

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2023**
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: to

Commission File No.: **001-34634**

ICU MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0022692

(I.R.S. Employer
Identification No.)

951 Calle Amanecer , San Clemente , California

(Address of principal executive offices)

92673

(Zip Code)

(949) 366-2183

(Registrant's telephone number including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|-----------------------|---|
| Common stock, par value \$0.10 per share | ICUI | The Nasdaq Stock Market LLC (Global Select Market) |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class
Common

Outstanding at October 31, 2023
24,140,076

ICU MEDICAL, INC. AND SUBSIDIARIES
Form 10-Q
September 30, 2023

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Forward-Looking Statements

Various portions of this Quarterly Report on Form 10-Q, including Part 1. Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” describe trends in our business and finances that we perceive and state some of our expectations and beliefs about our future. These statements about the future are “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we may identify them by using words such as “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “will,” “continue,” “could,” “may,” and by similar expressions and statements about aims, goals and plans. The forward-looking statements are based on the information currently available to us and assumptions that we believe are reasonable, but we do not intend the statements to be representations as to future results. They include, without limitation, statements about:

- our future growth; future operating results and financial condition (including, among other things, anticipated sales; accruals for restructuring charges, production costs; gross margins; litigation expense; future SG&A and R&D expenses; manufacturing expenses; our expectations regarding liquidity and capital resources over the next twelve months; capital expenditures; source of funds for capital purchases and operations; future tax rates; alternative sources of capital or financing; changes in working capital items such as receivables and inventory; use of treasury stock; realizable value of our investment securities; future investment alternatives; foreign currency denominated financial instruments; and income taxes;
- factors affecting operating results, such as the impact of an increase in shipping costs; loss of a strategic relationship; change in demand for our products; domestic and international sales; expansion in international markets, future increases or decreases in sales of certain products and in certain markets and distribution channels; maintaining strategic relationships and securing long-term and multi-product contracts with large healthcare providers and major buying organizations; increases in systems capabilities; introduction, development and sales of new products, benefits of our products over competing systems; qualification of our new products for the expedited Section 510(k) clearance procedure; possibility of lengthier clearance process for new products; planned increases in marketing; warranty claims; rebates; product returns; bad debt expense; amortization expense; inventory requirements; lives of property and equipment; manufacturing efficiencies and cost savings; unit manufacturing costs; establishment or expansion of production facilities inside or outside of the United States; planned new orders for semi-automated or fully automated assembly machines for new products; adequacy of production capacity; results of R&D; our plans to repurchase shares of our common stock; asset impairment losses; relocation of manufacturing facilities and personnel; effect of expansion of manufacturing facilities on production efficiencies and resolution of production inefficiencies; the effect of costs to customers and delivery times; business seasonality and fluctuations in quarterly results; customer ordering patterns and the effects of new accounting pronouncements;
- new or extended contracts with manufacturers and buying organizations; dependence on a small number of customers; loss of larger distributors and the ability to locate other distributors; the outcome of our strategic initiatives; regulatory approvals and compliance; including the work necessary to achieve regulatory compliance with respect to the Smiths Medical Warning Letter; outcome of litigation; patent protection and intellectual property landscape; patent infringement claims and the impact of newly issued patents on other medical devices; competitive and market factors, including continuing development of competing products by other manufacturers; improved production processes and higher volume production; innovation requirements; consolidation of the healthcare provider market and downward pressure on selling prices; distribution or financial capabilities of competitors; healthcare reform legislation; foreign exchange risk; commodity price risk; plans to convert existing space; acquisitions of other businesses or product lines, and
- the impact of acquisitions and the integration of acquired businesses and product lines (including the Smiths Medical business).

The forward looking statements in this Quarterly Report on Form 10-Q are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, including without limitation, the following:

- our dependence on single and limited source third-party suppliers, which subjects our business and results of operations to risks of supplier business interruptions, and a loss or degradation in performance in our suppliers;

- damage to any of our manufacturing facilities or disruption to our supply chain network;
- prolonged periods of inflation, rising interest rates and the impact of foreign currency exchange rates as a result of the current global macroeconomic and geopolitical conditions, for example, armed conflicts between Ukraine and Russia and in Israel;
- the impact of the COVID-19 pandemic on the way we, our suppliers and our customers operate and the duration, and the extent to which this will impact our business, future results of operations, liquidity and overall financial performance;
- significant sales through our distributors;
- our failure to achieve expected operating efficiencies or expense reductions associated with cost reduction and restructuring efforts;
- our failure to compete successfully with our competitors and maintain market share;
- our inability to fund substantial investment in product development and recover such investment through commercial product sales;
- significant decline in demand for our products;
- continuing pressures to reduce healthcare costs and inadequate coverage and reimbursement;
- failure to protect our information technology systems against security breaches, service interruptions, or misappropriation of data;
- disruptions at the FDA, other government agencies or notified bodies caused by funding shortages or global health concerns;
- actual or perceived failures to comply with foreign, federal, and state data privacy and security laws, regulations and standards, or certain fraud and abuse and transparency laws;
- our failure to defend and enforce our patents or other proprietary rights and the cost of enforcing and of defending patent claims or claims of other proprietary rights; and expiration of our patents;
- our exposure to risks related to foreign currency exchange rates;
- any significant changes in U.S. trade, tax or other policies that restrict imports or increase import tariffs;
- additional risks from international sales, related to competition with larger international companies and established local companies and our possibly higher cost structure;
- our failure to effectively manage our growth and change to our business resulting from the Smiths Medical acquisition or any other future acquisitions;
- the actual impact of the Smiths Medical acquisition on our financial results and our use of a significant portion of our cash on hand and incurrence of a substantial amount of debt to finance the Smiths Medical acquisition, which could adversely affect our business, including by restricting our ability to engage in additional transactions or incur additional indebtedness.

For a more detailed discussion of these factors, see the information under the sections entitled “Summary Risk Factors,” Part I. Item 1A. “Risk Factors” and Part II. Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Annual Report on Form 10-K”) filed with the Securities and Exchange Commission (the “SEC”), and the sections in this Quarterly Report on Form 10-Q entitled Part II. Item 1A “Risk Factors” and Part I. Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in each case as updated by our periodic filings with the SEC.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value data and treasury shares)

| | September 30, 2023 | December 31, 2022 |
|---|-----------------------|----------------------|
| | (Unaudited) | (1) |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 197,192 | \$ 208,784 |
| Short-term investment securities | 1,806 | 4,224 |
| TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENT SECURITIES | 198,998 | 213,008 |
| Accounts receivable, net of allowance for doubtful accounts \$10,556 at September 30, 2023 and \$8,530 at December 31, 2022 | 161,797 | 221,719 |
| Inventories | 759,622 | 696,009 |
| Prepaid income taxes | 14,579 | 15,528 |
| Prepaid expenses and other current assets | 84,412 | 88,932 |
| TOTAL CURRENT ASSETS | 1,219,408 | 1,235,196 |
| PROPERTY, PLANT AND EQUIPMENT, net | 608,762 | 636,113 |
| OPERATING LEASE RIGHT-OF-USE ASSETS | 73,767 | 74,864 |
| LONG-TERM INVESTMENT SECURITIES | — | 516 |
| GOODWILL | 1,444,456 | 1,449,258 |
| INTANGIBLE ASSETS, net | 891,280 | 982,766 |
| DEFERRED INCOME TAXES | 31,466 | 31,466 |
| OTHER ASSETS | 107,725 | 105,462 |
| TOTAL ASSETS | \$ 4,376,864 | \$ 4,515,641 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 149,288 | \$ 215,902 |
| Accrued liabilities | 251,324 | 242,769 |
| Current portion of long-term debt | 45,688 | 29,688 |
| Income tax payable | 11,443 | 6,200 |
| Contingent earn-out liability | 6,300 | — |
| TOTAL CURRENT LIABILITIES | 464,043 | 494,559 |
| CONTINGENT EARN-OUT LIABILITY | 7,061 | 25,572 |
| LONG-TERM DEBT | 1,589,244 | 1,623,675 |
| OTHER LONG-TERM LIABILITIES | 100,005 | 114,104 |
| DEFERRED INCOME TAXES | 77,845 | 126,007 |
| INCOME TAX LIABILITY | 40,310 | 41,796 |
| COMMITMENTS AND CONTINGENCIES (Note 19) | — | — |
| STOCKHOLDERS' EQUITY: | | |
| Convertible preferred stock, \$1.00 par value; Authorized — 500 shares; Issued and outstanding — none | — | — |
| Common stock, \$0.10 par value; Authorized — 80,000 shares; Issued — 24,144 shares at September 30, 2023 and 23,995 shares at December 31, 2022; and outstanding — 24,139 shares at September 30, 2023 and 23,993 shares at December 31, 2022 | 2,414 | 2,399 |
| Additional paid-in capital | 1,356,348 | 1,331,249 |
| Treasury stock, at cost (4,638 and 1,633 shares, respectively) | (672) | (243) |
| Retained earnings | 824,993 | 837,501 |
| Accumulated other comprehensive loss | (84,727) | (80,978) |
| TOTAL STOCKHOLDERS' EQUITY | 2,098,356 | 2,089,928 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 4,376,864 | \$ 4,515,641 |

(1) December 31, 2022 balances were derived from audited consolidated financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| TOTAL REVENUES | \$ 553,311 | \$ 597,857 | \$ 1,671,270 | \$ 1,701,983 |
| COST OF GOODS SOLD | 369,391 | 411,461 | 1,102,982 | 1,179,167 |
| GROSS PROFIT | 183,920 | 186,396 | 568,288 | 522,816 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 148,609 | 153,452 | 452,076 | 465,412 |
| Research and development | 20,870 | 23,105 | 62,933 | 69,538 |
| Restructuring, strategic transaction and integration | 7,160 | 14,365 | 30,527 | 61,795 |
| Change in fair value of contingent earn-out | (15,572) | (4,059) | (12,256) | (31,253) |
| TOTAL OPERATING EXPENSES | 161,067 | 186,863 | 533,280 | 565,492 |
| INCOME (LOSS) FROM OPERATIONS | 22,853 | (467) | 35,008 | (42,676) |
| INTEREST EXPENSE, net | (24,175) | (17,808) | (70,811) | (46,303) |
| OTHER EXPENSE, net | (4,044) | (3,032) | (5,815) | (3,983) |
| LOSS BEFORE INCOME TAXES | (5,366) | (21,307) | (41,618) | (92,962) |
| BENEFIT FOR INCOME TAXES | 12,604 | 8,099 | 29,110 | 34,212 |
| NET INCOME (LOSS) | \$ 7,238 | \$ (13,208) | \$ (12,508) | \$ (58,750) |
| NET INCOME (LOSS) PER SHARE | | | | |
| Basic | \$ 0.30 | \$ (0.55) | \$ (0.52) | \$ (2.47) |
| Diluted | \$ 0.30 | \$ (0.55) | \$ (0.52) | \$ (2.47) |
| WEIGHTED AVERAGE NUMBER OF SHARES | | | | |
| Basic | 24,132 | 23,908 | 24,075 | 23,828 |
| Diluted | 24,368 | 23,908 | 24,075 | 23,828 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|---|--------------------|--|---------------------|
| | 2023 | 2022 | 2023 | 2022 |
| NET INCOME (LOSS) | \$ 7,238 | \$ (13,208) | \$ (12,508) | \$ (58,750) |
| Other comprehensive income (loss), net of tax: | | | | |
| Cash flow hedge adjustments, net of tax of \$(514) and \$(3,676) for the three months ended September 30, 2023 and 2022, respectively, and \$(457) and \$(15,357) for the nine months ended September 30, 2023 and 2022, respectively. | 1,659 | 16,915 | 1,356 | 48,631 |
| Foreign currency translation adjustment, net of tax of \$0 for all periods | (37,557) | (90,549) | (5,005) | (195,300) |
| Other adjustments, net of tax of \$0 for all periods | (35) | 227 | (100) | 256 |
| Other comprehensive loss, net of tax | (35,933) | (73,407) | (3,749) | (146,413) |
| COMPREHENSIVE LOSS | <u>\$ (28,695)</u> | <u>\$ (86,615)</u> | <u>\$ (16,257)</u> | <u>\$ (205,163)</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
(Amounts in thousands)

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---------------|-----------------|----------------------------------|-------------------|----------------------|--|---------------------|
| | Shares | Amount | | | | | |
| Balance, January 1, 2023 | 23,995 | \$ 2,399 | \$ 1,331,249 | \$ (243) | \$ 837,501 | \$ (80,978) | \$ 2,089,928 |
| Issuance of restricted stock and exercise of stock options | 172 | 12 | (503) | 662 | — | — | 171 |
| Tax withholding payments related to net share settlement of equity awards | (53) | — | — | (8,425) | — | — | (8,425) |
| Stock compensation | — | — | 9,158 | — | — | — | 9,158 |
| Other comprehensive income, net of tax | — | — | 4 | — | — | 19,375 | 19,379 |
| Net loss | — | — | — | — | (9,812) | — | (9,812) |
| Balance, March 31, 2023 | 24,114 | \$ 2,411 | \$ 1,339,908 | \$ (8,006) | \$ 827,689 | \$ (61,603) | \$ 2,100,399 |
| Issuance of restricted stock and exercise of stock options | 2 | — | (4,626) | 6,688 | — | — | 2,062 |
| Tax withholding payments related to net share settlement of equity awards | (2) | — | — | (293) | — | — | (293) |
| Stock compensation | — | — | 9,773 | — | — | — | 9,773 |
| Other comprehensive income, net of tax | — | — | 2 | — | — | 12,809 | 12,811 |
| Net loss | — | — | — | — | (9,934) | — | (9,934) |
| Balance, June 30, 2023 | 24,114 | \$ 2,411 | \$ 1,345,057 | \$ (1,611) | \$ 817,755 | \$ (48,794) | \$ 2,114,818 |
| Issuance of restricted stock and exercise of stock options | 34 | 3 | 344 | 1,442 | — | — | 1,789 |
| Tax withholding payments related to net share settlement of equity awards | (4) | — | — | (503) | — | — | (503) |
| Stock compensation | — | — | 10,947 | — | — | — | 10,947 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (35,933) | (35,933) |
| Net income | — | — | — | — | 7,238 | — | 7,238 |
| Balance, September 30, 2023 | 24,144 | \$ 2,414 | \$ 1,356,348 | \$ (672) | \$ 824,993 | \$ (84,727) | \$ 2,098,356 |

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---------------|-----------------|----------------------------------|-------------------|----------------------|--|---------------------|
| | Shares | Amount | | | | | |
| Balance, January 1, 2022 | 21,280 | \$ 2,128 | \$ 721,412 | \$ (27) | \$ 911,787 | \$ (19,269) | \$ 1,616,031 |
| Issuance of restricted stock and exercise of stock options | 154 | 12 | (2,965) | 5,927 | — | — | 2,974 |
| Tax withholding payments related to net share settlement of equity awards | (37) | — | — | (8,743) | — | — | (8,743) |
| Issuance of common stock for acquisitions | 2,500 | 250 | 575,725 | — | — | — | 575,975 |
| Stock compensation | — | — | 12,092 | — | — | — | 12,092 |
| Other comprehensive income, net of tax | — | — | — | — | — | 18,641 | 18,641 |
| Net loss | — | — | — | — | (38,068) | — | (38,068) |
| Balance, March 31, 2022 | 23,897 | \$ 2,390 | \$ 1,306,264 | \$ (2,843) | \$ 873,719 | \$ (628) | \$ 2,178,902 |
| Issuance of restricted stock and exercise of stock options | 10 | — | (4,428) | 4,446 | — | — | 18 |
| Tax withholding payments related to net share settlement of equity awards | (8) | — | — | (1,695) | — | — | (1,695) |
| Stock compensation | — | — | 7,762 | — | — | — | 7,762 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (91,647) | (91,647) |
| Net loss | — | — | — | — | (7,474) | — | (7,474) |
| Balance, June 30, 2022 | 23,899 | \$ 2,390 | \$ 1,309,598 | \$ (92) | \$ 866,245 | \$ (92,275) | \$ 2,085,866 |
| Issuance of restricted stock and exercise of stock options | 82 | 8 | 4,837 | 69 | — | — | 4,914 |
| Tax withholding payments related to net share settlement of equity awards | (2) | — | — | (103) | — | — | (103) |
| Stock compensation | — | — | 8,743 | — | — | — | 8,743 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (73,407) | (73,407) |
| Net loss | — | — | — | — | (13,208) | — | (13,208) |
| Balance, September 30, 2022 | 23,979 | \$ 2,398 | \$ 1,323,178 | \$ (126) | \$ 853,037 | \$ (165,682) | \$ 2,012,805 |

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|-------------------|
| | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (12,508) | \$ (58,750) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 171,615 | 178,338 |
| Amortization of inventory step-up | — | 22,676 |
| Noncash lease expense | 16,543 | 17,382 |
| Provision for doubtful accounts | 865 | 214 |
| Provision for warranty, returns and field action | 5,597 | 3,439 |
| Stock compensation | 29,878 | 28,597 |
| Loss on disposal of property, plant and equipment and other assets | 1,757 | 2,391 |
| Bond premium amortization | 14 | 254 |
| Debt issuance costs amortization | 5,108 | 5,254 |
| Change in fair value of contingent earn-out liability | (12,256) | (31,253) |
| Usage of spare parts | 13,587 | 7,915 |
| Other | 4,393 | (2,855) |
| Changes in operating assets and liabilities, net of amounts acquired: | | |
| Accounts receivable | 43,086 | (8,956) |
| Inventories | (66,662) | (151,840) |
| Prepaid expenses and other current assets | 11,295 | 20,074 |
| Other assets | (18,860) | (22,594) |
| Accounts payable | (65,049) | 30,413 |
| Accrued liabilities | (10,532) | (38,070) |
| Income taxes, including excess tax benefits and deferred income taxes | (42,939) | (63,047) |
| Net cash provided by (used in) operating activities | 74,932 | (60,418) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (53,956) | (68,715) |
| Proceeds from sale of assets | 1,481 | 933 |
| Business acquisitions, net of cash acquired | — | (1,844,164) |
| Intangible asset additions | (7,742) | (6,560) |
| Purchases of investment securities | — | (3,397) |
| Proceeds from sale and maturities of investment securities | 2,920 | 36,433 |
| Net cash used in investing activities | (57,297) | (1,885,470) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt, net of lender debt issuance costs | — | 1,672,631 |
| Principal repayments of long-term debt | (22,250) | (20,250) |
| Payment of third-party debt issuance costs | — | (1,852) |
| Proceeds from exercise of stock options | 4,022 | 7,906 |
| Payments on finance leases | (681) | (477) |
| Tax withholding payments related to net share settlement of equity awards | (9,221) | (10,541) |
| Net cash (used in) provided by financing activities | (28,130) | 1,647,417 |
| Effect of exchange rate changes on cash | (1,097) | (10,477) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (11,592) | (308,948) |
| CASH AND CASH EQUIVALENTS, beginning of period | 208,784 | 552,827 |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 197,192</u> | <u>\$ 243,879</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ICU MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - CONTINUED
(In thousands)

| | Nine months ended | |
|---|--------------------------|---------------------|
| | September 30, | |
| | 2023 | 2022 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Accounts payable for property, plant and equipment | \$ 3,712 | \$ 2,757 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES: | | |
| Detail of assets acquired and liabilities assumed in acquisitions: | | |
| Fair value of assets acquired | | \$ 1,658,937 |
| Cash paid for acquisitions, net of cash acquired | | (1,844,164) |
| Issuance of common stock for acquisitions | | (575,975) |
| Contingent consideration | | (55,158) |
| Goodwill, acquired/adjusted during period | | 1,442,849 |
| Liabilities assumed/Adjustments to liabilities assumed | | <u>\$ (626,489)</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of ICU Medical, Inc., ("ICU" or the "Company"), a Delaware corporation, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of ICU for the year ended December 31, 2022.

