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WMGI - Q2 2019 Wright Medical Group NV Earnings Call

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OVERVIEW:

Co. reported 2Q19 YoverY global net sales growth in constant-currency of 13%. Expects 2019 net sales to be approx. $925-930m.

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Brandon Christopher Henry *RBC Capital Markets, LLC, Research Division - Analyst*

Christopher Thomas Pasquale *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

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

Joanne Karen Wuensch *BMO Capital Markets Equity Research - MD & Research Analyst*

Kevin Farshci

Mathew Justin Blackman *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Matthew Charles Taylor *UBS Investment Bank, Research Division - Equity Research Analyst of Medical Supplies & Devices*

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

Rajbir Singh Denhoy *Jefferies LLC, Research Division - MD, Equity Research & Senior Equity Research Analyst*

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

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

Shagun Singh Chadha *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

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

Judith Baumhauer

PRESENTATION

Operator

Good afternoon, ladies and gentlemen and thank you for standing by. And welcome to the Second Quarter 2019 Wright Medical Group N.V. Earnings Conference Call. (Operator Instructions).

Now it's my pleasure to turn the call to Julie Dewey.

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

Thank you, and good afternoon, everyone. Welcome to Wright Medical's Second Quarter 2019 Conference Call. We appreciate you joining us. I'm Julie Dewey, Wright's Chief Communications Officer. With me on the call today are Bob Palmisano, Wright's President and Chief Executives Officer; and Lance Berry, Wright's Executive Vice President, Chief Financial and Operations Officer. We are also delighted to have Dr. Judith Baumhauer, Orthopedic foot and ankle surgeon, from the University Of Rochester School Of Medicine, and the primary investigator in the pivotal Cartiva MOTION study participating on the call today with us.

We issued a press release this afternoon regarding our second 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 Cartiva clinical perspective from Dr. Baumhauer, a review of our financial results and updated guidance from Lance, a questions-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 2019. 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 second 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 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 and today's discussion include certain non-GAAP financial measures. Please refer to the reconciliations which appear in 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 refers 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. Dr. Baumhauer is a paid consultant of Wright Medical. However, the opinions expressed by Dr. Baumhauer are her own and do not necessarily reflect the views of Wright Medical.

It is now my pleasure to turn the call over to Bob Palmisano. Bob?

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

Thanks, Julie, and welcome to our second quarter earnings call. Our U.S. upper extremity business delivered another strong quarter and grew approximately twice the market rate of growth. Additionally, Cartiva performed well in our direct sales territories, which grew 29% pro forma in Q2. However, both in total and for Cartiva specifically, the second quarter fell short of our expectations.

We believe we are in a great position strategically and with the fundamentals of the business, I remain very optimistic about the future opportunities of our business. However, I'm not happy with our Q2 performance and our revised outlook for the remainder of the year. Also there has been some recent negative commentary from the investment community regarding the clinical performance of the Cartiva product and the market opportunity for Cartiva that we strongly disagree with. Nothing mentioned in this commentary was new to us, nor do we think anything differently now. This was all known at the time of the deal, was considered in our deal model and has no impact on current year constant currency organic growth rates.

We have great things going on in our business and I will touch briefly on the highlights. But we will devote the majority of the call to addressing the two issues that most significantly impact Q2 and providing our views backed by strong data on the Cartiva product performance and market opportunity.

First the highlights, U.S. shoulders grew 16% in the quarter, which is approximately double the market rate of growth and consistent with our growth expectations for the full year. We've launched our new REVIVE revision shoulder at the end of the second quarter and at launch is off to a very strong start. The REVIVE launch is a significant new product launch for our shoulder business and highlights our ability to help physicians address the revision segment of the shoulder market, which is growing at approximately twice the primary shoulder replacement market.

