysts are likely priced in the stock which suggests to us that there is likely limited room for multiple expansion.

Exhibit 9: Merit Medical Comparable SMID Cap Medtech peers

MMSI is trading at a premium to SMID cap peers due to strong execution over the last three years and several potential 2024 catalysts

Company	Ticker	Last Price	Mkt Cap (US $m)	EV Static	EV/ Sales		Revenue Growth		EBITDA Margin		EV/ EBITDA		P/E		EPS Growth	
					CY24E	CY25E	CY23E	CY24E	CY23E	CY24E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Masimo Corp	MASI	$ 134.77	$7,264	$7,967	3.8x	3.6x	0%	2%	16%	18%	23.8x	20.9x	40.2x	36.1x	4%	11%
Globus Medical Inc	GMED	$ 52.71	$6,075	$6,855	2.8x	2.7x	53%	58%	28%	26%	15.9x	10.5x	19.5x	15.9x	17%	23%
Bausch Health Cos Inc	BLCO	$ 14.30	$5,016	$9,194	2.0x	1.9x	8%	11%	18%	19%	12.5x	10.4x	23.0x	16.6x	(6%)	39%
Haemonetics Corp	HAE	$ 77.10	$3,963	$4,323	3.3x	3.1x	11%	5%	27%	26%	12.6x	12.4x	18.8x	16.2x	9%	16%
Integer Holdings Corp	ITGR	$ 105.37	$3,559	$4,496	2.6x	2.4x	16%	10%	19%	20%	14.6x	12.8x	19.3x	16.8x	18%	15%
Integra LifeSciences Holdings	IART	$ 41.02	$3,274	$4,621	2.8x	2.7x	(1%)	6%	24%	25%	12.3x	11.3x	11.9x	10.8x	11%	11%
Enovis Corp	ENOV	$ 59.03	$3,220	$3,772	1.9x	1.7x	9%	19%	16%	17%	14.1x	11.1x	21.5x	18.4x	17%	17%
LivaNova PLC	LIVN	$ 49.91	$2,695	$3,076	2.6x	2.4x	10%	5%	17%	18%	15.7x	14.3x	16.6x	15.3x	10%	9%
CONMED Corp	CNMD	$ 83.40	$2,627	$3,547	2.6x	2.4x	19%	8%	19%	21%	15.1x	12.9x	19.2x	15.3x	26%	26%
ICU Medical Inc	ICUI	$ 95.00	$2,315	$3,809	1.7x	1.6x	(3%)	3%	17%	15%	10.1x	10.9x	20.4x	14.0x	(27%)	46%
Average					**2.6x**	**2.5x**	**12%**	**13%**	**20%**	**21%**	**14.7x**	**12.8x**	**21.0x**	**17.5x**	**8%**	**21%**
Median					**2.6x**	**2.4x**	**10%**	**7%**	**18%**	**20%**	**14.4x**	**11.8x**	**19.4x**	**16.1x**	**11%**	**16%**
MMSI @ Current Price (Bbg Est)	MMSI	$ 78.62	$4,589	$4,837	3.6x	3.5x	9%	6%	22%	22%	17.8x	16.6x	23.9x	21.7x	11%	10%

Source: Bloomberg

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Key risks

Competitive markets. Merit competes against a wide range of medtech players from smaller private companies to diversified, large cap medtech companies like MDT, ABT, BSX, TFX and BDX, in highly competitive markets. We believe hospitals will continue to reduce the number of vendors they do business with, and although Merit has competed successfully with larger companies for 30 years, the changing healthcare landscape may make it harder for it to compete in some of the more commoditized product areas. Hospitals are increasingly focused on reducing costs, and the ability of these larger companies to bundle products together, spend significantly more money on sales and marketing, and leverage their broader scale and infrastructure, poses risks to Merit's ability to sustain HSD+ revenue growth.

M&A strategy drives integration risk. Merit has traditionally been an acquisitive company. Over the past three years, Merit has had limited M&A, driven in part by a refocus on internal execution and in part due to higher company valuations. In June 2023, Merit spent ~$130m to acquire assets, its first deal in nearly three years. In December, Merit completed a ~$750m convertible notes offering which gives the company plenty of cash on hand to pursue more deals. While Merit can benefit from deals, increased M&A introduces incremental risk. These deals carry integration risk, could involve manufacturing transfers that pose additional risk of disruption. Merit has successfully navigated many integrations over its history, but each deal brings unique challenges. Additionally, there is potential for an acquisition to have a short term dilutive financial impact on Merit which could negatively impact margins and/or EPS.

