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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Merit Medical Systems' Fourth Quarter and Full Year 2019 Results and 2020 Guidance Conference Call. (Operator Instructions) Please be advised that today's conference call is being recorded.

I will now turn the conference over to your host, Mr. Fred Lampropoulos. Sir, you may begin.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Thank you, and good afternoon, ladies and gentlemen. Thank you for joining us. We're delighted to have your time. I'm delighted to have the chance to update you on our business and our financial results. I'd like to start with an update on various fronts, including our revenue trajectory, our product pipeline momentum, some of our profitability initiatives and our planned new revenue presentation approach. I would guide you to our slides that we have. But prior to doing that, we have some business to take care of. So I'll go ahead and ask Brian Lloyd, our General Counsel, to go ahead and offer the -- our language for our safe harbor provision. Brian?

Brian G. Lloyd ***Merit Medical Systems, Inc. - Chief Legal Officer & Corporate Secretary***

Thank you, Fred. During our discussion today, reference may be made to projections, anticipated events or other information, which is not purely historical. Please be aware that statements made in this call, which are not purely historical, may be considered forward-looking statements. We caution you that all forward-looking statements involve risks, unanticipated events and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Many of these risks are discussed in our annual report on Form 10-K and other reports and filings with the Securities and Exchange Commission and are available on our website. Some of these risks are identified in our press release and slide presentation distributed in connection with this call. Any forward-looking statements made in this call are made only as of today's date, and except as required by law or regulation, we do not assume any obligation to update any such statements, whether as a result of new information, future events or otherwise. Please refer to the section of our presentation entitled Disclosure regarding forward-looking statements for important information regarding such statements.

Our financial statements are prepared in accordance with accounting principles, which are generally accepted in the United States. However, we believe certain non-GAAP financial measures provide investors with useful information regarding the underlying business trends and performance of our operations and can be useful for period-over-period comparisons of such operations. The tables included in our release and discussed on this call set forth supplemental financial data and corresponding reconciliations to GAAP financial statements. Please refer to the sections of our presentation entitled non-GAAP financial measures and notes to non-GAAP financial measures, including the tables, which provide reconciliations of GAAP or reported financial information to non-GAAP financial information for important information regarding non-GAAP financial measures discussed on this call. Readers should consider non-GAAP measures in addition to, not as a substitute for, financial reporting measures prepared in accordance with GAAP. These non-GAAP financial measures exclude some items that affect net income. Additionally, these calculations may not be comparable with similarly titled measures of other companies.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Brian, thank you very much. And again, ladies and men, thanks for joining us. A lot to talk about, as you can imagine, with a lot of things going out here that I think you'll be very interested. I would like to bring to your attention that we have our slide deck on our website. There are some very interesting data that I think you want to look at there. We're going to talk about some of these as we go through the call, but want to just make sure that you will pay some attention to the slide deck that's posted.

Well, the first thing I want to talk about is our business trajectory. One of the things that we are fortunate to have as a company is a diversified scale to both our various call points in our products. One of the things that we'll be talking more of as we move forward are more of the call points and disease states. We saw steady growth across the businesses that we will touch on, and Raul will go into a lot of detail later on in the call. Great momentum on the new products that give us, I think, moving forward, a lot of optimism as we think about, for instance, Cianna. We ended up doing about $49.5 million for the year. And when we add back in what we had forecasted for our International revenues, that would put us right at the midpoint. I know that there was some disappointment early on, but I think as we went through the year -- and maybe more exciting is what we've seen as we've now started to roll this out in Europe, and particularly this weekend in Saudi Arabia. We've actually had to have our clinical team stay over where they'll be performing 7 procedures tomorrow morning. And so we're very excited about the products and the momentum we have with a PhD, with our radio products, with our electrophysiology products, we have a full pipeline. And then we'll talk about in a minute about some new approvals that we have that we think are significant.

On the revenue side, we saw constant currency growth of 8.5% for the quarter, bringing us to 8.1% for the year. There's more data in our release. But we think these are important, and we think that really spells out that Merit is, in fact, a growth company. Now I feel good about where we ended up. I think from the third quarter to the fourth quarter, we added $15 million worth of additional revenue.

Let me hit on a few developments in the various channels. And when I refer to these channels, again, on our website, you will see that in the future, we're going to start to show things differently. This would be on Page 8. We've listened to the issues that you have discussed and your concerns. And what we've done is now take the product, and we have taken -- put them into these various new groups. Over the next couple of weeks, Raul will be spending time with our analysts, giving you historical data, and I'll let him talk about how he's going to get everybody aligned. That's going to be a little work for the analysts, but I think in terms of showing the momentum in the business, showing the disease states and the call points is going to be much easier in the future than talking about inflation devices, kits, catheters. And as someone said to me recently, whatever the hell stand-alone products are. I think that when I heard that, and I noticed that individual is on the phone today, that it was actually helpful for us to say, we need to get this work done. And then you can see in this -- on Page 8, how we will show these things going forward. And again, this will be as we get into the first quarter and moving down, and we will provide all the historical data going back about 3 years. And then last year, quarter-by-quarter, so it will be helpful for the analysts. And it will help, I think, a lot going forward.

Now in addition to the momentum, we've seen a lot of product advancement. We're going to talk a little bit about China in just a moment. But we did get 3 new approvals. Now that may not seem like a big deal, but it is. And the reason is because it takes 2 to 3 years to get approval for products in China. In the last couple of weeks, we have received approval for our SwiftNinja steerable microcatheter, big deal. We've received approval for our Amplatz Guide Wires, which is another big deal. And then last Friday, we received approval for our SureCross support catheter.

In addition to that, and I think a really -- a big deal, you're all, again, aware of the situation with the SCOUT Surgical Guidance System, that's the Cianna product. But we did -- there are 2 other major events that are going to have an impact on the business this year. Now because we're still not quite sure as to the introduction dates, we'll talk about them. They are essentially not included in the guidance. And as we get a clearer picture of our introduction dates, we'll talk about. But one of them, and that's very, very important is our Aspira pleural drainage, pleural effusion and our peritoneal drainage products. The reason we think this is kind of a very big deal is that we weren't planning on this product for at least 2 to 2.5 years, and that's because of the MDR requirement. But we were notified by BSI that they have moved that back into the MDD, which means that sometime in the second quarter, hopefully, early third quarter we'll be able to introduce that product line in Europe, which then opens it for Canada, Australia and other locations. It's a $20 million business for Merit and one that we acquired from Bard as part of the BD deal, and we're very excited about that.

