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+++ presentation

Operator^ Good afternoon, ladies and gentlemen, and welcome to the Third Quarter 2020 Earnings Conference Call for Merit Medical Systems, Inc. At this time, all participants have been placed in listen-only mode. Please note that this conference call is being recorded and that the recording will be available on the company's website for replay shortly.

I would now like to turn the call over to Mr. Fred Lampropoulos, Merit Medical Systems Founder, Chairman and Chief Executive Officer. Please go ahead, sir.

Fred P. Lampropoulos^ Thank you, Dalem, and welcome, everyone, to Merit Medical Systems' Third Quarter 2020 Earnings Conference Call. I am joined today on the call by Raul Parra, our Chief Financial Officer and Treasurer; and Brian Lloyd, our Chief Legal Officer and Corporate Secretary. Brian, I'd like you to go ahead and take us through our safe harbor provision.

Brian G. Lloyd^ Thank you, Fred. Before we begin, I would like to remind everyone that our remarks today may contain forward-looking statements that are based on current expectations of management and involve inherent risks and uncertainties that could cause actual results to differ materially from those indicated, including the risks and uncertainties described in the company's filings with the Securities and Exchange Commission, including Item 1A, risk factors of the company's most recent annual and quarterly reports.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. Although it may voluntarily do so from time to time, the company undertakes no commitment to update or revise the forward-looking statements, whether as a result of any new information, future events or otherwise, except as required by applicable securities laws.

This call will also include references to certain financial measures that are not calculated in accordance with generally accepted accounting principles, or GAAP. We generally refer to these as non-GAAP financial measures. Reconciliations of those non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP are available in the earnings press release on the Investor Relations portion of our website.

I will now turn the call back to Fred.

Fred P. Lampropoulos^ Thank you, Brian. Let me start with a brief agenda of what we will cover during our remarks today. I will start with an overview of our revenue performance in the third quarter, including the improving business trends we experienced during the quarter. And the areas of our business have performed well despite the challenging operating environment. I will then provide an update on our operating progress and highlights during the third quarter.

After my opening remarks, Raul will provide you with a more in-depth review of our quarterly financial results and a formal financial guidance we reinstituted in this afternoon's press release as well as a summary of our balance sheet and financial condition. After that, we will then open the call for your questions.

Beginning with a review of our third quarter revenue performance, we reported total revenue growth of 0.4% year-over-year in the third quarter, driven by 1% growth in sales of our cardiovascular products, which was partially offset by a 12% decrease in sales of our endoscopy products compared to the prior year. Total sales on a constant currency basis were essentially flat compared to the third quarter of 2019.

Our revenue results increased almost 12% on a quarter-over-quarter basis, which reflects the overall improvement in business trends that we have experienced in recent months. Importantly, this sequential growth was well above expectations and exceeded the high end of our sequential growth range we discussed on our second quarter conference call. While we believe we remain in the early days of the global recovery, we're encouraged by the improving trends we experienced during the third quarter. Specifically, after a difficult April, where we saw a sales decline of 20% year-over-year, we saw a modest improvement on a days adjusted basis in May, and then significant improvement in the month of June. However, sales still decreased in the low single digits year-over-year.

Our business trends were somewhat choppy throughout the month of July, and we experienced the expected seasonal softness in overall procedure trends during the month of August. Together, our total sales for the first 2 months of the third quarter were down 1% year-over-year.

Now September, however, was a different story. We saw a steady improvement in the sales trends throughout the month, and sales increased in the low single digits year-over-year against a tougher comparison as well.

Now I want to take a minute to dig into the underlying trends we experienced during the third quarter as I think it may be helpful for investors that are gauging the patient recovery in Merit's business. First, clearly we are seeing a notable variation in the patient recovery, depending on what region of the world where we do business, and we are even seeing variation within certain geographic regions. By the way of reminder, roughly 60% of our total revenues come from business in the U.S. and the sales in the U.S. decreased 0.6% year-over-year in the third quarter.

