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PRESENTATION

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

All right. Good morning. Travis Steed, I work on the med tech team at BOA. This morning, we're pleased to have Wright Medical. We got Bob Palmisano, Lance Berry and Julie Dewey, the full trio. It should be a great conversation. Well, thank you.

QUESTIONS AND ANSWERS

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

I wanted to start out, Q1 obviously better than what we expected on The Street, but just kind of curious, how did that go versus your expectations? Did certain things do better, certain things do worse? Overall, is it better than you expected in Q1?

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

Yes, it was a little bit better than we had expected. I think Cartiva was a little bit better than we expected. Our lower extremity business did well in the U.S. and our upper extremity business really blew the doors off again. And internationally, our was -- in total, just about where we expected were -- our direct markets were in line or -- if not a little bit ahead and -- but our emerging markets or distributor markets were a little bit behind. So they're kind of evened out. But all in all I think, it was a little bit better than we had expected and put us in a good spot going forward for the rest of the year.

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

I guess you held the full year guidance. I guess because it's early in the year you're going to kind of wait and see how Q2 plays out first.

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

Yes. I mean we just had given guidance 6 or 7 weeks ago, and although we exceeded in Q1, I think -- I still think that the end year number is a good number in that range. Hopefully, it could possibly be better. But we'll reevaluate at the end of Q2 and see if we want to do anything regarding guidance.

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

Perfect. Looking at Q2, you actually mentioned on the call, sequentially it could be up this year versus in the past it's usually flat, sequentially on dollar basis. You talked about some momentum in the Q2. So just trying to think if there are any moving pieces Q1 to Q2, any headwinds that we should consider. Now the U.S. growth this quarter was almost 17%, and comps do get a little tougher, but international probably accelerates too as it's lumpy. So any headwinds we should consider as we move into the Q2?

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

I think you mentioned the big one, which is if you look at the U.S. business, the comp is quite a bit tougher for Q2 from a growth rate standpoint than what it was in Q1. Pretty much all parts of the business last year accelerated. So that's just one thing to be aware of. We'll see where international comes in. We still feel good about international for the full year. It can be a little bit difficult to predict quarter-to-quarter. We did also mention on the bottom line that we were a little ahead of plan in Q1; some of that due to timing on spending that we expect to catch up in Q2. So that was the other item that we pointed out on the call it, so hopefully everybody picked up on that.

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

Lower extremities, 10.6% growth in Q1 organically, as comps get tougher there. Can you still grow double digits as new products carry that forward against the tougher comps?

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

Well I think that Q2 will be tougher in that -- than -- because of the comps. But generally speaking, I think that we should be in that range of market growth plus in our lower extremity business. What we find is that our -- what I call, our technologically advanced products are growing much faster than market. This is total ankle, Charcot products, AUGMENT Injectable, those kinds of products. The core products, I would describe and I think I did on our last quarter call is every day it's a knife fight out there because you have a lot of competition, there's not a lot of differentiation in those products. And so it's not like you have a steady stream of book of business that's growing. Every day, you're fighting to get what you can get and hopefully grow it. So I could say, our core products are growing at pretty much the rate of the market, but our technologically advanced products are growing significantly higher than the market. So with that rate, you get into high single digits, low double digits on our lower extremity business.

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

What's the core market growing?

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

The best data -- I don't think it's great, it's like 7% 8% or something like that is probably a good number to use.

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

If you look at your lower extremities business, any way to sense like how much of that business is core versus more technologically advanced? I don't know if it's half and half or is more weighted to one versus the other.

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

It's more related to core but the other part is growing much faster. I mean we had -- quarter-after-quarter for years now, it seems almost 20% growth in our total ankle business. We have in excess, I'm sure, of 70% market share in that business. And that's still a very high-growth business. I think that, that has potential to even grow faster. Charcot is for treatment of diabetes in the foot is a fast-growing. And AUGMENT is, particularly with AUGMENT Injectable, is really kind of getting to be a standard of care in hind foot procedures.

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

The bio business, it was 25% Q1, 20% if you exclude the onetime order. But you are lapping midyear at the injectable launch. Does that business slow back down to high single-digit growth? Any way to sense what makes you lap that launch?

