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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter 2017 Wright Medical Group N.V. Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Julie Tracy. Please go ahead ma'am.

Julie D. Tracy - *Wright Medical Group N.V. - Chief Communications Officer and SVP*

Thank you, and good afternoon, everyone. Welcome to Wright Medical's Fourth Quarter 2017 Conference Call. We appreciate you joining us. I'm Julie Tracy, Wright's Chief Communications Officer. With me on the call today are Bob Palmisano, Wright's President and Chief Executive Officer; and Lance Berry, Wright's Chief Financial Officer.

We issued a press release this afternoon regarding our fourth quarter results, and a copy of that press release is available on our website at wright.com. The agenda for this call will include a business update from Bob, a review of our financial results from Lance, a question-and-answer session and then conclude with closing comments from Bob.

Before we begin, I'd like to remind you that this call includes forward-looking statements, including statements about our outlook for 2018. Each forward-looking statement contained in this call is subject to risks and uncertainties that could cause actual results to differ materially from those projected in such statements. Additional information regarding these factors appears in the section entitled Cautionary Note regarding forward-looking statements in the press release we issued today. More information about risks can be found under the heading Risk Factors in Wright's most recently filed annual report on Form 10-K and subsequent quarterly reports on Form 10-Q, as well as Wright's annual report for the fiscal year ended December 31, 2017, anticipated to be filed by Wright with the SEC, today or tomorrow, as supplemented by our other SEC filings. Our SEC filings are available at www.sec.gov and on our website at wright.com.

The forward-looking statements in this call speak only as of today, and we undertake no obligation to update or revise any of these statements. Our earnings release in today's discussion includes certain non-GAAP financial measures. Please refer to the reconciliation, which appear on the tables of today's press release and are otherwise available on our website.

Note further that our Form 8-K filed today provides a detailed narrative that describes our use of such measures. Unless otherwise noted, today's discussion refer to results from continuing operations. Also note that, unless otherwise noted, all growth rates discussed today are on a non-GAAP constant currency basis compared to the prior year quarter.

Before I turn the call over to Bob, I did want to mention that Wright will be holding an Investor and Analyst Breakfast during the American Academy of Orthopaedic Surgery Annual Meeting in New Orleans. This event will take place on Wednesday, March 7, from 7 a.m. to 8:45 a.m. Central Time at the Westin Canal Place Hotel and will feature an informal Q&A with Bob, Lance and members of our management team. We're also honored that upper extremities specialist Dr. Jon Warner, and lower extremities specialist Dr. Holly Johnson and Mr. David Redfern will be sharing their clinical perspective. If you're interested in attending the breakfast or visiting us for an exhibit booth tour, please e-mail me at julie.tracy@wright.com to register. If you'd like more information about the AAOS Annual Meeting or agenda, please visit aaos.org. We look forward to seeing you there.

With that introduction, it's now my pleasure to turn the call over to Bob Palmisano. Bob?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Thanks, Julie, and welcome to our fourth quarter earnings call. On today's call, we'll be covering our results for the fourth quarter and providing our 2018 guidance. As we've previously announced our Q4 net sales results, I will be focusing the majority of my comments on our outlook for 2018.

As previously reported, our fourth quarter results represent an outstanding performance in our U.S. upper extremity business, which grew net sales 29% including the benefit of 4 extra selling -- business selling days, which we estimate to be in the range of 4.5% for the total company. This performance was driven by the launch of our PERFORM Reversed Glenoid and continued contribution from our SIMPLICITI shoulder system. The performance of the upper extremities business was excellent throughout 2017, and Q4 was our strongest quarter of the year.

As anticipated, we did not see any benefit in the fourth quarter in our U.S. lower extremity business from the sales force expansion. We also had some supply constraints primarily related to a third-party coating vendor in the fourth quarter, which we believe had been addressed. However, this affected our total ankle business during the fourth quarter. Overall, the fourth quarter net sales and EBITDA results were at the high end of the ranges we provided on the third quarter call.

For the full quarter -- for the full year 2017, we delivered strong performance in multiple areas. In addition to the breakout performance in our upper extremity business, we also had strong growth in our more technically advanced products in our lower extremity business. Also, our gross margins continue to be excellent and increased to approximately 79% for the full year. And despite lower-than-expected sales levels, we continue to make significant progress on our non-GAAP adjusted EBITDA margins and delivered on our original expectations for EBITDA margin expansion. There are also areas of the business that performed below expectations, in particular our core foot and ankle business, where we did not get the anticipated contribution from our expanded sales force. We look forward to improving in that part of the business in 2018 and getting it back to the type of performance we have come to expect.

I will now turn my focus to our guidance for 2018. I continue to be optimistic as we look forward. We are in 3 of the fastest growing markets in orthopedics. Additionally, we have focused sales organizations, highly differentiated products and a product pipeline that I believe will continue to fuel our growth in 2018 and beyond. I believe that we are all set up for double-digit net sales growth and significant margin expansion in 2018 and beyond.

