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EDITED TRANSCRIPT

WMGI - Wright Medical Group NV at JPMorgan Global Healthcare Conference

EVENT DATE/TIME: JANUARY 07, 2019 / 9:30PM GMT

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PRESENTATION

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Hello, everyone. Welcome. Hope lunch treated you well. Happy to have Wright Medical here with us today. I'm Robbie Marcus, the med tech analyst at J.P. Morgan. And I'm happy to introduce Bob Palmisano, President and CEO of Wright Medical. Bob?

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

Thanks, Robbie, and good afternoon, everybody. Before I start, I'd like to say that this is my 21st consecutive presentation at J.P. Morgan starting back at [H and Q]. So we were...

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Go ahead.

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

So I think that, that must be some kind of a record. We're trying to do something here?

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

We changed out that on purpose.

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

Never mind, never mind, never mind. I'm not going to go into the forward-looking statements. Go to our website or see Julie Dewey and she'll explain it all to you. These get bigger and longer every time. The theme that we have is built to win. I did want to say that we have -- obviously, we think we have leadership positions in very fast-growing markets. We're specialized and focused in a few areas, and we have specialized sales forces. And I think we have the best products with high differentiation and technologies.

We did issue two press releases this morning, I just want to address briefly. First one is we -- the total year results for Wright was about $836 million. That's preliminary, but we expect that to hold. And that gave us when you consider -- excluding Cartiva, but including the 4 additional days of selling last year comes out to about a 12% growth for '19 -- 2018 versus 2017. We exceeded our guidance. We increased guidance 3x in the second half of last year. And we were right on our guidance in terms of the result on our major businesses. However, our new acquisition, Cartiva, exceeded our guidance by about $2 million, $2.5 million. So that's why we were over our guidance. We also want to -- we also reaffirmed our EBITDA -- non-GAAP EBITDA guidance for the year, and we will be truing that all up in our February conference call.

We also announced a few organizational changes that I just want to mention briefly. We created two new positions, new Executive Vice President, one for all commercial operations, Kevin Cordell, who was formerly the President of our U.S. business. And also Lance Berry, who is up here with me, who was our CFO and now is including operations, clinical, regulatory and quality into his functions. I want to assure everybody that that's all this is, is a streamlining of our organization. We'll soon be a $1 billion company, over 3,000 employees all over the world. I have had a lot of direct reports up till now and I'm looking to streamline that some and give these areas a little bit more attention. For those of you who have raised questions, this is not a succession planning issue. I'm healthy, I had a physical -- everything is fine, I intend to stay, doing what I'm doing for a long period of time. So I hope that puts that to bed.

We also gave some long-term guidance. 3 years ago we gave guidance and our current guidance over a 3-year period is for double-digit growth, high 70% margins and exiting 2019 with a 20% EBITDA. That's what we have currently as our long-term guidance. And I'm happy to say is that all 3 of those categories, we are -- we've attained those, we will attain those by the end of this year. Going forward, pretty much the same. Double-digit growth every year for the next 3 years. High 70% gross margins. And our EBITDA, we believe, will step up and we'll exit 2021 at about -- in the mid-20s in terms of EBITDA. So great progress, great growth, great EBITDA, and we're very pleased with the direction where we have.

How are we going to do that? First of all, we play in very robust markets, high-growth markets. The highest growth markets in orthopedics. Our lower extremity business is in a market that grows 7% to 8%. Our upper extremity business is a little bit healthier at 8% to 10%, and biologics at a 5% to 6%. So our end markets are robust and growing. We have leadership positions in those markets.

Our revenue is dictated by a lot of healthy products, differentiated products. We got AUGMENT Injectable approved midyear in '18. We've launched PERFORM Reverse, our shoulder product, SIMPLICITI, is still going strong, INFINITY total ankle and INVISION Revision products. Additionally, important for us is what differentiates us a lot, I think, from competitors in this field is, not only do we have great products, great implants, what we have is enabling technology that really makes everything easier for physicians and hopefully gives better outcomes for patients. BLUEPRINT, I want to speak a little bit more about, is for shoulder currently, right now, we'll be expanded into ankle sometime soon. And as a software product that is used to, currently, to look at preplan surgeries, but also will then be used intraoperatively and also have artificial intelligence so the doctor can better do the surgery, better do it quicker and with more repeatable results.