And then finally, on the new products is a product called the Surfacer. Now this is a device that Merit has an equity interest in. Merit is going to really now evaluate whether we exercise the right to acquire this product but we did go to the ASDIN meeting this last weekend in Las Vegas. There were about 300 attendees there. And 1/3 of all the people who went to that meeting came to our booth, which we really developed just in the last week, and that's because we had just received that approval. And it was a de novo approval. So over the next 60 days or longer, we will evaluate that product, which we've been selling in Europe for the last couple of years. But we've always felt that the market for this was really in the United States. And the essence of it is, it's a recanalization product that allows us to come up through the femoral vein and gain access as a last resort for patients with end-stage renal disease. It is an exciting product. But one, again, that we have to be very, very careful and thoughtful as we go through this evaluation period.

So along with a number of products in our electrophysiology, which will fall into our cardiac group, a number of products that we have like our EP products, the idea of a PhD. Listen, Merit is continuing its tradition of a lot of products. These are all high-margin products, and I know that the sales force is very excited about them. But listen, Merit has been prolific in developing and delivering new products.

On the profitability, I think the keys this quarter was to show that we, in fact, had stabilized after, I think, would -- is something that everybody is aware of, 2 very difficult quarters. But I think that in terms of the quarter-to-quarter improvement in revenues and the stabilization on earnings, and that sort of thing, I thought we saw a marked improvement. And it's pleasing to me, and I hope to you as well.

We do have plans, and we've been working hard out here to make the business more efficient. Now we have, as you can see in our press release, 14 new products that we are going to move from Salt Lake City and 1 or 2 other facilities into either Texas or into Mexico.

Now one might say, well, why didn't you do that before? And the answer is actually quite simple. The Becton, Dickinson acquisition, as you are all aware, required that we move products from 3 countries, 6 factories and move it into a single location. It required a lot of capital expense last year. And a lot of effort, and most of our resources in terms of our engineering and support teams. That's now complete. And now our efforts will be -- turn to 14 products, which will transfer there this year. On an annual basis, we believe that the savings are between $6 million and $10 million a year. And that -- all of those will be completed by the end of the year, and we now have the resources to do that, that were previously directed towards the Becton, Dickinson transaction.

Now I pointed out -- and again, back on Page 8 that we are going to report, again, differently in the future. And I think that will be a lot easier for all of us. And then also, I think the most important part of this is for you to really look at those specific areas as we go forward. And you can see the momentum of the business in the areas that we've discussed going forward.

Now just a brief comment on the coronavirus and Raul will provide a lot more clarity on that. But listen, these are tragic developments. This is a difficult time for everybody, and it seems to have more controversy and dialogue about it every day. We saw the market reaction today. It will affect our volumes in China, both in manufacturing and the customer level. How long it will go on? We don't know. We don't have any problems with inventory. But it's something that we monitor -- monitoring closely literally on a daily basis. So I think that covers the things I'd like to talk about. And so now, Raul, I'm going to turn the time over to you, and I know that you have a lot of things to talk about. So ladies and gentlemen, Raul Parra, our Chief Financial Officer.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Thank you, Fred. Yes, bear with me, I've got a lot to cover. So let me now turn to the financial highlights for the quarter and full fiscal year. On the revenue front, revenue for the fourth quarter and year was approximately $258 million and $995 million as reported, an approximate 10.6% and 12% increase over the comparable period of 2018, and approximately 8.5% and 8.1% on an organic constant currency basis. Key contributors to these results included FX headwinds of approximately $1.7 million for the quarter and $13.5 million for the year. The FX headwinds are mostly from the euro, CNY and emerging markets. Acquired products contributed revenue of $6.4 million for the quarter, both Cianna and ClariVein became part of core growth in the back half of the fourth quarter. Cianna and ClariVein contributed $13.8 million and $2.3 million, respectively, with total sales ending the year at $49.5 million and $7.5 million. We continue to be high on Cianna and then finally received our CE Mark, as Fred mentioned. A lot of activity in Europe or OUS, I should say. ClariVein continues a steady increase in sales quarter-over-quarter since Q1.

Our revenue contribution based on an organic constant currency were as follows: for the quarter, worldwide dealers up 20%; EMEA up 7%; U.S. direct up 7%, Endotek up 4%; sensors up 1%; and OEM down 2%. For the year, worldwide dealers up 18%; EMEA up 7%; U.S. direct up 6%; sensors up 15%; OEM up 2% and Endotek down 1%.

And finally, as Fred mentioned, and as we highlighted in our press release and slide deck, we will be recasting the way in which we present our revenues on a go-forward basis, to be more consistent with the manner in which we monitor our business. We will be doing this to provide investors with a clearer way to track the operating momentum of the business by critical call point and end market. We have detailed this transition on Page 8 of our Q4 slide deck, and we are excited to make this much needed transition. We will begin to present our revenue data in this format on our Q1 earnings call, and we'll provide historical information before the end of Q1.

On the gross margin front, our Q4 gross margin on a non-GAAP basis was 48.3% in the quarter and 48.6% for the year. Our gross margin showed some stability and improved sequentially from Q3 and was within the revised guidance. We did see our mix stabilize. We had a strong performance from our manufacturing plants and a strong performance from Cianna and ClariVein. On the OpEx front, our Q4 operating expenses were approximately 35.6% for the quarter, and 36.7% for the year as a percentage of revenue on a non-GAAP basis.

As we've discussed over the last 6 to 9 months, we have been working on getting leaner, and we saw a $2.8 million reduction in expenses from Q3 to Q4 while delivering $14.9 million more in revenue. Our cost savings materialized, and we expect to continue that into 2020. These cost savings came from our San Jose office consolidation, reduced headcount and discretionary expenses. In addition, we continue to evaluate our headcount and footprint to increase our operational efficiency in a focused way to ensure that cost reductions not only continue to be attainable but also sustainable through 2020 and beyond. We have been open that our cost reductions would be surgical and that we wanted to make sure we weren't reactive and/or impacted our revenue growth. We will continue to take that approach. And I'll discuss in a minute some of the operational efficiency programs we have going on in 2020.