Our U.S. business is roughly 80% direct, with the majority of the remaining U.S. business dedicated to servicing OEM customers. Importantly, the underlying business trends in each of these 2 U.S. businesses were notably different in the third quarter.

Understandably, the recovery from the pandemic has been more rapid in our U.S. direct business, where sales increased 5% year-over-year in quarter 3, fueled in part by the incremental sales contribution from our sample collection and transport kit, the Cultura collection and transport system, which is comprised of a nasopharyngeal swab and a transport vial used to collect specimen, with suspected presence of COVID-19.

Sales of the Cultura system were nearly $10 million in the third quarter, which fueled a 29% growth year-over-year in our U.S. custom procedural solutions business line this quarter, and the 22% increase in worldwide custom procedure solutions sales in quarter 3. Conversely, our OEM business, which has been slower to recover as a result of inventory management as our customers adjust to product demand in response to COVID-19, and sales to U.S. OEM customers decreased 21% year-over-year and decreased 17% worldwide this quarter.

Our other business lines in the U.S., peripheral innovation -- excuse me, intervention and cardiac intervention posted strong improvement in sales trends during the third quarter, but were still down year-over-year. Sales of the PI products in the U.S. were down 1% year-over-year and sales of the CI product lines in the U.S. were down 3% year-over-year in the third quarter.

Turning to a brief review of our sales outside the U.S. Total international sales in the third quarter increased 2% on a reported basis and 0.6% on a constant currency basis. Our 2 largest regions outside the U.S. are APAC and EMEA, representing approximately 50% and 43% of our total international sales, respectively, in the third quarter.

Third quarter total international constant currency growth of 0.6% was driven by a 3% increase year-over-year in APAC sales, a 0.5% decrease year-over-year in EMEA sales and a 4.5% decrease year-over-year in sales to the rest of the world.

All international regions had an impact from COVID-19 and are still recovering. Restrictions and lockdowns are changing constantly across regions, most notably in the European markets, causing some limitations to sales contact and low demand for elective procedures.

Turning to a brief review of our recent operating progress during the third quarter. We continue our efforts to move products to our facilities in Mexico and Texas and are on track with a complete transfer of all 14 product lines.

Our PAC business in Australia will be fully closed by the end of the year, and we are in the process of securing a sub tenant. Our Temecula site has been closed, and production has now moved to our Texas facility. And our R&D efforts are ongoing, and we expect to continue our track record of new product introductions going forward.

Finally, I wanted to provide a brief update on our clinical studies for the WRAPSODY Endovascular Stent Graft. First, we had a productive discussions with the FDA in recent months, and we received IDE approval for the WRAPSODY AV Access Efficacy Study, which we are calling the WAVE study, and IDE approval for a smaller study called the WRAPSODY Central Feasibility Study, which we are calling the Wave Central study. The WAVE study is a prospective, randomized, controlled multi-center study comparing the WRAPSODY Endovascular Stent Graft to percutaneous transluminal angioplasty for treatment of venous outflow circuit stenosis or occlusion in hemodialysis patients. The study will involve 357 patients and will evaluate the safety and efficacy of our stent among other criteria, which are detailed on the study page on clinicaltrials.gov. Start-up activities began in mid-October, and we are currently targeting enrollment for the first patients by the end of the first quarter.

The WAVE Central study is a 25-patient feasibility study to gain additional safety data surrounding the central venous occlusions. This feasibility study will run in parallel with the WAVE IDE study. And after we submit the evidence to the FDA and receive approval, we intend to roll this treatment arm into the Wave IDE. Startup activities are underway for this feasibility study as well, and we are also targeting enrollment for the first patients by the quarter 1 of 2021.

Now with that said, let me turn the time over to Raul, who would like to take you through a detailed review of our financial results and our 2020 financial guidance which we reinstated in this afternoon's press release. Raul?