Our 2018 net sales guidance assumes improving underlying constant currency growth of 9% to 11%, resulting from continuing strong growth in upper extremities and improving growth rates in our lower extremities businesses. The growth of -- growth in upper extremities will continue to be driven by new products, specifically the PERFORM Reverse Shoulder, SIMPLICITI shoulder and the adoption of BLUEPRINT. On the lower extremities side of the business, we believe continued strong growth in our technologically advanced products, combined with new core foot and ankle products, such as minimally invasive surgery, ankle fracture and small bones fracture, as well as the additional maturity of our expanded sales force will drive improving growth rates throughout the year. We anticipate this will result in growth rates in line with or better than market rates of growth as we exit 2018.

From an EBITDA perspective, our guidance assumes continued significant EBITDA expansion and keeps us on track to achieve our 20% -- our goal of 20% EBITDA margin in the second half of 2019. I am confident that our 2018 ranges are achievable and have been set appropriately based on the current trajectory of our business, and I am optimistic about our prospects for continuing to improve beyond 2018.

With that, I will now ask Lance to provide further details on our fourth quarter results and our 2018 guidance. Lance?

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Thanks, Bob. As we get started, please note that unless otherwise stated, all of today's discussions regarding our sales growth rates refer to our constant currency growth rates compared to the prior year quarter. And our results of operations refer to our as adjusted results, which are non-GAAP financial measures, as described by Julie during the introduction of our call. Unless otherwise noted, today's discussions refer to results from continuing operations. Please refer to the non-GAAP reconciliations in our press release.

Globally, our net sales grew 11.2%, including the benefit of the 4 extra selling days. We estimate the impact of the 4 extra days to be approximately $9 million or 4.5 percentage point positive impact to the total company. Underlying this performance was the exceptional growth in our U.S. upper extremities business, driven by the launch of PERFORM Reversed and the continued contribution from SIMPLICITI. As we expected, the lower extremities business and biologics add some performance to Q3. As Bob mentioned, the total ankle business was impacted by a supplier issue, which we believe has now been resolved. Total ankle growth in Q4 was 10%, including the extra week. We did continue to see some impact in January, but growth rates in February were in the mid-teens and back in line with the type of growth we expect from the total ankle business. International net sales grew approximately 4%, including the extra week. International was less impacted by the extra selling days but with still low growth coming off a tough year, prior year comparable. Overall, Q4 net sales came in at that the high end of the guidance we laid out in the Q3 call.

Now moving on to some detail below the sales line. Please note that all of my discussions will refer to our continuing operations results. Beginning with our Q4 adjusted gross margin, we achieved 78.8% for the quarter, a 120 basis point improvement over prior year. As for the line items making up our Q4 operating expenses, selling, general and administrative expenses, as adjusted, totaled 64.5% of net sales for the fourth quarter compared to 68.7% in the prior year period. The decrease, as a percent of sales, was primarily driven by continued leverage from incremental revenue. The fourth quarter also benefited from significantly lower levels of incentive compensation year-over-year due to the full year net sales performance. R&D expense, as adjusted, was $13.1 million in Q4 of 2017 and $13.9 million in Q4 of 2016. And finally, amortization expense was approximately $6.8 million in Q4 of 2017 compared to $7.4 million in the prior year period. Below the operating income line, net interest and other expense was $9.2 million for Q4.

For share count, our Q4 per share results, as adjusted, are based on average diluted shares of $106.6 million for Q4. Altogether, this resulted in adjusted EBITDA of $38 million and 17.4% of net sales for the quarter. For the full year of 2017, we delivered just over 400 basis points of EBITDA margin expansion. We had a benefit of a little over 100 basis points due to lower levels of incentive compensation, which we anticipated when we provided our EBITDA guidance on our Q3 call. After adjusting for this benefit, we produced EBITDA margin expansion of approximately 300 basis points, which is in line with our original expectation for the year despite lower than anticipated sales levels.

From a cash standpoint, our total cash balance at the end of Q4 was approximately $167.7 million. None of this balance is considered restricted cash on our balance sheet as we dispersed all of the remaining escrowed funds related to the metal-on-metal master settlement agreement during the fourth quarter.

I will now discuss our 2018 full year guidance. Consistent with Wright's past practice, please note that our guidance ranges and assumptions for 2018 exclude any consideration for the effect of potential future acquisitions or any other possible material business developments. Additionally, it is important to note that we will be using a number of non-GAAP financial measures to describe our outlook for the business. In particular, unless stated otherwise, all of today's discussions regarding our financial guidance refer to our as adjusted results of continuing operations. Our press release issued today notes those items that are excluded from our as adjusted results.

Starting now with sales. As stated in today's press release, we anticipate net sales for full year 2018 of approximately $800 million to $812 million. This guidance range assumes about 1 percentage point of cushion as compared to current currency rates, a negative impact of approximately $9 million due to 4 fewer selling days in the fourth quarter of 2018. There is no impact included in this guidance for a U.S. launch of AUGMENT injectable. We're not providing any updated commentary on injectable today. As has been the case, we still expect that it will be approved, but we are unable to predict timing, and therefore, we will not be including any impact in our guidance until the product is actually approved.

This range implies full year 2018 constant currency net sales growth of 9% to 11% when adjusting for the estimated $9 million impact of the 4 fewer selling days in the fourth quarter of 2018. We also expect to divest the international Salto ankle business at some point during 2018 but do not expect it will have a meaningful impact on the constant currency growth rate. In total, our sales growth rates are expected to be slightly above market rates of growth.