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

No, I still think that, that is a very underpenetrated in that last year we did launch it midyear, I believe. And as all these things, it didn't -- it takes a while to gain some momentum. So I still think that we will have significant growth, whether it's going to be 25% or not, I'm not going to sign up for that. But it's going to be much greater than the rate of the market in the next -- in the rest of the -- for the rest of this year.

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

So moving in, going forward, once you lap the launch of the injectable product, it wouldn't surprise you if biologics can still be a double-digit grower?

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

Yes. I think, that's what we're looking for. And I think that those kinds of products are really important to us. I say a lot is that we don't want to be a "traditional orthopedic company." We're looking at growing in markets that -- in ways that aren't so related to just metal implants. And things like Cartiva, things like bio, minimally invasive surgery, PROstep are all kind of in that area that we're really focusing on that are high growth and low capital intensity. And I think, that's where our growth is going to come from.

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

Got you. There's one thing in quarter, like it was a great quarter. Cartiva was a little bit -- I would say versus my expectations, I thought there could be a little upside in the quarter. And the reason I thought that is because you're basically moving Q4 to Q1, you've added that product to all your reps, you have a lot more feet on the ground. And that product has got a -- in a lot more bags, if you will. And sequentially it was $9.5 million in Q4, $9.2 million in Q1, so you didn't really see an acceleration necessarily. So what's the limiting factor there in terms of driving upside of Cartiva?

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

It's first of all seasonality. Q1 is always lower than Q4. I mean that's -- we've had that for years and, I think, most companies have it. Secondly, just because it went into our direct reps' bags on January 1 doesn't mean that they're all selling it right away. It takes a while and I think it wasn't to the national sales meeting which took place in mid-February that everyone got trained on it. So I think that -- I think, this is -- we -- first of all, we were pleased with our Q1 performance. That exceeded really where we thought it would do. And on our direct organization, really did well with it, but there is still -- that -- it's a new product event. In that they are selling something new in lot of cases to doctors that they haven't done business with before. So this takes -- this generally takes a while. But we're very happy with Cartiva.

It's -- we have a mix of indirect and direct sales force there. That's a key factor in the growth there. Cartiva had 40 direct reps -- 40 distributors, when we bought the company. January 1, we eliminated 20 of those, kept 20. Those 20 must continue to perform at a high level. And I think, we'll see how that goes. We intend to keep them all, but we'll see. And our direct reps, I think, that's where a lot of the growth is going to come from. The 20 distributors that we have, they have defined territory, they have defined accounts that they've done business with. So I don't see like high-growth coming from that area. But from the direct organization, we have over 300, 350 reps now with that in their bag and mostly being trained now -- is that -- I think that's where the growth will come. So I think that Cartiva -- and secondly, another important thing about Cartiva is that we're developing a good business outside the U.S. in Cartiva that wasn't there before. We just -- there were 2 markets, U.K. and Australia of any size that all run by distributors. We've brought out those distributors, and they will be direct in the second half of the year, and I think the growth will come from there.

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

You mentioned your lower extremity doctors are getting Cartiva. Are they all been trained at this point?

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

I wouldn't say, all. The training is pretty simple. And we do trainings all the time. We take training to doctors as well as big events. So there's still a lot of doctors that do foot and ankle procedures that are right to be brought into the Cartiva fold.

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

I guess you mentioned your reps were calling on doctors that they maybe haven't called on in the past. Are they going after the old Cartiva customers that, that's why didn't use your products or is there any opportunity to move into the doctors they're already calling on...

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

That's the -- that's an important factor is that once they're -- the Cartiva is in there, the rep is in there, working with the doctor, day in and day out, is that we think, and we have seen it actually, it will pull through a lot of our other products. Most of these doctors are the accounts of distributors. And distributors, as you know, carry multiple lines. They just don't carry one line.

And so in a lot of cases a doctor does carries Wright brand or Stryker, or it could be Zimmer and then a lot of small players. And the idea is that having a great product, giving great service, great medical education, will you be able to bring that doctor into using more of your products.

And so far, I think we've been pretty successful with that.

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

When a doctor uses Cartiva, how long do they know if that actually work? I'm sure there's occasionally patients come back and it doesn't work for them because every procedure is not perfect. Do you know that fairly quickly after the procedure?