BLUEPRINT adoption has continued to expand and help drive shoulder gains. As we mentioned in our last call, we plan to roll out the next feature of BLUEPRINT digital ecosystem this year called SCOR, S-C-O-R, or Surgeon's Clinical Outcomes Research. SCOR is currently in limited user release and allows orthopedic surgeons to easily collect data and track their shoulder arthroplasty patients' clinical outcomes. Effectively tracking outcomes is increasingly important, not only for manufacturers, but also for surgeon's to assist in improving their practice and their negotiations with payers. Additionally, these outcomes will be used to feed the artificial intelligence feature of BLUEPRINT and approve preoperative planning. We expect the REVIVE launch along with continued penetration of our PERFORM revised glenoid system, SIMPLICITI shoulder, and BLUEPRINT enabling technologies to continue to drive outstanding shareholder sales growth in 2019 and beyond. Based on our excellent growth, we now expect to be #1 in shoulders worldwide by the end of this year, up from #3 just a few short years ago.

U.S. biologics continue to perform well with 70% growth in the quarter, led by the continued adoption of AUGMENT injectable. In total, we grew 9.4% organically for the quarter, which was below our expectations. Despite the lower than expected revenue, we still expect to meet our previously stated financial objectives of double-digit constant currency organic growth rate, gross margins in the high 70% range and exceed adjusted EBITDA margin of 20% for the full fourth quarter of 2019.

Now for the issues, the second quarter Cartiva sales of approximately $8 million were negatively impacted by a significant drop in Cartiva sales in the distributor territories, not due to any clinical performance issues for the product. The entire miss for the quarter of Cartiva is attributed to the legacy Cartiva distributor territories, which declined 40% year-over-year and had sales significantly lower than Q1 levels. It was clear that as a group, the distributors collectively believed that they would not have access to Cartiva long term. They stopped devoting time and resources to this product and actively tried to move as many customers as they could away from Cartiva. Contractually, our salesforce was not able to sell into those accounts in Q2 to combat the negative impact from the distributors. This was in contrast to the direct territories which were on plan and grew 29% pro forma over the prior year quarter and saw growth accelerate from Q1 to Q2.

To address this, we acted quickly and terminated the Cartiva distributors. As of August 1, the U.S. Cartiva business has been transitioned to our direct U.S. lower extremities salesforce. Having Cartiva in our direct salesforce hands is definitely better for the long term, but it will take time for them to regain the distributor business that was lost in Q2. So in summary for Cartiva, the cause of the Q2 miss was clear and straightforward and we quickly took action to address it.

The other issue in Q2 was the performance of our U.S. core foot business. As I have discussed in the past, this is the most challenging part of our business and the most difficult to predict. I described this in last quarter's call as a "knife fight" where the daily performance and motivation of the salesforce plays a big role. Our major competitors in the core foot business are not the large public orthopedic companies, but a combination of a number of smaller individual not-public companies, some of which are physician-owned. Combined, this group of companies is approaching 20% market share in core foot and growing. They share the same independent distributor salesforce on a non-exclusive basis. These companies do not compete on product differentiation or product attributes, but more on aggressive acquisition of design surgeons, surgeon investors and competitive sales reps. These dynamics are not new and we have successfully competed against these competitors in the past. However, the intensity regarding surgeon and sales rep acquisition for these companies has increased significantly.

Sales positions in our lower extremity business are highly sought after and that continues to be the case. However, in Q2 our reps were specifically targeted by these competitors, resulting in a larger than normal regrettable turnover rate and salesforce distraction that impacted our core foot performance. We are attacking the issue in several ways.

First, we have made changes to our lower extremities salesforce compensation. Since these changes, our turnover has been more in line with historical levels. Second, we are increasing the size of our lower extremities salesforce and are aggressively filling our open positions with experienced reps with many already on board. Third, we made significant progress with major hospital purchasing groups in the first half of the year, scoring major contracting wins with a very large private, tax-exempt, non-governmental health system in the United States and a leading health care provider currently serving more than 10 million members. One of the contracts in particular notable was that we had not previously had access to contracted business from this provider in our core foot and ankle business. During our negotiations with these large hospital purchasing groups, we found that companies with surgeon ownership were at a significant disadvantage because of the potential for conflicts of interest. Initially our ambulatory surgeon center business has continued to perform well and grew at a strong 14%, which should be a tailwind for this part of our business.