To assist you with your modeling, I also want to provide some directional comments on some of the components of net sales. Unless otherwise noted, these growth rates are constant currency and are adjusted for the impact of the 4 fewer selling days.

In the U.S., we expect upper extremities to be the fastest-growing part of the business, with growth rates in the mid- to high teens as our shoulder product launches continue to fuel growth well above market rates. We anticipate that upper extremities revenue growth will be higher in the first part of the year and lower but still well above market rates in the back half of the year as we face tougher comparables and increased competition with stemless shoulders. We are still early in the PERFORM Reversed launch, and we are continuing to aggressively add new sets to meet current demand and access the backlog of potential new customers that we have not yet been able to turn on.

In the U.S., the lower extremities business is expected to grow in the mid-single digits for the full year, driven by total ankle growth in the mid-teens and core foot and ankle growth in the low- to mid-single digits. The lower extremities growth rate is expected to improve throughout the year driven by the impact of new product launches and result in growth rates in line or above market as we exit 2018.

From a new product perspective, we will have a full year benefit of our ORTHOLOC ankle fracture and small bones fracture systems, which were launched in the second half of 2017. We have seen very strong demand for these products and are rolling out additional sets throughout the first half of 2018 to realize the full potential of these products.

Our most important 2018 product launch for core foot and ankle is our minimally invasive system. This system will initially be focused on a few forefoot procedures and will be expanded to additional procedures over time. The system has been on the market internationally for several years and has been extremely successful. The system is currently in limited user release in the U.S., and feedback has been excellent. We expect strong demand for this system when it is fully launched towards the middle of the year.

Finally, we plan to launch a number of line extensions to the SALVATION Charcot system, which are expected to drive ASP increases on current procedures as well as drive further penetration of the market.

The expected contribution to core foot and ankle from new products is meaningfully more than we have had in the past several years. The new product impact alone could drive most of the expected improvement in the growth rates from the slight declines we were experiencing currently to mid-single-digit growth exiting the year. In addition to the benefit from new products, we will also be focusing on improving the execution of our expanded sales force and implementing initiatives to help us better compete in the ASC market.

Finally, our guidance does not contemplate any meaningful acceleration in the total ankle market due to the launch of our INVISION Revision system or the favorable reimbursement changes that went into effect in the fourth quarter of 2017. All these factors together give us confidence in achieving these numbers.

U.S. biologics is expected to grow in the low single digits. AUGMENT is now in its third year on the market. And although we still anticipate strong market growth from this excellent product, we do not expect the supercharged growth we have seen since it was launched. We are planning on some improvement in core bio as we improve our underlying core foot and ankle business. Additionally, we have introduced some bio products into the upper extremities sales force and expect some incremental benefit year-over-year from this expanded distribution.

International net sales are expected to grow in the high single digits on a constant currency basis, driven by continued strong performance in biologics and acceleration of upper extremities growth. Our shoulder portfolio is differentiated in the international markets as well, particularly with the launch of PERFORM Reversed. To date, we have been more heavily focused on putting incremental sets into the U.S. market. As we move through 2018, we intend to put more PERFORM Reverse into the international market, which we believe will drive accelerating growth rates. As is typically the case, you should expect to see some variability across the quarters in the international growth rate.

This completes my prepared comments on net sales.

Turning now to the P&L. Our outlook for full year 2018 non-GAAP adjusted EBITDA is in the range of $104 million to $111 million as we expect revenue growth to drive continued leverage in SG&A. As we stated earlier, 2017 EBITDA margin was benefited by a little over a percentage point due to lower levels of incentive compensation. When adjusting for the lower levels of incentive compensation we had in 2017, the guidance assumes 250 to 300 basis points of EBITDA margin expansion in 2018.

At the midpoint, our 2018 non-GAAP adjusted EBITDA guidance represents approximately 15 full percentage points of EBITDA margin improvement over the past 3 years, 2016, 2017 and 2018 and puts us on track to achieve our goal of EBITDA margins of approximately 20% sometime in the second half of 2019.

From a line item perspective, we continue to expect gross margins to be generally consistent with what we saw in 2017 at approximately 79%. We expect to increase our investment in R&D from slightly below 7% of sales to slightly above 7% of sales. In general, our EBITDA margin expansion will be driven by SG&A leverage.

To assist you with modeling EBITDA, I want to provide you with our outlook for depreciation expense, which, for the full year 2018, we expect to be in the range of approximately $59 million to $60 million as compared to $57 million in 2017. Stock-based compensation expense is anticipated to be in the range of $27 million to $28 million. Amortization is expected to be in the range of approximately $7 million per quarter.

Now let's touch briefly on the items below the operating income line. Our expectation for interest and other is approximately $8.5 million per quarter. Due to the valuation allowance on our NOLs, we do not expect an income tax benefit in 2018. We expect to have approximately $6 million in tax expense related to profits and taxable jurisdictions.

The company estimates approximately 107 million diluted weighted average ordinary shares outstanding for fiscal year 2018. If the company were in a net income position, diluted weighted average ordinary shares outstanding for fiscal year 2018 is estimated to be approximately 108.4 million shares.