We develop, manufacture and sell innovative medical products used in infusion therapy, vascular access, and vital care applications. ICU's product portfolio includes ambulatory, syringe, and large volume IV pumps and safety software; dedicated and non-dedicated IV sets, needlefree IV connectors, peripheral IV catheters, and sterile IV solutions; closed system transfer devices and pharmacy compounding systems; as well as a range of respiratory, anesthesia, patient monitoring, and temperature management products. We sell the majority of our products through our direct sales force and through independent distributors throughout the U.S. and internationally. We also sell certain products on an original equipment manufacturer basis to other medical device manufacturers. All subsidiaries are wholly owned and are included in the condensed consolidated financial statements. All intercompany balances and transactions have been eliminated.

Certain reclassifications have been made to the prior year financial statements and footnotes to conform to the presentation used in the current year. In the statements of operations we reclassified interest income to interest expense, net from other expense, net and in Note 5: Revenues, certain reclassifications were made to revenues disaggregated by product line and by geography. Also, in Note 9: Fair Value Measurements the table indicating the Level inputs for the assets and liabilities measured at fair value on a recurring basis was updated to correct the Level input identified for the hedge assets and liabilities. These reclassifications had no impact on total revenues, net loss, shareholder's equity or cash flows as previously reported.

Note 2: New Accounting Pronouncements

Recently Issued Accounting Standards

In March 2020, the Financial Accounting Standards Board issued ASU No. 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this update provide optional guidance for a limited period of time to ease the potential burden for reference rate reform on financial reporting. Due to concerns about structural risks of interbank offered rates and, particularly, the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of reference rate reform. Optional expedients may be applied to contracts that are modified as a result of the reference rate reform. Modifications of contracts within the scope of Topic 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. Modifications of contracts within the scope of ASC 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (incremental borrowing rate). Exceptions to Topic 815, Derivatives and Hedging, results in not having a de-designation of a hedging relationship if certain criteria are met. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. ASU No. 2022-06, Reference Rate Reform: Deferral of the Sunset Date of Topic 848 deferred the sunset date to December 31, 2024. In November 2021, we entered into two forward-starting swaps whereby the variable leg of the swap referenced LIBOR. These swaps were amended in early 2022 to transition to an alternative reference rate (see Note 8: Derivatives and Hedging Activities). The amendments in this ASU allow for certain expedients that will allow us to assume that our hedged interest payments are probable of occurring regardless of any expected modification in their terms related to reference rate reform and will allow us to continue hedge accounting for a cash flow hedge for which the hedged interest rate risk changes if the hedge is highly effective under ASC 815, Derivatives and Hedging, or the optional expedient under this ASU is elected. The impact of this ASU on our contracts has not been and is not expected to be material.

Note 3: Acquisitions

2022 Acquisition

On January 6, 2022, we acquired 100.0% of the equity interests in Smiths Medical, the holding company of Smiths Group plc's global medical device business, from Smiths Group International Holdings Limited ("Smiths"). Consistent with our strategic growth plans, the acquisition of Smiths Medical enabled us to broaden our product offerings to include syringe and ambulatory infusion devices, vascular access, and vital care products and to strengthen and expand our global market reach.

Total cash consideration for the acquisition was \$1.9 billion, which was financed with existing cash balances and proceeds from the credit agreement entered into on January 6, 2022 (see Note 17: Long-Term Debt). We also issued share consideration to Smiths of 2.5 million shares of our common stock. The fair value of the common shares issued to Smiths was determined based on the opening market price of our common stock on the acquisition date. Smiths may be entitled to an additional \$100.0 million in cash consideration contingent on our common stock achieving certain price targets for certain periods after closing in accordance with the terms of the Share Sale and Purchase Agreement (the "Purchase Agreement"). In the event that (a) on or prior to the third anniversary of closing the 30-day volume-weighted average price for our common stock, as defined in the Purchase Agreement, equals or exceeds \$300.00 per share or (b) on or prior to the fourth anniversary of closing the 45-day volume-weighted average price for our common stock, as defined in the Purchase Agreement, equals or exceeds \$300.00 per share (each a "Price Target"), and provided Smiths beneficially owns at least 50.0% of the shares of common stock issued at closing at the time the Price Target is achieved, then Smiths will be entitled to receive the additional \$100.0 million in cash consideration. The fair value of the contingent consideration was determined using an option pricing model, specifically the Monte Carlo Simulation. In the analysis, the determinants of payout are simulated in a risk neutral framework over a large number of simulation paths. The fair value of the contingent consideration is then calculated as the average present value across all simulated paths.

Smiths became a related party to us when we issued 2.5 million shares of our common stock as partial consideration for the acquisition of Smiths Medical. Additionally, we entered into a transition services agreement ("TSA") with certain members of Smiths Group, plc. The TSA includes certain information technology, human resource and tax support services for an initial term of twelve months with the option to extend up to 24 months. During the three and nine months ended September 30, 2023, we expensed \$0.3 million and \$8.3 million, respectively, for services provided under the TSA. As of September 30, 2023, we have no open payables related to the services received under the TSA.

Final Purchase Price Allocation

The following table summarizes the final purchase price and the final allocation of the purchase price related to the assets acquired and liabilities assumed (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | | |
|--|----|------------------|
| Cash consideration for acquired assets | \$ | 1,922,955 |
| Fair value of contingent consideration payable to Smiths | | 53,520 |
| Issuance of ICU Medical, Inc. common shares: | | |
| Number of shares issued to Smiths | | 2,500 |
| Price per share (ICU's opening market price on the acquisition date) | \$ | 230.39 |
| Fair value of ICU shares issued to Smiths | \$ | 575,975 |
| Total Consideration | \$ | <u>2,552,450</u> |
| Purchase Price Allocation: | | |
| Cash and cash equivalents | \$ | 78,791 |
| Accounts receivable | | 106,132 |
| Inventories | | 228,919 |
| Prepaid expenses and other current assets | | 53,554 |
| Property, plant and equipment | | 206,333 |
| Operating lease right-of-use assets | | 55,161 |
| Intangible assets ⁽¹⁾ | | 945,000 |
| Other assets | | 379 |
| Accounts payable | | (105,291) |
| Accrued liabilities ⁽²⁾ | | (173,151) |
| Income tax payable | | (40,312) |
| Other long-term liabilities | | (85,490) |
| Deferred income taxes | | (187,455) |
| Total identifiable net assets acquired | \$ | <u>1,082,570</u> |
| Goodwill - not tax deductible | | <u>1,469,880</u> |
| Estimated Purchase Consideration | \$ | <u>2,552,450</u> |

⁽¹⁾ Identifiable intangible assets include \$510.0 million of customer relationships, \$400.0 million of developed technology, \$30.0 million of internally developed software, and \$5.0 million of trademark. The estimated weighted-average amortization period for the total identifiable intangible assets is approximately nine years, and, for each identifiable intangible asset is estimated as follows: eight years for customer relationships, ten years for developed technology, five years for internally developed software, and six months for the trademark.

⁽²⁾ Accrued liabilities includes, among other things, accrued warranty reserves, accrued restructuring initiatives, accrued salaries and related benefits, deferred revenue and accrued sales and use taxes.

The identifiable intangible assets and other long-lived assets acquired have been valued utilizing Level 3 inputs as defined in Note 9: Fair Value Measurements. The fair value of identifiable intangible assets was generally developed using the income approach and are based on critical estimates, judgments and assumptions derived from: analysis of market conditions; discount rate; discounted cash flows; royalty rates; customer retention rates; and/or estimated useful lives. Certain other intangible assets were valued using a cost to replace method, estimating the labor and non-labor costs required to replace the asset under the premise that it was not part of the transaction. Property, plant and equipment was valued with the consideration of remaining economic lives. The raw materials inventory was valued at historical cost and adjusted for any obsolescence which we estimate to approximate replacement cost, the work in process inventory was valued at estimated sales proceeds less costs to complete and costs to sell, and finished goods inventory was valued at estimated sales proceeds less costs to sell. The prepaid expenses and other current assets and assumed liabilities were recorded at their carrying values as of the date of the acquisition, as their carrying values approximated their fair values due to their short-term nature.

Unaudited Pro Forma Information

Smiths Medical is included in our consolidated results beginning on January 7, 2022. Total revenues and net loss attributable to Smiths Medical for the period from January 7, 2022 to September 30, 2022 were estimated to be \$699.1 million

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and \$79.0 million, respectively, and for the three months ended September 30, 2022 were estimated to be \$261.4 million and \$13.6 million, respectively. The following unaudited pro forma financial information presents the combined results of operations of ICU and Smiths Medical as if the acquisition had occurred on January 1, 2021. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on the date indicated or of results that may occur in the future.

| (In thousands) | Three months ended September 30, 2022 | Nine months ended September 30, 2022 |
|-----------------------|--|---|
| Revenues | \$ 597,857 | \$ 1,722,357 |
| Net Loss | \$ (13,208) | \$ (54,840) |

The unaudited pro forma results presented above include the impact of the following adjustments: incremental amortization expense on intangible assets acquired of \$1.9 million for the nine months ended September 30, 2022, incremental interest expense, including amortization of debt discount and debt issuance costs on the Senior Secured Credit Facilities (as defined in Note 17: Long-Term Debt) of \$1.4 million for the nine months ended September 30, 2022 and a \$27.4 million expense adjustment related to the increase in fair value of inventory to remove the expense for the nine months ended September 30, 2022. The unaudited pro forma results include IFRS to U.S. GAAP adjustments for Smiths Medical's historical results and adjustments for accounting policy alignment, which were materially similar to the Company. Any differences in accounting policies were adjusted to reflect the accounting policies of the Company in the unaudited pro forma results presented.

Note 4: Restructuring, Strategic Transaction and Integration

Restructuring, strategic transaction and integration expenses were \$7.2 million and \$14.4 million for the three months ended September 30, 2023 and 2022, respectively and \$30.5 million and \$61.8 million for the nine months ended September 30, 2023 and 2022 respectively.

Restructuring

During the three and nine months ended September 30, 2023, restructuring charges were \$1.1 million and \$5.1 million, respectively, as compared to \$2.4 million and \$7.3 million, respectively, for the three and nine months ended September 30, 2022 and were primarily related to severance costs for all periods. The restructuring charges for the three and nine months ended September 30, 2023 are net of \$0.2 million of facility closures costs that were reversed in the current periods.

The following table summarizes the activity in our restructuring-related accrual by major type of cost (in thousands):

| | Severance Pay and Benefits | Retention and Facility Closure Costs | Total |
|--|---------------------------------------|---|-----------------|
| Accrued balance, January 1, 2023 | \$ 4,416 | \$ 1,507 | \$ 5,923 |
| Charges incurred | 2,732 | — | 2,732 |
| Payments | (1,284) | — | (1,284) |
| Other ⁽¹⁾ | (291) | (620) | (911) |
| Currency translation | 70 | 16 | 86 |
| Accrued balance, March 31, 2023 | <u>\$ 5,643</u> | <u>\$ 903</u> | <u>\$ 6,546</u> |
| Charges incurred | 1,290 | 20 | 1,310 |
| Payments | (3,302) | (27) | (3,329) |
| Currency translation | 227 | 17 | 244 |
| Accrued balance, June 30, 2023 | <u>\$ 3,858</u> | <u>\$ 913</u> | <u>\$ 4,771</u> |
| Charges incurred | 583 | 522 | 1,105 |
| Payments | (802) | (495) | (1,297) |
| Other ⁽²⁾ | — | (165) | (165) |
| Currency translation | (52) | (27) | (79) |
| Accrued balance, September 30, 2023 | <u>\$ 3,587</u> | <u>\$ 748</u> | <u>\$ 4,335</u> |

⁽¹⁾ Primarily relates to prior year accrued restructuring charges for estimated facility closure costs that were reversed during the three months ended March 31, 2023.

⁽²⁾ Primarily relates to prior year accrued restructuring charges for estimated facility closure costs that were reversed during the three months ended September 30, 2023.

Strategic Transaction and Integration Expenses

We incurred and expensed \$6.1 million and \$12.0 million in strategic transaction and integration expenses during the three months ended September 30, 2023 and 2022, respectively, and we incurred and expensed \$25.4 million and \$54.5 million in strategic transaction and integration expenses during the nine months ended September 30, 2023 and 2022, respectively, which are included in restructuring, strategic transaction and integration expenses in our condensed consolidated statements of operations. The strategic transaction and integration expenses during the three and nine months ended September 30, 2023 were primarily related to consulting expenses and employee costs incurred to integrate our Smiths Medical business acquired in 2022. The strategic transaction and integration expenses for the three and nine months ended September 30, 2022 were primarily related to transaction and integration expenses associated with our acquisition of Smiths Medical on January 6, 2022 (see Note 3: Acquisitions) which primarily included legal expenses, bank fees, and employee costs. The nine months ended September 30, 2022 also included a United Kingdom stamp tax.

Note 5: Revenue

Revenue Recognition

As part of the integration of our acquisition of Smiths Medical, we have now migrated to our new business unit structure of Consumables, Infusion Systems and Vital Care. The vast majority of our sales of products within these business units are made on a stand-alone basis to hospitals and distributors. Our revenues are recorded at the net sales price, which includes an estimate for variable consideration related to rebates, chargebacks and product returns. Revenue is typically recognized upon transfer of control of the products, which we deem to be at point of shipment. However, for purposes of revenue recognition for our software licenses and renewals, we consider the control of these products to be transferred to a customer at a certain point in time; therefore, we recognize revenue at the start of the applicable license term.

Payment is typically due in full within 30 days of delivery or the start of the contract term. Revenue is recorded in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We offer certain volume-based rebates to our distribution customers, which we record as variable consideration when calculating the transaction price. Rebates are offered on both a fixed and tiered/variable basis. In both cases, we use information available at the time and our historical experience with each customer to estimate the most likely rebate amount. We also provide chargebacks to distributors that sell to end customers at prices determined under a contract between us and the end customer. Chargebacks are the difference between the prices we charge our distribution customers and the contracted prices we have with the end customer which are processed as credits to our distribution customers. In estimating the expected value of chargeback amounts in order to determine the transaction price, we use information available at the time, including our historical experience.

We also warranty products against defects and have a policy permitting the return of defective products, for which we accrue and expense at the time of sale using information available at that time and our historical experience. We also provide extended service-type warranties, which we consider to be separate performance obligations. We allocate a portion of the transaction price to the extended service-type warranty based on its estimated relative stand-alone selling price, and recognize revenue over the period the warranty service is provided.

Revenue Disaggregated

The following table represents our revenues disaggregated by product line (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Product line | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------|---|-------------------|--|---------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Consumables | 242,010 | 251,572 | 715,108 | 732,756 |
| Infusion Systems | 148,981 | 161,555 | 463,836 | 448,426 |
| Vital Care | 162,320 | 184,730 | 492,326 | 520,801 |
| Total Revenues | \$ 553,311 | \$ 597,857 | \$ 1,671,270 | \$ 1,701,983 |

For the three and nine months ended September 30, 2023, net sales to Medline made up approximately 18% and 16% of total revenues, respectively. For the three and nine months ended September 30, 2022, net sales to Medline made up approximately 16% and 15% of total revenues, respectively.