Raul Parra^ Thank you, Fred. Given Fred's detailed review of our revenue results, I will begin with a review of our financial performance across the rest of the P&L. For the avoidance of doubt, unless otherwise noted, my commentary will focus on the company's non-GAAP results during the third quarter and year-to-date period. We have included full reconciliations from our GAAP reported results to the related non-GAAP items in our press release this afternoon.

Gross profit decreased approximately 2% year-over-year in the third quarter. Our gross margin was 47% compared to 48.1% in the prior year period. The 110 basis point decline in gross margin year-over-year was driven primarily by changes in product mix, an increase in inventory obsolescence expense, which was partially offset by improvements in manufacturing efficiencies.

Third quarter operating expenses decreased 18% year-over-year. Our operating margin was 15% compared to 9.2% in the prior period. The year-over-year improvement in operating margin was driven by a 17% decrease in SG&A expense and to a lesser extent, a 23% decrease in R&D expense compared to the prior year period.

The reduction in SG&A expense was a result of cost-cutting initiatives and other cost management efforts related to the COVID-19 pandemic, including layoffs, targeted furloughs and temporary salary reductions. And lower discretionary spending as a result of reduced travel, training, shows and conventions, among other items.

The reduction in R&D expenses was largely due to lower compensation expenses, lower discretionary expenses as a result of cost-cutting initiatives and the COVID-19 pandemic, and more focused research and development program. Obviously, we are very proud of the operating expense performance in the third quarter as we continue to focus on driving cost out of the business in an effort to enhance our long-term profitability profile.

Our third quarter GAAP operating expenses included 2 noncash expense items that I wanted to call out as well. The first is approximately $20.6 million of noncash intangible asset impairment expenses from certain acquisitions. Equity method investments and changes in revenue expectations associated with the related product lines and restructuring.

The second noncash item impacted our GAAP operating expenses in the third quarter and was a contingent consideration benefit of $4.4 million from changes in the estimated fair value of our contingent consideration obligations stemming from our previously disclosed business acquisitions. Third quarter net income was $24 million or $0.42 per share compared to $15.7 million or $0.28 per share in the prior year period.

We are very pleased with our profitability performance in the third quarter, where we reported growth in net income and diluted earnings per share of 53% and [50%] year-over-year, respectively, in a quarter where our sales were essentially flat compared to the prior year period.

Turning to a review of our balance sheet and financial condition as of September 30, 2020. Our strong profitability performance in the third quarter, combined with a strong working capital efficiency resulted in strong operating cash flow generation in the third quarter of more than $55 million. Our efforts to control our capital expenditures resulted in a sequential decrease in CapEx of roughly 17%, which fueled very strong free cash flow generation of more than $45 million in the third quarter.

Our year-to-date free cash flow generation is a result of great execution from the team. And importantly, early evidence that we are clearly focused on enhancing the profitability and cash flow profile of our company going forward.

We took advantage of the strong cash flow generation in the quarter and reduced our borrowings by $53 million. As of September 30, 2020, our cash on hand of approximately $44.6 million, long-term debt obligations of approximately $358 million and $327 million of available borrowing capacity compared to cash on hand of approximately $44.3 million, long-term debt obligations of approximately $440 million and available borrowing capacity of $134 million as of December 31, 2019. Our net leverage ratio as of September 30 was 1.96x on an adjusted basis.

Turning to a review of our fiscal year 2020 financial guidance, which we reinstated in this afternoon's earnings release. For the 12 months ended December 31, 2020, the company now expects net revenue in the range of $950 million to $959 million, representing a decrease of approximately 3.5% to 4.5% year-over-year as compared to net revenue of $994.9 million for the 12 months ended December 31, 2019.

The fiscal year 2020 revenue guidance range assumes net revenue from the cardiovascular segment of between $921 million to $930 million, representing a decrease of approximately 3% to 4% year-over-year as compared to net revenue of $961 million for the 12 months ended December 31, 2019.