Tax rate on a non-GAAP basis was 22.2% for the quarter. And 21.9% for the year compared to 15.1% and 18.3% for the comparable period. The difference in the tax rate was primarily driven by the decrease in the stock option exercises and the benefit we receive when they are exercised and other minor tax adjustments compared to the comparable period.

On the earnings front, non-GAAP earnings were $0.40 for the quarter as compared to $0.48 for the comparable period. For the year, non-GAAP earnings were $1.46 as compared to $1.69 for the comparable period. EPS was on the high end of our revised guidance, we believe our results on the bottom line show evidence of stabilization of the business and that our cost control efforts are materializing. To wrap up, let me hit a few other balance sheet items and cash flow items for everyone. Debt balance was $440 million, and our cash balance was $44.3 million, putting us at a 2.75 net leverage ratio on an adjusted basis. Cost of debt is approximately 3%. And we paid down approximately $25 million of debt, net of acquisition investments and milestone payments.

Working capital was $273 million. CapEx for the quarter came in at $20.1 million, D&A approximately $23.6 million and stock comp expense of $2.5 million. Free cash flow was approximately $7 million for the quarter.

Now let me get to the guidance for 2020. For the full year, we expect reported revenue to be in the range of $1.04 billion to $1.06 billion. This represents a 5% to 7% increase over reported revenue of 2019 and excludes any impact from the coronavirus. While we are not guiding for the impact of coronavirus, we will provide some color on the potential impact in a few moments.

We do expect some adjustments to reported revenue to arrive at organic constant currency, while not material to the overall picture, they are as follows: $1 million to $2 million in noncore revenue related to the ConvertX and [STD] acquisitions, which will fall off and roll into core growth in Q3 of this year. $3 million to $5 million in FX headwinds, net of the impact of some of these nonrecurring items, we expect that this would still maintain a constant currency growth rate that is in line with our reported growth rate of approximately 5% to 7%.

In addition, as we have been discussing, we are moving to guide on operating margin instead of just gross margin. We plan on levering not only gross margin improvement but also to lever our operating expenses. Operating margin on a GAAP basis will be approximately 6% to 7%. Operating margin on a non-GAAP basis will be approximately 13% to 14%. That's approximately 125 to 200 basis point improvement over our 2019-ending non-GAAP operating margin of 11.8%. The margin improvement is comprised of several different pieces, a mix of operational efficiencies, a more focused approach to active R&D projects and cost-saving initiatives that we implemented during the back half of 2019 and will continue into 2020. A few comments on these cost-saving initiatives. As we previously discussed, we are moving 14 product lines from Melbourne and other manufacturing sites into our Mexico and Pearland facilities, which we expect to contribute on an annual basis approximately $4 million to $6 million in savings once fully transferred.

In addition, we are consolidating 4 other sites with an annual savings of $2 million to $4 million once fully transferred. The transfer and site consolidations are ongoing and won't be fully complete until the fourth quarter of 2020 and into 2021.

On the earnings front, we expect EPS GAAP will range between $0.62 and $0.72 for 2020. On a non-GAAP basis, the range will be between $1.58 and $1.68, which represents an increase of approximately 12% at the midpoint on revenue growth of 5% to 7%. Our guidance includes a headwind of approximately $0.03 of FX impact, which is mostly from the CNY. Our guidance also includes interest expense of approximately $14 million to $15 million and a tax rate of approximately 26% to 27% on a non-GAAP basis, which excludes any benefit from stock option exercises.

On the CapEx and free cash flow fronts, we expect capital expenditures to be in the range of $50 million to $55 million, a reduction at the midpoint of $25 million over 2019. Also, as we have previously discussed, Merit's Board of Directors has tied free cash flow to executive compensation going forward. Excluding any impact from the coronavirus acquisitions, cost-saving initiatives or contingent payments, we are expecting free cash flow in the range of $40 million to $50 million. As I mentioned earlier, our guidance does not include any impact of the coronavirus on our financial results.

While we have certainly seen some impact to our business, the significance and duration of this impact is still difficult for us to predict. Thus far, we have seen this show up on a few fronts and are being vigilant to react and anticipate certain changes. On the orders and deliveries front, we have seen some inconsistencies. As we access the potential impact, we have focused on a range of worst conservative estimates for the potential impact in the full fiscal quarter. Where we sit now, our conservative estimate for a quarter of coronavirus could result in an impact of $14 million to $19 million in net sales and $0.08 to $0.12 to EPS.

As you know, we didn't begin to see the impact of this until late January, and we can't anticipate how long this may last. But we wanted to give our investors a conservative estimate on what it can mean to our guidance, and we will update everyone as more information becomes available on a very dynamic situation.

And finally, we have been working on and talking about a lot of things over the last year and just wanted to summarize those items one last time and then point you to our Page 4 of our Q4 slide deck. To summarize those items, they are as follows: $6 million to $10 million annualized cost savings, 14 product line transfers to Tijuana, Mexico and Pearland, Texas and 4 site consolidations, SKU and product line optimization, our executive compensation tied to free cash flow, and performance relative to the rest of 2000, consulting with an external firm to improve link between the company performance and corporate-wide employee compensation in line with executives and then better investor visibility with new revenue reporting alignment in 2020 and new improved investor website.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Okay.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

That'd be Slide 7, sorry.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Well, Raul, that was a lot. I'm just looking at the time, you actually took just as much time as I did.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

We did pretty good.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes, we did pretty well there. Okay, ladies and gentlemen, now, thank you for your patience. There's a lot of data there, needless to say, Raul, and I will be here for several hours to make sure that we can clarify the things that we've said today for the analysts. So we'll be here, we have calls already set up, as you know. Let's go ahead and turn the time over to our administrator, and we'll go ahead and get started and take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Larry Biegelsen of Wells Fargo.