Fourth, we have very significant products in our pipeline that will arm our salesforce with meaningful product differentiation in the core business. This includes several innovative products that will be in limited user release later this year to treat bunions, which are one of the largest procedures in foot and ankle. Also and most notably, our new digital organization that we announced in May is driving several future digital solutions targeted to the core foot and ankle market.

We have taken significant actions to address the issues with legacy Cartiva distributors and our core foot business, including terminating the Cartiva distributors. We are confident that the actions we have taken will improve the growth rate of Cartiva and the whole U.S. lower extremities business. However, it will take some time for the benefit of these actions to be evident in the sales results and we believe our updated guidance takes that timing appropriately into account. We believe these issues are transitory and remain confident in the growth prospects for our extremities market overall, for Cartiva specifically and for our business in total.

With regard to the market opportunities for Cartiva, we have said the vast majority of fusion and cheilectomy patients could be candidates for Cartiva, resulting in a market opportunity of approximately $400 million. We still believe this. Some in the investment community are confusing current rates of individual physician adoption with market opportunity. Based on the MOTION PMA study which is the highest level of scientific data available, approximately 63% of patients screened and tracked met the strict inclusion criteria for the study. However, approximately 90% of patients screened and tracked would have been candidates for Cartiva based on the final FDA approved labeling of the product. Current adoption rates with existing users is off to a great start this early in the product life. And as with any new technology, we expect the number of users and their individual usage rates to increase over time. And I also did want to mention some positive criteria wins that just happened in July.

We received FDA approval for 2 new Cartiva implant sizes, 6 and 12 millimeter, providing physicians with more options for treating their patients. The U.S. commercial launch is planned for the second half of 2019. And as of July 1, we are now selling the Cartiva implant in Europe in Australia through our direct salesforce. Later this year, we plan to begin a limited launch of Cartiva thumb implant in the United Kingdom with additional European countries to follow early in 2020. We have not communicated a specific time line for the thumb indication in the U.S., but the IDE study competed enrollment this past March and has now moved into the patient follow-up phase.

I now want to spend a few minutes reviewing the robust clinical data supporting the Cartiva synthetic cartilage implant for great toe arthritis to address the questions raised in some analysts' notes. I am delighted that Dr. Baumhauer is on the call with us today to provide her scientific and clinical perspective.

Before I turn the call over to Dr. Baumhauer, I did want to make some specific comments on Cartiva. When we acquired Cartiva, our goal was to lead with the best-in-class differentiating technologies in extremities and biologics. That is still the case. To be clear, our Cartiva shortfall in Q2 was due to underperformance by the former Cartiva distributors. It was not due to any clinical issue. Cartiva is backed by the highest level of perspective randomized clinical research and has been proven to be a viable alternative to fusion for patients wanting to maintain a range of motion. With almost 6 years of follow-up from a rigorously conducted clinical trial, the data supports Cartiva being a game-changer in the treatment of this condition. The market opportunity has not changed based on the PMA study and our own independent research.

We conducted an extensive independent research study of 200 physicians, half users and half non-users, both before we acquired Cartiva and repeated that study again just this past month with a different set of 200 physicians. The conclusion of those studies were strikingly similar. In the most recent study, 95% of current Cartiva users expected to maintain or increase their usage and 71% of the non-Cartiva users expected to use the product in the future. We believe Cartiva is a fantastic more conservative treatment option than fusion that can easily be revised for the small percentage of patients who are dissatisfied no matter what the reason.

Cartiva enables motion and has high patient satisfaction rates which are comparable to the satisfaction rates of hip and knee replacement. Keep in mind that we are still in the early phases of the Cartiva launch and therefore it's not unusual to see some amount of variation and physician learning curves, clinical experience and adoption rates. We do expect this to improve as our clinical education programs continue to train greater numbers of physician on proper patient selection and the importance of setting realistic patient expectations on the front end, particularly with regard to the time it takes to realize the full benefits of the procedures.