The following table represents our revenues disaggregated by geography (in thousands):

| Geography | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------------|---|-------------------|--|---------------------|
| | 2023 | 2022 | 2023 | 2022 |
| United States | \$ 355,984 | \$ 376,691 | \$ 1,063,037 | \$ 1,088,348 |
| Europe, the Middle East and Africa | 88,014 | 101,869 | 276,994 | 275,488 |
| APAC | 59,064 | 66,569 | 177,719 | 191,847 |
| Other Foreign | 50,249 | 52,728 | 153,520 | 146,300 |
| Total Revenues | \$ 553,311 | \$ 597,857 | \$ 1,671,270 | \$ 1,701,983 |

Contract Balances

The following table presents the changes in our contract balances for the nine months ended September 30, 2023 and 2022 (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Contract Liabilities |
|---|-----------------------------|
| Beginning balance, January 1, 2023 | \$ (45,866) |
| Equipment revenue recognized | 24,872 |
| Equipment revenue deferred | (25,620) |
| Software revenue recognized | 13,546 |
| Software revenue deferred | (12,797) |
| Government grant deferred income* | (944) |
| Government grant recognized | 3,164 |
| Other deferred revenue | (1,674) |
| Other deferred revenue recognized | 4,748 |
| Ending balance, September 30, 2023 | <u>\$ (40,571)</u> |
| Beginning balance, January 1, 2022 | \$ (7,461) |
| Fair value of acquired deferred revenue | (51,245) |
| Equipment revenue recognized | 22,757 |
| Equipment revenue deferred | (13,420) |
| Software revenue recognized | 12,761 |
| Software revenue deferred | (12,978) |
| Government grant deferred income* | (3,434) |
| Government grant recognized | 178 |
| Other deferred revenue | (1,285) |
| Other deferred revenue recognized | 3,488 |
| Ending balance, September 30, 2022 | <u>\$ (50,639)</u> |

* The government grant deferred income is amortized over the life of the related depreciable asset as a reduction to depreciation expense. Our contract liabilities are included in accrued liabilities or other long-term liabilities in our condensed consolidated balance sheet based on the expected timing of revenue recognition.

As of September 30, 2023, revenue from remaining performance obligations is as follows:

| <i>(in millions)</i> | Recognition Timing | |
|-----------------------------------|---------------------------|-----------------------|
| | < 12 Months | > 12 Months |
| Equipment deferred revenue | \$ (16,448) | \$ (12) |
| Software deferred revenue | (8,261) | (707) |
| Government grant deferred income* | (1,451) | (10,548) |
| Other deferred revenue** | (2,575) | (569) |
| Total | <u>\$ (28,735)</u> | <u>\$ (11,836)</u> |

*The government grant deferred income is amortized over the life of the related depreciable asset as a reduction to depreciation expense.

**Other deferred revenue includes pump development programs, purchased training and extended warranty.

Note 6: Leases

We determine if an arrangement is a lease at inception. Our operating lease assets are separately stated in operating lease right-of-use ("ROU") assets and our financing lease assets are included in other assets on our condensed consolidated

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

balance sheets. Our lease liabilities are included in accrued liabilities and other long-term liabilities on our condensed consolidated balance sheets. We have elected not to recognize an ROU asset and lease liability for leases with terms of twelve months or less.

Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Most of our leases do not provide an implicit rate, therefore we use our incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term based on the information available at commencement date. Our lease ROU assets exclude lease incentives and initial direct costs incurred. Our lease terms include options to extend when it is reasonably certain that we will exercise that option. All of our leases have stated lease payments, which may include fixed rental increases. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Our leases are for corporate, research and development and sales and support offices, distribution facilities, device service centers and certain equipment. Our leases have original lease terms of one year to fifteen years, some of which include options to extend the leases for up to an additional five years. For all of our leases, we do not include optional periods of extension in our current lease terms because we determine the exercise of options to extend is not reasonably certain.

The following table presents the components of our lease cost (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Operating lease cost | \$ 5,968 | \$ 5,819 | \$ 18,162 | \$ 16,472 |
| Finance lease cost — interest | 32 | 25 | 91 | 82 |
| Finance lease cost — reduction of ROU asset | 279 | 176 | 757 | 516 |
| Short-term lease cost | 3 | 1 | 29 | 7 |
| Total lease cost | \$ 6,282 | \$ 6,021 | \$ 19,039 | \$ 17,077 |

Interest expense on our finance leases is included in interest expense, net in our condensed consolidated statements of operations. The reduction of the operating and finance ROU assets is included as noncash lease expense in selling, general and administrative expenses in our condensed consolidated statements of operations.

The following table presents the supplemental cash flow information related to our leases (in thousands):

| | Nine months ended September 30, | |
|--|------------------------------------|-----------|
| | 2023 | 2022 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 18,477 | \$ 18,886 |
| Operating cash flows from finance leases | \$ 91 | \$ 25 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | \$ 14,423 | \$ 4,771 |
| Finance leases | \$ 932 | \$ 266 |

The following table presents the supplemental balance sheet information related to our operating leases (in thousands, except lease term and discount rate):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Operating leases | | |
| Operating lease right-of-use assets | \$ 73,767 | \$ 74,864 |
| Accrued liabilities | \$ 19,850 | \$ 18,169 |
| Other long-term liabilities | 57,277 | 60,916 |
| Total operating lease liabilities | <u>\$ 77,127</u> | <u>\$ 79,085</u> |
| Weighted-Average Remaining Lease Term | | |
| Operating leases | 5.7 years | 6.1 years |
| Weighted-Average Discount Rate | | |
| Operating leases | 4.23 % | 4.34 % |

The following table presents the supplemental balance sheet information related to our finance leases (in thousands, except lease term and discount rate):

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Finance leases | | |
| Finance lease right-of-use assets | \$ 2,814 | \$ 2,598 |
| Accrued liabilities | \$ 897 | \$ 816 |
| Other long-term liabilities | 2,018 | 1,855 |
| Total finance lease liabilities | <u>\$ 2,915</u> | <u>\$ 2,671</u> |
| Weighted-Average Remaining Lease Term | | |
| Finance leases | 4.2 years | 4.8 years |
| Weighted-Average Discount Rate | | |
| Finance leases | 4.85 % | 4.23 % |

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2023, the maturities of our operating and finance lease liabilities for each of the next five years are approximately (in thousands):

| | Operating Leases | Finance Leases |
|-----------------------|------------------|----------------|
| Remainder of 2023 | \$ 5,866 | \$ 301 |
| 2024 | 21,457 | 919 |
| 2025 | 16,108 | 711 |
| 2026 | 14,179 | 590 |
| 2027 | 10,316 | 266 |
| 2028 | 5,684 | 189 |
| Thereafter | 12,570 | 236 |
| Total Lease Payments | 86,180 | 3,212 |
| Less imputed interest | (9,053) | (297) |
| Total | \$ 77,127 | \$ 2,915 |

Note 7: Net Income (Loss) Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period plus dilutive securities. Dilutive securities include outstanding common stock options and unvested restricted stock units, less the number of shares that could have been purchased with the proceeds from the exercise of the options, using the treasury stock method. Options and restricted stock units that are anti-dilutive are not included in the treasury stock method calculation. Due to the net loss for the nine months ended September 30, 2023 and for the three and nine months ended September 30, 2022, any potentially dilutive common shares were not included in the computation of diluted earnings per share as they would have had an anti-dilutive effect; therefore, basic and diluted net loss per share are equal for each of these periods. There were 247,530 anti-dilutive securities for the three months ended September 30, 2023.

The following table presents the calculation of net earnings per common share (“EPS”) — basic and diluted (in thousands, except per share data):

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income (loss) | \$ 7,238 | \$ (13,208) | \$ (12,508) | \$ (58,750) |
| Weighted-average number of common shares outstanding (basic) | 24,132 | 23,908 | 24,075 | 23,828 |
| Dilutive securities ⁽¹⁾ | 236 | — | — | — |
| Weighted-average common and common equivalent shares outstanding (diluted) | 24,368 | 23,908 | 24,075 | 23,828 |
| EPS — basic | \$ 0.30 | \$ (0.55) | \$ (0.52) | \$ (2.47) |
| EPS — diluted | \$ 0.30 | \$ (0.55) | \$ (0.52) | \$ (2.47) |

⁽¹⁾ Due to the net loss for the nine months ended September 30, 2023 and the three and nine months ended September 30, 2022, there are no potentially dilutive common shares included in the computation of diluted earnings per share.

Note 8: Derivatives and Hedging Activities

Hedge Accounting and Hedging Program

The purposes of our cash flow hedging programs are to manage the foreign currency exchange rate risk on forecasted revenues and expenses denominated in currencies other than the functional currency of the operating unit, and to manage floating interest rate risk associated with future interest payments on the variable-rate term loans issued in January 2022. We do not issue derivatives for trading or speculative purposes.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. The derivative instruments we utilize, including various foreign exchange contracts and interest rate swaps, are designated and qualify as cash flow hedges. Our derivative instruments are recorded at fair value on the condensed consolidated balance sheets and are classified based on the instrument's maturity date. We record gains or losses from changes in the fair values of the derivative instruments as a component of other comprehensive income (loss) and we reclassify those gains or losses into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related derivative instrument from accumulated other comprehensive loss into earnings immediately.

Foreign Currency Exchange Rate Risk

Foreign Exchange Forward Contracts

We enter into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated revenues and expenses to minimize the effect of foreign exchange rate movements on the related cash flows. These contracts are agreements to buy or sell a quantity of a currency at a predetermined future date and at a predetermined exchange rate. Our foreign exchange forward contracts hedge exposures principally denominated in Mexican Pesos ("MXN"), Euros, Czech Koruna ("CZK"), Japanese Yen ("JPY"), Swedish Krona ("SEK"), Danish Krone ("DKK"), Chinese Renminbi ("CNH"), Canadian Dollar ("CAD"), U.S. Dollar ("USD") and Australian Dollar ("AUD") and have varying maturities with an average term of approximately eleven months. The total notional amount of these outstanding derivative contracts as of September 30, 2023 was \$152.7 million, which included the notional equivalent of \$44.1 million in MXN, \$25.5 million in Euros, \$14.4 million in JPY, \$6.4 million in CNH, \$13.8 million in CAD, \$10.3 million in AUD, \$30.8 million in USD and \$7.4 million in other foreign currencies, with terms currently through January 2025.

Cross-currency Par Forward Contracts

We have entered into cross-currency par forward contracts to hedge a portion of our Mexico forecasted expenses denominated in MXN. These contracts are agreements to exchange cash flows from one currency to another at specified intervals over the contract term with all exchanges occurring at the same predetermined rate. In November 2021, we entered into a one-year cross-currency par forward contract with a term from December 1, 2021 to December 1, 2022. The total notional amount of this outstanding derivative as of September 30, 2022 was approximately 103.8 million MXN. This derivative instrument matured in equal monthly amounts at a fixed forward rate of 21.60 MXN/USD.

Floating Interest Rate Risk

In November 2021, in anticipation of entering into the new senior secured credit facilities in January 2022, which includes a variable-rate term loan A and a variable-rate term loan B (see Note 17: Long-Term Debt), we entered into two forward-starting interest rate swaps. In February 2022, certain terms under the agreements were amended to reflect the transition from LIBOR to the Secured Overnight Financing Rate ("SOFR"), an alternative reference rate. Under the interest rate swap agreements, we exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount. Effective March 30, 2022, the term loan A swap, as amended, has an initial notional amount of \$300.0 million, reducing to \$150.0 million evenly on a quarterly basis excluding its final maturity on March 30, 2027. We will pay a fixed rate of 1.32% and will receive the greater of 3-months USD SOFR or (0.15)%. Effective March 30, 2022, the term loan B swap, as amended, has an initial notional amount of \$750.0 million, reducing to \$46.9 million evenly on a quarterly basis excluding its final maturity on March 30, 2026. We will pay a fixed rate of 1.17% and will receive the greater of 3-months USD SOFR or 0.35%.

In June 2023, we entered into an additional interest rate swap that hedges both term loan A and term loan B interest payments. The total notional amount of the swap is \$300 million. The hedge matures on June 30, 2028. We will pay a fixed rate of 3.88% and will receive 3-months USD SOFR.

These swaps effectively convert the relevant portion of the floating-rate term loans to fixed rates.

The following table presents the fair values of our derivative instruments included within the Condensed Consolidated Balance Sheets (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Condensed Consolidated Balance Sheet Location | Derivatives Designated as Cash Flow Hedging Instruments | | |
|---|---|---------------------|-------------------|
| | Foreign Exchange Contracts | Interest Rate Swaps | Gross Derivatives |
| As of September 30, 2023 | | | |
| Prepaid expenses and other current assets | \$ 8,630 | \$ 30,447 | \$ 39,077 |
| Other assets | 542 | 22,167 | 22,709 |
| Total assets | \$ 9,172 | \$ 52,614 | \$ 61,786 |
| Accrued liabilities | \$ 1,890 | \$ — | \$ 1,890 |
| Other long-term liabilities | 91 | — | 91 |
| Total liabilities | \$ 1,981 | \$ — | \$ 1,981 |
| As of December 31, 2022 | | | |
| Prepaid expenses and other current assets | \$ 4,860 | \$ 28,431 | \$ 33,291 |
| Other assets | 94 | 26,753 | 26,847 |
| Total assets | \$ 4,954 | \$ 55,184 | \$ 60,138 |
| Accrued liabilities | \$ 1,847 | \$ — | \$ 1,847 |
| Other long-term liabilities | 167 | — | 167 |
| Total liabilities | \$ 2,014 | \$ — | \$ 2,014 |

We recognized the following gains on our derivative instruments designated as cash flow hedges in other comprehensive income before reclassifications to net loss (in thousands):

| | Gain Recognized in Other Comprehensive Income | | | |
|---|---|-----------|------------------------------------|-----------|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2023 | 2022 | 2023 | 2022 |
| <i>Derivatives designated as cash flow hedging instruments:</i> | | | | |
| Foreign exchange contracts | \$ 1,757 | \$ 3,383 | \$ 10,260 | \$ 11,720 |
| Interest rate swaps | 12,496 | 21,201 | 21,236 | 60,398 |
| Total derivatives designated as cash flow hedging instruments | \$ 14,253 | \$ 24,584 | \$ 31,496 | \$ 72,118 |

The following table presents the effects of our derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | | Gain (Loss) Reclassified From Accumulated Other Comprehensive Loss into Income | | | |
|--|-----------------------------------|---|-----------------|--|-------------|
| Location of Gain (Loss) Recognized in Income | | Three months ended September 30, | | Nine months ended September 30, | |
| | | 2023 | 2022 | 2023 | 2022 |
| <i>Derivatives designated as cash flow hedging instruments:</i> | | | | | |
| Foreign exchange contracts | Total revenues | \$ 1,019 | \$ (1,690) | \$ (429) | \$ |
| Foreign exchange contracts | Cost of goods sold | 2,247 | 3,090 | 6,063 | |
| Foreign exchange contracts | Other expense, net ⁽¹⁾ | — | — | 229 | |
| Foreign exchange contracts | Interest expense ⁽²⁾ | — | 462 | 13 | |
| Interest rate swaps | Interest expense | 8,813 | 2,133 | 23,807 | |
| Total derivatives designated as cash flow hedging instruments | | \$ 12,079 | \$ 3,995 | \$ 29,683 | \$ |

⁽¹⁾ Represents location of gain reclassified from accumulated other comprehensive loss into income as a result of ineffectiveness.

⁽²⁾ Represents location of gain reclassified from accumulated other comprehensive loss into income as a result of forecasted transactions no longer probable of occurring.

As of September 30, 2023, we expect an estimated \$6.7 million in deferred gains on the outstanding foreign exchange contracts and an estimated \$31.6 million in deferred gains on the interest rate swaps will be reclassified from accumulated other comprehensive loss to net income during the next 12 months concurrent with the underlying hedged transactions also being reported in net income.

Note 9: Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

Contingent Earn-out Liabilities

On January 6, 2022, we acquired Smiths Medical with a combination of cash consideration and share consideration issued at closing. Total consideration for the acquisition includes a potential earn-out payment of \$100.0 million in cash contingent on our common stock achieving certain Price Targets from the closing date to either the third or fourth anniversary of closing (see Note 3: Acquisitions for additional information) and provided Smiths beneficially owns at least 50.0% of the shares of common stock issued at closing at the time the Price Target is achieved. The initial estimated fair value of the earn-out was determined to be \$53.5 million. The initial fair value of the earn-out was determined using a Monte Carlo simulation model. The model utilized several assumptions including volatility and the risk-free interest rate. The assumed volatility is based on the average of the historical volatility of our common stock price and the implied volatility of certain at-the-money traded options. The risk-free interest rate is equal to the yield on U.S. Treasury securities at constant maturity for the period commensurate with the term of the earn-out. At each reporting date subsequent to the acquisition, we remeasure the earn-out liability and recognize any changes in its fair value in our consolidated statements of operations. If the probability of achieving the Price Targets during their respective measurement periods is significantly greater than initially anticipated, the realization of an additional liability and related expense will have a significant impact on our consolidated financial statements in the period recognized. As of September 30, 2023, the estimated fair value of the contingent earn-out is \$7.1 million.

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In November 2021, we acquired a small foreign infusion systems supplier. Total consideration for the acquisition included a potential earn-out payment of up to \$2.5 million, consisting of (i) a cash payment of \$1.0 million contingent on the achievement of certain revenue targets for the annual period ending December 31, 2022 and, separately, (ii) a cash payment of \$1.5 million contingent on certain product-related regulatory certifications obtained by May 26, 2024. As of December 31, 2022, the measurement period related to (i) above ended, and based on the actual revenue achieved during the measurement period we determined that the fair value of the contingent earn-out was zero as the minimum threshold for earning the earn-out was not met. As of September 30, 2023, the estimated fair value for the contingent earn-out related to certain product-related regulatory certifications was estimated to be \$1.5 million.

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that will end in September 2024. The terms of the agreement include a contingent earn-out payment. The contingent earn-out payment shall not exceed \$6.0 million, which will be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of September 30, 2023, the estimated fair value of the contingent earn-out is \$4.3 million. The estimated fair value of the contingent earn-out is calculated using a probability-weighted cash flow model based on historical revenue streams and the likelihood that the revenue targets will be met.