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst***

Fred and Raul, congrats on the nice quarter, and thank you for the increased disclosure here, especially on the reporting lines. Much appreciated. Raul, I wanted just to start off on coronavirus. And then I just had one follow-up. So can you just talk about how you're arriving at the $14 million to $19 million impact? I believe China is about 10% of total company sales or about $26 million per quarter. Please correct me if I'm wrong. And what have you seen in your China business so far in February? I just wanted to better understand the $14 million to $19 million full quarter impact.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. So it's not just China. It's specific to essentially all the Asian countries. And so what we're quoting here is really the full impact to our APAC region. Obviously, China is a big component of that. And we have seen an impact year-to-date compared to our forecast. I can't say that -- our International team is very consistent in meeting their or exceeding their goals. And we can attribute any so far lost revenue to essentially the coronavirus. That's how we're coming up with the estimate. I think it's ongoing. We've probably changed it a few times here in the last 2 weeks where we thought it was maybe turning the corner and then it got worse, and then turn the corner again and then it got worse again. So it's a very dynamic situation, and it's really just a very conservative estimate, Larry is the best way to say it. I think as we get closer to the quarter end, we'll be able to provide more color.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Larry, let me just jump in, just a little bit more color. The information is coming directly from our people and our general manager, Leon Lam in Hong Kong and his staff in Beijing, along with Joe Wright, who has responsibility for the business there. We are receiving orders, but we're just seeing orders that are less than we've seen in the past. But I think it does go on to Raul's comment, I don't think China has missed a forecast that they've given us for 10 years. They're always at or above that forecast. So we take a lot of comfort in Leon's forecast. Will we make it all up? Will procedures start? And the answer is, I don't think so. That being said, we don't know what the momentum will be going forward. But I do think this, that we have 3 new products that have been approved. And then, of course, we had the Chinese New Year. We had the extension of time there. We're still having our employees work from their homes, but we are shipping product on an as-needed basis out of our facilities at our distribution centers out of Hong Kong, and out of Beijing. So we are, in fact, shipping. And this is the best that we could come up with, with what we know today. Joe, do you want to anything -- Joe Wright, you want to add any?

Joseph C. Wright ***Merit Medical Systems, Inc. - President of International Division***

No, I think that pretty much covers it.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Okay. All right, Joe. So Larry, there you go.

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst***

Just one follow-up for me. There was one bullet on that Slide 7 that I didn't hear you talk about, which was SKU and product line optimization. Can you talk about how broad that might be, Fred? And would you consider divestitures?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. Listen, we're looking at every aspect of our business. And I think one of the things that is helping to drive the -- that consideration is MDR. Going forward is what products are we going to register? What revenues are they generating in Europe? And then when you take those and back those out, what does it leave? And how do we look at that? So we're looking at all of that.

Divestitures, I think I've said this in the past, but if I haven't. We have had a couple of -- several incoming areas to businesses that we don't consider necessarily be core or where circumstances have changed. And we are looking at those, and we are considering those as well. Raul, do you want to add anything to that? Did I hit that? Did I hit all of his -- part of his question?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. I mean, I just think we're taking a deep dive at the portfolio and just seeing where we can optimize it. As you'll recall, Larry, I think in Q3 of last year, we got rid of our Hypotube business, it just didn't make sense. It gave us free extra space in Ireland. So I think it's just -- it was a great opportunity after Q2 and Q3 on what happened to really just take a deep dive into the business. And we did that, and we continue to do that, and we'll continue to do that into 2020.

Operator

Our next question comes from Matthew O'Brien of Piper Sandler.

Adam Carl Maeder ***Piper Sandler & Co., Research Division - VP & Senior Research Analyst***

It's Adam Maeder on for Matt. Congrats on the quarter. My first question is on just the Activist investor and Starboard and where you guys are in that process? What do next steps look like? And how do you intend to interact or work with that investor? And then I had a follow-up.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. I think we have indicated we have met with Starboard. We have had conversations. We invite constructive comments that help to enhance shareholder value from any of our shareholders. So we continue to do that. We'll continue to have dialogue with them. And really, that's all I can say, Adam, at this point.

Adam Carl Maeder ***Piper Sandler & Co., Research Division - VP & Senior Research Analyst***

Okay. Fair enough, Fred. And then just for my follow-up, wanted to ask about Cianna. It looks like that bounced back some in Q4. How should we be thinking about the growth trajectory for Cianna this year? And maybe just how should we think about the sales contribution from the OUS business now that you have CE Mark in hand?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. Raul I'll let you answer that.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. I mean, I think we're projecting about 10% growth out of that business. To be quite frank, we have a really kind of a small amount OUS forecasted. We're really leaving that as upside to our guidance. Like Fred said, there's a lot of excitement about it. And we just -- I think we learned kind of a good lesson in 2019 and forecasting that business is -- it's a little choppier than what we're used to, not as consistent. But again, there's a lot of demand for it. And there's really a lot of upside in our guidance for that product.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

So I think we've been conservative in the guidance and the activity, it's very, very busy. And I think the other thing when you're launching a product like this that you have to support clinically initially with any product that has a capital portion of it and then the disposables. You need to do it and do it correctly. So I think we are governing the cases to make sure that we do them correctly. And like I said, there's much more demand than we very candidly have the ability to respond to. And I think what we want to do is just make sure that our response is measured, that we go out there, we properly train and support the business. But listen, I was talking, again to one of the managers down in Saudi Arabia, where we had been invited and where we have approval. And they've been asked to stay over several more days in 1 situation tomorrow in Riyadh, we're doing 7 cases. So there's a lot of interest in this product. We just want to make sure that we meet it out appropriately and support it appropriately so it can have a long-term benefit.

Operator

Our next question comes Jason Mills of Canaccord Genuity.

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

Terrific. Fred, Raul, can you hear me okay?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

We can.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes.

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

So several questions, Fred, just cut me off if I extend my welcome here. I wanted to go back to Larry's question about coronavirus. And thanks for the detail on that front. At this point in time, it feels like, as we're looking at businesses that are impacted by coronavirus exclusive just to China at this point, not including what impact there could be globally. It feels like we should be factoring those in fairly proactively. So I understand you've given guidance excluding it, and then given some guidance with it. What portion of that $14 million to $19 million -- I guess, 2 questions here, falls in the first quarter? And what portion may fall in the second quarter? And I guess, what portion of that would you recommend we start to include in our expectations, assuming we sort of land at the midpoint excluding it?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. So Jason, the numbers that we gave are the first quarter. That is the impact that we can see today. Now remember, it's the end of February, so we're looking out into March, that's the best guestimate that we can have, knowing what we know today, is that is the first quarter impact that you will see. And I think what we wanted to do is to make sure that people got to see what our forecast was pre what we can see today, and as it plays out, we'll adjust and adapt.