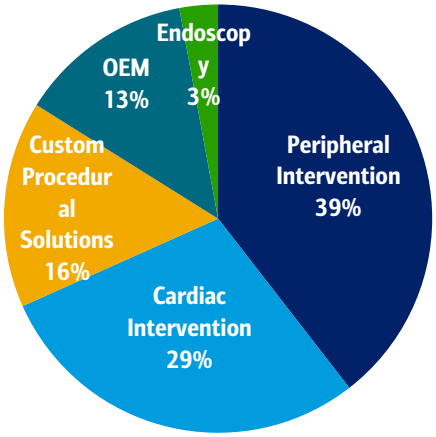
CEO succession. The founder and current CEO, Fred Lampropoulos has lead Merit for 37 years since its inception. In late December 2023, Merit announced that Mr. Lampropoulos entered into an employment agreement to continue to serve as CEO and President through the end of 2025. The Board appointed a special steering committee of independent directors to develop and provide oversight of the CEO succession plan. Merit has enlisted an executive search firm to assist the Board in identifying internal and external candidates.

China exposure. Merit generates approximately 13% of its overall sales from China. Many of products in Merit's portfolio have been subject to volume-based procurement (VBP) policies which significantly reduce pricing. Merit's China growth has been negatively impacted over the last several quarters.

Company Overview

Merit Medical is a global diversified medical device company that manufactures product that are used in interventional, diagnostic and therapeutic procedures. MMSI has two main operating segments – Cardiology and Endoscopy. The Cardiology segment represents almost all MMSI's total sales and includes four key subsegments – Peripheral Intervention, Cardiac Intervention, Custom Procedural Solutions and OEM.

Exhibit 10: Merit Medical Revenue by Segment (2023E)
Cardiology segments represent 97% of Merits sales – within Cardiology, Peripheral Intervention is the largest segment with 39% of sales



Source: Company filings, BofA Global Research

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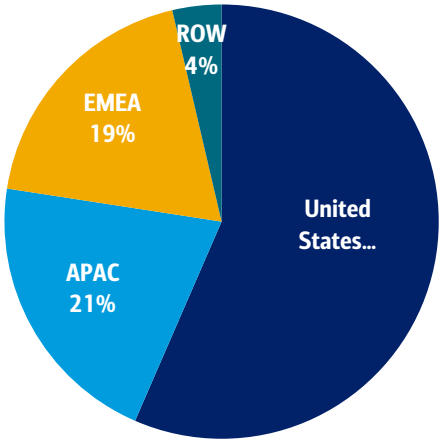
Exhibit 11: Merit Medical Revenue by Geography (2022)
More than half of Merit's sales come from the US (56%) with 21% from APAC and 19% from EMEA



Source: Company filings, BofA Global Research

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Peripheral Interventions

MMSI offers products to minimally invasively diagnose and treat peripheral vascular and non-vascular diseases (organs excluding the heart), including peripheral access, angiography, intervention, drainage and biopsy, and custom procedural solutions. Call points are to interventional radiologists, vascular surgeons, and nephrologists.

- **Access:** Principal products include HeRO (Hemodialysis Reliable Outflow) Graft, a fully subcutaneous vascular access system for long-term vascular access for chronic hemodialysis patients; CentrosFLO Long-Term Hemodialysis Catheter and ProGuide Chronic Dialysis Catheter; peritoneal dialysis catheters, accessories and implantation kits for home dialysis therapy; and Merit Wrapsody, a cell-impermeable endoprosthesis to maintain long-term vessel patency in patients with obstructions in the dialysis outflow circuit (OUS only currently). MMSI recently purchased dialysis products from AngioDynamics and the Surfacer Inside-Out access catheter from Bluegrass Vascular.

- **Angiography:** Principal products include Extensive line of Merit Laureate Hydrophilic Guide Wires, a smooth-surface guide wire designed to minimize friction and promote rapid catheter exchanges; Merit SplashWire hydrophilic Steerable Guide Wire; Performa and Impress Diagnostic Catheters, a catheter offering designed for traversing difficult to access peripheral blood vessels; and Performa Vessel Sizing Catheters for vessel measurement.