Our contingent earn-out liabilities are separately stated on our condensed consolidated balance sheets.

The following tables provide a reconciliation of the Level 3 earn-out liabilities measured at estimated fair value (in thousands):

| | Earn-out Liability |
|--|---------------------------|
| Accrued balance, January 1, 2023 | \$ 25,572 |
| Change in fair value of earn-out (included in income from operations as a separate line item) ⁽¹⁾ | (700) |
| Currency translation | 33 |
| Accrued balance, March 31, 2023 | 24,905 |
| Change in fair value of earn-out (included in income from operations as a separate line item) ⁽²⁾ | 4,016 |
| Other | 11 |
| Currency translation | 1 |
| Accrued balance, June 30, 2023 | 28,933 |
| Change in fair value of earn-out (included in income from operations as a separate line item) ⁽¹⁾ | (15,572) |
| Other | 58 |
| Currency translation | (58) |
| Accrued balance, September 30, 2023 | <u>\$ 13,361</u> |
| | Earn-out Liability |
| Accrued balance, January 1, 2022 | \$ 2,589 |
| Acquisition date fair value estimate of earn-out ⁽³⁾ | 55,158 |
| Currency translation | (46) |
| Accrued balance, March 31, 2022 | 57,701 |
| Change in fair value of earn-out (included in income from operations as a separate line item) ⁽¹⁾ | (27,194) |
| Currency translation | (98) |
| Accrued balance, June 30, 2022 | 30,409 |
| Change in fair value of earn-out (included in income from operations as a separate line item) ⁽¹⁾ | (4,059) |
| Currency translation | (108) |
| Accrued balance, September 30, 2022 | <u>\$ 26,242</u> |

⁽¹⁾ Primarily relates to the change in fair value of our Smiths Medical earn-out.

⁽²⁾ Primarily relates to the change in fair value of our Smiths Medical earn-out and the earnout with one of our international distributors.

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

⁽³⁾ \$53.5 million of the change in fair value of earn-out relates to our acquisition of Smiths Medical, and \$1.6 million of the change in fair value of earn-out relates to our acquisition of a small foreign infusions systems supplier in the fourth quarter of 2021 (see Note 3: Acquisitions).

The following tables provide quantitative information about Level 3 inputs for fair value measurement of our earn-out liabilities related to Smiths Medical:

Smiths Medical Earn-out Liability

| Simulation Input | As of September 30, 2023 | As of December 31, 2022 |
|-------------------------|-------------------------------------|------------------------------------|
| Volatility | 41.00 % | 38.00 % |
| Risk-Free Rate | 4.91 % | 4.17 % |

Investments, Foreign Exchange Contracts and Interest Rate Contracts

Our investments consist of corporate and government bonds and U.S. treasury securities. The fair value of our corporate and government bonds is estimated using observable market-based inputs such as quoted prices, interest rates and yield curves or Level 2 inputs. The fair value of our U.S. treasury securities are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy.

The fair value of our Level 2 foreign exchange contracts, including forward contracts and cross-currency par forward contracts, is estimated using observable market inputs such as known notional value amounts, spot and forward exchange rates. These inputs relate to liquid, heavily traded currencies with active markets which are available for the full term of the derivative.

The fair value of our Level 2 interest rate swaps is estimated using a pricing model that reflects the terms of the contracts, including the period to maturity, and relies on observable market inputs such as known notional value amounts and USD interest rate curves.

Our assets and liabilities measured at fair value on a recurring basis consisted of the following Level 1, 2 and 3 inputs as defined above (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair value measurements as of September 30, 2023

| | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
|---|-------------------------|--|--|---|
| Assets: | | | | |
| Available-for-sale debt securities: | | | | |
| Short-term corporate bonds | \$ 1,306 | \$ — | \$ 1,306 | \$ — |
| Short-term government bonds | 500 | — | 500 | — |
| Foreign exchange contracts: | | | | |
| Prepaid expenses and other current assets | 8,630 | — | 8,630 | — |
| Other assets | 542 | — | 542 | — |
| Interest rate contracts: | | | | |
| Prepaid expenses and other current assets | 30,446 | — | \$ 30,446 | — |
| Other assets | 22,167 | — | \$ 22,167 | — |
| Total Assets | \$ 63,591 | \$ — | \$ 63,591 | \$ — |
| Liabilities: | | | | |
| Contingent earn-out liability - ST | \$ 6,300 | \$ — | | \$ 6,300 |
| Contingent earn-out liability - LT | 7,061 | — | | \$ 7,061 |
| Foreign exchange contracts: | | | | |
| Accrued liabilities | 1,890 | — | \$ 1,890 | — |
| Other long-term liabilities | 91 | — | \$ 91 | — |
| Total Liabilities | \$ 15,342 | \$ — | \$ 1,981 | \$ 13,361 |

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Fair value measurements as of December 31, 2022 | | | |
|---|--|---|--|--|
| | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
| Assets: | | | | |
| Available-for-sale debt securities: | | | | |
| Short-term corporate bonds | \$ 2,314 | \$ — | \$ 2,314 | \$ — |
| Short-term U.S. treasury securities | 1,412 | 1,412 | — | — |
| Short-term government bonds | 498 | — | \$ 498 | — |
| Long-term corporate bonds | 516 | — | \$ 516 | — |
| Foreign exchange forwards: | | | | |
| Prepaid expenses and other current assets | 4,860 | — | \$ 4,860 | — |
| Other assets | 94 | — | \$ 94 | — |
| Interest rate contracts: | | | | |
| Prepaid expenses and other current assets | 28,431 | — | \$ 28,431 | — |
| Other assets | 26,753 | — | \$ 26,753 | — |
| Total Assets | \$ 64,878 | \$ 1,412 | \$ 63,466 | \$ — |
| Liabilities: | | | | |
| Contingent earn-out liability - LT | \$ 25,572 | \$ — | \$ — | \$ 25,572 |
| Foreign exchange contracts: | | | | |
| Accrued liabilities | 1,847 | — | 1,847 | — |
| Other long-term liabilities | 167 | — | 167 | — |
| Total Liabilities | \$ 27,586 | \$ — | \$ 2,014 | \$ 25,572 |

Note 10: Investment Securities

Investments in Available-for-sale Securities

Our available-for-sale investment securities currently consist of short-term corporate bonds and short-term government bonds and are considered “investment grade” and are carried at fair value. We assess our investment in available-for-sale debt securities for impairment each reporting period. If an unrealized loss exists, we determine whether any portion of the decline in fair value below the amortized cost basis is credit-related by reviewing several factors, including, but not limited to, the extent of the fair value decline and changes in the financial condition of the issuer. We record an impairment for credit-related losses through an allowance, limited to the amount of the unrealized loss. If we either intend to sell or it is more likely than not we will be required to sell the debt security before its anticipated recovery, any allowance is written off and the amortized cost basis is written down to fair value through a charge against net earnings. Unrealized gains and non-credit-related unrealized losses are recorded, net of tax, in other comprehensive income (loss). We did not have any investments in available-for-sale debt securities in unrealized loss positions as of September 30, 2023 or December 31, 2022.

The amortized cost of the debt securities are adjusted for the amortization of premiums computed under the effective interest method. Such amortization is included in interest expense, net in our condensed consolidated statements of operations. Realized gains and losses are accounted for on the specific identification method. There have been no realized gains or losses on the disposal of these investments. The scheduled maturities of the outstanding debt securities are between 2023 and 2024. All short-term investment securities are callable within one year.

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our short-term and long-term investments in available-for-sale securities consist of the following (in thousands):

| | As of September 30, 2023 | | |
|------------------------------------|---------------------------------|--|-------------------|
| | Amortized Cost | Unrealized Holding Gains (Losses) | Fair Value |
| Short-term corporate bonds | 1,306 | \$ — | \$ 1,306 |
| Short-term government bonds | 500 | — | 500 |
| Total investment securities | \$ 1,806 | \$ — | \$ 1,806 |

| | As of December 31, 2022 | | |
|-------------------------------------|--------------------------------|--|-------------------|
| | Amortized Cost | Unrealized Holding Gains (Losses) | Fair Value |
| Short-term corporate bonds | \$ 2,314 | \$ — | \$ 2,314 |
| Short-term U.S. treasury securities | 1,412 | — | 1,412 |
| Short-term government bonds | 498 | — | 498 |
| Long-term corporate bonds | 516 | — | 516 |
| Total investment securities | \$ 4,740 | \$ — | \$ 4,740 |

Investments in Non-Marketable Equity Securities

During the third quarter of 2021, we acquired an approximate 20% non-marketable equity interest in a nonpublic company and entered into a three-year distribution agreement where we have the exclusive rights to market, sell and distribute the company's products in exchange for a cash payment of \$3.3 million. In addition, we were granted an exclusive license for all of the seller's intellectual property. At the expiration of the distribution agreement we have the right but not the obligation to acquire the remaining interest in the business.

We apply the equity method of accounting for investments when we determine we have a significant influence, but not a controlling interest in the investee. We determine whether we have significant influence by considering key factors such as ownership interest, representation on the board of directors, participation in policy making decisions, business relationship and material intra-entity transactions, among other factors. Our equity method investment is reported at cost and adjusted each period for our share of the investee's income or (loss) and dividend paid, if any. We eliminate any intra-entity profits to the extent of our beneficial interest. We record our share of the investee's income or (loss) on a one quarter lag. We report our proportionate share of the investee's income or (loss) resulting from this investment in other income, net in our condensed consolidated statements of operations. The carrying value of our equity method investment is reported in other assets on our condensed consolidated balance sheets (see Note 11: Prepaid Expenses and Other Current Assets and Other Assets). We assess our equity method investments for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of the investment may not be recoverable. Our recorded share of the investee's loss was not material for the three and nine months ended September 30, 2023 and 2022. We did not receive any dividend distributions from this investment during the three and nine months ended September 30, 2023 and 2022.

Our non-marketable equity method investment consists of the following (in thousands):

| | As of | |
|--------------------------|---------------------------|--------------------------|
| | September 30, 2023 | December 31, 2022 |
| Equity method investment | \$ 3,145 | \$ 3,178 |

Note 11: Prepaid Expenses and Other Current Assets and Other Assets

Prepaid expenses and other current assets consist of the following (in thousands):

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Other prepaid expenses and receivables | \$ 21,880 | \$ 21,635 |
| Prepaid vendor expenses | 1,657 | 3,052 |
| Deferred costs | 5,676 | 2,395 |
| Prepaid insurance and property taxes | 4,245 | 16,322 |
| VAT/GST receivable | 2,390 | 3,546 |
| Deferred tax charge | 4,935 | 3,830 |
| Foreign exchange contracts | 8,630 | 4,860 |
| Interest rate contracts | 30,446 | 28,431 |
| Deposits | 1,227 | 1,329 |
| Other | 3,326 | 3,532 |
| | <u>\$ 84,412</u> | <u>\$ 88,932</u> |

Other assets consist of the following (in thousands):

| | As of | |
|-----------------------------------|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Pump lease receivables | \$ 29,070 | \$ 27,086 |
| Spare parts | 44,076 | 38,498 |
| Equity method investment | 3,145 | 3,178 |
| Deferred debt issuance costs | 3,867 | 5,156 |
| Finance lease right-of-use assets | 2,814 | 2,598 |
| Interest rate contracts | 22,167 | 26,753 |
| Other | 2,586 | 2,193 |
| | <u>\$ 107,725</u> | <u>\$ 105,462</u> |

Note 12: Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out method. Inventory costs include material, labor and overhead related to the manufacturing of our products.

Inventories consist of the following (in thousands):

| | As of | |
|-------------------|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Raw materials | \$ 298,753 | \$ 286,964 |
| Work in process | 75,935 | 73,795 |
| Finished goods | 384,934 | 335,250 |
| Total inventories | <u>\$ 759,622</u> | <u>\$ 696,009</u> |

During the three and nine months ended September 30, 2023, we recorded a \$6.3 million reserve to inventory related to certain product at the end of its life cycle due to the integration of acquired product with similar functionality. This adjustment was recorded to cost of goods sold in our condensed consolidated statement of operations.

Note 13: Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Machinery and equipment | \$ 477,444 | \$ 414,811 |
| Land, building and building improvements | 275,997 | 274,063 |
| Molds | 87,757 | 77,203 |
| Computer equipment and software | 120,743 | 115,214 |
| Furniture and fixtures | 30,311 | 29,876 |
| Instruments placed with customers ⁽¹⁾ | 107,673 | 98,481 |
| Construction in progress | 106,051 | 152,909 |
| Total property, plant and equipment, cost | 1,205,976 | 1,162,557 |
| Accumulated depreciation | (597,214) | (526,444) |
| Property, plant and equipment, net | <u>\$ 608,762</u> | <u>\$ 636,113</u> |

⁽¹⁾ Instruments placed with customers consist of drug-delivery and monitoring systems placed with customers under operating leases.

Depreciation expense was \$25.0 million and \$72.8 million for the three and nine months ended September 30, 2023, respectively, and \$23.0 million and \$69.4 million for the three and nine months ended September 30, 2022, respectively.

Note 14: Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of our goodwill (in thousands):

| | Total |
|----------------------------------|---------------------|
| Balance as of January 1, 2023 | \$ 1,449,258 |
| Currency translation | (4,802) |
| Balance as of September 30, 2023 | <u>\$ 1,444,456</u> |

Intangible Assets, Net

Intangible assets, carried at cost less accumulated amortization and amortized on a straight-lined basis, were as follows (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Weighted-Average Amortization Life in Years | September 30, 2023 | | |
|--|---|--------------------|-----------------------------|------------|
| | | Cost | Accumulated Amortization | Net |
| Patents | 10 | \$ 32,741 | \$ 20,107 | \$ 12,634 |
| Customer contracts | 12 | 9,860 | 6,631 | 3,229 |
| Non-contractual customer relationships | 8 | 545,192 | 151,573 | 393,619 |
| Trademarks | 1 | 5,425 | 5,425 | — |
| Trade name | 15 | 18,243 | 6,852 | 11,391 |
| Developed technology | 10 | 583,845 | 152,444 | 431,401 |
| Non-compete | 3 | 9,100 | 6,900 | 2,200 |
| Total amortized intangible assets | | \$ 1,204,406 | \$ 349,932 | \$ 854,474 |
| Internally developed software* | | \$ 36,806 | | \$ 36,806 |
| Total intangible assets | | \$ 1,241,212 | \$ 349,932 | \$ 891,280 |

* Internally developed software will be amortized when the projects are complete and the assets are ready for their intended use.

| | Weighted-Average Amortization Life in Years | December 31, 2022 | | |
|--|---|-------------------|-----------------------------|------------|
| | | Cost | Accumulated Amortization | Net |
| Patents | 10 | \$ 29,998 | \$ 18,610 | \$ 11,388 |
| Customer contracts | 12 | 10,026 | 6,443 | 3,583 |
| Non-contractual customer relationships | 8 | 546,935 | 101,556 | 445,379 |
| Trademarks | 1 | 5,425 | 5,425 | — |
| Trade name | 15 | 18,251 | 5,959 | 12,292 |
| Developed technology | 10 | 583,176 | 108,708 | 474,468 |
| Non-compete | 3 | 9,100 | 5,250 | 3,850 |
| Total amortized intangible assets | | \$ 1,202,911 | \$ 251,951 | \$ 950,960 |
| Internally developed software* | | \$ 31,806 | | \$ 31,806 |
| Total intangible assets | | \$ 1,234,717 | \$ 251,951 | \$ 982,766 |

* Internally developed software will be amortized when the projects are complete and the assets are ready for their intended use.

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. Intangible asset amortization expense was \$33.4 million and \$98.8 million during the three and nine months ended September 30, 2023, respectively, and \$35.6 million and \$108.9 million during the three and nine months ended September 30, 2022, respectively.

As of September 30, 2023 estimated annual amortization for our intangible assets for each of the next five years is approximately (in thousands):

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | | |
|-------------------|----|----------------|
| Remainder of 2023 | \$ | 32,407 |
| 2024 | | 131,060 |
| 2025 | | 123,490 |
| 2026 | | 122,832 |
| 2027 | | 112,782 |
| 2028 | | 112,184 |
| Thereafter | | 219,719 |
| Total | \$ | <u>854,474</u> |

Note 15: Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities consist of the following (in thousands):

| | As of | |
|---|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Salaries and benefits | \$ 53,763 | \$ 44,304 |
| Incentive compensation | 25,853 | 30,254 |
| Operating lease liability-ST | 19,850 | 18,169 |
| Accrued sales taxes | 6,440 | 5,844 |
| Restructuring accrual | 4,335 | 5,923 |
| Deferred revenue | 28,768 | 30,838 |
| Accrued other taxes | 5,657 | 5,794 |
| Accrued professional fees | 3,194 | 5,317 |
| Italy medical device payback provision ⁽¹⁾ | 22,754 | 7,900 |
| Legal accrual | 1,601 | 3,137 |
| Distribution fees | 12,500 | 17,063 |
| Warranties and returns | 3,576 | 3,097 |
| Field service corrective action ⁽²⁾ | 26,382 | 24,517 |
| Accrued freight | 17,544 | 17,988 |
| Foreign exchange contracts | 1,890 | 1,847 |
| Accrued research and development | — | 3,538 |
| Accrued audit fees | 6,362 | 6,279 |
| Defined benefit plan | 2,064 | 2,928 |
| Accrued interest | 1,083 | 1,033 |
| Other | 7,708 | 6,999 |
| | <u>\$ 251,324</u> | <u>\$ 242,769</u> |

⁽¹⁾ As of December 31, 2022, there was \$12.1 million in payback provision recorded as a reduction to accounts receivable, net. The Company reclassified such amount to accrued liabilities as of September 30, 2023. This amount was not reclassified as of December 31, 2022 to conform to the current year presentation.