I do want to say one other thing though, I think this is equally important. You have that side that comes from the revenues but I think the supply chain is also another really important part of that. And it's not something I've heard a lot of people talk about. But I'd like to say that we have no manufacturing in China. We have some vendors in China that provide product, but it's minimal. And I think that -- so some people over the years have said, well, why don't you do more manufacturing? Or why aren't you doing this or doing that? And the answer is, for good and varied reasons, we didn't feel comfortable doing that. But the incoming part of that will have a minimal if any, effect on our business. And again, I don't know what other people are saying, but I think it's an important part of any question about this entire paradigm that we're talking about. Do you want to add anything to that, Raul?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. No, I think you covered it.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Okay. Does that help you, Jason?

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

Yes, it does. So I guess, insofar as we continue to see coronavirus impact expand, we'll have a conversation about what impact that might mean for the second quarter. But just to be clear, at this point in time, your expectation for an impact is resigned specifically just to the first quarter. Correct, Fred?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

That's as far as we can see, that's correct.

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

Okay. Great. And then -- so Raul, over to you on the cash flow side. Thanks for the details with respect to the quarter and the guidance. Could you walk through again, and maybe I missed it, the capital expenditures for 2020 and what that implies for your expectations for cash flow from operations in 2020, then compared to 2019? And how you expect that to trend over the long term. And I guess as a correlated question to that, can you give us any details as to quantitatively how the metrics in cash flow are assigned to executive compensation? What sort of opportunities are there for executives to be compensated based on upside to those guidance ranges?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. So I think I'll cover the 2020 guidance CapEx, and then give you a general answer on the last one there. So $50 million to $55 million is the CapEx budget for 2020 that's -- compared to 2019, it's about a $25 million reduction at the midpoint. Any other questions around CapEx there? Or did I address your...

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

That's good. I missed that.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. And then on the free cash flow for the executive comp. I think really what we can do is give you the specifics once we file our proxy, they'll be in there, and it will cover it in detail if that's okay.

Jason Richard Mills ***Canaccord Genuity Corp., Research Division - MD of Research & Analyst***

Okay. That's helpful. And then I guess, just lastly, with respect to your new revenue buckets, Fred, would you be willing to give us sort of some quantitative guidance as to how you expect each one of those revenue buckets to grow relative to your overall guidance for revenue growth? Which ones will grow in line, which ones do you see growing faster, just to give us a sense for how you see the trends in each one of those divisions trending relative to the overall?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. Jason, it's a good question. We have percentages and all those sorts of things, and we have history and what we wanted to do rather than just throw those out here was to be able to go through with each of you guys and go through the history. As an example, if you look at OEM and you look at that business, which is somewhere around $200 million, give or take. And you look at last year, where we have the fall off, you would look at it and say, well, it was like 1% or 2%. But if you go back and look historically, other than the things that fell out with the Argon and with the (inaudible) last year and go back, you'll see that it's essentially a double-digit grower. So we think by providing you with 3 years in arrears quarter-by-quarter in '19 and...

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

'18.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

And then '18 and then going in and breaking it down on this yearly basis, it will give you an answer to all of those things. What we didn't want to do on this call is to get so much information and confusion without having all of the numbers in front of you. So that would be an example of one that you could look at and say, "Oh, this business isn't growing." But if you take out those 2 events, those 2 customers and take a look at what it has done for the last several years, you will see that as we think about that business going forward, we believe that it will come back, and it will continue to be a business that could grow in the high single digits to low double. So I think that's another really good reason for us to do this.

In the cardiac intervention, we're going to take things like our EP business. That's a very exciting part. But as you all know, peripheral intervention is an area where you will see a higher number of revenues and a higher growth profile. And part of that's because that's where the SCOUT resides. That's where the Surfacer may reside. It's where a lot of our products. But there's a nice blend. If you look again at cardiac and peripherals, you'll see that there's growth. And I believe, again, maybe I'm stepping out on a limb here, but you'll see that, that growth is about twice as fast as what the general markets are growing. But let us get all of that to you in the next couple of weeks. Let us go through each of those line items so it gives you guys time and plenty of time before the first -- the end of the quarter, and then you'll be able to see and then be able to make your own conclusions. But I think you'll see growth, both in the past, and we believe there's substantial momentum moving forward. And that's the best way I can answer the question today without muddying up the water, without having all the data in February, which we will provide shortly. We didn't want to provide it prior to the call or on the call, we just thought it was too much with guidance and everything else.

Operator

Our next question comes from Jayson Bedford of Raymond James.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

I apologize if these are redundant. I missed a portion of the call. But did you give a gross margin expectation in 2020?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Raul?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

We didn't.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Would you care to?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

No, we're probably -- it's going to be...

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Or if you're not prepared to. That's fine. I'm just wondering if...

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

We can. We can. We're prepared for the question. 20 to 30 basis points is somewhere where we -- improvement for 2020.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

And Jayson, part of that is because we're going to be moving all these products down to Mexico. So you're going to have some inefficiency.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

I mean, you'll have operational inefficiency...