Net revenue from the endoscopy segment of between $28.6 million and $28.9 million, representing a decrease of approximately 14.5% to 15.5% year-over-year as compared to net revenue of $33.9 million for the 12 months ended December 31, 2019.

GAAP net loss in the range of $11.8 million to $15 million or $0.21 to $0.27 per share compared to GAAP net income of $5.5 million or $0.10 per share for the 12 months ended December 31, 2019.

Non-GAAP net income in the range of $85.5 million to $88.5 million or $1.52 to $1.57 per share compared to non-GAAP net income of $82.1 million or $1.46 per share for the 12 months ended December 31, 2019.

For modeling purposes, our fiscal year 2020 financial guidance assumes Q4 non-GAAP gross margins of approximately 47% and modest increases in our non-GAAP operating expenses in Q4 as compared to Q3, largely driven by higher selling and marketing expenses related to the increase in sales as well as phasing out of temporary salary reductions, partially offset by prudent G&A expense management and approximately flattish other expenses, a 26% non-GAAP tax rate and similar diluted shares outstanding quarter-over-quarter.

With that, I'll turn the call back to Fred.

Fred P. Lampropoulos^ Raul, thank you very much. That wraps up the -- our prepared remarks, and we'd now like to turn the time over to our administrator, and we'll open up the line for questions. Thank you.

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Operator^ (Operator Instructions) And our first question will come from the line of Matthew O'Brien from Piper Sandler.

Matthew Oliver O'Brien^ I guess for starters, nice Q3 results here. I'm curious about what you're seeing out in the field, especially in the U.S. as far as restocking of inventory that hospitals had versus used through that we saw? And then your Q4 implied guidance is roughly the same as what you just did here in Q3. So is that healthy level of conservatism? Is there something specifically that you're trying to call out here that we should be mindful of?

Fred P. Lampropoulos^ Matt, thank you. No, I don't think we're trying to call out. We're really trying to focus today, Matt, on the third quarter and not really looking to (inaudible). As you're well aware in 10 days, we'll be talking about a number of things looking forward. So I think we may have seen some restocking in preparation. We saw, as you know -- in our COVID sales, we saw about $10 million of revenue, up from, I think, [$4 million to $5 million]. So I think it's kind of -- I don't know that I see enough to be able to comment on anything in terms of storing up, stocking and preparation.

Matthew Oliver O'Brien^ Got it. And then maybe for Raul, just the cost savings in the quarter were great to see. I'm curious, again, in this environment that we're in, how sustainable are some of those savings, be it not going to trade shows because they're not going on, or they're happening virtually versus in or virtual training, et cetera. So how much of this is sustainable versus, hey, some of these costs are going to come back in a more normalized environment sometime in '21.

Raul Parra^ Yes. And I think we started this discussion really in Q2 quite frankly, right, just talking about trending in that direction. And so as we said in our opening remarks, our operating expenses are going to increase and our Q4 guidance includes that description of increases. So we've got salary reductions that we did. We did some targeted furloughs. So some of those things are going to come back for sure, and we've planned on those coming back in the fourth quarter, Matt.

Matthew Oliver O'Brien^ Okay. But Raul, any sense for -- I know it's great to hear that those folks are coming back and the salaries or productions are easing, but is there any way to kind of quantify that for folks as a remodeling thing, Q4 than even into '21 as well?

Raul Parra^ Yes. I think we're going to stick with Q3 numbers. And then as we progress and give our guidance for 2021, we'll touch based on that. But I would just say, for this year, this year's guidance, we do see an incremental increase, which we discussed in our opening remarks. And obviously, you saw the cadence from Q2 to Q3, already kind of increasing some of those expenses.

Operator^ And our next question will come from the line of Larry Biegelsen from Wells Fargo.