Briefly as it relates to cash, excluding the hip product liabilities net of expected insurance recoveries, the BioMimetic milestone payment and any IMASCAP-related milestones, we expect to be cash flow positive in 2018. We have adequate cash on hand and availability on our line of credit to cover the hip product liabilities net of expected insurance recoveries, the BioMimetic milestone payment and any IMASCAP-related milestone payments.

Although we are not actively looking to grow through M&A, we are always looking for differentiated technologies in our space. We are trying to lead the extremities space from a technology standpoint, and we have to be prepared to do acquisitions if we decide there are technologies we need to own, such as BLUEPRINT. We do not have any immediate need for additional liquidity. However, as we indicated earlier this year, we will opportunistically evaluate options for enhancing liquidity and plan to evaluate all our options during the year.

As it relates to quarterly guidance, as was the case in 2017, for 2018, we will update our annual guidance each quarter but will not be giving guidance expectations for the current quarter. We do want to provide you with information on the expected cadence of our business to assist you in modeling our quarterly performance.

Overall, we expect constant currency sales growth rates to be somewhat lower in the first half of the year and then accelerate to double digits in the back half of 2018 as we expect to benefit from our new product launches and increasing productivity from our lower extremities sales force.

Including the negative impact of the lower levels of incentive compensation in 2017, our adjusted EBITDA margin is expected to improve by 150 to 200 basis points. We expect this improvement to be fairly consistent from the first half to the second half of the year.

In closing, we entered 2018 in a great position strategically. We still have plenty of opportunities for improvement. We are focused and have leadership positions in high-growth, high-margin markets, and our product portfolios and focused sales forces give us advantages in those markets. We are delivering outstanding performance in the upper extremities business and believe we have a solid plan to get the lower extremities business back on track. We have best-in-class gross margins that we have continued to drive incrementally higher. We have made tremendous progress on our EBITDA margin expansion efforts over the past 2 years, and we have ongoing opportunities to significantly improve in this area.

Overall, we still have significant opportunities to improve the performance of the business, and we will be attacking them aggressively in 2018.

With that, we would now like to open up the call to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Robbie Marcus of JPMorgan.

Unidentified Analyst

This is actually Christian on for Robbie. Just want to first start with the EBITDA outlook, that the EBITDA, you're still targeting 20% for the second half of 2019. What are kind of the upcoming product launches in longer-term time frame in 2019 that will get you there incrementally from where guidance for 2018 stands?

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Yes. So this is Lance. So we're not really necessarily looking at new product launches to drive us getting to the 20% EBITDA margins other than, obviously, new product launches are a key component to us, maintaining double-digit or better revenue growth. And that revenue growth is really important for our EBITDA margin expansion. If you just look at '17 and the '18 guidance together, it's about 600 basis points total EBITDA margin expansion. And the lower level of incentive compensation create some noise from year to year. But adjusting for that, it's about 300 basis points a year. And if we continue making that type of progress, we should hit our 20% EBITDA target sometime in the second half of '19 and be on a good trajectory from that point forward.

Unidentified Analyst

Great. And then maybe one just on the upper extremities business and shoulder. Have you seen any impact from recent competitive launches? The reverse shoulder, short-stem shoulder there? Just what do you see in terms of the competitive dynamics? You've done a good job growing ahead of the market in that business. And do you think you'll be able to sustain that going forward?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, we did -- in the fourth quarter, we grew 29%, so we hadn't really seen much of an effect of that, not to say that these won't have some effect over time. But we've been competing in Europe for many years against competitors, short-stem shoulder systems, and have steadily been able to gain market share and to grow our business above the normal market rates. So we think we're well positioned. We think 2018 will be another terrific year in upper extremity. I don't think we're going to see the -- a repeat of the 29% kind of growth we saw in Q4. But we should be able to sustain growth in the high teens, high to mid -- mid- to high teens, we feel over a long period of time.

Operator

Our next question is from Craig Bijou with Cantor Fitzgerald.

Craig William Bijou - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

I want to start with upper extremities, and you guys have obviously seen strong growth there, and I understand that new products are contributing there. But you haven't talked much about moving into the hub network. And I know you guys did that a quarter early, I believe, in '17. So just want to get your thoughts there. How much of that is contributing to the growth? And maybe, what you've seen, thus far, from a rep productivity level on the upper side. Because I know you saw some strong improvement on the lower side when you did it a few years ago.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, we expect to get that increase in productivity over time. However, it's been really too short a period of time to claim that we have in upper extremity -- we did this in Q3 and Q4 of last year. We saw strong growth obviously in that period of time. But everything was pretty much in our -- I would describe that coming on a fire drill kind of mode. The growth was so strong that we were moving things around more than we had anticipated from hub to hub and from our distribution centers into -- right directly into surgeries. So we haven't really seen the benefit yet from the movement of the upper extremity inventory into the hubs. We anticipate that certainly in 2018 that we will see some -- we will see both cost benefits. We should be able to get kits to surgery better and we should be able to free up sales reps' time that would help them get new customers and service their customers as opposed to moving inventory around. But in Q4, the growth was just so phenomenally strong as that we were just trying to cover cases as best we could. So we didn't see any benefit in that period of time.