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

While we're moving those. When we're done, it's going to be a significant opportunity for many, many years, for enhancement of gross margins. But that is kind of net of those 14 products being moved. So it's modest. But I think correct in terms of taking a look in the sequence of when those products hit during the year, but there will be inefficiency as we do it. In the intermediate term and long term, it's the best thing for the company.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Okay. And so just so I understand, the 14 product lines will transfer this year. And then the following year, you'll get the $6 million to $10 million in annualized cost savings from this move?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

That's correct.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

They'll be done in the fourth quarter.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes, they'll -- again -- and again, because you may have missed this, Jayson. But if you didn't, our resources were really tied up in the Becton, Dickinson deal. And all of that was -- that took everything we had to get that done. It is now completed. And now we're turning to these 14 projects that have to do with some plant consolidations as well as some movement of legacy products and others here to areas where they're better suited. And you also noted that we also put in there Texas. Because we have some products like catheters or some other things that are being produced in other facilities that will be transferred into our Texas facility, which is much more efficient in building those products.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Okay. And just along those same lines, on that update slide, you mentioned consulting with an external firm to improve the link between company performance and compensation. Is that still ongoing? And if so, when does this consultation end and when do we get a little bit more detail there?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. So we'll provide you updates probably more in the, I'd say, third quarter, to be honest. We had our initial kickoff meeting last week. We're still vetting out a couple of other items. But yes, it's an ongoing process. The hope would be that we could have it done and be ready for a 2021 implementation.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Jason, let me add maybe just a little more color. I think one of the things that we want to accomplish is to make sure that compensation, even at the plant level on things -- that we have a system that has to do with the company's performance and that everybody is tied to that. And then an individual plant performance-based on their contributions to the company. So I think what we wanted to do is there are these factories, there are a lot of areas that we wanted to make sure.

And then I think on the utilization, I think we're going to bring in some consultants to take a look at our efficiencies of plants. We have some ideas of additional cost savings, we'll save those to the first quarter call, and then we'll go ahead and announce those. Look, I think the important thing to note is these are not Johnny-come-lately ideas, these are things that we were talking about in the second quarter of last year and analyzing both in terms of San Jose and others of these 4 plant consolidations or office consolidations that we're talking about that we've already identified, which will be part of the savings and -- that are in that slide on Page 7, 4 sites that will be consolidated.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Okay. Actually, can I just ask one more question in terms of...

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Sure.

Jayson Tyler Bedford ***Raymond James & Associates, Inc., Research Division - Senior Medical Supplies and Devices Analyst***

Contribution from fluid management and kind of the GPO partners that you gained kind of mid last year? Was there any real contribution in the fourth quarter? Is there any expected contributions here in 2020?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes, I think there's 2 parts to that. First of all, it was minimal. But you may recall that we also had this situation with Cardinal and some of the problems they had, and they happened to be our business partner on one side. So I think that kind of slowed down that momentum. In some ways, we were able to help out customers and help them out and then we'll just have to see how that plays out. I think it was minimal. I think if you take a look at the growth coming forward, it's going to come from our new products, our new approvals and expansion of our existing product lines.

The fluid administration is there. It's a legacy product. It's an important part because of its contribution into our OEM business as well. But I think the contribution, to answer the question, directly is minimal at this point.

Operator

Our next question comes from Mike Matson of Needham.

David Joshua Saxon ***Needham & Company, LLC, Research Division - Associate***

Fred and Raul, this is David on for Mike. I guess, just looking at operating margin, I know you're trying to kind of move more towards operating margin guidance. So just wondering what are the puts and takes for the, I think, it's 120 to 220 basis points of operating margin expansion for 2020?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes, it's about 125 to 200. Obviously, we had some cost savings initiatives that we implemented in 2019, those will carry into 2020. We also have some operational efficiencies that we're working on as far as product line moves that were done in late in 2019 that will contribute into 2020. I think some of the takes and puts are really operational efficiencies we've been working on. And then, I guess, one of these impacts would be our Rhapsody project. That's an expense that we're absorbing this year. We think it's a great product, and we're very excited about it. And I guess anything you want to add to that?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

No, no, I was just going to say that I think that as part of that component that we're looking at all the aspects. So the SG&A, I think, spending has slowed down dramatically as a percentage of sales. I don't know if you have any numbers that you can throw in there or not?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

I don't want to go there.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

You don't want to go there with this. And then I think it's even R&D historically, what we've done -- when I say historically, over the last 4 or 5 years, we really didn't look for any leverage because we're bringing in these therapeutic products and wanted to build out a clinical sales force and clinical support. I think at this point, we're saying, okay, that our growth in R&D spending will be -- will not have that normal trajectory, which is you get the increase in the sales. So let's just say you had the midpoint of the 6% increase, you'd get a 6% increase in your budget. That's not what we're saying. We're saying that we need that to be flat to down. And I think the way we've done that is to take and consolidate projects and say, instead of having 55 or 50 projects going on in a number of locations that what we do is pair that down, focus more on single projects where we had teams. So maybe 15 to 20 globally instead of 50 and be able to do that. I think we can be more efficient and more effective, and that's what we're doing.

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

And it helps us with MDR, too, I think.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

And it does. It does. And I think going back to the part that we talked about with some products coming out. Anyway, the bottom line is we're looking at all aspects of it from gross margin to SG&A, our operating expenses and R&D expense as a percentage and managing those so that we can get more leverage in the business.

David Joshua Saxon ***Needham & Company, LLC, Research Division - Associate***

Great. That's helpful. And then you talked about some of the new product launches in 2020. Aspira in Europe, some of the new products in China. Just wondering what do you think is going to be most impactful in 2020?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. I mean, I have to think overall that the SCOUT because of its continued momentum. I mean, it's a 10% grower, I think, is the number that Raul used. There is a lot of upside in Europe. We're seeing it, and again, we're just trying to manage to make sure that it's done correctly. It's not just go out and see what sticks on the wall to make sure that each one of those procedures has people in, people are properly trained. I remember when we looked at we were doing due diligence on Cianna, I was talking to a physician, and I remember, this was a surgeon, and she said to me, Fred, the thing that is the most important, she said the guys that called on me knew their stuff, and they were experts. She says make sure you keep it that way. And I think that never left me is that in Europe, there's a lot of demand. I've got people, 20 cases I could do in France this week, 20 cases in Germany, Benelux. I mean, the demand is extraordinary. And I think it's driven by something that's really important. And that is, it's, by my belief, the best profit in the market. Everywhere we go against our competitors, we win. And that's important. We just have to manage it correctly. Remember, this is a business that did about $50 million last year and one that we have great hope. So that would be the first one.

I think the other area of a lot of interest is in our electrophysiology area. So that has to do with our transseptal needles, our Worley group. And we have, I think, 6 new products rolling out this year. We'll introduce a number of them at the Heart Rhythm show in Boston, I think it is this year, but wherever it is, we have 6 new products.