Unidentified Analyst^ This is actually Kevin on for Larry. Congrats on the impressive quarter. My question is actually sort of like Matt's question, but just asking a bit of a different way. I guess I was looking at the implied Q4 guidance, it's up only 2% sequentially, which would not be typical Q4 over Q3 for Merit given the seasonality in your business. I know you have an 8% organic growth comp from last year. I guess I'm just curious, do you have any incremental comments about your uncertainty on COVID flare-up? Something else baked into that outlook. Just curious on how you got to those numbers. And I just have one follow-up.

Fred P. Lampropoulos^ Yes. I think -- listen, I think we're very confident about the guidance. As we all know, there's a lot going on. And from our best vantage point, those are the things that we've included in our numbers. As we get more information and move into our guidance for next year and our foundations for growth conversation, which we will see and talk about it in 10 days, we'll add more color then. Raul?

Raul Parra^ Yes. I think, we were really -- in our Q4 expectations, we expect U.S. sales to be down roughly 1% year-over-year to down to 3% year-over-year. Obviously, reflects the modest improvement in trends quarter-over-quarter. It also includes lower sales contribution from Cultura of approximately $5 million versus the nearly $10 million that we did in Q3. And then as you mentioned, Kevin, we've got a tougher comp for Q4 than we did in Q3.

And then international sales, you're hearing the noise that we're hearing too. So our sales will be down 3% to down 8% year-over-year in Q4, over 5% to 10% on a constant currency basis, is what the implied guidance is. So again, it largely reflects the cautious outlook we have in the OUS markets. As we said in our prepared remarks, all international regions had an impact from COVID-19. They're still recovering. We're seeing restrictions and lockdowns across some regions, mostly Europe. But I think we're just trying to be, as Fred mentioned, just cautious based on the information we have at hand right now.

Unidentified Analyst^ Makes sense. It's super helpful. My last one is just, Fred, I'm curious if we're -- investors are very focused on the foundations for growth meeting coming up pretty soon here. I'm just curious if there's any previewed thoughts as we head into that meeting? How far kind of would annual financial goals go? Anything on the pipeline? Just any opportunity to just speak about what investors can expect?

Fred P. Lampropoulos^ Yes. Kevin, thank you very much. The answer is, we have none. We're here to talk about this quarter. We've upgraded our yearly guidance, and we're looking forward, and we hope that we've piqued your interest in that you'll tune in on that day. And I think we're looking forward to talking to you on the 10th. I think we'll leave it at that.

Operator^ Our next question will come from the line of Jayson Bedford from Raymond James.

Jayson Tyler Bedford^ I'll keep it tight. The COVID, I was going to mispronounce the name of that product, but the COVID contribution going from [$10 million to $5 million], just curious, what are you doing from a manufacturing standpoint to ramp that up in front of what I assume is increasing demand? And I assume that 3Q was a little bit of a forward buy-in. But anything you can offer on kind of the manufacturing capacity and where that's going?

Fred P. Lampropoulos^ Yes. Thanks, Jayson. First of all, we are fully integrated on our VTM, on our vial and on our swab. We make everything. We make some of it in Mexico. We make the rest of it here. And we have substantial opportunities for capacity based on our cavitation and facilities. So we have plenty of room if the demand is there.

Jayson Tyler Bedford^ And Fred, is that only being sold in the U.S.? Or is that something you take globally as well?

Fred P. Lampropoulos^ We are selling it globally, and we are cleared on -- in essentially all of the major markets. So we have the capability to move it globally. There are processes, as you're well aware, Jayson, international companies, countries and tenders. That process is much slower than it is in the U.S., but we are engaged in all of those activities.

Jayson Tyler Bedford^ Okay. And my second question, and I don't want to be greedy, given all the information you provided. But what was the growth in China in the quarter?

Fred P. Lampropoulos^ Raul?

Raul Parra^ Essentially flattish.

Fred P. Lampropoulos^ I think -- it was flat. Yes, it was flat for the quarter.