Craig William Bijou - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Okay. That's helpful. And then I wanted to ask about you guys evaluating, enhancing your liquidity. And I mean, obviously, you said it's opportunistically that you're looking at it. But is there any way or any color that you can provide in terms of timing or the method of capital raise that you may do? Or if not, what specifically you would do? What you may not do? Or what we could rule out? Any color there would be helpful.

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Yes, Craig. At this point, we're really evaluating all of our options. And the other thing that we need to keep in mind is kind of the nearest tranche of our convertible debt. Although it's not due real soon, it's not that far out either, and we have to keep that in mind. That's going to need to be refinanced at some point as well. And so we're trying to just take all those things into consideration. Ideally, you would always have availability at the time you wanted to go do an acquisition as opposed to trying to go get it after you've identified the acquisition. It's not an imperative, but that would be ideal. So we're trying to keep all those things in mind as we evaluate our options, but I can't give you any specifics around timing in nature at this point.

Operator

Our next question is from Matt O'Brien of Piper Jaffray.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

This is Will on for Matt. First question is in regards to the BLUEPRINT assets that you just acquired. Just curious on how you plan on monetizing that software, and if there's any capital equipment that you plan on rolling out with that as well. And then is there a separate sales force that you plan on introducing with that rollout?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

No. The -- we don't charge for the BLUEPRINT. We will monetize it, we believe, through increased use of our products because it only works with our products. And we -- so we expect big things. This is a kind of breakthrough technology. It reminds me a lot of our lower extremities business, PROPHECY. PROPHECY now is 70% of -- all of our -- all our total ankle cases, and 50% of all total ankle cases done in the U.S. So it's a big deal. Doctors love the enabling technology. BLUEPRINT is a step beyond PROPHECY in some respects in that it's software and provides interoperative -- preoperative and intraoperative help to doctors as they go through these complex shoulder surgery. It integrates augmented reality and artificial intelligence eventually into the whole system. So we think that our objective is to make this as easy as possible for surgeons to have the best outcomes that they could possibly have and increase their productivity as well. So we're at the beginning stages of this. I do believe that it will follow a similar path as did PROPHECY in lower extremity and in a period of time, couple of years, will be a dominant technology in shoulder surgery.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

Great. And then with regards to lower extremities, but the issue was the coating from your third-party vendor. It sounds like that issue is behind you. But looking forward, what gives us confidence that, that's behind? And how do you see the growth in that business for 2018?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

I think that the total ankle business will continue -- will grow at mid-double digits. I think that's the way we see it. The issue that we had in coating did slow us down a little bit in the fourth quarter and leaked over a little bit into January. But our February results are really, really strong, and we see that continuing. So -- and we also have some product introductions in total ankle later in the year or early in 2019. I think that will take some of the guesswork out of coatings, and we will be able to do that a little bit better. So total ankle business is very healthy. Our place in it is very strong. We're growing about double the market, and we see that continuing.

William George Inglis - *Piper Jaffray Companies, Research Division - Research Analyst*

And one just quick follow-up with regards to upper extremities. Have you been building out instrument sets in 2017 for the expected increase in demand? Is supply then kind of the gating factor there? Or any color there would be helpful.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, that's a good question because the instrument sets take many months to complete. We don't make them. We buy them. So that we have to kind of be ahead of the curve. I think in '17, we did deliver all the instrument sets we had planned to. We see a big increase in the amount of instrument sets that we are producing for 2018. We feel this will be a big part of driving our international business in '18 in that we tended to supply the U.S. market first and the international market second. And so international did not get what they needed or what they desired in '17, and we're correcting that right as we speak. So it's a good question, and we're -- and we think we're on top of it. But it's something that, because of the long lead times involved, we really have to be good at this. I think that we are good at it right now. So...

Operator

Our next question is from Richard Newitter of Leerink.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Bob, just wondering, your guidance calls for 9% to 11%. Do you still see the company as a mid-teens grower beyond 2018 as some of the lower extremities issues normalize?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

No, I mean, we -- what we said as we guided into 2017 is that we were focusing more on double-digit growth. We still think that mid-teens growth is attainable over time. But the slowdown that we saw in '17 gave me a little bit of pause, so we thought that it would be more appropriate to guide towards double-digit growth than mid-teens growth. That's a little nuanced. But we think that over time, we might be able to get to a mid-teens growth. But let's just focus on '18 and -- or so now at the double-digit area and see where we go.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Okay. That's helpful. And then, Lance, I think you had mentioned that you could get to your lower extremities full year low to mid-single-digit growth rates with just the new product contribution that you have coming through that division alone. I guess, my question is, is there any signs to suggest that the rep productivity hasn't started to kind of yield benefits yet? You're hopeful it will come. But it's not yet coming? And that's kind of -- you could get there through new products? And then I have a follow-up to that.