And then we have the SIR meeting coming up. So I hope, either you or Mike, whoever can come up, it's going to be in Seattle this year. We will show there the launching of probably 5 or 6 new products. But of course, what will be big up there is the Surfacer, the HeRO, other products that we have in our peripheral group will be there as well. So we're loaded and our pipeline is full. So we -- this is not a dry creek. This is something that has now what Merit, I think, has been well-known for, for years is having -- as to -- be prolific in terms of that. But with more focus on less projects. It doesn't mean we don't have a lot more that we can plug in and we do. We'll plug them in, but we can focus on a smaller amount of projects and get to the market faster.

Operator

Our next question comes from Steven Lichtman of Oppenheimer.

Steven Michael Lichtman ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

In the release, Fred, you spoke about sales force initiatives around biopsy drainage in Cianna to drive revenue growth and margin. Can you talk a little bit more about what are the types of initiatives and opportunities you're referring to there?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. You know what I'm going to do, I'm going to have our U.S. sales manager -- so you can get it. This is Justin Lampropoulos. So Justin, why don't you tell them what those initiatives are in those particular areas?

Justin J. Lampropoulos ***Merit Medical Systems, Inc. - EVP of Commercial***

Okay. Yes, good afternoon, everybody. So I think the key initiatives really sit in our specialized groups, certainly with the leadership. So in 2020, we've introduced with our financial business partners a structure where the regional leadership is compensated directly on corporate goals. So you've got revenue. You've got earnings before interest taxes, as it relates to the operating of those various regions. And of course, each group, again, the U.S., I think we have 3 or 4 highly specialized teams. So they're already specialized in driving those initiatives. And those products that sit within the group, and it's measured, right? So it's forecasted out. They talked about the Cianna team at 10%. And we think, again, there's upside to that and margin growth. So -- and we've also done, I think, a critical analysis of all the pricing controls that have been put in place to drive that margin. So we're confident that we'll continue to get above-market growth rates, but also a very strong focus on the operating profitability of the U.S. business, again, sitting in the sales leadership.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

And if I could add, as I mentioned about EP, and biopsy is very important because we have a number of new biopsy products coming into the marketplace. And I think we've talked about Cianna. And those are just a few, there's many, many others, but those are ones that I think will have the biggest impact. Raul, do you want to add anything to that?

Ronald A. Frost ***Merit Medical Systems, Inc. - COO***

No, I think Justin covered it pretty good. And he's got that approach across the biopsy division, too. So I think we're covered.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

And may have sound -- I don't know if Steve but it sounded odd to you when you talk about management, but listen, the sales force will respond to incentives and respond to leadership. And I think what we're doing is we're tying all of these things together in terms of -- as Justin said, the corporate performance in those areas that we have an advantage. If you take a look, for instance, a product we haven't talked about today, but the ConvertX. I think ConvertX, which is the product that is both ureteral stent and a nephrostomy tube, there's nothing like it in the world, and we take a look at our entire drainage product line with the [cerc], the ConvertX, I looked at 2 new products today. We have the broadest and most innovative drainage product line of any company in the world. And then now we add on to that pleural drainage and pleural -- and peritoneal drainage. Those things become even better, so I think there's a lot of focus -- and remember, in the U.S., we have about 20% of the pleural effusion in the CDs market. But again, we've been paralyzed because we were in the mode of selling the products, which we acquired, in their boxes with their name on them. Well, it's a little different story now. Now our innovations, our products, our name is there with our salespeople. Our salespeople were selling it, but we were at a disadvantage because we couldn't even go into Europe until we were in Mexico and we were up and running. Well now it's a different ball game. And with the number of products we have and the ability to add the Aspira to the mix in Europe, makes a big difference. So that's why -- drainage, there are 8 companies that have drainage products. But there's only one company that has new and innovative products and has momentum and initiative, only one, and that's us.

Steven Michael Lichtman ***Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst***

Got it. Great. And then just secondly, can you talk a little bit more qualitatively around the drivers of the sort of SG&A spending slowdown, you talked about, Fred, maybe opportunities ahead. I know last call, we talked about a 2% headcount reduction. I mean, where are you guys with that? And any other opportunities you can talk about?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Sure. Well, on that 2%, I think that was initial. I think in many other cases, we've had -- people have left for good and varied reasons, which we haven't replaced. When we were down this weekend, ASDIN, I had 3 people there. I had 1/3 of the entire attendance of that meeting of 300 physicians at our booth. I wish I could post, and maybe we ought to do this in social media, to post pictures of the activity. I don't know if you guys are going to get to the SIR meeting but drop by our booth if you can get in there. I'm going to just tell you, it's going to be swamped. And I think what we're planning on. But I will tell you this as well. And then as you might say, well, you're a foolish man, I've cut to 25% of what was requested. So that means instead of people wandering around or doing other things in this net, we're all going to be very tired, and we're all going to be working that booth, and that includes me and the sales management team, and we're all going to be working that booth to keep the expenses down. I think looking at travel in general, discretionary spending, CapEx. We have a monthly -- as an example, this goes maybe a little different subject line, but it's I think consistent with when we talked about how to do a better job, and that is on our CapEx, we look at it every month, we look at -- we have a running total, and there are things that if we -- if it steps out of bounds, we either have to find a substitute for it or we're just not going to spend the money. So I think we have put a number of programs that are visible and trackable, that help us to make sure that we don't step out of bounds down this lane of performance that we want to subscribe to. So there's a lot of those sorts of things, things that are going on inside the business.

Operator

Our next question comes from Jim Sidoti of Sidoti & Company.

James Philip Sidoti ***Sidoti & Company, LLC - Research Analyst***

Can you hear me?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

We can, Jim.

James Philip Sidoti ***Sidoti & Company, LLC - Research Analyst***

Well, I'm sorry if I'm asking something you talked about already because I've been bouncing between calls, but did you give guidance for interest expense and tax rate for 2020?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes, the interest expense was $14 million to $15 million for 2020, and the tax rate was 26% to 27%.

James Philip Sidoti ***Sidoti & Company, LLC - Research Analyst***

All right. And with regards to R&D, is there extra costs in there for getting the CE -- or products recertified in CE? Or is that all new product development?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

No, that's in our numbers. It's baked into all of our numbers, the amount of money we'll spend on the MDR is already in our numbers.