PROPHECY in our total ankle, we have about -- we do about 70% of all total ankles and about 70% of those cases use PROPHECY, which is -- which are individual guides that help the surgeon using various techniques to be able to do that surgery in a preplanned manner that makes it much easier for the surgeon to do the surgery. And we're developing software to go along with that. And we have specialized sales forces. So we're in great markets, we have great products, we have enabling technologies, and we've specialized sales force. What we have, I think, that differentiates us even further is we have a shoulder sales force. Our competitors have a hip and knees sales force that also sells shoulders. We have a foot and ankle sales force. Our competitors have trauma sales forces that also sell foot and ankle products. So this specialization, thinking about these products 24/7 really gives us, we think, an advantage.

We're also very focused on cash as we improve our and reduce our days-on-hand, our inventory and improve our distribution system that will need less inventory. We are leveraging our G&A. We believe sales and R&D will grow as an expense basically at the rate of sales. G&A should be relatively flat over the next couple of years, as we're able to leverage those and that's a primary way that our EBITDA increases. And we will continue to evolve away from the traditional orthopedic model. By that I mean, products that are -- and surgeries that are very capital-intensive, kits, instruments that are very capital-intensive, moving away towards products that act more like med tech products, Cartiva, a minimally-invasive surgery product, PROstep, biologics, things that you sell, collect the money, and it's the end of it, you don't have all this inventory floating around in your system. So that's how we're going to get to those milestones that we talked about.

I want to take you briefly through upper extremities. This is a high-growth business. We have had upper teens growth in our shoulder business for a couple of years now. And 2018 was a terrific year. We've had new products, we've had this PERFORM Reverse glenoid. Most of it -- this business, the shoulder reconstruction business is moving quite fast towards reverse from anatomic. 2 years ago, it was 60% anatomic, 40% reversed. Now it's about 50-50. Europe is about 60% reverse, and we think that very soon in the U.S. is probably going to be pretty much the same.

Secondly, SIMPLICITI, which is a stemless product. Through the third quarter and fourth quarter results was growing at over 30%. This is a product that is excellent. It's bone sparing, it's used on younger patients and it carries higher ASPs. And in conjunction with our BLUEPRINT product, really is very formidable.

I do want to speak briefly about BLUEPRINT. This is truly breakthrough. We have about 30 people -- or soon have 30 people, full-time software engineers developing the software that will help guide surgeries. But first thing, the shoulder and then as we get further into ankle as well. We have -- it's automated 3D controlled software. It's real-time planning. It's side-by-side comparison. And we can see bone density, which is a big plus to be able to predict the surgery you're going to do, and humeral and glenoid motion simulation. In the future, we're going to add outcomes tracking, analytics, mixed reality. So a physician can actually through these goggles that you see, actually simulate a surgery and see what the results are going to be, be able to judge what products will fit best in -- for that patient and put that as part of the surgery plan and also includes artificial intelligence, somewhat like your iPhone that will predict what you should do next when you run into an obstacle and it will -- it's compared to about 10,000 cases in our database. Compared to best surgeons in the world as well as if you're an individual doctor, what you usually do in these cases. This is truly breakthrough.

I'm going to show you a small video because it's hard to explain how this works.

(presentation)

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

Well, this is a big part of our future and as the video said, this is the future of surgery in our field, and we'll keep on developing this.

In addition to BLUEPRINT, we're also introducing other products this year, the one -- the most significant I want to mention is our REVIVE Shoulder Revision System. Currently there is no bona fide revision product on the market. This is going to be launched in early, hopefully, 2019. As the first truly revision product out there, it has unique instrumentation and also allows the surgeon to have the -- as they remove the old implant, be able to build -- rebuild the new implant at the right height and depth and to restore stability and function. The revision market is growing about 2x the primary market. We estimate it about $70 million opportunity this year, and it's growing very rapidly, about 2x, as I said, 2x the primary market. The shoulder implants have doubled in frequency and usage in about the last 10 years. And the lifespan of these products are somewhere between 10, 12 years. And so the revision business should pick up quite dramatically in the next couple of years, and we have the first bona fide product for revisions.