With that, it is now my pleasure to introduce Dr. Baumhauer. Dr. Baumhauer is an orthopedic foot and ankle surgeon from the University Of Rochester School Of Medicine. Dr. Baumhauer was the primary investigator in the pivotal MOTION study, which compared the safety and efficacy of Cartiva to fusion in the treatment of great toe arthritis and resulted in an FDA PMA approval for the Cartiva implant. This is one of only 4 orthopedic products approved through the PMA process in orthopedics. Dr. Baumhauer has also authored several Cartiva clinical publications, including the original MOTION study and the criteria midterm outcome study that show clinical safety outcomes for Cartiva were maintained at 5.8 years. Dr. Baumhauer, it's over to you.

Judith Baumhauer

Thanks, Bob. It's a pleasure to be here today and share my scientific and clinical perspective on the Cartiva synthetic cartilage implant, which I consider to be an important advance in effectively treating great toe arthritis. And really more importantly for my patients, to allow them to have decreased pain, preserve their motion and improve their function.

I've had an excellent result with Cartiva implants and I have great confidence in it. I've been following the same inclusion and exclusion criteria that the MOTION study used as in educating my patients on their recovery time line for pain relief, using the MOTION study graphic displays and the return to function graphic displays that define their expectations. And (inaudible) validated data has demonstrated (inaudible) as the prospective randomized study. The data clearly demonstrates that patients begin to see clinically meaningful reduction in their pain as soon as 2 weeks post operatively. However, they continue to maintain that pain improvement at the 3, 6, and 12 months, just like the clinical trial told us. It takes up to year to realize the full benefits of the Cartiva.

Here's what the science and the Cartiva clinical data tells us. In the original MOTION study, 152 patients received the Cartiva implants. Of these, long-term outcomes were available for 106 patients of the 135 eligible at this time point, with a mean follow-up of 5.8 years. These outcomes demonstrate that the Cartiva synthetic cartilage implant provides durable pain relief with patients achieving a 97% medium reduction in pain. It is sustainable with functional improvement with patients demonstrating 176% median improvement in sports activities. It also demonstrated motion preservation, with patients experiencing 25% improvement in range of motion from baseline and also a high rate of satisfaction with the treatment with 93% of patients saying that they would have that procedure again.

A greater than 30% reduction in a VAS score or Visual Analog Score, is a validated clinically significant reduction in pain. Cartiva patients demonstrated this substantial and clinically meaningful reduction of pain at their 2-week post-op and at every subsequent visit included in this study as assessed by this validated digital-analog scale. This is not unusual to see this level of improvement slowly over time. For other motion-preserving orthopedic procedures such as hip replacements, knee replacements and ankles; we see these similar patterns in successful implants. We know that not only does the bone need to heal since we drill a hole and implanted an implant, but the adjacent soft tissues also need to heal, because they're still moving and doing their job. So the secret here is time. And while there somewhat greater pain reduction in the fusion group earlier on, at 1, 2 and 5.8 years, the differential in that VAS pain score for that 1, 2 and 5.8 years compared to Cartiva is not clinically significant. This is not meaningful to the patients.

The early benefits with the fusion for that improvement in pain at a shorter time frame comes with (inaudible) of the joint pain fused in the loss of joint mobility, not what the patients want. And many patients are willing to trade off a certain amount of low-level pain for a period of time for the extra mobility that the Cartiva device provides. And this is demonstrated by our high patient satisfaction scores.

The huge number of products which have been designed and cleared by the FDA that attempted to retain motion has also suggested that patient preference is to retain motion and joint function. The Cartiva device is the only first metatarsophalangeal joint device supported by prospectively controlled level 1 clinical data, demonstrating its safety and efficacy.

As is the case with all medical device procedures, for some patients the procedure doesn't always work. And in the MOTION study, 11% of the Cartiva patients had a reoperation for various reasons. But remember that the fusion group also has some reoperations. 12% of the fusion patients required a subsequent secondary surgical intervention to treat non-union to remove broken hardware. But fusion group also had the risk of infection, nerve injury and wound healing problems. There were no cases with Cartiva implant fragmentation, wear or bone loss. A key benefit of Cartiva is for those patients who are still experiencing pain or functional issue and want to explore a different treatment option, i.e. convert to a fusion, still has that option as there's no bone loss. There's no shortening of that bone. In other words, Cartiva does not burn a bridge.