- **Drainage:** Products include Aspira Pleural Effusion Drainage and Aspira Peritoneal Drainage Systems, a treatment for end-stage cancer; ReSolve Drainage Catheters; One-Step and Valved One-Step Drainage Catheters; and Revolution Catheter

Securement Device and StayFIX Fixation Device, used to stop migration, movement and accidental removal of percutaneous catheters.

- **Delivery Systems:** Products include SwiftNINJA Steerable Microcatheter, an advanced microcatheter with a 180-degree articulating tip; Merit Maestro and Merit Pursue Microcatheters, small microcatheters designed for small and tortuous vessels; and True Form Reshapable Guide Wire.

- **Embolotherapy:** There products treat disease by blocking or slowing the flow of blood into the arteries or delivering chemotherapy drugs for liver cancer. Products include Embosphere Microspheres, a round embolic for consistent and predictable results and HepaSphere Microspheres, soft embolics with a consistent cross-sectional diameter for predictable, flow-directed targeting.

- **Intervention:** MMSI offer products to remove blood clots, retrieve foreign bodies in blood vessels and assist with placing balloons and stents to treat arterial disease. Products include ClariVein Specialty Infusion Catheter which is designed for controlled 360-degree dispersion of physician specified agents to the peripheral vasculature; Dynamis AV PTA balloon catheters to open blockages in the arteriovenous system of dialysis patients; Q50 Plus stent graft balloon catheters to treat abdominal and thoracic endovascular aortic repair procedures and reinterventions; Fountain and Mistique infusion catheters to treat arterial and hemodialysis graft occlusions and deep vein thrombosis; and EN Snare and One Snare systems to manipulate, capture and retrieve foreign material in the body.

- **Merit Spine:** MMSI's spine products are used to treat vertebral compression fractures and metastatic spinal tumors and in musculoskeletal biopsy procedures. Products include portfolio of products for vertebral augmentation, radiofrequency ablation, and bone biopsy systems. Primary products include STAR Tumor Ablation System radiofrequency ablation for metastatic spinal tumors; Arcadia steerable and straight balloons used in vertebral augmentation procedures; and StabiliT MX vertebral augmentation system which uses inflation devices to deliver bone cement.

- **Merit Oncology:** MMSI's oncology products include soft tissue biopsy

- for breast and soft tissue tumors and treatment of early-stage breast cancer. Primary products include SCOUT Radar Localization System, a nonradioactive, wire-free tumor localization system that facilitates removal of marked lesions and lymph nodes; CorVocet, Achieve, Temno and Tru-Cut soft tissue biopsy systems; and SAVI Brachytherapy for partial breast irradiation.

In addition to the above, MMSI offers various pre-arranged kits, trays, and packs for various uses including vein closure, fluid disposal, and hemostasis valves to minimize blood loss.

Cardiac Intervention

MMSI sells a variety of products designed to treat various heart conditions. Product categories in cardiac intervention include access, angiography, electrophysiology and CRM, fluid management, hemodynamic monitoring, hemostasis, and intervention.

- **Access:** Products include Prelude Introducer Sheaths for radial and femoral access.

- **Angiography:** Products include InQwire Guide Wires and Performa Diagnostic and Ultimate catheters for femoral and radial procedures.

- **Electrophysiology:** Products include Worley Advanced LV Delivery System for insertion of left ventricular pacing leads; HeartSpan Transseptal Needle, for left-heart access procedures; and HeartSpan Steerable and Fixed Curve Sheath Introducer to help physicians identify curve orientation and includes fixed curve shapes.

- **Hemostasis**: Products include Prelude SYNC EVO and PreludeSYNC Distal Radial Compression devices to reduce and stop blood flow after radial access procedures, and the SafeGuard to provide hemostasis following femoral procedures.

- **Intervention:** Products include full line of inflation devices and hemostasis valves, including the BasixCompak, basixTOUCH, Blue Diamond, DiamondTouch and the PhD™ Hemostasis Valve.

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- **Fluid management:** Products include manifolds, control syringes and tubing.

Custom Procedural Solutions
The Custom Procedural Solutions comprised of standard and custom kit and pack solutions that include items needed for peripheral procedures, safety and waste management products, and hemostasis accessories.