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

Well, what -- the biggest -- I think the time varies quite frankly. I can't give you a time. But the biggest -- the big benefit of Cartiva is you get motion. Your big toe has motion just like it normally does as opposed to having a fusion where it's stiff. That's the big benefit of it. The -- some of the downside of Cartiva is, at least initially, is there's some more pain involved than in a fusion procedure. I have heard different doctors theorize as to why that is. A lot of them conclude that it's because that big toe has been immobilized for so long that when you get motion back, it naturally is going to have some pain for a while. So that's the big complaint. And if something goes wrong, the big -- another big benefit of Cartiva is, it's very easy to fix. You can then take it out and do a fusion and no harm, no foul. So it's pretty foolproof.

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

Yes. The kind of what I was getting at is like as you go and attract new doctors, is it something that they're going to try a few implants, kind of wait a period of time and then more adopt? Or is it something they can adopt quicker?

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

It depends on the psychographics of that doctor. Some of them do that and they've been trained in a way to do that. I have seen that a lot in medical devices and some of them just go in. And this is great for my patients. It's easy, it's quick, they get motion back. And they're going to have a little pain for a while and it's generally treated and then if it doesn't work out, I can fix it. So I think that it all works out pretty well for you.

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

Kind of wanted to move over to BLUEPRINT. At this point, you've laid out a couple of timelines for new additions to that. So maybe just go over that to some degree. And as you bring in new features to BLUEPRINT, do you think you're going to accelerate some of the share gains that you've seen with BLUEPRINT?

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

Well I'll answer the second part. Yes, I think that we are seeing that today. BLUEPRINT is a main driver of our share gains. I mean we've been growing again at 20% a quarter in upper extremities, basically because we are gaining new surgeon customers. I think in the fourth quarter, we gained over 120 new surgeon customers. In the first quarter, it was 130-something new surgeon customers, primarily because of BLUEPRINT. That's the big differentiator. We are in the early innings of BLUEPRINT. We have -- we're now able to give the physician a 3D image with a plan on it. We are moving in the near future this year to have an outcomes database that doctors can access their own patients and keep -- and transfer the patient data automatically, the outcomes data automatically through the patient profile, both to the doctor and to the patient via a smartphone device, use -- move that into -- in the next 12 months or so into -- using artificial intelligence, using the doctors' account, the cases that doctors has done as well as other cases to come back with the recommended plan, automated plan. And then we're going to go into this augmented reality piece where doctors using goggles or similar device is actually be able to look at the shoulder in all dimensions and just try what different kinds of implants would look like in the shoulder. What size, what diameter, what angle to put it in at and come out with better cases. And then using the -- again, we have 5,000 cases in the database, come back with a recommended plan.

And eventually, we'll get to the point where we have intraoperative guidance. So it's a whole suite of things. BLUEPRINT, we announced last week is that we have developed and are manning up a whole digital organization that has 3 real objectives to it. One is to accelerate BLUEPRINT into these other areas I just talked about. And some of it is stuff we don't have to develop ourselves; some of the stuff that we can actually buy and integrate into that organization. Secondly is expand company-wide, in other words, into lower extremity with BLUEPRINT. And thirdly, to see if there are other areas within -- that could benefit, outside of extremities, from BLUEPRINT in that and see if there -- see if that's -- BLUEPRINT in digital and the whole digital organization I think, is a very, very important part of our future. I think that we are now in a leadership position. We want to grow that leadership position. We're very -- we're all laying on this as anybody talks to me knows.

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

Right. So you're going to replace PROPHECY in lower extremities with BLUEPRINT. How are the 2 programs different?

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

We're not sure whether we're going to replace PROPHECY or whether we're going to integrate these things together with a plan plus PROPHECY. Currently, PROPHECY demands a -- gets information -- a CAT scan information from a surgeon, it goes to an engineer, an engineer then develops a plan and sends that back to the doctor. BLUEPRINT is direct. The surgeon does that all. And there are -- so there are other areas where that -- the cutting guide, the mechanical cutting guide is something that doctors seem to like and we'll have to see how it goes, so I think there are elements of software in combination with that, that would eliminate a number of steps to make it quicker, easier for physicians and still keep [both systems].