Raul Parra^ Yes. So it was part of the impact...

Jayson Tyler Bedford^ Is the expectation that you'll start to see some better growth than flat in China?

Fred P. Lampropoulos^ I think that our number is included in the guidance, the full year guidance that we've given. And Jayson, not to be evasive, but we'll cover this in our meeting that's coming up in 10 days. We'll give everybody a fair picture. Yes.

Operator^ Our next question will come from the line of Mike Matson from Needham.

Michael Stephen Matson^ So the cash flow was pretty impressive. So you noted that your CapEx was down, I think, 17% sequentially. So I just wanted to ask about the sustainability of kind of the pace of free cash flow and the CapEx kind of run rate that you were on in the quarter. Is that kind of due to temporary reductions? Or is that something that's more sustainable?

Fred P. Lampropoulos^ Yes. Listen, Mike. I think that we are looking at these things. R&D has always been important for us for organic growth. We continue on that. It is always a challenge when you have people and this kind of things that all businesses have been going through. But I think we're also very much committed, as we have said in our previous comments and today into R&D, but also the discipline on CapEx. I mean we've heard what investors have said and I think we are very, very in tune with those needs without penalizing the company. I mean, we think that we are balancing this, and we made a lot of previous investments. So I think I'm comfortable with where we are. And again, we're looking forward to talk to you further about this on the 10th.

Raul Parra^ Yes. Just to give you a little more color. Obviously, we hit $92.8 million in free cash flow for the year. I will point out that we do have an accrued expense in there for the DOJ settlement. So if you back that out, you're really sitting at $74.6 million for year-to-date on an adjusted basis. We did have strong operating cash flow generation, $128 million year-to-date versus the 51 -- use of $51 million year-to-date in '19. A big component of that was working capital.

We had a target for inventory that we came into the year trying to achieve. We've surpassed that. So sustainability, that one will eat into a little bit, quite frankly, as sales increase. Receivables actually was kind of the surprise for us in Q3, specifically. I think we were planning on maybe seeing some deferred payments as customers faced cash crunches. But the reality is, we continue to collect. And some of the initiatives with our sales force, working in tandem with them on collecting cash have really paid off. And so hats off to them for helping us with that. And then, again, driving the CapEx, essentially a $22 million delta there. And really the cost of the building, which is included in that, last year's number, a big chunk of that. So overall, super happy with the progress we've made. And I think some of the processes we have in place are to make this sustainable, quite frankly.

Michael Stephen Matson^ Okay. And then, the intangible asset impairment, what was that for? Which acquisition?

Raul Parra^ It was a mixed bag, quite frankly. So let me just pull it up here real quick. There's probably 5 of them, Laurane, (inaudible). So I guess there's a whole multitude of them as we kind of went through and reevaluated during our impairment testing.

Michael Stephen Matson^ Okay. So it was -- it was just a -- it wasn't like a complete reduction. It was just a partial function of the value of the several of them?

Raul Parra^ Yes, there's probably 10 or so that are part of that.

Operator^ Our next question comes from the line of Steven Lichtman from Oppenheimer.

Steven Michael Lichtman^ I know we'll get more details next month. But just on some of the recent operating progress and some of the facility moves. Have you seen any of that impact on the P&L? Or is that really to come as it flows through inventory more so in '21?

Raul Parra^ Yes. That's a great question. It really -- outside of Temecula, which was closed earlier, and you're seeing some impact in the R&D line, the rest of it is really 2021. So when we say, on track to close or some lines have been transferred, you've got to burn through that inventory that we had on hand. And really, we won't see the full impact until 2021 for those.

Steven Michael Lichtman^ Okay. Got it. And then, just secondly, Raul, obviously, tax rates are becoming an increasing discussion around the election here. You guys have run a little higher here, historically. Are you actually seeing opportunities to bring that down? I'm not sure if that's going to be a discussion point next month. But just curious on your views on tax rate looking forward.