⁽²⁾ Relates to field service corrective actions associated with certain products in connection with a 2021 Warning Letter received by Smiths Medical from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility, see Note 19: Commitments and Contingencies for further detail.

Other long-term liabilities consist of the following (in thousands):

| | As of | |
|--|--------------------|-------------------|
| | September 30, 2023 | December 31, 2022 |
| Operating lease liability-LT | \$ 57,277 | \$ 60,916 |
| Benefits | 4,999 | 5,314 |
| Accrued rent | 864 | 997 |
| Finance lease liability-LT | 2,018 | 1,855 |
| Deferred revenue | 11,836 | 16,239 |
| Field service corrective action ⁽¹⁾ | 19,470 | 25,294 |
| Other | 3,541 | 3,489 |
| | <u>\$ 100,005</u> | <u>\$ 114,104</u> |

⁽¹⁾ Relates to field service corrective actions associated with certain products in connection with a 2021 Warning Letter received by Smiths Medical from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility, see Note 19: Commitments and Contingencies for further detail.

Note 16: Income Taxes

Income taxes were accrued at an estimated effective tax rate of 235% and 70% for the three and nine months ended September 30, 2023, respectively, as compared to 38% and 37% for the three and nine months ended September 30, 2022, respectively.

The effective tax rate for the three and nine months ended September 30, 2023 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, section 162(m) excess compensation, foreign-derived intangible income ("FDII") and tax credits and the following discrete items recognized during the interim period:

- Net unrecognized tax benefits resulting primarily from the expiration of statute of limitations during the three and nine months ended September 30, 2023 of \$0.0 million and \$6.0 million, respectively.
- Excess tax benefit recognized on stock option exercises and the vesting of restricted stock units during the three and nine months ended September 30, 2023 of \$0.6 million and \$0.8 million, respectively.
- U.S. federal return-to-provision adjustments net of related tax reserves for the year ended December 31, 2022 resulted in a tax benefit of \$7.5 million during the three and nine months ended September 30, 2023. The adjustments related primarily to changes in estimates for the research and development credit and foreign tax credits.
- The revaluation of the contingent consideration during the three and nine months ended September 30, 2023 of \$15.6 million and \$12.3 million, respectively, resulted in a tax expense of \$0.0 million for both periods.

The effective tax rate for the three and nine months ended September 30, 2022 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, section 162(m) excess compensation, FDII and tax credits. The effective tax rate during the three and nine months ended September 30, 2022 included a discrete tax benefit of \$1.5 million and \$4.1 million, respectively, related to excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period. The revaluation of the contingent consideration during the three and nine months ended September 30, 2022 of \$4.1 million and \$31.3 million, respectively, resulted in a tax expense of \$0.0 million for both periods.

Note 17: Long-Term Debt

2022 Credit Agreement

On January 6, 2022, in connection with the acquisition of Smiths Medical, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, Barclays Bank PLC and certain other financial institutions (the "Lenders") for \$2.2 billion of senior secured credit facilities. The senior secured credit facilities include (i) a five-year Tranche A term loan of \$850.0 million (the "Term Loan A"), (ii) a seven-year Tranche B term loan of \$850.0 million (the "Term Loan B") and (iii) a five-year revolving credit facility of \$500.0 million (the "Revolving

Credit Facility"), with separate sub-limits of \$50.0 million for letters of credit and swingline loans (collectively, the "Senior Secured Credit Facilities"). We used the proceeds from borrowings under the Term Loan A and the Term Loan B (collectively, the "Term Loans") to fund a portion of the cash consideration for the purchase of Smiths Medical and the related fees and expenses incurred in connection with the acquisition. We did not incur borrowings under the Revolving Credit Facility on the closing date of the acquisition. The proceeds from any future borrowings under the Revolving Credit Facility may be used for working capital and other general corporate purposes.

In connection with entering into the Credit Agreement, during the period ended March 31, 2022, we incurred \$37.8 million in debt discount and issuance costs, which were allocated to the Term Loan A, the Term Loan B and the Revolving Credit Facility based on lender commitment amounts relative to each type of fees paid. The lender and third-party discount and issuance costs allocated to the Term Loan A and the Term Loan B were \$15.8 million and \$13.4 million, respectively, and are reflected as a direct deduction from the face amount of the corresponding term loans on the condensed consolidated balance sheet. These costs are being amortized to interest expense over the respective terms of the loans using the effective interest method. The issuance costs allocated to the Revolving Credit Facility were \$8.6 million, which are capitalized and included in prepaid expenses and other current assets and other assets on our condensed consolidated balance sheets. These costs are being amortized to interest expense over the term of the Revolving Credit Facility using the straight-line method.

The net funds received from the Term Loan A and the Term Loan B, after deducting debt issuance costs, were \$834.2 million and \$836.6 million, respectively.

Maturity Dates

The maturity date for the Term Loan A and the Revolving Credit Facility is January 6, 2027, and the maturity date for the Term Loan B is January 6, 2029. Pursuant to the terms and conditions of the Credit Agreement, the maturity dates of the Term Loans and the Revolving Credit Facility may be extended upon our request, subject to the consent of the Lenders.

Interest Rate Terms

In general, the Term Loans and borrowings under the Revolving Credit Facility denominated in U.S. dollars bear interest, at our option, on either: (1) the Base Rate, as defined below, plus the applicable margin, as indicated below ("Base Rate Loans") or (2) the Adjusted Term Secured Overnight Financing Rate ("Adjusted Term SOFR"), as defined below, plus the applicable margin, as indicated below ("Term SOFR Loans").

The Base Rate is defined as the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) Adjusted Term SOFR (as defined below) for a one-month period plus, in each case, 1.00%.

Adjusted Term SOFR is the rate per annum equal to (a) the Term SOFR plus (b) the Term SOFR Adjustment. Term SOFR is the forward-looking term rate based on SOFR and is calculated separately for Term SOFR Loans and Base Rate Loans, as specified in the Credit Agreement. The Term SOFR Adjustment is a percentage per annum of 0.10% for Base Rate Loans and between 0.10% to 0.25% for Term SOFR Loans based on the applicable interest period.

Revolving Credit Facility Commitment Fee

The Revolving Credit Facility has a per annum commitment fee at an initial rate of 0.25% which is applied to the available amount of the Revolving Credit Facility. Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ending June 30, 2022, the commitment fee will be determined by reference to the leverage ratio in effect from time to time as set forth in the table below.

Applicable Interest Margins

The Term Loan A and borrowings under the Revolving Credit Facility have an initial applicable margin of 0.75% per annum for Base Rate Loans and 1.75% per annum for Term SOFR Loans.

Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ending June 30, 2022, the applicable margin for the Term Loan A and borrowings under the Revolving Credit Facility will be determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

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| Leverage Ratio | Applicable Margin for Term SOFR Loans | Applicable Margin for Base Rate Loans | Commitment Fee R |
|--|---------------------------------------|---------------------------------------|------------------|
| Greater than 4.00 to 1.0 | 2.25% | 1.25% | 0.35% |
| Less than or equal to 4.00 to 1.0 but greater than 3.00 to 1.0 | 2.00% | 1.00% | 0.30% |
| Less than or equal to 3.00 to 1.0 but greater than 2.50 to 1.0 | 1.75% | 0.75% | 0.25% |
| Less than or equal to 2.50 to 1.0 but greater than 2.00 to 1.0 | 1.50% | 0.50% | 0.20% |
| Less than or equal to 2.00 to 1.0 | 1.25% | 0.25% | 0.15% |

The Term Loan B has an initial applicable margin of 1.5% per annum for Base Rate Loans and 2.5% per annum for Term SOFR Loans.

Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ending June 30, 2022, the applicable margin for the Term Loan B will be determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

| Leverage Ratio | Applicable Margin for Term SOFR Loans | Applicable Margin for Base Rate Loans |
|--------------------------|---------------------------------------|---------------------------------------|
| Greater than 2.75 to 1.0 | 2.50% | 1.50% |
| Less than 2.75 to 1.0 | 2.25% | 1.25% |

Principal Payments

Principal payments on the Term Loans are due on the last day of each calendar quarter commencing on June 30, 2022.

The Term Loan A will amortize in nineteen consecutive quarterly installments in an amount equal to 2.50% of the original principal amount in each of the first two years, 5.00% in each of the third and fourth years and 7.50% in the fifth year, with a final payment of the remaining outstanding principal balance due on the maturity date.

The Term Loan B matures in twenty-seven consecutive quarterly installments in an amount equal to 0.25% of the original principal amount, with a final payment of the remaining outstanding principal balance due on the maturity date.

We may borrow, prepay and re-borrow amounts under the Revolving Credit Facility, in accordance with the terms and conditions of the Credit Agreement, with all outstanding amounts due at maturity.

During March 2022, we prepaid \$16.0 million in principal payments on the Term Loan A principal balance. For the nine months ended September 30, 2023 and 2022 total principal payments on both Term Loans were \$22.3 million and \$20.3 million, respectively.

Interest Payments

Interest payments on Base Rate Loans are payable quarterly in arrears on the last business day of each calendar quarter and the applicable maturity date. Interest periods on Term SOFR Loans will be determined, at our option, as either one, three or six months and will be payable on the last day of each interest period and the applicable maturity date. In the case of any interest periods of more than three months' duration, the interest payment will be payable on each day prior to the last day of such interest period that occurs at three-month intervals.

The commitment fee on the Revolving Credit Facility is payable quarterly in arrears on the third business day following the last day of each calendar quarter and at the maturity date. The commitment fee is included in interest expense in our condensed consolidated statements of operations.

Guarantors and Collateral

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our obligations under the Credit Agreement are unconditionally guaranteed, on a joint and several basis, by ICU Medical, Inc. and certain of our existing subsidiaries.

Debt Covenants

The Credit Agreement contains affirmative and negative covenants, including certain financial covenants. The negative covenants include restrictions regarding the incurrence of liens and indebtedness, certain merger and acquisition transactions, asset sales and other dispositions, other investments, dividends, share purchases and payments affecting subsidiaries, changes in nature of business, fiscal year or organizational documents, prepayments and redemptions of subordinated and other junior debt, transactions with affiliates, and other matters.

The financial covenants include the Senior Secured Leverage Ratio and the Interest Coverage Ratio, both defined below, and pertain to the Term Loan A and the Revolving Credit Facility.

The Senior Secured Leverage Ratio is defined, at any measurement date, as the ratio of: (a) all Funded Debt, as defined in the Credit Agreement, that is secured by a lien on any asset or property minus the lesser of (i) all unrestricted cash and cash equivalents and (ii) \$500.0 million, to (b) Consolidated EBITDA, as defined in the Credit Agreement, for the most recently completed four fiscal quarters, calculated on a pro forma basis. The maximum Senior Secured Leverage Ratio is 4.50 to 1.00 until June 30, 2024. Thereafter, the maximum Senior Secured Leverage Ratio is 4.00 to 1.00, with limited permitted exception.

The Interest Coverage ratio is defined, at any measurement date, as the ratio of Consolidated EBITDA, as defined in the Credit Agreement, to Consolidated Interest Expense, as defined in the Credit Agreement, paid or payable in cash, for the most recently completed four fiscal quarters. The minimum Interest Coverage ratio is 3.00 to 1.00.

We were in compliance with all financial covenants as of September 30, 2023.

The Credit Agreement contains customary events of default, including, among others: non-payments of principal and interest; breach of representations and warranties; covenant defaults; cross-defaults and cross-acceleration to certain other material indebtedness; the existence of bankruptcy or insolvency proceedings; certain events under ERISA; material judgments; and a change of control. If an event of default occurs and is not cured within any applicable grace period or is not waived, the administrative agent and the Lenders are entitled to take various actions, including, without limitation, the acceleration of all amounts due and the termination of commitments under the Senior Secured Credit Facilities.

2017 Credit Facility

On November 8, 2017, we entered into a five-year senior secured revolving credit facility with various lenders for \$150.0 million, with Wells Fargo Bank, National Association as the administrative agent, swingline lender and issuing lender (the "Prior Credit Facility"). The Prior Credit Facility, which was set to mature on November 8, 2022, was terminated in connection with entering into the Credit Agreement on January 6, 2022.

The carrying values of our long-term debt consist of the following (in thousands):

| | Effective Interest Rate | As of September 30, 2023 | Effective Interest Rate | As of December 31, 2022 |
|---|-------------------------|-----------------------------|-------------------------|----------------------------|
| <i>Senior Secured Credit Facilities:</i> | | | | |
| Term Loan A — principal | 7.62 % | \$ 818,125 | 3.99 % | \$ 834,000 |
| Term Loan B — principal | 7.96 % | 837,250 | 4.61 % | 843,000 |
| Revolving Credit Facility — principal | — % | — | — % | — |
| Less unamortized debt issuance costs ⁽¹⁾ | | (20,443) | | (24,000) |
| Total carrying value of long-term debt | | 1,634,932 | | 1,653,000 |
| Less current portion of long-term debt | | 45,688 | | 29,000 |
| Long-term debt, net | | <u>\$ 1,589,244</u> | | <u>\$ 1,623,000</u> |

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⁽¹⁾ Comprised of \$10.1 million and \$10.3 million relating to the Term Loan A and the Term Loan B, respectively, as of September 30, 2023.

As of September 30, 2023, the aggregate amount of principal repayments of our long-term debt (including any current portion) for each of the next five years is approximately (in thousands):

| | |
|-------------------|---------------|
| Remainder of 2023 | \$ |
| 2024 | |
| 2025 | |
| 2026 | |
| 2027 | 6 |
| 2028 | |
| Thereafter | 7 |
| Total | <u>\$ 1,6</u> |

The following table presents the total interest expense related to our long-term debt (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------|
| | 2023 | 2022 | 2023 | 2022 |
| Contractual interest | \$ 32,494 | \$ 19,228 | \$ 92,593 | \$ |
| Amortization of debt issuance costs | 1,704 | 1,758 | 5,108 | |
| Commitment fee — Revolving Credit Facility | 384 | 334 | 1,135 | |
| Total long-term debt-related interest expense | <u>\$ 34,582</u> | <u>\$ 21,320</u> | <u>98,836</u> | |

We currently hedge against the contractual interest expense on our long-term debt (see Note 8: Derivatives and Hedging Activities).

Note 18: Stockholders' Equity

Shareholders Agreement

At the completion of the Smiths Medical acquisition on January 6, 2022, Smiths owned approximately 10.5% of the total outstanding shares of our common stock (see Note 3: Acquisitions). At closing, in connection with the issuance of the share consideration, we entered into a Shareholders Agreement (the "Shareholders Agreement") with Smiths. The Shareholders Agreement imposes certain restrictions on Smiths including prohibiting certain transfers of the shares of our common stock issued (i) for 6 months following the closing of the acquisition and (ii) to certain of our competitors and certain other parties, as well as customary standstill limitations. The Shareholders Agreement also permits Smiths to designate one individual for election to our Board of Directors (the "Board") so long as Smiths beneficially owns at least 5.0% of the total outstanding shares of our common stock. On February 1, 2022, our Board appointed a new director designated by Smiths pursuant to the Shareholders Agreement who was elected to the Board at the 2022 Annual Meeting of Stockholders held in May 2022. This appointment expanded the size of our Board from eight to nine members. See our Current Report on Form 8-K filed on February 1, 2022 for additional information.

Treasury Stock

In August 2019, our Board approved a share purchase plan to purchase up to \$100.0 million of our common stock. This plan has no expiration date. During the three months ended September 30, 2023, we did not purchase any shares of our common stock under our share purchase plan. As of September 30, 2023, all of the \$100.0 million available for purchase was remaining under the plan. We are currently limited on share purchases in accordance with the terms and conditions of our Credit Agreement (see Note 17: Long-Term Debt).

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the nine months ended September 30, 2023, we withheld 58,089 shares of our common stock from employee vested restricted stock units in consideration for \$9.2 million in payments made on the employees' behalf for their minimum statutory income tax withholding obligations. For the nine months ended September 30, 2022, we withheld 45,370 shares of our common stock from employee vested restricted stock units in consideration for \$10.5 million in payments made on the employees' behalf for their minimum statutory income tax withholding obligations. Treasury stock is used to issue shares for stock option exercises and restricted stock grants.