Regarding lower extremities, we had a good rebound in our business in 2018, very happy where we are. I want to mention our newest member of our family, Cartiva. Cartiva is a synthetic cartilage platform. The first indication that is PMA approved is for big toe arthritis. The advantages of Cartiva are really significant. First of all, without Cartiva when you have an MPT (sic) [MTP] fusion as your big toe is fused, you have no motion. So think about trying to run, trying to walk, do daily activities with a stiff big toe. This gives you motion just like you normally had. Secondly, is that the recovery time is much better, quicker than with the fusion technique. You can literally drive a car the next day, whereas that process if you had the fusion surgery is weeks or months away. We have -- this fits right into our sales organization. There are -- they call on these doctors that do these procedures every day. And it is a very profitable business. It's high margins, it's probably the most profitable business product line that we have in our company. And that -- and it doesn't demand a lot of capital, just selling a product and collecting the money. Internationally, it's approved for more indications than just the big toe, and we're figuring out how to expand that, and we're looking for this business to add significantly, both revenue wise as well as cash wise, to our portfolio as we go forward.

There is about -- this market in the U.S., we estimate to be about $400 million. There are about equal parts of this business regarding the fusion piece as well as cheilectomies, and we are moving very, very rapidly to capture this. This is a very simple product, easy for me to say, I guess, simple product to implant for physicians. It's very friendly to patients. If for some reason, it doesn't work, it's easy to take out and use the fusion procedure. So a terrific addition to Wright Medical.

AUGMENT Injectable, as I mentioned, was approved midyear. We formerly had AUGMENT, we call it classic, which is the paste, approved a couple of years ago. This is a big deal for physicians and that it's the handling characteristics are much, much better. There's less prep time than with the former -- with the AUGMENT, we call it AUGMENT classic. And it can be used in more cases because it's easier to get in the space. When we were talking last year about the approval of AUGMENT Injectable, we were thinking that the international case for AUGMENT Injectable, which was approved in Australia and Canada several years ago, increased AUGMENT volumes by about 30%, once the AUGMENT Injectable was approved versus the original formulation of AUGMENT. Through the first 6 months or so of AUGMENT Injectable in U.S., we're seeing a similar kind of pick up, 30% improvement in AUGMENT versus where we were prior to the approval. This is a -- this market is fairly significant. $300 million, it's a platform technology where we go next with this, we are deciding. And again, like Cartiva, it's very balance sheet friendly. It doesn't act like a traditional orthopedic product.

PROstep is our entering into minimally-invasive surgery. it's a big improvement. If you can see the pictures of a bunion that is pretty misforms the foot and is not very attractive, and functionally it doesn't work very well. And then you can see the surgery that -- the open surgery technique that is currently used to treat bunions. And you have the surgery, you have a long recovery time and then you have a scar. Using PROstep, it's minimally-invasive, it's too small punctures. There is very little, if any, scarring. And that the recovery time is about half what the open technique has. So this is a product that we launched midyear, and we're tremendously excited about it, it's gaining a lot of traction.

So we have -- we believe we have clear path to the best-in-class combination of size, growth and profitability. Step one is maintaining our double-digit constant currency growth metric. Second is to maintain our adjusted gross margins in the high 70% and then leveraging our resources and not growing the nonessential parts of our business faster than we have to and maintaining G&A where it is and growing our other businesses along with growing the other kinds of expenses, sales and R&D, et cetera, at no more than sales growth.

So with that, we believe, that we will be able to attain our long range financial objectives of double-digit growth, high-70% margins as well as mid-20s EBITDA.

I mentioned the traditional ortho versus what we're trying to do to transition some of our business away from traditional ortho from these high capital-intensive kinds of products to low capital-intensive kinds of products, products that have low differentiation, particularly our core products placing screws into high differentiated products like PROstep and Cartiva with high margins and move away from low growth mature markets into high -- continue to high growth and expanded opportunities. I think that we're well on our way to positioning ourself that way.