Raul Parra^ I think that's a great question. I think we're always trying to find opportunities to lower our tax rate. I think it makes it really difficult when you don't know what's going to happen to tax plan. And so I think we're kind of in a holding pattern, quite frankly, to see what we can do, what happens here over the next week on the election. And then subsequent to that, if -- depending on who wins, where the direction on taxes goes. So I think it's hard to plan when you're -- there's so many dynamics in play.

Operator^ And our next question will come from the line of Mike Petusky from Barrington Research.

Michael John Petusky^ A couple -- I guess a couple of questions, Fred. This is sort of a big open-ended one. So you take it as far as you want to go. But what do you feel like, are the things that you guys have done right, I mean is it processes? Is it putting -- is it people? What's worked here over the past 6 months that sort of allowed you guys to seemingly manage this so optimally in a really challenging environment?

Fred P. Lampropoulos^ Yes. I think we have to go back over a year. And we sat down and laid out a plan of product movement, some plant consolidations of research and development. I think, Mike, we just had a plan. We've continued to execute that plan, and then we're looking forward to reporting and talking about the future. I think there are also incentives in compensation this year, they were a big part of the Board and to their credit, said, these are the things that that you should focus on. And these are the things that investors have been asking. And by the way, it's not that they were just telling us. We were talking about the things that shareholders, and things that, very candidly, Mike, that you've raised and others have raised. And I said we sat down and put that plan together. We did have a running start. And so I think that's the important part. So by the time everybody became aware of COVID, we were already hunkered down. So I think it's just been a continuation and in our ability to really adapt. And there's been a lot of talk about sustainability today. And we'll look forward to showing in the future. That's the whole idea of our Investor Day that's coming up is to show the plan. And so I think that's really what it was, is that we've just stayed focused. And I think there was a previous question too, Mike, on this whole sustainability and trade shows and those sorts of things.

I think, fundamentally, all of us, you, how you talk to investors, where you go, Merit, our sales force. I think things have fundamentally changed and they will forever, in many ways. And I think what we -- there are things that we're looking at that will never be the same. And we'll keep them that way. They're more economical, more effective. And so I think when these opportunities -- when these, really tragedies come upon all the people of the earth. It gives you a chance to look at your behavior, a chance to look at the things that have become kind of institutionalized and challenge all of them. And I think maybe as part of going back over a year, and then looking where we are today, I think we simply challenged everything and said, okay, this is where we want to end up. And these are the things and what do we believe and what are we going to do about it? And it really was this team. And I think that's maybe the most, I mean from my point of view, watching this team and leading this team and watching others emerge in leadership in leading various areas of all this has been the part. It's like watching a football team come together. It's just that everybody's getting their blocks. Everybody is staying on sides on account. There's not a lot of penalties. I mean, that may sound a little simplistic, but it's kind of the way it is. We're just executing and everybody's part of it. People are catching the passes, and we're just doing all those things. And it's rewarding and candidly, enjoyable. So I know that may sound a little funny to you, but I think that's how we feel about it. Raul, do you want to add anything to that?

Raul Parra^ No. I would just say that I think the executive team has worked in. I would say that we've got a lot of transparency internally, and we're talking about things and we're all kind of marching at the same drum -- kind of the same beat. So it's really helpful, and we just want to execute. That's it. Yes.

Fred P. Lampropoulos^ Yes. And one final thing is our Board. I mean, I think we have a functional Board and we have the management team, and we're all on the same page. And we're being challenged. We're being questioned, but it's all done appropriately and without offending anybody. I think that's been the best part, is the way that we have come together as a Board and as a management team, all the way through the organization, Mike, all the way through. And that's a long answer, but that's all right from the heart. That's exactly what we're doing.