Accumulated Other Comprehensive (Loss) Income ("AOCI")

The components of AOCI, net of tax, were as follows (in thousands):

| | Foreign Currency Translation Adjustments | Unrealized (Losses) Gains on Cash Flow Hedges | Other Adjustments | Total |
|--|---|--|--------------------------|--------------------|
| Balance as of January 1, 2023 | \$ (122,973) | \$ 40,779 | \$ 1,216 | \$ (80,978) |
| Other comprehensive income (loss) before reclassifications | 24,983 | (113) | (31) | 24,839 |
| Amounts reclassified from AOCI | — | (5,464) | — | (5,464) |
| Other comprehensive income (loss) | 24,983 | (5,577) | (31) | 19,375 |
| Balance as of March 31, 2023 | <u>\$ (97,990)</u> | <u>\$ 35,202</u> | <u>\$ 1,185</u> | <u>\$ (61,603)</u> |
| Other comprehensive (loss) income before reclassifications | 7,569 | 13,175 | (34) | 20,710 |
| Amounts reclassified from AOCI | — | (7,901) | — | (7,901) |
| Other comprehensive income (loss) | 7,569 | 5,274 | (34) | 12,809 |
| Balance as of June 30, 2023 | <u>\$ (90,421)</u> | <u>\$ 40,476</u> | <u>\$ 1,151</u> | <u>\$ (48,794)</u> |
| Other comprehensive (loss) income before reclassifications | (37,557) | 10,824 | (35) | (26,768) |
| Amounts reclassified from AOCI | — | (9,165) | — | (9,165) |
| Other comprehensive (loss) income | (37,557) | 1,659 | (35) | (35,933) |
| Balance as of September 30, 2023 | <u>\$ (127,978)</u> | <u>\$ 42,135</u> | <u>\$ 1,116</u> | <u>\$ (84,727)</u> |

ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Foreign Currency Translation Adjustments | Unrealized (Losses) Gains on Cash Flow Hedges | Other Adjustments | Total |
|--|---|--|--------------------------|---------------------|
| Balance as of January 1, 2022 | \$ (19,045) | \$ (237) | \$ 13 | \$ (19,269) |
| Other comprehensive (loss) income before reclassifications | (4,946) | 25,782 | 15 | 20,851 |
| Amounts reclassified from AOCI | — | (2,210) | — | (2,210) |
| Other comprehensive (loss) income | (4,946) | 23,572 | 15 | 18,641 |
| Balance as of March 31, 2022 | <u>\$ (23,991)</u> | <u>\$ 23,335</u> | <u>\$ 28</u> | <u>\$ (628)</u> |
| Other comprehensive (loss) income before reclassifications | (99,805) | 10,245 | 14 | (89,546) |
| Amounts reclassified from AOCI | — | (2,101) | — | (2,101) |
| Other comprehensive (loss) income | (99,805) | 8,144 | 14 | (91,647) |
| Balance as of June 30, 2022 | <u>\$ (123,796)</u> | <u>\$ 31,479</u> | <u>\$ 42</u> | <u>\$ (92,275)</u> |
| Other comprehensive (loss) income before reclassifications | (90,549) | 18,784 | 227 | (71,538) |
| Amounts reclassified from AOCI | — | (1,869) | — | (1,869) |
| Other comprehensive (loss) income | (90,549) | 16,915 | 227 | (73,407) |
| Balance as of September 30, 2022 | <u>\$ (214,345)</u> | <u>\$ 48,394</u> | <u>\$ 269</u> | <u>\$ (165,682)</u> |

Note 19: Commitments and Contingencies

Legal Proceedings

From time to time, we are involved in various legal proceedings, most of which are routine litigation, in the normal course of business. Our management does not believe that the resolution of the unsettled legal proceedings that we are involved with will have a material adverse impact on our financial position or results of operations.

Off-Balance Sheet Arrangements

In the normal course of business, we have agreed to indemnify our officers and directors to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters or other matters related to sales of our products. There is no maximum limit on the indemnification that may be required under these agreements.

Although we can provide no assurances, we have never incurred, nor do we expect to incur, any material liability for indemnification.

Contingencies

On January 6, 2022, we acquired Smiths Medical. Total consideration for the acquisition includes a potential earn-out payment of \$100.0 million in cash contingent on our common stock achieving a certain volume-weighted average price from the closing date to either the third or fourth anniversary of closing. As of September 30, 2023, the estimated fair value of the contingent earn-out is \$7.1 million (see Note 9: Fair Value Measurements).

Prior to being acquired, during 2021, Smiths Medical received a Warning Letter from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility. The Warning Letter cited, among other things, failures to comply with FDA's medical device reporting requirements and failures to comply with applicable portions of the Quality System Regulation. A provision for the estimated costs related to the field service corrective action was recorded on the opening acquired balance sheet of Smiths Medical in the amount of \$55.1 million. The initial estimate recorded was based on a probability-weighted estimate of the costs required to settle the obligation. The actual costs to be incurred are dependent upon the scope of the work necessary to achieve regulatory clearance and could differ from the original estimate. The estimated field service corrective action recorded at September 30, 2023 is \$42.8 million.

In November 2021, we acquired a small foreign infusion systems supplier. Total consideration for the acquisition included a potential earn-out payment of up to \$2.5 million, consisting of (i) a cash payment of \$1.0 million contingent on the achievement of certain revenue targets for the annual period ending December 31, 2022 and, separately, (ii) a cash payment of \$1.5 million contingent on certain product-related regulatory certifications obtained by May 26, 2024. As of December 31, 2022, the measurement period related to (i) above ended and based on the actual revenue achieved during the measurement period we determined that the fair value of the contingent earn-out was zero as the minimum threshold for earning the earn-out was not met. As of September 30, 2023, the estimated fair value of the contingent earn-out related to certain product-related regulatory certification was estimated to be \$1.5 million (see Note 9: Fair Value Measurements).

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that will end in September 2024. The terms of the agreement include a contingent earn-out payment. The contingent earn-out shall not exceed \$6.0 million, which will be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of September 30, 2023, the estimated fair value of the contingent earn-out is \$4.3 million (see Note 9: Fair Value Measurements).

Commitments

We have non-cancelable operating lease agreements where we are contractually obligated to pay certain lease payment amounts (see Note 6: Leases).

Note 20: Collaborative and Other Arrangements

On February 3, 2017, we entered into two Manufacturing and Supply Agreements ("MSAs") whereby (i) Pfizer will manufacture and supply us with certain agreed upon products for an initial five-year term with a one-time two-year option to extend and (ii) we will manufacture and supply Pfizer certain agreed upon products for a term of five or ten years depending on the product, also with a one-time two-year option to extend. The MSAs provide each party with mutually beneficial interests and both of the MSAs are to be jointly managed by both Pfizer and ICU. The initial supply price, which is subject to an annual update, is in full consideration for all costs associated with the manufacture, documentation, packaging and certification of the products. On January 1, 2021, we amended our MSA with Pfizer, whereby we manufacture and supply certain agreed upon products to Pfizer. The amendments included a change to the term of the agreement to end on December 31, 2024 with Pfizer's unilateral election to extend through December 31, 2025. Other changes to the terms of the MSA included (i) amendments to our level of supply of products to Pfizer, (ii) certain changes to our manufacturing lines, (iii) updates to our supply price with added volume price tiers for annual periods and (iv) certain minimum purchase requirements for certain products. On February 1, 2022, effective as of January 1, 2022, upon our request, Pfizer executed a Product Addendum (the "Product Addendum") to our MSA, whereby Pfizer manufactures and supplies to us certain agreed upon products. The Product Addendum includes the supply of additional product to us subject to certain time and pricing terms and conditions. The Product Addendum includes a minimum purchase obligation of \$29.6 million and expired on November 30, 2022. As of November 30, 2022, we had satisfied the minimum purchase obligations under the Product Addendum.

Note 21: Accounts Receivable Purchase Program

On January 19, 2023, we entered into a revolving \$150 million uncommitted receivables purchase agreement with Bank of The West ("BOW") which provides for a less expensive form of capital. The discount rate applied to the sold receivables equals a rate per annum equal to the sum of (i) an applicable margin of 1.75%, plus (ii) Term SOFR for a period equal to the discount period which is calculated with respect to the payment terms of the specific receivable. The accounts receivable sold have payment terms ranging between 30 and 60 days, and are related to customer accounts with good credit history. The transfer of the purchased accounts receivable under the agreement is intended to be an absolute and irrevocable transfer constituting a true sale as the transferred receivables have been isolated beyond the reach of the Company and our creditors, even in bankruptcy or other receivership. We do not retain effective control over the sold receivables and BOW has the right upon purchase to pledge and/or exchange the transferred assets without restrictions. The Company acts as collection agent for BOW and collection services are undertaken by our accounts receivable personnel in their normal course of business and collected funds are remitted to BOW. We do not have any continuing involvement with the sold receivables other than the collection services which does not provide us with more than a trivial benefit. The discount rate has been negotiated net of consideration for the collection services, the cost of collection is immaterial to the Company; therefore, we did not separately record any related servicing assets or liabilities related to the sold receivables.

For the nine months ended September 30, 2023, the carrying value of trade receivables sold to BOW in connection with the purchase program was \$452.6 million. In exchange for the sale of trade receivables, we received cash of \$450.0 million. For the three and nine months ended September 30, 2023, the sale of the receivables resulted in a loss of \$1.0 million and \$2.7 million, respectively, recorded in other expense, net in our condensed consolidated statement of operations. For the nine months ended September 30, 2023, we have collected and remitted \$390.2 million in cash to BOW. As of September 30, 2023, cash remaining to be collected on behalf of BOW was \$62.4 million, which has been removed from our condensed consolidated balance sheet as of September 30, 2023 and is reflected as cash provided by operating activities in the condensed consolidated statement of cash flows. There were no such balances at December 31, 2022. The carrying value of the sold receivables approximated the fair value at September 30, 2023.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and accompanying notes in this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and related notes thereto included in our 2022 Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the caption entitled “Forward-Looking Statements” in this section and Part I, Item 1A. “Risk Factors” in our 2022 Annual Report on Form 10-K.

When used in this report, the terms “we,” “us,” and “our” refer to ICU Medical, Inc. (“ICU”) and its consolidated subsidiaries included in our condensed consolidated financial statements unless context requires otherwise.

Business Overview and Highlights

We develop, manufacture, and sell infusion systems, infusion consumables and high-value critical care products used in hospital, alternate site and home care settings. Our team is focused on providing quality, innovation and value to our clinical customers worldwide. Our product portfolio includes ambulatory, syringe, and large volume IV pumps and safety software; dedicated and non-dedicated IV sets, needlefree IV connectors, peripheral IV catheters, and sterile IV solutions; closed system transfer devices and pharmacy compounding systems; as well as a range of respiratory, anesthesia, patient monitoring, and temperature management products.

Products

In 2023, our primary product offerings have been classified into our new business units as listed below. We have presented our financial results in accordance with these product lines:

Consumables

Our Consumables business unit includes Infusion Therapy, Oncology, Vascular Access and Tracheostomy products.

Infusion Therapy

Our Infusion Therapy products include non-dedicated infusion sets, extension sets, needle-free connectors, and disinfection caps. Infusion sets used in hospitals and ambulatory clinics consist of flexible sterile tubing running from an IV bag or bottle containing a drug product or solution to a catheter inserted in a patient’s vein that may or may not be used with an infusion pump. Disinfection caps are used to actively disinfect access points into the infusion sets and catheters. Our primary Infusion Therapy products are:

- *Clave™* needlefree products, including the MicroClave, MicroClave Clear, and NanoClave™ brand of connectors, accessories, extension and administration sets used for the administration of IV fluids and medications and the Neutron catheter patency device, used to help maintain patency of central venous catheters;
- Neutron™ catheter patency device, used to help maintain patency of central venous catheters;
- Tego™ needlefree connector utilized to access catheters for hemodialysis and apheresis applications; and
- ClearGuard™, SwabCap™ and SwabTip™ disinfection caps.

Oncology

Closed System Transfer Devices (“CSTD”) and hazardous drug compounding systems are used to prepare and deliver hazardous IV medications such as those used in chemotherapy, which, if released, can have harmful effects on the healthcare worker and environment. Our primary Oncology products are:

- *ChemoLock™* CSTD, which utilizes a proprietary needlefree connection method, is used for the preparation and administration of hazardous drugs. ChemoLock is used to limit the escape of hazardous drug or vapor concentrations, block the transfer of environmental contaminants into the system, and eliminates the risk of needlestick injury;
- *ChemoClave™*, an ISO Connection standard and universally compatible CSTD used for the preparation and administration of hazardous drugs. ChemoClave utilizes standard ISO luer locking connections, making it compatible with all brands of needlefree connectors and pump delivery systems. ChemoClave also is used to limit the escape of hazardous drug or vapor concentrations, block the transfer of environmental contaminants into the system, and eliminate the risk of needlestick injury; and
- *Deltec® GRIPPER®* non-coring needles for portal access.

The preparation of hazardous drugs typically takes place in a pharmacy where drugs are removed from vials and prepared for delivery to a patient. Those prepared drugs are then transferred to a nursing unit where the chemotherapy is administered via an infusion pump set to a patient. Components of the ChemoClave and ChemoLock product lines are used both in pharmacies and on the nursing floors for the preparation and administration of hazardous drugs.

Vascular Access

Our vascular access products allow clinicians to safely access the patients' bloodstream to deliver fluids and medication or to obtain blood samples. Our primary Vascular Access products are:

- *Jelco®* safety and conventional peripheral IV catheters and sharps safety devices for hypodermic injection, designed to help prevent accidental needlestick injury;
- *Safe-T Wing®* venipuncture and blood collection devices;
- *Port-A-Cath®* implantable ports;
- *Portex®* arterial blood sampling syringes;
- *PowerWand®* midline catheters; and
- *Cleo®* subcutaneous infusion catheters and sets.

Tracheostomy

Our tracheostomy products enable placement of a secure airway using both surgical and percutaneous insertion techniques. Our primary Tracheostomy products includes:

- *Portex BLUselect®* PVC tracheostomy tubes feature an inner cannula as well as a Suctionaid option for above the cuff suctioning and vocalization capability;
- *Portex Bivona®* silicone tracheostomy tubes offer the added benefits of comfort and mobility and come in a variety of configurations suited to meet the clinical needs of neonatal through adult patients; and
- *Portex BLUperc®* percutaneous insertion kits allow for safe placement of the tracheostomy tube at the bedside.

Infusion Systems

We offer a wide range of infusion pumps, dedicated IV sets, software and professional services. Our primary Infusion System products are:

Large Volume Pump ("LVP") Hardware and Dedicated IV Sets:

- **Plum 360™:** The Plum 360™ infusion pump is an ICU Medical MedNet™ ready large volume infusion pump with an extensive drug library and wireless capability. The pumps work with dedicated IV sets. Plum 360 was named the 2018, 2019, 2020, and 2022 Best in KLAS winner as top-performing IV smart pump and was the first medical device to be awarded UL Cybersecurity Assurance Program Certification. Also, in 2021 2022 and 2023, the Plum 360 won the award as the top-performing Smart Pump EMR-Integrated.

Ambulatory Infusion Hardware:

- **CADD®** ambulatory infusion pumps and disposables, including administration sets and medication cassette reservoirs, support a variety of IV pain management therapies across clinical care areas from hospital to outpatient treatment.

Syringe Infusion Hardware:

- **Medfusion™** syringe infusion pumps are designed for the administration of fluids and medication requiring precisely controlled infusion rates from a variety of syringe sizes in acute care settings.

IV Medication Safety Software:

- **ICU Medical MedNet™:** ICU Medical MedNet is an enterprise-class medication management platform for any sized healthcare system that can help reduce medication errors, improve quality of care, streamline workflows and maximize revenue capture. ICU Medical MedNet connects our industry-leading smart pumps to a hospital's EHR, asset tracking systems, and alarm notification platforms with the largest array of integration partners.
- **PharmGuard®** Medication Safety Software for Medfusion™ 4000 syringe and CADD™ Solis pumps allows for customized drug libraries to support the standardization of protocols for medication administration throughout the facility.

Professional Services:

- In addition to the products above, our teams of clinical, information technology, and professional services experts work with customers to develop and deliver safe and efficient infusion systems, providing customized and personalized configuration, implementation, and data analytics services to complement our infusion hardware and software.

Vital Care

Our Vital Care business unit includes IV Solutions, Critical Care, General Anesthesia and Respiratory, Temperature Management Solutions and Regional Anesthesia/Pain Management products.

IV Solutions

Our IV Solutions products include a broad portfolio of injection, irrigation, nutrition and specialty IV solutions including:

IV Therapy and Diluents:

- Including Sodium Chloride, Dextrose, Balanced Electrolyte Solutions, Lactated Ringer's, Ringer's, Mannitol, Sodium Chloride/Dextrose and Sterile Water.

Irrigation:

- Including Sodium Chloride Irrigation, Sterile Water Irrigation, Physiologic Solutions, Ringer's Irrigation, Acetic Acid Irrigation, Glycine Irrigation, Sorbitol-Mannitol Irrigation, Flexible Containers and Pour Bottle Options.

Hemodynamic Monitoring

Our Hemodynamic Monitoring products help clinicians get accurate real-time access to patients' hemodynamic and cardiac status with an extensive portfolio of monitoring systems and advanced sensors & catheters. Measurements provided by our systems help clinicians determine how well the heart is pumping blood and how efficiently oxygen from the blood is being used by the tissues. Our Hemodynamic Monitoring products include:

- Cogent™ 2-in-1 hemodynamic monitoring system;
- CardioFlo™ hemodynamic monitoring system;
- TDQ™ and OptiQ™ cardiac output monitoring catheters;
- TriOx™ venous oximetry catheters;
- Transpac™ blood pressure transducers; and
- SafeSet™ closed blood sampling and conservation system.
- MEDEX® LogiCal® Pressure Monitoring System and components.

General Anesthesia & Respiratory

We offer a broad range of anesthesia systems and devices and breathing circuits, ventilation, respiratory and specialty airway products that maintain patients' airways before, during and after surgery. Our primary Anesthesia & Respiratory products are:

- *Portex® acapella®* bronchial hygiene products used to mobilize pulmonary secretions to facilitate the opening of airways in patients with chronic respiratory diseases such as chronic obstructive pulmonary disease, or COPD, asthma and cystic fibrosis.

Temperature Management Solutions

Temperature Management solutions systems are used in perioperative and critical care settings to help monitor and regulate patient temperature. Our primary Temperature Management products include:

- *Level 1®* rapid infusion, fluid warming, routine blood and fluid warming, irrigation fluid warming, convective patient warming and temperature probes.

Regional Anesthesia/Pain Management Trays

We offer a comprehensive range of *Portex®* regional anesthesia/pain management trays and components. Our primary products include:

- Epidural Trays;
- Spinal Trays;
- Combined (CSE) Trays;
- Peripheral Nerve Block Trays; and
- Specialty Trays (Lumbar Puncture, Amniocentesis, Myelogram).