So Wright Medical built to win. We're the leader in three of the fastest-growing orthopedic markets. I've mentioned is that in terms of foot and ankle, we are the number one company the right now. In terms of shoulder, upper extremity, is that we're currently number two, but we've significantly closed that gap. 2.5 years ago, whenever we did the Tornier deal, is that there was a 15-point gap between us and the leader. Today there's a 4% gap -- 4 percentage point gap, and we believe that we will overtake them in the next year or 2. So we have a clear path to best-in-class combination of size, growth and profitability, and we can drive significant leverage.

So pleasure being with you for the 21st time, and we're going to meet if you have questions in the Yorkshire Room down the hall. Thank you all very much.

QUESTIONS AND ANSWERS

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

(technical difficulty)

where we thought we were going to end up. We were a couple of million dollars over the guidance, $2.5 million or so simply because of Cartiva came in stronger than we had anticipated. We expected more disruption, distraction as the integration went forward and we had less than we expected. So therefore, we were $2.5 million over. I think that the rest of the business just performed almost exactly like we had assumed that was going to perform. We ended up with year-over-year growth about 12% when you include -- exclude Cartiva, include the 4 extra days, so I think that was a pretty good year, good solid year.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

So maybe we can walk through the different categories. Maybe we can start with lower extremities. Specifically in the U.S., you had some good growth finally in the second quarter, some nice growth in the third quarter. How did that trend in the fourth quarter? Did you see the stability in the growth?

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

Yes, I think when you back out the effect of the 4 extra selling days and the effect of that was primarily in the U.S. and primarily on lower extremity, is that you get close to, not exactly where, but pretty close to where we were in Q3 in terms of -- and that's what we planned for. We knew that was happening and that's why we gave the guidance, we had so. So the business performed well, it really rebounded dramatically from 2017, and we are, I think, well positioned into 2019 right now. So we're in good shape I think.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Is there any reason that we shouldn't take that fourth quarter exit rate in the U.S. lower business, adjusted for the selling days and backing out Cartiva to take that underlying U.S. lower? Is there any reason we can't take that and carry that forward into 2019?

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

Well, Julie would get mad at me if I start giving 2019 guidance. But we did give 3-year guidance, which includes double-digit growth. So you can assume that we anticipate getting to those levels. And I would also say that, that doesn't mean every quarter, I mean it's going to be over a 3-year period some things go up, but over the period is that we feel very comfortable with our double-digit growth. And don't forget is that that's without Cartiva. So if you add in, I mean, that is in the 3-year number. But when we look at Cartiva next year, we're looking at double-digit growth because that's the information we gave you on the Q3 call for '19 double-digit growth, plus the $47 million for Cartiva, that we've just talked about.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And you didn't change the $47 million for Cartiva, given the better performance?

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

No, we didn't.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Without getting Julie too upset, is it fair to say we still have an easy comp in U.S. lower in the first quarter before we start to see the benefits from the expansion kick in?

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

We had a fairly good first quarter last year. I mean, that's when we started to see the rebound. So I mean, I think the -- there was a tougher comp in Q4 actually, but it's hard for me to say -- I think that it's pretty neutral, I would say that.

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

I will say if you think about on a pro forma growth basis, when you think about Cartiva, Cartiva is going to actually have tougher comps in the first half of '19 and little bit easier comps in the second half. So I know you were asking about the base business, but that's probably the one thing that really is if you think about first half, second half, it's going to be tougher in the front.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And are you going to be recording it on a pro forma basis or in an organic growth basis next year?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

We'll definitely do pro forma. And then beyond that, we'll discuss it on the Q4 call.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Maybe sticking with lower extremity, you had a number of slides up there. Some not so appealing slides on the lower extremity side. Maybe spend a minute walking us through the different value, there are key growth drivers for next year in terms of which are the most impactful new product launches that we can see for 2019 and then into 2020 as well?