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Well, just to clarify my comments, we're expecting mid-teens growth in total ankle. And then on the core, the improvement from where it is today to where it needs to get -- the new -- I did say the new product contribution alone can bridge most of that gap. We are expecting the sales force to improve. It's a maturing sales force. But I just -- as far as our level of confidence in getting there, new products obviously always help, and we have a much greater contribution from new products in '18 than we've had the past couple of years. And, Bob, I don't know if you want to talk about the sales force.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

No, I think that the sales force is maturing. We're now on our about the third quarter now of having this sales force in place. We did have a lot of, as we called it, disruption last year particularly at the beginning. I think that it all has -- that pretty much has died down. We just had our sales meeting, our 2018 National Sales Meeting last weekend. It is a very enthusiastic group. They are raring to get going. They have great new products that they can deal with. And I think that the kind of noise we saw around carving out territories and breaking up kind of the relationships that people had, I think that's pretty much in the past. So -- but as Lance said, I think that, that's yet to be seen, and we think that there's upside there. But if you just look at the new product launches in and of themselves, you get to the kind of growth rate that's included in our guidance.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

Okay. But -- that's clear. So your guidance doesn't assume necessarily both firing. It's you can get that there with rep productivity, no new products, and new products alone should be able to get there. I guess, Bob, just to follow up on that, is it fair to assume that you believe that the increased feet on the street, in hindsight, 3 quarters in, was the right strategy? There's nothing structural in the market with pricing getting more difficult? Or some of your larger competitors potentially changing the competitive landscape in any way, surely an identifiable issue where increased feet on the street was the right solution?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, I believe that -- I wish we could have done it better in 2017. But I think that, that was still the right strategy to do. We're -- our sales force evolved into kind of an elite group of folks that were selling these high technological products. And they were not focused at all on these -- on the core products, which I guess are less sexy and actually less commissions, if you look at it that way. So when we put our new sales force together, it was meant to address that. We have enough people calling on surgeons and that were doing core procedures as well as the technologically advanced procedures. The evolving marketplace, there are some changes that we've talked about in the past that continue -- do continue to be there. That is a movement in core products to more of an ASC setting. We recognize that and have now adjusted to that. It's a -- there -- and some of our in new products, specifically our minimally invasive surgery products, are really geared towards that -- to that phenomenon, and I think will be helpful. It's a -- no, nothing static. Things change. I think the core market is dynamic and is changing. More ASCs, less in the hospitals, and we have products. And now we have a sales force, I think, that can handle that.

Operator

Our next question is from Joanne Wuensch of BMO Capital Markets.

Matthew Donald Henriksson - *BMO Capital Markets Equity Research - Associate*

This is Matt Henriksson in for Joanne. With -- just following up on the lower extremities sales force. Are you going back and retraining some of these sales reps? Or are they out on the street getting their feet wet?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

They've been hired and have been out on the street. There's always retraining going on. I mentioned that we just had our National Sales Meeting. It was 2 days, and it was really geared around enhanced training. It was really a training activity meeting, so that continues. That always continues. But the hiring and the initial training, the -- what we call Core 1 and Core 2 training, that's pretty much all taken place. And so we are now having -- I think we will get the benefits of a more mature organization in 2018.

Matthew Donald Henriksson - *BMO Capital Markets Equity Research - Associate*

That's helpful. And then following up on BLUEPRINT. With your press release, you mentioned how it's going to become -- come at no cost to physicians with the implant with Wright's shoulder products. How do you make that profitable given the acquisition price?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

It keeps us ahead of competition and lets us have accelerated growth rates. We're looking at high -- I keep on saying we had phenomenal growth last year, and we're looking at mid- to high-teens growth rate this year in shoulder. We want to be able to continue that kind of growth rate. Two years ago, we were the #3 shoulder company in the world. Now we're #2. And I think that we have our sights set in the next year or 2 -- 2 years apart or so to be the #1 shoulder company, and that's how we monetize that.

Operator

Our next question is from Anna Nussbaum of William Blair.

Anna Marie Nussbaum - *William Blair & Company L.L.C., Research Division - Associate*

This is Anna in for Kaila. With some concerns about EBITDA guidance going into today given the IMASCAP acquisition and other onetime items. Maybe could you guys help us remember the status of some of those cash flows that will be going out over the next few months? And then just were you in a cash generating position in the quarter?

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Sure. So there was a question about EBITDA and then a question about cash. On the EBITDA side, the main item really to keep in mind was the lower levels of incentive compensation in 2017. Now that really drove greater than anticipated EBITDA margin expansion in '17, but that's a headwind for '18. So it's naturally almost a year-to-year thing. And other than that, if you normalize -- it's about 300 basis points of expansion in both years, which is -- keeps us right on track for what we want to get. On the cash side, we did make quite a few payments on the metal-on-metal settlements. And then so basically, we have less cash, and we have less to pay out. If you add it all together, really, our net position is pretty similar to what we talked about at JPMorgan that was really as of the Q3 call. So our kind of net availability, if you take our cash and our line of credit and subtract out those big payments we have to make in '18 for the remaining hip product liability settlements, the expected AUGMENT milestone payment, and then it's possible we could have some IMASCAP milestone payments, we're in about the same position as we were before. And yes, excluding the hip product liabilities, we were cash positive in the fourth quarter.

Operator

Our next question is from Young Li of Barclays.