In the U.S. a substantial amount of our products are sold to group purchasing organization member hospitals. We believe that as healthcare providers continue to either consolidate or join major buying organizations, the success of our products will depend, in part, on our ability, either independently or through strategic relationships, to secure long-term contracts with large healthcare providers and major buying organizations.

Supply Constraints, Global Economic Conditions

We have experienced significant impacts to our business as a result of global economic challenges, resulting from the COVID-19 pandemic and the continuing conflict between Russia and Ukraine, such as rising inflation, especially with respect to freight costs driven by higher fuel prices, increased cost and shortages of raw materials, and supply chain disruptions which negatively impacted our gross profit margin during 2022. We expect the pressure on the supply chain to continue and freight costs to remain subject to volatility in the market. The rising interest rates and foreign currency impact due to the strengthening of the U.S. dollar have also impacted our results of operations during 2022 and the nine months ended September 30, 2023.

These challenges arising from global economic conditions could worsen as a result of the current armed conflict in the Middle East, which is highly uncertain at this time.

Our business operations expose us to risks associated with public health crises and epidemics/pandemics, such as COVID-19. COVID 19 caused lower hospital admissions and medical procedure volumes, and any resurgence of the pandemic or any new public health crisis could again shift healthcare priorities and cause volatility in the demand for our products, thereby adversely affecting our business operations.

While we continually monitor the ongoing and evolving impact of the above events on our operations, the overall impact remains uncertain and may not be fully reflected until future periods. The overall impact to our results of operations will depend on factors such as the duration and extent of the current global economic challenges, including any impact from conflicts in Eastern Europe and the Middle East more generally, and the resurgence of the pandemic or the emergence of a new public health crisis, none of which can be fully predicted at this time. See "Part I. Item 1A. Risk Factors" in our 2022 Annual Report on Form 10-K for a discussion of risks and uncertainties.

Consolidated Results of Operations

We present income statement data in Part I, Item 1. "Financial Statements." The following table shows, for the three and nine months ended September 30, 2023 and 2022, the percentages of each income statement caption in relation to total revenue:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-------|------------------------------------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| Total revenues | 100 % | 100 % | 100 % | 100 % |
| Gross profit | 33 % | 31 % | 34 % | 31 % |
| Selling, general and administrative expenses | 27 % | 26 % | 27 % | 27 % |
| Research and development expenses | 4 % | 4 % | 4 % | 4 % |
| Restructuring, strategic transaction and integration expenses | 1 % | 2 % | 2 % | 4 % |
| Change in fair value of contingent earn-out | (3)% | (1)% | (1)% | (2)% |
| Total operating expenses | 29 % | 31 % | 32 % | 33 % |
| Income (loss) from operations | 4 % | — % | 2 % | (2)% |
| Interest expense, net | (4)% | (3)% | (4)% | (3)% |
| Other (expense) income, net | (1)% | (1)% | — % | — % |
| Loss before income taxes | (1)% | (4)% | (2)% | (5)% |
| Benefit for income taxes | 2 % | 1 % | 2 % | 2 % |
| Net income (loss) | 1 % | (3)% | — % | (3)% |

Seasonality/Quarterly Results

There are no significant seasonal aspects to our business. We can experience fluctuations in net sales as a result of variations in the ordering patterns of our largest customers, which may be driven more by production scheduling and customer inventory levels, and less by seasonality. Our expenses often do not fluctuate in the same manner as net sales, which may cause fluctuations in operating income that are disproportionate to fluctuations in our revenue.

Non-GAAP Financial Measures

In addition to comparing changes in revenue on a U.S. GAAP basis, we also compare the changes in revenue from one period to another using constant currency. The presentation of revenues on a constant currency basis is a non-GAAP financial measure that excludes the impact of fluctuations in foreign currency exchange rates that occurred between the comparative periods. We provide constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. We believe this information is useful to investors to facilitate comparisons and better identify trends in our business. Our constant currency revenues reflect current period local currency revenues at prior

period's average exchange rates. We consistently apply this approach to revenues for all currencies where the functional currency is not the U.S. dollar. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

Consumables

The following table summarizes our total Consumables revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|-------------------------------------|----------|-----------|----------|------------------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change | 2023 | 2022 | \$ Change | % Change |
| Consumables revenue (GAAP) | \$ 242.0 | \$ 251.6 | \$ (9.6) | (3.8)% | \$ 715.1 | \$ 732.8 | \$ (17.7) | (2.4)% |
| Impact of foreign exchange rate changes | (1.9) | | | | 5.8 | | | |
| Consumables revenue on a constant currency basis (non-GAAP) | \$ 240.1 | \$ 251.6 | \$ (11.5) | (4.6)% | \$ 720.9 | \$ 732.8 | \$ (11.9) | (1.6)% |

Consumables revenue decreased for the three and nine months ended September 30, 2023, as compared to the same periods in the prior year, primarily due to a decrease in our Vascular Access revenues. For the three months ended September 30, 2023, the revenue decrease was partially offset by an increase in Infusion Therapy revenue and the impact of having six less billing days in the current year period for the products acquired from Smiths Group as compared to the same prior year period. For the nine months ended September 30, 2023, the revenue decrease was partially offset by an increase in Infusion Therapy and Tracheostomy revenues.

Infusion Systems

The following table summarizes our total Infusion Systems revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|--|-------------------------------------|----------|-----------|----------|------------------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change | 2023 | 2022 | \$ Change | % Change |
| Infusion Systems (GAAP) | \$ 149.0 | \$ 161.6 | \$ (12.6) | (7.8)% | \$ 463.9 | \$ 448.4 | \$ 15.5 | 3.5% |
| Impact of foreign exchange rate changes | 1.0 | | | | 8.9 | | | |
| Infusion Systems on a constant currency basis (non-GAAP) | \$ 150.0 | \$ 161.6 | \$ (11.6) | (7.2)% | \$ 472.8 | \$ 448.4 | \$ 24.4 | 5.4% |

Infusion Systems revenue decreased for the three months ended September 30, 2023, as compared to the same period in the prior year, primarily due to the impact of having six less billing days in the current year period for the products acquired from Smiths Group as compared to the same prior year period and our backorder recovery in the prior year period. Infusion Systems revenue increased for the nine months ended September 30, 2023, as compared to the same period in the prior year, primarily due to higher sales of our syringe pump products and LVP dedicated sets.

Vital Care

The following table summarizes our total Vital Care revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|--|-------------------------------------|----------|-----------|----------|------------------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change | 2023 | 2022 | \$ Change | % Change |
| Vital Care (GAAP) | \$ 162.3 | \$ 184.7 | \$ (22.4) | (12.1)% | \$ 492.3 | \$ 520.8 | \$ (28.5) | (5.5)% |
| Impact of foreign exchange rate changes | (0.3) | | | | 5.0 | | | |
| Vital Care on a constant currency basis (non-GAAP) | \$ 162.0 | \$ 184.7 | \$ (22.7) | (12.3)% | \$ 497.3 | \$ 520.8 | \$ (23.5) | (4.5)% |

Vital Care revenue decreased for the three and nine months ended September 30, 2023, as compared to the same periods in the prior year, primarily due to lower sales of IV Solutions in the current year period and backorder recovery in the prior year period. Additionally, revenue for the three months ended September 30, 2023 included the impact of six less billing days for the products acquired from Smiths Group as compared to the same period in the prior year.

Gross Margins

For the three and nine months ended September 30, 2023, gross margins were 33.2% and 34.0%, respectively, as compared to 31.2% and 30.7% for the three and nine months ended September 30, 2022, respectively. The increase in gross margin for the three months ended September 30, 2023, as compared to the same period in the prior year, was primarily driven by lower freight costs and lower quality remediation costs partially offset by lower manufacturing absorption from lower volumes and scheduled plant shutdowns, the impact of foreign exchange rate changes and higher product reserves related to product-line integration. The increase in gross margin for the nine months ended September 30, 2023, as compared to the same period in the prior year, was primarily driven by lower freight costs and the cost recognition of a purchase accounting write-up of inventory in 2022.

Selling, General and Administrative (“SG&A”) Expenses

The following table summarizes our total SG&A Expenses (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|------|-------------------------------------|----------|-----------|----------|------------------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change | 2023 | 2022 | \$ Change | % Change |
| SG&A | \$ 148.6 | \$ 153.5 | \$ (4.9) | (3.2)% | \$ 452.1 | \$ 465.4 | \$ (13.3) | (2.9)% |

SG&A expenses decreased for the three months ended September 30, 2023, as compared to the same period in the prior year primarily due to decreases of \$5.2 million in depreciation and amortization, \$3.0 million in compensation costs, and \$1.8 million of IT expenses. These decreases were partially offset by an increase of \$4.2 million in dealer fees and \$1.8 million in stock based compensation. Depreciation and amortization decreased as the fair market values of certain intangible assets acquired in regard to the 2022 Smiths Medical acquisition were adjusted down after the same period in the prior year. Compensation costs decreased primarily due to a decrease in cash incentive compensation. IT expenses decreased based on current operating needs. Dealer fees increased due to an increase in revenues to distributors. Stock based compensation increased due to an increase in the fair value of amounts awarded in the current year over the fair value of the awards in the prior year.

SG&A expenses decreased for the nine months ended September 30, 2023, as compared to the same period in the prior year primarily due to decreases of \$9.9 million in depreciation and amortization, \$3.1 million in dealer fees, and \$3.0 million in IT expenses. Partially offsetting these decreases was a \$3.3 million increase in commissions. Commissions increased primarily due to sales performance in the current period measured against preset sales targets as compared to sales performance achieved against targets in the comparable prior year period.

Research and Development (“R&D”) Expenses

The following table summarizes our total R&D Expenses (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|-----|-------------------------------------|---------|-----------|----------|------------------------------------|---------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change | 2023 | 2022 | \$ Change | % Change |
| R&D | \$ 20.9 | \$ 23.1 | \$ (2.2) | (9.5)% | \$ 62.9 | \$ 69.5 | \$ (6.6) | (9.5)% |

R&D expenses decreased for the three and nine months ended September 30, 2023, as compared to the same periods in the prior year. R&D expenses during both periods primarily relate to headcount and employment expense in support of ongoing R&D projects.

Restructuring, Strategic Transaction and Integration Expenses

Restructuring, strategic transaction and integration expenses were \$7.2 million and \$30.5 million for the three and nine months ended September 30, 2023, respectively, as compared to \$14.4 million and \$61.8 million for the three and nine months ended September 30, 2022, respectively.

Restructuring charges

Restructuring charges were \$1.1 million and \$5.1 million for the three and nine months ended September 30, 2023, respectively, as compared to \$2.4 million and \$7.3 million for the three and nine months ended September 30, 2022, respectively, and were primarily related to severance costs for all periods. The restructuring charges for the three and nine months ended September 30, 2023 were net of \$0.2 million of facility closures costs that were reversed in the current period. We expect to pay the majority of unpaid restructuring charges as of September 30, 2023 during the remainder of 2023 and 2024.

Strategic transaction and integration expenses

Strategic transaction and integration expenses were \$6.1 million and \$25.4 million for the three and nine months ended September 30, 2023, respectively, as compared to \$12.0 million and \$54.5 million for the three and nine months ended September 30, 2022, respectively. The strategic transaction and integration expenses during the three and nine months ended September 30, 2023 were primarily related to consulting expenses and employee costs incurred to integrate our Smiths Medical business acquired in 2022. The strategic transaction and integration expenses for the three and nine months ended September 30, 2022 were primarily related to transaction and integration expenses associated with our acquisition of Smiths Medical on January 6, 2022 which primarily included legal expenses, bank fees, and employee costs. The nine months ended September 30, 2022 also included a United Kingdom stamp tax.

Change in Fair Value of Contingent Earn-out

For the three and nine months ended September 30, 2023, we recorded gains of \$15.6 million and \$12.3 million, respectively, related to a change in the fair value of contingent earn-outs as compared to a gain of \$4.1 million and \$31.3 million, respectively, for the three and nine months ended September 30, 2022, primarily related to the Smiths Medical acquisition. During the three and nine months ended September 30, 2023, the fair value of the Smiths Medical contingent earn-out decreased due to decreases in our stock price.

Interest Expense, net

The following table presents interest expense, net (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------|-------------------------------------|-------------|------------------------------------|-------------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest expense | \$ (25,921) | \$ (21,151) | \$ (76,021) | \$ (51,068) |
| Interest income | 1,746 | 3,343 | 5,210 | 4,765 |
| Interest expense, net | \$ (24,175) | \$ (17,808) | \$ (70,811) | \$ (46,303) |

Interest expense, net for the three and nine months ended September 30, 2023 and 2022 primarily includes the contractual interest incurred on borrowings under the Credit Agreement, the per annum commitment fee charged on the available amount of the revolving credit facility contained in the Credit Agreement, the amortization of debt issuance costs incurred in connection with entering into the Credit Agreement (see Note 17: Long-Term Debt in our accompanying condensed consolidated financial statements) and the impact of the interest rate swaps. The interest expense increased for the three and nine months ended September 30, 2023, as compared to the respective prior year periods, primarily due to increases in the applicable SOFR reference rate. These increases were partially offset by the impact of the interest rate swaps (see Note 8: Derivatives and Hedging in our accompanying condensed consolidated financial statements).

Other Expense, net

The following table presents other expense, net (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2023 | 2022 | 2023 | 2022 |
| Foreign exchange losses, net | \$ (3,010) | \$ (2,072) | (3,349) | (4,587) |
| Loss on disposition of assets | (446) | \$ (1,366) | (973) | (2,321) |
| Other miscellaneous (expense) income, net | (588) | 406 | (1,493) | 2,925 |
| Other expense, net | \$ (4,044) | \$ (3,032) | \$ (5,815) | \$ (3,983) |

Income Taxes

For the three and nine months ended September 30, 2023, income taxes were accrued at an estimated effective tax rate of 235% and 70%, respectively, as compared to 38% and 37% for the three and nine months ended September 30, 2022, respectively.

The effective tax rate for the three and nine months ended September 30, 2023 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, section 162(m) excess compensation, foreign-derived intangible income ("FDII") and tax credits. The effective tax rate for both the three and nine months ended September 30, 2023 included a tax benefit of \$0.0 million and \$6.0 million, respectively, primarily related to unrecognized tax benefits released as a result of the expiration of the statute of limitations. The effective tax rate during the three and nine months ended September 30, 2023 also included a tax benefit of \$0.6 million and \$0.8 million, respectively, related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock during the period. Additionally, the effective tax rate for both the three and nine months ended September 30, 2023 included a tax benefit of \$7.5 million related to U.S. federal return-to-provision adjustments net of related tax reserves. The adjustments related to primarily to changes in estimates for the research and development credit and foreign tax credits. Additionally, the effective tax rate for the three and nine months ended September 30, 2023 also included the nil tax impact of the revaluation of contingent consideration for \$15.6 million and \$12.3 million, respectively.

The effective tax rate for the three and nine months ended September 30, 2022 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, section 162(m) excess compensation, FDII and tax credits. The effective tax rate during the three and nine months ended September 30, 2022 included a discrete tax benefit of \$1.5 million and \$4.1 million, respectively, related to excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period. The revaluation of the contingent consideration during the three and nine months ended September 30, 2022 of \$4.1 million and \$31.3 million, respectively, resulted in a tax expense of \$0.0 million for both periods.

Liquidity and Capital Resources

We regularly evaluate our liquidity and capital resources, including our access to external capital, to assess our ability to meet our principal cash requirements, which include working capital requirements, planned capital investments in our business, commitments, acquisition restructuring and integration expenses, investments in quality systems and quality compliance objectives, payment of interest expense, repayment of outstanding borrowings, income tax obligations and acquisition opportunities in accordance with our growth strategy.

Sources of Liquidity

Our primary sources of liquidity are cash and cash equivalents, our short-term investment portfolio, cash flows from our operations and access to borrowing arrangements.

Funds generated from operations are held in cash and cash equivalents and investment securities. During the nine months ended September 30, 2023, our cash and cash equivalents and short-term investment securities decreased by \$14.0 million from \$213.0 million at December 31, 2022 to \$199.0 million at September 30, 2023. This decrease was driven by a decrease in our accounts payable balances, capital expenditures, principal payments on our long-term debt and the related interest payments. Our short-term investment portfolio currently consists of investment-grade corporate and federal treasury bonds and is primarily intended to facilitate capital preservation.

2022 Credit Agreement and Access to Capital

As discussed in Note 17: Long-Term Debt to our accompanying condensed consolidated financial statements, we entered into the Credit Agreement with various lenders on January 6, 2022 in connection with the closing of the Smiths Medical acquisition. The Credit Agreement provides for a five-year term loan A facility of \$850.0 million (the "Term Loan A"), a seven-year term loan B facility of \$850.0 million (the "Term Loan B") and a five-year revolving credit facility of \$500.0 million (the "Revolving Credit Facility") (collectively, the "Senior Secured Credit Facilities"). The proceeds from the term loans were used to finance a portion of the cash consideration for the Smiths Medical acquisition. The outstanding aggregate principal amount of the term loans is \$1.7 billion as of September 30, 2023, which includes the Term Loan A that will mature in January 2027 and the Term Loan B that will mature in January 2029. The proceeds of future borrowings under the Revolving Credit Facility, which expires in January 2027, may be used as a source of liquidity to support our ongoing working capital requirements and other general corporate purposes. There are no outstanding borrowings under the Revolving Credit Facility as of September 30, 2023. As part of entering into the Senior Secured Credit Facilities, we were assigned issuer and Term Loan B credit ratings. At the date of issuance of this report, our issuer and Term Loan B credit ratings assigned and outlook were as follows:

| | Issuer/Term Loan B Credit Ratings | Outlook |
|------------------------------|--|----------------|
| Moody's | Ba3/Ba3 | Stable |
| Fitch | BB/BB+ | Stable |
| Standard & Poor's | BB-/BB- | Negative |

The Credit Agreement contains financial covenants that pertain to the Term Loan A and the Revolving Credit Facility. Specifically, we are required to maintain a Senior Secured Leverage Ratio of no more than 4.50 to 1.00 until June 30, 2024, with stepdowns to 4.00 to 1.00 thereafter, and an Interest Coverage Ratio of no less than 3.00 to 1.00 (defined and discussed in greater detail in Note 17: Long-Term Debt to our accompanying condensed consolidated financial statements). We were in compliance with these financial covenants as of September 30, 2023.