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

Well, we launched PROstep midyear, August, I forgot, it's somewhere around then. And that we feel is going to be a big value driver, a big revenue driver in the future. It is -- it has more of a learning curve for physicians than the normal procedure that they're used to. So the -- not only medical education is important, but repeated medical education is important. So get doctors up to speed to do these procedures because it's a much better outcome for patient. But -- so that's a big important part of '19. Additionally, in our businesses, we -- in our internal if you combine lower and bio, AUGMENT Injectable is, as I mentioned, is we're seeing about -- we've seen about 30% increase in the growth rate with AUGMENT Injectable as opposed to the other formulation. So that's part of it. And our total ankle business continues to grow around 20% every quarter it seems and hope -- we think that will continue.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And how big is the total ankle? Or I know as you call the innovative business, what's the percentage split between both the less innovative and the...

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

You know that, core versus...

Julie D. Dewey - *Wright Medical Group N.V. - Senior VP & Chief Communications Officer*

Yes, technologically...

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Yes, we don't -- let me give you some growth rate numbers. We have never broken out the specific pieces on the -- just the total ankle, you can kind of back into about where we are there because we've talked about it being around $100 million market and that's having close to 70% market share. So that gives you a feel for how much. We haven't broken out all the other pieces what we call technologically advanced.

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

The other piece of that product for technologically advanced is Charcot and that is a high ASP product, high-margin product, and we have another one positioned. And that is important for us that continue to grow.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

You mentioned the AUGMENT Injectable that outside the U.S. you saw about 30% increase of that. Can you talk what you're seeing now, maybe in this quarter?

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

Yes, we're saying about that same type of growth.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Really?

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

Yes, we're seeing about the 30% uptick in the growth rate with AUGMENT Injectable. The -- it so has a lot of advantages. The AUGMENT classic, as we call it, takes about 10 minutes to prepare. It's stiff and hard, you can't get it into some places, it has an odor to it doctors don't like. This is just a -- it takes about 90 seconds to prepare and just squirt it in, you can get into a lot of different places. Doctors tend to use more per case than they use on the classic. And so it really has performed pretty much as we thought, but quick -- got there quicker than we thought.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Any sense you could give us of what percentage of your usage or switch from AUGMENT to AUGMENT classic?

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

It's over 90%, it's over 90%.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Because I remember, as we came out of the summer, you were still getting through or in the process of value committees and you've made significant progress there on...

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

Yes, we're pretty much all through the VACs and we're just going right now and it's been very nice.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And so, still fairly early days, but how much is AUGMENT Injectable able to not just cannibalize the existing product but then also open doors and open up new accounts? Are you starting to get a halo effect from AUGMENT Injectable?

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

Yes, we are. It's hard to quantify exactly how much. But I get reports from our field all the time that doctor such and such, we've never been able to get in there, we presented AUGMENT Injectable, now he's using it, no we're selling other stuff too. It is a door opener for sure. As is Cartiva. Cartiva has the same effect.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

As we think about AUGMENT, the product family, where would you say the penetration is right now into what you see is the addressable market? And how big is that market?

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

Yes, I think, we're less than 10% penetrated right now.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

How big do you think the market is about?

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

Market is about $300 million, about 100,000 cases, 300 -- $3,000 ASP.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And is there any potential for AUGMENT Injectable to take that outside of the foot fusion and move it into other indications?

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

There is, there is. First of all, we are debating internally how best to use this platform that is AUGMENT and there are other -- we can move into the midfoot if we want and that would be relatively simple. We would like the FDA to give us a path that doesn't require further clinicals. I'm not counting on that. And also, we're considering uses outside the foot. Before we acquired AUGMENT, the predecessor company had done work in rotator cuff surgery and tennis elbow that showed promise and those might be areas to get into also.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

So we shouldn't probably think to 2019 as indication expansion, but the potential for maybe something...

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

No. I wouldn't think 2019, I would definitely say that probably -- that's pretty safe bet that's not going to happen. Even if the FDA gives us some type of real break in what they want. But this product just really got into the market third quarter of this year. So we have the first 6 months before we anniversary it. And so it should give us some good upside.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And anything else would need to be a PMA (inaudible) supplement?

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

Not sure. It could be a supplement or it could be a 510(k). I've learned when you're dealing with the FDA, if they're on the phone, I love you guys. Usually, it's the...

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

They're all shot down right now.

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

Maybe they are. Usually, it's the most difficult thing that you could imagine is what they give you to do. So...