We're also thinking of how we would use the BLUEPRINT technique in Charcot cases. Charcot is these big frames and these rods and beams. And that up until now, the whole technology innovation around Charcot foot is different rods and beams as opposed to a 3D image that you can rotate around and say this is the best place to put these things that would heal things quicker and things like that. So there's a lot in lower that we would say that we can take advantage of the BLUEPRINT technology.

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

As you move this technology more advanced in shoulders, move it into lower extremities, still your core ortho business. Do you think that this is, even as you add artificial intelligence and all these features, do you think it's more of a pull-through of your implant business? Or can you start charging for some of this technology that you're providing your customers?

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

Well I think that the ship has sailed in shoulder, unless we get into some more exotic forms of shoulder than we're currently in. So that we will continue to develop this, advance this, and we think that the monetization of this is currently -- as we currently see it, is through selling implants, implants that go with that. Now it's not to say in the future -- I said one of the things that we're looking at is other avenues outside of extremities. That may provide a revenue source, and hopefully it will that -- into other areas that we don't have implants to sell.

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

That's kind of intriguing to me. You've got a lot of sales reps in extremities and trying to think core, extremities, ortho business kind of moving into other areas. Is it more general surgery? Is there anything you're willing to share on which areas? And how are you going to think about your core competency in ortho and leveraging that to other areas of the hospital?

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

It could be in some areas of ortho and outside of ortho. The IMASCAP company that we bought a couple of years ago that had the -- that was the origination of the technology, had done a lot of work on knees. Knees -- hips and knees are -- that currently is a robotic world. But a lot of knees are now done in ASCs that don't have robots. So there might be a software approach that would be much more appropriate in these new venues that are seeming to be getting traction.

Because an ASC isn't going to spend a lot of money buying a robot, nor they have space for a robot. But they still do a lot of procedures. And if software can get them to a great result without a robot, that would be great, and I think that's an area that, gee whiz, we're not going to sell -- we're not going back in hips and knees business, I guarantee it. But if the software can serve that purpose, that would be something we'd be able to monetize.

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

Do you already call on the ASC in your -- I guess, your lower extremities business?

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

Yes.

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

And can you leverage that call point? Or is it different doctors?

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

I think it's different doctors, but they've done a lot in the same ASCs. Lance knows a lot more about this than I do.

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

Yes. I mean I think you'd have to see just where the software goes, right? So I mean there's a lot of foot and ankle surgery done in ASCs. It's in -- so we're going to have relationship with a lot of accounts, and if it leads to an account-based sale then, yes, I think that we would have relationship as a starting point in a lot of these ASC.

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

That's helpful. One thing that I get a lot of questions on is robotics in extremities. Some of the larger companies are talking about moving there. And I know, today, you basically said whether to get a lower-cost solution with BLUEPRINT and some more technology without the full capital. We saw that happen in other industries, but quickly robotics kind of took over. So if robotics moves forward quicker than you expect in extremities, can you pivot into robots? Can you use the software and the technology and BLUEPRINT, maybe add an arm to it, a robotic arm? And is that something that you consider?

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

That's not on our vision right now. It seems to us that small joints are not a really good -- robotics aren't a real a great solution to, whereas software is a great solutions to. And again, as more of the procedures move to ASCs, there's not going to be a lot of robots, we don't believe, in ASCs. So I think that -- and another way, software is so flexible is that you can iterate real time and you don't need service and you don't need a whole -- you just send a new software online and you got it. So I don't know anybody I've heard talk, but I don't know anybody has a serious program in small joints in terms of robotics. Maybe in the years, they will develop that, but in the years ahead, I think that our program would be much further ahead and -- or still be the kind of the choice in terms of small joints surgery.

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

Great. I do want to ask -- bring Lance in a little more and ask a few finance and modeling questions. Looking at the gross margin in Q1, it was 80%. You've always talked about high 70s. Q1 is a little better. But as you are launching new products like Cartiva, much higher margin, growing faster than the business, can we start to see more 80% gross margins going forward?