We believe that our existing cash and cash equivalents along with cash flows expected to be generated from future operations including the cash received from our uncommitted trade accounts receivable purchase facility and the funds received and accessible under the Senior Secured Credit Facilities will provide us with sufficient liquidity to finance our cash requirements for the next twelve months. In the event that we experience downturns, cyclical fluctuations in our business that are more severe or longer than anticipated, fail to achieve anticipated revenue and expense levels, or have significant unplanned cash expenditures, we may need to obtain or seek alternative sources of capital or financing, and we can provide no assurances that the terms of such capital or financing will be available to us on favorable terms, if at all. Our ability to generate cash flows from operations, issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers, deterioration in our key financial ratios or credit ratings or other significantly unfavorable changes in economic conditions. See Part I. Item 1A. "Risk Factors" in our 2022 Annual Report on Form 10-K for discussion of the risks and uncertainties associated with our debt financing.

Uses of Liquidity

Capital Expenditures

At September 30, 2023, we estimate that our capital expenditures in 2023 will be in the range of \$75 million to \$85 million.

Contractual Obligations

Our principal commitments at September 30, 2023 include both short and long-term future obligations.

Operating Leases

We have non-cancelable operating lease agreements where we are contractually obligated for certain lease payment amounts. We assumed additional operating leases as a result of our acquisition of Smiths Medical. For more information

regarding our operating lease obligations, (see Note 6: Leases to our accompanying condensed consolidated financial statements).

Long-term Debt

In January 2022, we incurred borrowings under Senior Secured Credit Facilities. The principal repayment obligations and estimated interest payments on the term loans and estimated commitment fee payments on the revolver are estimated in the table below. Interest payments on the term loans were estimated using an Adjusted Term SOFR rate and an initial applicable margin of 1.75% for Term Loan A and 2.50% for Term Loan B and the revolver commitment fees were estimated using the initial rate of 0.25%. The applicable margin rate and commitment fee rate will change from time to time in accordance with a preset pricing grid based on the leverage ratio (see Note 17: Long-Term Debt to our accompanying condensed consolidated financial statements for pricing grids related to the Senior Secured Credit Facilities). We expect to fund these obligations with our existing cash and cash equivalents and cash generated from our future operations.

| | (in millions) | | | | | | |
|--------------------------------|----------------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|
| | Remainder of 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Thereafter |
| Term Loan A Principal Payments | \$ 5.3 | \$ 42.5 | \$ 42.5 | \$ 63.8 | \$ 664.1 | \$ — | \$ — |
| Term Loan A Interest Payments | 15.6 | 59.6 | 49.5 | 43.5 | — | 0 | 0 |
| Term Loan B Principal Payments | 2.1 | 8.5 | 8.5 | 8.5 | 8.5 | 8.5 | 792.6 |
| Term Loan B Interest Payments | 17.0 | 66.4 | 58.2 | 54.5 | 54.4 | 54.0 | 0 |
| Revolver Commitment Fee | 0.4 | 1.5 | 1.5 | 1.5 | — | 0 | 0 |
| | <u>\$ 40.4</u> | <u>\$ 178.5</u> | <u>\$ 160.2</u> | <u>\$ 171.8</u> | <u>\$ 727.0</u> | <u>\$ 62.5</u> | <u>\$ 792.6</u> |

Other Future Capital Investments

At September 30, 2023, there have been no material changes to our estimate for restructuring and integration expenses along with spending to support quality systems and quality compliance objectives, as previously disclosed in our 2022 Annual Report on Form 10-K.

Indemnifications

In the normal course of business, we have agreed to indemnify our officers and directors to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters related to sales of our products. There is no maximum limit on the indemnification that may be required under these agreements. Although we can provide no assurances, we have never incurred, nor do we expect to incur, any liability for indemnification.

Historical Cash Flows

Cash Flows from Operating Activities

Our net cash provided by operations for the nine months ended September 30, 2023 was \$74.9 million. The changes in operating assets and liabilities included a \$66.7 million increase in inventories, a \$18.9 million increase in other assets, a \$65.0 million decrease in accounts payable, \$42.9 million in net changes in income taxes, including excess tax benefits and deferred income taxes and a \$10.5 million decrease in accrued liabilities. Offsetting these amounts was a \$43.1 million decrease in accounts receivable and a \$11.3 million decrease in prepaid expenses and other current assets. The increase in inventory was primarily to build inventory safety stock levels. The increase in other assets was due to the purchase of spare parts. The decrease in accounts payable was due to the timing of payments. The net changes in income taxes was a result of recording the current deferred provision and the timing of payments. The increase in accrued liabilities was primarily due to employee costs. The decrease in accounts receivable was primarily due to the sale of accounts receivable as part of our accounts receivable purchase program with Bank of the West (see Note 21: Accounts Receivable Purchase Program). The decrease in prepaid expenses and other current assets was primarily due to insurance and property taxes.

Our net cash used in operations for the nine months ended September 30, 2022 was \$60.4 million. The changes in operating assets and liabilities included a \$151.8 million increase in inventories, a \$22.6 million increase in other assets, a \$38.1 million decrease in accrued liabilities, \$63.0 million in net changes in income taxes, including excess tax benefits and deferred income taxes and a \$9.0 million increase in accounts receivable. Offsetting these amounts was a \$20.1 million decrease in prepaid expenses and other current assets and a \$30.4 million increase in accounts payable. The increase in inventory was primarily to build inventory safety stock levels. The increase in other assets was due to the purchase of spare parts and the capitalization of debt issuance costs allocated to the revolving credit facility. The decrease in accrued liabilities was primarily due to the payout of annual bonuses. The net changes in income taxes was a result of recording the current deferred provision and the timing of payments. The increase in accounts receivable was primarily due to the net impact of collection efforts and the timing of revenue. The net decrease in prepaid expenses and other current assets was primarily due to a decrease in deferred costs mostly offset by capitalized debt issuance costs allocated to the revolving credit facility. The increase in accounts payable was due to the timing of payments.

Cash Flows from Investing Activities

The following table summarizes the changes in our investing cash flows (in thousands):

| | Nine months ended September 30, | | Change |
|---|------------------------------------|-----------------------|---------------------|
| | 2023 | 2022 | |
| Investing Cash Flows: | | | |
| Purchases of property, plant and equipment | \$ (53,956) | \$ (68,715) | \$ 14,759 (1) |
| Proceeds from sale of assets | 1,481 | 933 | 548 |
| Business acquisitions, net of cash acquired | — | (1,844,164) | 1,844,164 (2) |
| Intangible asset additions | (7,742) | (6,560) | (1,182) |
| Purchases of investment securities | — | (3,397) | 3,397 (3) |
| Proceeds from sale of investment securities | 2,920 | 36,433 | (33,513) (4) |
| Net cash used in investing activities | <u>\$ (57,297)</u> | <u>\$ (1,885,470)</u> | <u>\$ 1,828,173</u> |

⁽¹⁾ Our purchases of property, plant and equipment will also vary from period to period based on additional investments needed to support new and existing products and expansion of our manufacturing facilities.

⁽²⁾ Our business acquisitions will vary from period to period based upon our current growth strategy and our ability to execute on desirable target companies. On January 6, 2022, we completed the acquisition of Smiths Medical. The cash consideration for the transaction was \$1.9 billion, which was financed with existing cash balances and borrowings under the Credit Agreement. Acquired cash was \$78.8 million.

⁽³⁾ Our purchases of investment securities will vary from period to period based on current cash needs, planning for known future transactions and changes in our investment strategy.

⁽⁴⁾ Proceeds from the sale of our investment securities will vary from period to period based on the maturity dates of the investments.

Cash Flows from Financing Activities

The following table summarizes the changes in our financing cash flows (in thousands):

| | Nine months ended September 30, | | Change |
|---|------------------------------------|---------------------|-----------------------|
| | 2023 | 2022 | |
| Financing Cash Flows: | | | |
| Proceeds from issuance of long-term debt, net of lender debt issuance costs | \$ — | \$ 1,672,631 | \$ (1,672,631) (1) |
| Principal payments on long-term debt | (22,250) | (20,250) | (2,000) (2) |
| Payment of third-party debt issuance costs | — | (1,852) | 1,852 (3) |
| Proceeds from exercise of stock options | 4,022 | 7,906 | (3,884) (4) |
| Payments on finance leases | (681) | (477) | (204) |
| Tax withholding payments related to net share settlement of equity awards | (9,221) | (10,541) | 1,320 (5) |
| Net cash (used in) provided by financing activities | <u>\$ (28,130)</u> | <u>\$ 1,647,417</u> | <u>\$ (1,675,547)</u> |

(1) In January 2022, we borrowed an aggregate of \$1.7 billion under the Senior Secured Credit Facilities to partially finance our acquisition of Smiths Medical (see Note 17: Long-Term Debt to our accompanying condensed consolidated financial statements for additional information). The proceeds were net of \$27.3 million in payments of lender debt issuance costs.

(2) Relates to scheduled principal payments on the Senior Secured Credit Facilities.

(3) Relates to third-party debt issuance costs in connection with entering into the Senior Secured Credit Facilities.

(4) Proceeds from the exercise of stock options will vary from period to period based on the volume of options exercised and the exercise price of the specific options exercised.

(5) During the nine months ended September 30, 2023, our employees surrendered 58,089 shares of our common stock from vested restricted stock unit awards as consideration for approximately \$9.2 million in minimum statutory withholding obligations paid on their behalf. During the nine months ended September 30, 2022, our employees surrendered 45,370 shares of our common stock from vested restricted stock unit awards as consideration for approximately \$10.5 million in minimum statutory withholding obligations paid on their behalf.

Our common stock purchase plan, which authorized the repurchase of up to \$100.0 million of our common stock, was approved by our Board of Directors in August 2019. This plan has no expiration date. As of September 30, 2023, all of the \$100.0 million available for purchase was remaining under the plan.

Critical Accounting Policies

In our 2022 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. There have been no material changes to our critical accounting policies from those previously disclosed in our 2022 Annual Report on Form 10-K.

New Accounting Pronouncements

See Note 2: New Accounting Pronouncements in Part I, Item 1. "Financial Statements."

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Credit Facility

In connection with the Smiths Medical acquisition on January 6, 2022 we entered into the Senior Secured Credit Facilities totaling approximately \$2.2 billion consisting of a variable-rate term loan A facility of \$850.0 million, a variable-rate term loan B facility of \$850.0 million and a revolving credit facility of \$500.0 million. We are exposed to changes in interest rates on all of these variable-rate debt instruments.

The term loan A facility currently bears interest based on Adjusted Term SOFR plus an initial applicable margin of 1.75% per year. The term loan B facility currently bears interest based on Adjusted Term SOFR subject to a 0.50% floor plus an initial applicable margin of 2.5%. We used a sensitivity analysis to measure our interest rate risk exposure. If the SOFR rate increases or decreases 1% from September 30, 2023, the additional annual interest expense or savings related to the term loans would amount to approximately \$16.6 million.

In order to mitigate and offset a portion of this interest rate risk exposure associated with these debt instruments we entered into interest rate swaps to achieve a targeted mix of fixed and variable-rate debt. The term loan A swap has an initial notional amount of \$300.0 million, reducing to \$150.0 million evenly on a quarterly basis excluding its final maturity on March 30, 2027 and we will pay a fixed rate of 1.32% and will receive the greater of 3-month USD SOFR or (0.15)%. The term loan B swap has an initial notional amount of \$750.0 million, reducing to \$46.9 million evenly on a quarterly basis excluding its final maturity on March 30, 2026 and we will pay a fixed rate of 1.17% and will receive the greater of 3-month USD SOFR or 0.35%. In June 2023, we entered into an additional swap with a notional amount of \$300 million with a maturity date of June 30, 2028 and we will pay a fixed rate of 3.8765% starting on June 30, 2023 and receive 3-month USD SOFR. See Note 8: Derivatives and Hedging Activities to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Accounts Receivable Purchase Program

Additionally, our accounts receivable purchase program with Bank of the West bears discount rates tied to SOFR. These variable discount rates would affect the amount of factoring costs we incur, and the amount of cash we receive upon the sales of accounts receivable under this program. A 1% increase in SOFR rates on the accounts receivable sales would not have a material impact on our results of operations.

Foreign Currency Exchange Rate Risk

We transact business globally in multiple currencies, some of which are considered volatile. Our international revenues and expenses and working capital positions denominated in these foreign currencies expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. As the receiver of foreign currencies we are adversely affected by the strengthening of the U.S. dollar and other currencies relative to the operating unit functional currency. Our hedging policy attempts to manage these risks to an acceptable level. We manage our foreign currency exposures on a consolidated basis to take advantage of net exposures and natural offsets, which are then further reduced by the gains and losses of our hedging instruments. Gains and losses on the hedging instruments offset gains and losses on the hedged forecasted transactions and reduce the earnings volatility related to foreign exchange, however we do not hedge our entire foreign exchange exposure and are still subject to earnings volatility due to foreign currency exchange rate risk.

Our foreign currency exchange forward contracts hedge a portion of our forecasted foreign currency-denominated revenues and expenses (principally Mexican Pesos, Euros, Japanese Yen, U.S. Dollar, Chinese Renminbi, Canadian Dollar, and Australian Dollar) that differ from the functional currency of the operating unit. These derivative contracts are designated and qualify as cash flow hedges (see Note 8: Derivatives and Hedging Activities to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q). We performed a sensitivity analysis to estimate changes in the fair value of our foreign exchange derivatives due to potential changes in near-term foreign currency exchange rates. At September 30, 2023, the effect of a hypothetical 10% weakening in the actual foreign currency exchange rates used for the applicable currencies would result in an estimated decrease in the fair value of these outstanding derivative contracts by approximately \$2.6 million.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report. Based on the evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Certain legal proceedings in which we are involved are discussed in Part I, Item 1. "Financial Statements" of this Form 10-Q in Note 19. Commitments and Contingencies to the Condensed Consolidated Financial Statements, and is incorporated herein by reference.

Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our 2022 Annual Report on Form 10-K, as well as the information contained in this Quarterly Report, in each case as updated by our periodic reports and registration statements filed with the SEC. There have been no material changes to the risk factors disclosed in Part I, Item 1A of our 2022 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Purchase of Equity Securities

The following is a summary of our stock repurchasing activity during the third quarter of 2023:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced program | Approximate dollar value that may yet be purchased under the program⁽¹⁾ |
|-----------------------------|---|-------------------------------------|---|---|
| 07/01/2023 — 07/31/2023 | — | \$ — | — | \$ 100,000,000 |
| 08/01/2023 — 08/31/2023 | — | \$ — | — | \$ 100,000,000 |
| 09/01/2023 — 09/30/2023 | — | \$ — | — | \$ 100,000,000 |
| Third quarter of 2023 total | — | \$ — | — | \$ 100,000,000 |

⁽¹⁾ Our common stock purchase plan, which authorized the repurchase of up to \$100.0 million of our common stock, was authorized by our Board of Directors and publicly announced in August, 2019. This plan has no expiration date. We are not obligated to make any purchases under our stock purchase program. Subject to applicable state and federal corporate and securities laws and any restrictions on share purchases under our debt agreements, purchases under a stock purchase program may be made at such times and in such amounts as we deem appropriate. Purchases made under our stock purchase program can be discontinued at any time we feel additional purchases are not warranted.

Item 5. Other Information

(a) None

(b) None

(c)

The following table shows any “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” each as defined in Item 408(a) of Regulation S-K, adopted, modified, or terminated by our directors or “officers” (as defined in Rule 16a-1(f) under the Exchange Act) during the three months ended September 30, 2023. In accordance with our insider trading policy, the trading arrangement shown below was adopted during an open trading window.

| Name/Title | Action | Type of Plan | Adoption Date | End Date | Aggregate Number of Securities to be Sold | Plan Description |
|---|------------|--------------------------|-----------------|------------------|---|------------------------------|
| Virginia Sanzone / CVP, General Counsel | Adopt | Rule 10b5-1 trading plan | August 14, 2023 | August 14, 2024 | 2,050 | Sale of shares |
| Vivek Jain, Chief Executive Officer | Terminated | Rule 10b5-1 trading plan | March 15, 2023 | February 9, 2024 | 206,366 | Exercise and sale of options |

Other than as disclosed above, no other officer (as defined in Rule 16a-1(f) under the Exchange Act) or director of the Company adopted, modified, or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” each as defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Index

| | |
|------------------------------|--|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.INS | XBRL Instance Document - this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| Exhibit 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ICU Medical, Inc.

(Registrant)

/s/ Brian M. Bonnell

Date: November 6, 2023

Brian M. Bonnell

Chief Financial Officer

(Principal Financial Officer and Authorized Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Vivek Jain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICU Medical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2023

/s/ Vivek Jain

Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian M. Bonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICU Medical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2023

/s/ Brian M. Bonnell
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of ICU Medical, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vivek Jain, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 6, 2023

Date

/s/ Vivek Jain

Vivek Jain
Chief Executive Officer
(principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of ICU Medical, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian M. Bonnell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 6, 2023

Date

/s/ Brian M. Bonnell

Brian M. Bonnell
Chief Financial Officer
(principal financial officer)