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay, good. Questions, anyone? Moving right along. The shoulder business. That continues to grow very nicely double digits with the fixation, the revision product that you mentioned on slides and the promotional presentation. Maybe you can talk about what you're seeing in terms of market growth rates and shoulder both in the U.S. and outside the U.S.? And maybe give us a flavor for competition and what you see there?

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

Yes, we're growing high teens and we have for the last year or 2 in shoulder in the U.S. Maybe even above that, maybe in the 20s, low-20s. And it's a combination -- first of all, it's a healthy market as of a -- the market is 8% to 10% growth. Our product portfolio, when we introduced PERFORM Reverse product really took all. But what is really driving the growth I think more than anything is competitive surgeons coming to use Wright products driven by BLUEPRINT. So BLUEPRINT is kind of the game changer that competitive surgeons -- that appeals to competitive surgeons to change what they were doing and enter into us. Just about every new converted surgeon that I have spoken to anyway, said BLUEPRINT was the reason that they stopped using what they were using and started to use Wright Medical products. So we're seeing great growth, good markets, strong market, we're growing about double the market.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And do you see anything competitively close to BLUEPRINT?

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

No, I don't. This is a fundamental belief and I say this every year when I'm here is that we believe very strongly in enabling technologies. I learned early on in medical devices that doctors will deal with products that are easier to use and give better outcome. But easier to use is really critical. Our portfolio of PROPHECY in lower BLUEPRINT in upper are just in that theme, that's why we feel so strongly about this. We're investing heavily in BLUEPRINT. We want to get -- now it's more planning, preoperative planning. Pretty soon it's going to get augmented reality, artificial intelligence, which are big areas of improvement that'll only even drive more business. So we're going to continue on this path. We have, as I mentioned, 30 people or so working full-time developing software for BLUEPRINT.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And so you mentioned the revision shoulder.

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

Yes.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

How should we think about the impact to sales?

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

Well, it's hard to say. It's going to -- when we launched the revision product in ankle a couple of years ago, is that, what it did was it enabled more surgeons to do total ankle replacement because they had a bail out if something went wrong, but in and of itself wasn't that big a business. Hundreds of thousands of dollars as opposed to millions. But if you use our products, you can use this revision system was pretty appealing. Now the shoulder is a little bit different. In the shoulder is that they've been about 10 years since really -- the business -- the implants have double the last 10 years. And ones that are 10 years old, 12 years old are going to start to fail and this is the only revision product out there, true revision product that has specialized instruments so you can take out the old one that has a technology that when the new one goes in that it's the right size and height and everything. And we estimate it at maybe a $70 million market, and we're not going to get all $70 million, but I think that with this product, we should get a good share of that.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And so right now it's a zero market?

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

Yes.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And anything competitive wise that you see on the horizon in the revision market?

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

No. No one's said anything about it, we're the only people talking about it. And again, that gets down to that focus. We're in shoulders 24/7, our competitors are in it part time.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And when in 2019 should we get to see this?

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

It's first half, I believe, first half.

Julie D. Dewey - *Wright Medical Group N.V. - Senior VP & Chief Communications Officer*

Yes.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Questions?

Unidentified Analyst

Yes, with BLUEPRINT and PROPHECY, do you get any price benefit from those -- either of those qualities?

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

No. We basically give the PROPHECY software to physicians free, and we train them. But it's only useful in our products. So it's in that growth rate and in that ASP. We do have some guides that we do charge for but it's not significant as part of the total surgery. PROPHECY is about the same thing. We don't -- we get a little bit of money, very little, but it's more included in the price. So it's a big -- the cost of using software as opposed to a hardware solution, a mechanical solution, like robots et cetera, is significantly better.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Lance, I see you were hoping I would let Bob answer all the questions, but I'll get you some financials.

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

No it's fine, you can keep going Bob.

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

Let him work for his money, he got a promotion, you know, honestly.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

So congratulations.

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Thank you.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

We saw the new long-range plan put out this morning, the 3-year outlook with double-digit constant currency top line growth each year in those 3 years, the high 70s gross margin and growing from 17% EBITDA now to 20%.