Michael John Petusky^ Sounds good. So Fred, can you just talk about, I guess, any concerns if you have any, around the recent COVID spikes and sort of the very negative trends, I guess, most states are seeing right now? And I guess, in combination with if there's sort of a shift in power in Washington and the Democrats were to sort of sweep everything, and just the idea that maybe lockdowns with COVID spikes and sort of maybe more sympathy towards lockdowns. Do you have any concerns around that? Or anything you're hearing from hospitals or anything else?

Fred P. Lampropoulos^ Yes. Listen, you hear lots of things from hospitals and a lot of these trends, but we do have some offsets there because we do have some COVID-type products. And I just think we're confident in the forecast that we have, based on all these factors built in. And as they change, when it's appropriate to do so, we'll report that. But I think for right now, we're confident with our forecast. And I think we've tried to measure in all of the factors, Mike, as we know them today.

Operator^ (Operator Instructions) Our next question will come from the line of Jim Sidoti from Sidoti & Company.

James Philip Sidoti^ Can you hear me?

Fred P. Lampropoulos^ Yes, we sure can, Jim.

James Philip Sidoti^ Fred, cash flow, $45 million in the quarter, that's 2 years for Merit a couple of years ago. That's just an incredible number. I'm looking, just based on June to September, sales were up about $20 million, yet your inventory was down about $10 million and your accounts receivable up about $3 million. So I mean, really, really good cash management there. Does that come back a little bit? Or are you able to sustain that level of efficiency?

Fred P. Lampropoulos^ Well, I'm going to let Raul, go ahead, Raul.

Raul Parra^ Yes. Yes, a great question, Jim. We're targeting $90 million in free cash flow for the full year, to be honest. If you look at the guidance that we put on, on net income loss for the year, we've got some working capital components that will go against us into Q4. Notable is the DOJ settlement. So we've already paid a portion of that here a few days ago. So that will go out. Your similar AR balances, I think, to what you're seeing in Q3, quite frankly, right? So we won't get as much leverage there. And then we did have a target on inventory reduction. Our operating team has done an outstanding job on delivering on that and then a little bit more. We will see some of that come back, though, as we build up inventory for the shutdown. So we expect to kind of eat into that number. So again, CapEx will be similar to what we did in Q3, at least that's what we've budgeted. Yet to see if we'll spend that. So that's what we're planning on. So kind of, the expectation is we end up somewhere around $90 million, which is a great year.

Fred P. Lampropoulos^ For the sake of clarity, Raul, when you're talking about the shutdown, you're talking about the Christmas and New Year.

Raul Parra^ Yes, Christmas and New Year. Yes, we usually build up inventory for that.

Fred P. Lampropoulos^ Make sure we have enough to cover that, and we don't have shortages going forward. So we build up a little bit during that period, and we've always done that.

James Philip Sidoti^ Yes. And it has been a fantastic year, with respect to cash flow. And then the other question I had is, at the beginning of the year, you had about, I don't know, 10 or 15 new products that you were excited about launching. And I know those all got pushed back because of COVID and the fact that your salespeople aren't in the hospitals. Are they starting to contribute yet? Or do you think it will be another quarter or 2 before you can really roll out some of these new products that you have in the pipeline?

Fred P. Lampropoulos^ Yes. Jim, I don't mean to be evasive. But again, in our guidance, we have put the products that are released. But listen, let's just be pragmatic here in this environment. It's slower than it would be under normal conditions. But again, in terms of that pipeline and all these other things, we'll talk all about that in just a short 10 days from now.

Operator^ And I am not showing any further questions at this time. I'd like to turn the call back over to Fred Lampropoulos for any closing remarks.

Fred P. Lampropoulos^ Okay. Well, listen, thank you very much. We appreciate it, ladies and gentlemen. We appreciate the time. We know it's a busy day. We've tried purposely to keep this very tight. It's been on about 45 minutes. So we're -- I know it's a very busy time. We'll look forward -- please join us on the 10th, and we look forward to seeing you then, and thank you for your participation today. Good night from Salt Lake City. Good evening.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.