OEM
MMSI provides coating for medical tubes and wires for other OEM brands. MMSI also manufactures sensor components for microelectromechanical systems. These components consist of piezoresistive pressure sensors in various forms, including bare silicon die, die mounted on ceramic substrates, and fully calibrated components for numerous applications both inside and outside the healthcare industry.

Endoscopy
MMSI's endoscopy operating segment, Merit Medical Endotek, is organized into gastroenterology and pulmonary.

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- **Gastroenterology:** Products include Alimaxx-ES and EndoMAXX covered esophageal Stents to maintain esophageal luminal patency in certain esophageal strictures; BIG60 Inflation Device to inflate and deflate non-vascular balloon dilators while monitoring and displaying inflation pressures up to 12 atmospheres; and Elation fixed wire guide and balloon dilators for use in Wire in the alimentary tract.

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- **Pulmonary:** Products include tracheobronchial stents, advanced over-the-wire and direct visualization delivery systems and dilation balloons to endoscopically dilate strictures. Principal products include AERO, AEROmini and AERO DV Fully tracheobronchial stents for strictures produced by malignant neoplasm and Elation Pulmonary Balloon Dilator for the dilation of trachea and bronchi strictures.

Management

Fred Lampropoulos, Chairman and Chief Executive Officer
Fred Lampropoulos has been in the medical device industry for more than 30 years. After serving as the Chairman and Chief Executive of Utah Medical, Lampropoulos founded Merit Medical Systems, Inc., in 1987, where he currently serves as Chairman and Chief Executive Officer (CEO). Mr. Lampropoulos has invented and holds more than 200 patents on devices used in the diagnostic and therapeutic treatment of cardiac, peripheral, gastrointestinal, and pulmonary conditions.

He is also highly involved in his community and serves on many boards. Mr. Lampropoulos is the recipient of numerous awards, including the Governor's Medal for Science and Technology and CEO of the Year. He was inducted into the Utah Business Hall of Fame.

Mr. Lampropoulos is a former Special Forces Officer and an Honorary Colonel in the Utah National Guard. He holds several honorary doctorates, including Doctorate in Business Administration from Westminster College in Salt Lake City, recognizing his contribution to and development of industry and education within the state of Utah.

Raul Parra, Chief Financial Officer
Raul Parra, CPA, was appointed Merit's Chief Financial Officer and Treasurer in July 2018, having served as Interim Chief Financial Officer from May 2018 to July 2018. He is a member of the Board of Directors at American Express National Bank and a member of its Audit Committee. He also served as Merit's Vice President of Accounting and Corporate Controller. Mr. Parra served in other accounting-related capacities with Merit, including Director of Financial Reporting. Prior to joining Merit, Mr. Parra was employed as an auditor by Deloitte & Touche LLP from 2003 to 2009.

Mr. Parra holds a Bachelor of Science degree in Business Administration, with an emphasis in accounting, from Sonoma State University. He is a certified public accountant.

Neil Peterson, Chief Operating Officer
Neil Peterson serves as Chief Operating Officer of Merit and is responsible for the company's global operations. During his 27 years at Merit, Mr. Peterson has held multiple positions of increasing responsibility within the company, including the past five years as Vice President, Operations. In that position, Mr. Peterson was responsible for oversight of all operations at Merit's headquarters facilities in South Jordan, Utah.

Joe Wright, Chief Commercial Officer
Joe Wright serves as Chief Commercial Officer of Merit and spearheads the company's overall commercial strategy. Mr. Wright joined Merit in 2005 as Vice President of International and was responsible for sales in Canada, Asia Pacific, and Latin America, and also served as Vice President of Global Marketing in 2006 and 2007. In 2010, he oversaw the creation of Merit China in Beijing. In 2011, he also established Merit Asia in Hong Kong, the company's headquarters in Southeast Asia. Mr. Wright has continued to expand Merit's presence with facilities and/or personnel in Australia, Brazil, Canada, India, Japan, Malaysia, South Korea, Taiwan, and Vietnam.

Before joining Merit, Mr. Wright held sales, marketing, and business development positions with Motorola and Micron. He holds bachelor's and master's degrees in Business Administration from Columbia University and speaks Japanese.

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
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod℠ is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Disclosures

Important Disclosures

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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