James Philip Sidoti ***Sidoti & Company, LLC - Research Analyst***

And can you quantify approximately how much that is?

Raul Parra ***Merit Medical Systems, Inc. - CFO & Treasurer***

Yes. Approximately $5 million.

James Philip Sidoti ***Sidoti & Company, LLC - Research Analyst***

So that should not recur in 2021?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. Well, there will be another component in 2021. But I think 50%, 60%, 70% of the expense is in this first 12 months. John, is that correct?

John Knorpp ***Merit Medical Systems, Inc. - Chief Regulatory Affairs Officer***

That's correct.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes, it's kind of front loaded as you get these registrations that have to be filed. And then remember, any new products have May 26 of this year, have to be filed under MDR. So the rule is going to change in Europe. Fortunately for us, we're ahead. In fact, to be very candid with you, our notified body is BSI and we were the first person, the first company, if you can imagine this, to file under MDR and with BSI. The very first company to do that. Now we want to be ahead of this and I think we're well engaged and we've been told that we're ahead of the crowd. Jim you'll recall, I think you asked me this question, why do you guys talk about this when nobody else does. This was maybe 6 months ago. And the answer is, it's a big deal. And I think in the short term you're going to have the expense, in the long term and the intermediate term, it's an opportunity because it means a lot of people and a lot of products are going to fall out because they either don't spend the money, haven't planned for it or they're so far back in the queue that what's going to happen is they're just not going to be ready. Merit's going to be ready and they've been planning on this for 2 or 3 years. It's not something that's jumping up on our radar screen this quarter or just late last year, we're well engaged in it.

Operator

Our next question comes from Mike Petusky of Barrington Research.

Michael John Petusky ***Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst***

A few questions. I may have missed this if you said, but the $40 million to $50 million of free cash flow generation that you guys expect this year, how is that going to be utilized?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. I'll say that's to pay-down debt is how that will be utilized initially. And I think it's probably fair to say, Mike, that we're -- our appetite on the M&A side is somewhat diminished until we can see that we have the momentum back that we hope that we'll gain during the year.

Michael John Petusky ***Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst***

Okay. That was actually going to be my next question. Okay. Is there anything -- and I know this is tough and somewhat uncharted waters. But is there anything that you guys are doing in terms of APAC, in terms of mitigation efforts to reduce expenses over there? Or what can you do? Or is there anything you can do?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. We've actually done a lot, Mike. In fact, I think we were probably well ahead of governments, both the U.S., China and everyplace else. We have nobody out and nobody in from anybody from Australia, New Zealand, all the way up through the Pacific Rim around the horn. Nobody. So the travel in and out is stopped until we get a feeling that it's safe for our employees. Nobody from China is coming in. And even the activities in China will help reduce the SG&A in that part, will help to offset some of the revenues that we've discussed because those things that we'd normally be doing, sales meetings and those things have been -- and shows, trade shows, all of those have been canceled. So we even -- and some of you may think it's an overreaction, that's fine. Even going into Canada. In Western Canada, we're limiting travel into Western Canada, although we did let a team go into Toronto last week on a training on some new product issues that we went up there to train some physicians. So we are really have the hatches battened down and have been very aggressive from day 1. Maybe more aggressive than most.

Michael John Petusky ***Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst***

Okay. Somewhat related question. Have you guys or any of your folks in China or anybody else, have you talked to anybody that's smart that has a take on this that you think is of value just in terms of how this ultimately plays out? I mean, does this ultimately sort of turn into kind of a seasonal flu type situation, where we're dealing with this every year in that way? Or can you just speak to anything that you may have picked up from -- I know you have a lot of connections.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. I don't think, Mike, I don't think we're any smarter than anybody else. I think the general issues of the -- it's not as deadly as the flu, but it is more contagious. There's those kinds of issues. But the brightest minds in the world are trying to figure this out. And from our point of view, the best thing to do is to make sure that we don't create any problems with our own employees. And so again, the biggest initiative there was just to lock it down, and that's what we did and did early. So now it's popped up in Italy and wherever it's going to be, but we'll walk that down as well. So we just want to make sure that we're doing what we can, and we'll just follow the guidance of the scientific community, and -- but I think there's -- some of this is just common sense. And I think that's what we're trying to do is just -- we've been, I think, rather aggressive. And we don't have a problem here. The other thing, as I mentioned, and you may not have been on the call then. But we're also -- although, listen, it kind of touches everybody. In terms of manufacturing, what we are starting to see, and I saw this with a product this week or early last week, where there are components that are supposed to come into the U.S. and one competitor that they can't get. And so I think the opportunities for a company like Merit that doesn't have those sourcing issues in China are ones that are going to be an opportunity for us. Now again, I hate to profit on someone's misfortune, but the fact of the matter is, we provide products to our customers. And our job is to meet that need, and we will. So I actually think -- and again, there may be some advantages depending on how this thing plays out. But I think our vulnerability is very limited because of the approach we've taken to sell there, to lock it down there, but we don't have an awful lot that has to come here for us to be able to meet the needs of our customers.

Michael John Petusky ***Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst***

Got you. And just a clarification. On the 2% headcount reduction, has that been executed at this point? Or is that still on lockup?

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Yes. No, no, no. That -- the answer is yes. I'll need to recalculate and look at the numbers. But when we've had some people leave for good and varied reasons or retired, we haven't replaced those people. I mean I can think of just 3 people who retired in the last month.

And I think it was over almost $1 million a year of cost savings. We just aren't going to replace them. So I think attrition is -- we'll use that, and we're prepared, if necessary, and watching the business very carefully. We don't want to be over-reactive. We don't want to do things to hurt the business and cut away at the muscle. But at the same time, we're continually evaluating opportunities and things that we can do to improve the performance of the company.

Operator

I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Lampropoulos for any closing remarks.

Fred P. Lampropoulos ***Merit Medical Systems, Inc. - Chairman, CEO & President***

Well, again, ladies and gentlemen, there's a lot of data, a lot of conversation today. We appreciate you. Raul and I will be standing by for the next couple of hours. We appreciate your interest in the business. And again, once again, would invite constructive criticism or thoughts in terms of how we can increase shareholder value. We thank you very much, and we wish you a good day. Signing off from Salt Lake City. Good night.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you for participating. You may all disconnect.