Xuyang Li - *Barclays Bank PLC, Research Division - Research Analyst*

Maybe one on quarterly cadence, just for the top line growth rate. When you layer in some of the improvement contributions from the new sales reps on the lower extremities side and then also some of the new product launches, I guess should we be thinking more of a back half-loaded growth ramp? Or is it -- or do you see more of a linear growth ramp for the year?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, I think it's going to kind of even out. I think the -- in upper extremity, the growth rate will be higher in the first half of the year and less so in the second half of the year as we anniversary the launch of the PERFORM Reversed Glenoid product in the third quarter of last year. On the lower extremities side, I think it will be the opposite of that, where we'll start out with lower growth rates and accelerate through the year, where we exit the year with what we consider to be close to market growth rates at -- by the end of the year. So the 2 businesses are kind of like not in the same sequence of growth, but we'll wind up in the spot that we think we have given guidance of, of 9% to 11% at the end of the year.

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

And maybe just to add onto that, if you think about we exited the year with roughly 7% constant currency growth. We might see some small improvement off of that in Q1 and then really some steady improvement throughout the year to get you to the full year at the 9% to 11%.

Xuyang Li - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Great. That's really helpful. I guess another question on biologics. It was sort of thought of as a segment that could potentially be the fastest growing of the 3. And I guess, just wondering, is there an opportunity to return to fastest-growing status? Is it going to be mostly dependent on the AUGMENT injectable approval? Or is there anything else you can do to return to faster growth in that segment?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, yes, there -- look at it in 2 ways. The -- look at AUGMENT and then look at our, what we call, core bio. Last year, I think our AUGMENT grew above 30% for the year. We think that's going to come down some and be in the mid-teens growth area for 2018. The core bio results have a lot to do with the growth of our core lower extremity products, our core products as -- because that's where those -- that's where that -- those bio products are used. So that should pretty well mirror our core -- core bio and core products should be close together. And as Lance has said, we think that should be in the mid-single-digits for the year. But AUGMENT should be in the mid-teens. And we have not in our guidance given any incremental thought to the effect of AUGMENT injectable because it's not approved, and we don't know when it'll be approved. And so that -- we'll see how -- we'll see when that is approved, and we might have some additional upside at that point of time. But we have no idea when that will happen.

Operator

Our next question is from Mike Matson of Needham & Company.

Michael Stephen Matson - *Needham & Company, LLC, Research Division - Senior Analyst*

So I guess first, I just wanted to ask about -- in the lower extremities business, maybe you can elaborate on the steps that you've taken to try to improve the sales efforts in the ASC setting.

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Yes, Mike. This is Lance. I'll take a shot at that, and then Bob can add. First thing, as Bob talked about, was expanding the sales force and getting more people focused on the core foot and ankle procedures, which are a lot of them are done in the ASC settings. So that was step one. There are some things that we've identified that we need to do to be able to compete better in the ASC market. I would say we have not competed well at the ASC level. Some of these things are pretty straightforward, just have to do with how we manage inventory in and out of the ASC, how they want to be billed by procedure. It's just a little bit different from a hospital, and we were very geared towards the historical way we've done it for hospitals, and we were just making it a little harder for ourselves. So we're in the process of addressing those things currently, and although not real complicated we think will help quite a bit. And then the last thing is the new products, and in particular the minimally invasive is just geared perfectly for an ASC-type procedure. And even already in the limited release, there's a lot of excitement about using that in the ASC setting. And so having a new product that you can go and talk to a customer about is always very helpful for driving new business. So we think those 3 things, expanded sales force, kind of removing some internal barriers and then doing some new products, will help us compete a lot better.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

I think, Mike, I'd also add is that it's a matter of focus. A year ago, quite frankly, we did not have any sales reps focused solely on core products, which are basically the ASC products. Now about half our sales force, actually 48% of our sales force is now focused on core products. And so they have to -- in order to make a living, they have to sell them. And that the primary distribution point for that is becoming more and more the ASC setting, so I think that we have a good plan. This is one of our corporate vital few. One of the 4 or 5 things that we think is vital for us to achieve in 2018. And usually, when we have that amount of focus on something, we're pretty successful at it, and I think we will be here also.

Michael Stephen Matson - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. And then just on AUGMENT injectable, I know you can't really give us any guidance around when you are expect it to be approved. But what I was wondering is, clearly, you expect it to accelerate the growth of the biologics business. Is that growth benefit going to come from increased utilization? Are you -- and price? Are you expecting to get a price premium on this and get a mix benefit as it cannibalizes the regular AUGMENT product?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, we think that it will cannibalize the regular AUGMENT product. I don't think pricing has been totally decided yet, but I don't think there'll be much of a change. We -- the downside of having a price change is we'd have to go back through the bioanalysis committees at the institutions. We don't want to have to do that. So I think that pricing is probably going to be pretty close to what it is today. It will cannibalize our current product. But where we have launched injectable in our international markets, we saw -- we have seen about a 30% uptick. The handling characteristics of the current AUGMENT with the crystals and the pace is pretty tough. And doctors do shy away from it and only tend to use it in -- where they have pretty large voids to fill, whereas the injectable is much more suitable for a broad range of products, easier to use, and we expect that we will see increases hopefully similar to what we saw in international markets once this is on the market.

Operator

Our next question is from Travis Steed of Bank of America.