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

No, 14%.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

14%, I'm sorry. 20% exiting, did 20% in the fourth quarter, in 2019 grow into the mid-20s at the end of the 3-year period. Help us bridge from 14% to 20% to the mid-20s, where do we see that come from?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Yes, sure. So talking about exiting 2021 in the mid-20s, so full year '21 be a little bit less than that. We already gave some directional comments for '19. We're expecting about 300 to 400 basis points of EBITDA margin expansion. With -- really that'd be a little bit more than normal because of Cartiva, Cartiva is going to help with that in '19. So really if you look at what's left, if have to do about the 250 basis points a year for the remaining 2 years to get to you into that kind of range, and that's really about the range that we've consistently been doing over the last couple of years. And the formula from here to there is pretty much the same as what we've been doing. So first is, we need to get that double-digit constant currency growth, which we feel good about, obviously. And then areas that we're going to leverage and not leverage, rep level cost and R&D, we're not looking to drive any leverage out of, that's our competitive advantage, we're going to continue to reinvest in that at the rate of sales. The rest in sales and marketing is going to grow but doesn't have to -- if we're growing double digits, it doesn't need to grow double digits. And then if you look at our G&A and our logistics costs, which are pretty substantial, we have great leverage opportunities there. In particular, G&A is something we think we could hold pretty flat over that period of time and get a lot of leverage. So that's kind of the game plan that we've been doing, and we think we still have that over this period of time to get us into that mid-20s range.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And when your business is fully at scale, what you think the potential EBITDA target is in the long run that would you peak out at?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

I don't have a good number for that, but I would say it's definitely north of the mid-20s. If we can maintain high 70s gross margins -- I said that when we gave the 20% goal, I said I didn't think we'd stop there, I'll say that, with the mid-20s goal that I think sitting here right now, I think there would be further headroom. I think that's -- the mid-20s is a very solid amount of progress in 3 years, and we should all feel good about that.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And I'm sorry, what we're you going to -- go ahead.

Unidentified Analyst

Just a very basic question. How do you have 4 less selling days in Q4? And how does that shake out next year?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

So we're on a 4-4-5 calendar, we're not on a calendar year end. So once every 5 years, we have an extra week. And that was last year, the reason it was 4 days instead of 5 was one of those days was Christmas. So that's basically how it shakes out. So next year, we won't have that phenomenon. That's how it happens.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

I know people haven't asked you about tax a whole lot, but I look across some Street models and some people put tax rates in for you when you turn profitable next year, some don't. What do you think The Street should be doing in terms of a tax rate? And are there NOLs that will offset it for some time?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Yes, I think from a cash tax standpoint, I mean, we're not going to have any significant cash tax payments for a while. I mean, we have small amount now in individual jurisdictions where we have little pockets of profitability. But we have around $1 billion of U.S. NOLs that is going to offset the majority of our cash taxes for a while. As far as when we'll have an -- we'll have a reported tax rate before we start paying taxes, just the way the accounting works, I don't have a good prediction of when that is, but at some point as we turn profitable, we'll release all the valuation allowance, and we'll have an effective tax rate, but we just don't really have cash tax.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

2020 at least right?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Yes, I don't want to give a prediction on that. It's a little further out. That gets tricky with you and your auditors. And when you flip that and we will try and give people plenty of advanced notice so as not to surprise people.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Maybe last question from me. Capital allocation, you raised a significant amount with the Cartiva deal over the summer. Are you good for capital going into 2019?

Lance A. Berry - *Wright Medical Group N.V. - EVP, CFO & COO*

Yes. The way we think about capital is, we have plenty of money to run the business. From an M&A standpoint, getting larger through M&A is not part of our strategy that double-digit growth for the next 3 years is not reliant upon M&A, so we don't need a lot of dry powder to go execute the strategy or anything like that. If there's differentiated technologies in our space, things like Cartiva, things like BLUEPRINT. We're going to want to go get those, but I think we've shown that for those types of assets either -- IMASCAP was a little smaller, we were able to just handle that or we can use our stock for the right type of asset and it'd be a positive for the company and we'd be willing to do that for the right type of asset, again.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Great. We'll leave it there. Thank you so much.

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

Thank you.

Julie D. Dewey - *Wright Medical Group N.V. - Senior VP & Chief Communications Officer*

Thank you.