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

We're not ready to commit to consistent 80%. I think, certainly products like Cartiva and the growth of those increase the chance that we may see a quarter here or there in the 80s, for sure. Really from a mix standpoint, the mix of U.S. versus international probably impacts that gross margin more in any given quarter than a product mix, particularly with a lot of our international business being through stocking distributors who have much lower gross margin. I think, we feel really comfortable with the high 70s for kind of a multiyear type of view, and things like Cartiva is what gives us confidence that we can continue to do that. Bob also talked in the Q1 call around improvements we're making in our supply chain.

And I think we've -- over the past 6 months, we've made some really good progress in that area that we think is going to really have some lasting benefits as well. It also gives us confidence in the -- giving basically multiyear guidance around high 70s, which is something you don't see very often in our industry. So we're pretty proud of that. So we'll try and maintain the high 70s for now and don't be surprised if we see a quarter here or there that's in the 80s.

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

Got it. And your SG&A, there was roughly $600 million in SG&A. Any sense of what split of that is G&A versus selling? And when you think about kind of moving forward, you've gotten great leverage, 300-plus percent -- or 300-plus basis points per year roughly in SG&A. Is that sustainable going forward?

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

I don't remember the numbers off the top of my head, but in our investor presentation, we try and break that operating expense down into about -- really kind of think about 3 different categories. So we talk about our sales force cost and research and development is 2 things we're really not trying to drive any leverage from. We view that as our differentiation -- differentiated products, specialized sales forces, and we're going to continue to reinvest in those as we grow the business. Then you have a lot of sales and marketing outside with just the sales force, and we need to reinvest there. But if we're growing double digits, we don't need to grow that part double digits. We've made big investments in the past that we can leverage off of. And then really what's left is distribution.

So really just -- we have a significant amount of cost, just moving all this inventory and instruments that we have in our business all around the planet, in and out of facilities, it's a pretty big cost. And then we have G&A, which is a pretty substantial cost. And we think we have real strong leverage opportunities in distribution and G&A. And really looking to try and hold those 2 combined as close to flat as we possibly can over the next several years. And if we can grow the business double digits, like we have guided to and we can hold those flat to maybe inflationary type of growth, that should produce a lot of leverage. And that's what we've been seeing over the past couple of years and we still see that as an opportunity for the next several years.

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

How much opportunity is there to use some of your BLUEPRINT software to lower the cost of instrument sets in the OR, reduce the number of sets in the OR, maybe even reduce the cost of the selling model to a certain degree?

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

Yes, I think it's a big opportunity. The selling model is -- that's a little bit tougher to see but as far as what's brought into surgery, I mean right now, we perform a service for the surgeon, the facility, which is making sure that there's everything there that's needed to perform the surgery and perform it well. Unfortunately, the way we do that is we just bring everything. And if we have everything, then we'll have what we need. So we have an incredible amount of information prior to the surgery with BLUEPRINT about what implants are needed, and one of the things we're working on with -- one of the first steps with artificial intelligence is having a definitive answer, just should this be a reverse or an anatomic. And that can cut in half what we're bringing into surgery. So I think, there is a very large opportunity and we'll probably not go from where we are today to just bringing only the implants that are needed. There are probably steps along the way, but a big opportunity to improve our kind of capital and working capital moving forward.

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

I'd just add to that is that, that's a win-win down through the whole chain as we know pretty precisely as to what is needed for that surgery. Obviously, our cost -- our distribution cost as well as our capital cost of all of this inventory but it works well for the physician, it works well for the institution that doesn't have to sterilize a lot of stuff that's never used. And so this is all in our thinking about BLUEPRINT; you get better surgeries and you have -- use less inventory. It seems like a real important thing.

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

Yes. What do you think the peak margins are for this business? If you're going to have a gross margin 79%, 80% in the high 70s or you think about either operating margin, EBITDA margin, long term, not even necessarily the certain revenue, but like peak margins given all of the stuff you have going on?

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

We just gave new 3-year guidance to get to the mid-20s EBITDA margin. So we'll stick with that for the moment as opposed to giving a specific number. But what we said very consistently is, we don't think that's the end of the line. We certainly think there is additional opportunity to increase that beyond the mid-20s. Let's work on delivering that -- the goal we just put out there, and then we can think about where the next step is, but that's certainly not the ceiling for this business in our opinion.

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

All right. Great. Thanks a lot for our -- we'll end it then. Thanks for joining us today.

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

Thanks.

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

Thank you.