Travis Lee Steed - *BofA Merrill Lynch, Research Division - VP*

So it sounded like you noted a little bit of your 2018 guidance for upper extremity included some incremental headwind from competition in the second half. So maybe are you assuming maybe a 1% to 2% headwind from the incremental competition? And also, maybe talk about how you're preparing your sales force in the U.S. to go up against the new stemless shoulder? Anything you're doing ahead of time to prepare for their launch?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, I think that the headwinds more are on tough comps for us versus last year. So we're saying mid- to high-teens growth in shoulder, U.S. shoulder for the year and more in the -- higher growth in the beginning and lower growth in the end, but primarily because of the comps. We do anticipate people will try competitors' products. That's what they do, and we expect that. We have competed against these products internationally and have done very, very well. And I think that the -- really, the most important things are the quality of the products, the training as well as BLUEPRINT. And no one has those things. And so when you add that all in, I think that even if people try competitors' stemless product, which I anticipate some will, is that they're not going to be able to offer the full suite of assistance and products that we have, and we should be able to continue on our merry way and have super high growth rates.

Travis Lee Steed - *BofA Merrill Lynch, Research Division - VP*

Okay. Can you also talk about in the lower business, especially in the core, where you brought in new reps? Just talk about how the relationship-building process is going? It seems like it could take a decent amount of time to disrupt some of these year's long relationships that they've had with some of the smaller distributors. And what's the value proposition that your new reps are leading with? And also, secondly, is there anything to note different in the market with total ankle reimbursement being better?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

The second part is on the total ankle, we anticipate this to be meaningful over time. We have -- it just -- it was just enacted in Q4. So I think that the reimbursement of total ankle will be meaningful over time. And we will -- since we have 70% market share, I think we will be the beneficiaries of that. Regarding the lower extremity sales force, you're right, is that the relationships are still a big deal in orthopedics. And the reps that we have added are gaining ground, we think, as we speak. We're 3 quarters into this now. We have a much wider range of products. We have new products.

We have minimally invasive surgery products. We have training that is second to none. And I think over time that we will be able to gain or get back our foothold in the core business. And we don't -- we're not looking for this to -- that we're going to be growing double market in core. All we need to do is get the market rate growth rates in '18, which we think we have a really, really good shot at doing, and that's what our objective is. We have 100 more feet on the street. We have 48% of our total sales force, now dedicated to selling core we didn't have last year. So I think that we're doing everything we can to get this business really headed in the right direction. I feel very confident that we will.

Operator

Our next question is from Glenn Novarro of RBC Capital Markets.

Glenn John Novarro - *RBC Capital Markets, LLC, Research Division - Analyst*

A couple of clarifying questions regarding lower extremities, Bob. First, in the past, you've talked about the lower market growing, I believe, high-single digits. And you commented that where you sell into has changed a bit. But for the most part, is the end markets still growing high-single digits? And Wright is just losing market share because of the sales force disruption? That's my first question.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, I think that the market is 7% to 8% growth, Glenn. I think that's what we have said in the past. The latest information we have is it still is that. Yes, we did lose some share in '17. We intend to be back at market growth rates this year. And it was -- the disruption as well as the movement to ASC that I think affected the business. And I think that with what we have now, we're right on top of that and should be able to reverse that trend.

Glenn John Novarro - *RBC Capital Markets, LLC, Research Division - Analyst*

And then just following off of Travis' question, it seems like, Bob, you're finally seeing some evidence that sales force productivity is picking up because, obviously, there was no productivity in 2017. But we're 2 months into the year. And -- I don't know, maybe your response to Travis, I thought I heard maybe you saying that you're starting to see the early signs of productivity starting to kick in.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, I'll mirror what Lance said in his prepared remarks, is that January was pretty much a continuation of '17. But February, we saw pretty nice increases, particularly in our total ankle business and some of our other parts of our business. And now actually we're in fiscal March, started Monday, so it's too early to tell. But I think that we're really headed in the right direction, and we will see increases throughout the year. And as we exit the year, we're pretty confident that we should be back at market growth rates.

Glenn John Novarro - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And then quickly, Lance, for you. Currency, are you assuming some currency benefit for 2018? Or is it 0 benefit for 2018? And currency is only a source of upside?

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

Yes, we said our current guidance has about a 1 percentage point cushion to current rates. So if current rates were to hold, that would be upside to the current number.

Glenn John Novarro - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. So just to be clear, based on current rates, if nothing -- if everything stays the same, revenues from a reported basis could be 1% higher than your range?

Lance A. Berry - *Wright Medical Group N.V. - CFO and SVP*

That's correct.

Operator

And that does conclude our Q&A session for today. I'd like to turn the call back over to Bob Palmisano for any further remarks.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Thank you, operator, and thank you for joining us today. I believe we are positioned well for the future success of our upper extremities, lower extremities and biologics businesses. We have focused sales organization, highly differentiated products, robust future product development pipelines. I believe that these advantages will enable us to produce differentiated revenue growth and gross margins. I want to express my appreciation to our team for their efforts in Q4. I look forward to updating you on our next quarterly earnings call. We appreciate your interest and your continued support. This concludes our call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a great day.