And to summarize, I consider Cartiva to be a significant advance in effectively treating great toe arthritis, preserving motion, improving function and decreasing pain for my patients. It's quickly become an important treatment option for my patients and my practice and I look forward to continuing to provide my patients with this breakthrough technology. I have the utmost confidence in it and the science that we produced with it. And I'll turn it back over to Bob.

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

Thank you, Dr. Baumhauer. In summary, I continue to be optimistic as we look forward. We remain confident and committed to our previously stated long-term financial goals of delivering double-digit constant currency net sales growth, maintaining gross margins in the high 70% range and achieving non-GAAP adjusted EBITDA margin in the mid-20% range exiting 2021. We also believe 2019 total year results will show adjusted EBITDA margin of over 20% exiting the fourth quarter, gross margins in the high 70% range, and double-digit organic constant currency growth. With leadership positions in high growth markets, truly differentiated products in all our market segments, exceptional enabling technology for shoulder and total ankle; we believe we will maintain our current #1 position in global foot and ankle and grow to be #1 in shoulder globally by the end of 2019.

With that, I'll now ask Lance to provide further detail on our second quarter financial results and outlook. Lance?

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

Thanks, Bob. As we get started, please note that unless otherwise stated, all of today's discussions regarding our sales growth rate refer to our constant currency growth rate 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.

Bob covered the highlights of our underlying sales growth in his earlier comments. I will provide some additional color on the P&L and then focus my comments on the updated outlook for 2019. Globally our net sales grew 13% in constant currency and 9% organic constant currency. This was driven by strong performance in our U.S. upper extremities business with 16% growth in shoulders, 17% growth in U.S. biologics and solid growth in our international business. This was partially offset by underperformance in our U.S. lower extremities business.

The U.S. lower extremities business was roughly flat in Q2 on both an organic and a pro forma basis. As Bob discussed, we saw a significant drop-off in revenue from the Cartiva distributors and disappointing performance in our core foot products. We've already taken actions to correct these issues, including terminating the Cartiva distributors, and making adjustments to our sales compensation program and are aggressively back doing open positions with experienced reps.

Now moving on to some detail below the sales line, beginning with Q2 adjusted gross margin, we achieved adjusted gross margin of 79.1% for the quarter. As the line items making up our Q2 operating expenses; selling, general and administrative expenses as adjusted totaled 66% of net sales for the second quarter, a 260 basis point improvement to Q2 2018 due largely to our continued ability to hold G&A and distribution spending flat while driving revenue growth. R&D expense as adjusted was $18.8 million for Q2 of 2019 and $14.7 million in Q2 of 2018. And finally, amortization expense was approximately $7.9 million in Q2 of 2019 compared to $6 million in the prior year period. Below the operating income line, net interest and other expense was $8.4 million for Q2 of 2019 compared to $8.6 million in the prior year period.

For share count, our Q2 per share result as adjusted are based on adjusted average diluted shares of 128.6 million for Q2. Altogether, this resulted in adjusted EBITDA of $35.3 million and 15.4% of net sales for the quarter. From a cash standpoint, our total cash balance at the end of Q2 was approximately $150.6 million.

I will now discuss our 2019 full year guidance. Consistent with our past practice, please note that our guidance ranges and assumptions for 2019 exclude any consideration for the effect of potential future acquisitions or any other possible material business development. 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.

As stated in today's press release, we have updated our net sales guidance for the full year 2019 of approximately $925 million to $930 million. This guidance range assumes foreign currency exchange rates in line with current rates, which results in a negative impact of approximately 1 percentage point as compared to 2018 and $30 million of Cartiva sales in 2019. This range implies full year 2019 constant currency net sales growth of 12%, pro forma constant currency net sales growth of 9% and organic constant currency net sales growth of approximately 10%. Our reduction in guidance is all attributable to the Cartiva sales in the U.S. distributor territories and the performance of our core foot business. The very strong growth for Cartiva in the direct sales areas in Q2 gives us confidence that we can drive strong growth in Cartiva. However, it is going to take some time to regain the significant amount of business that was lost in the distributor territories in Q2. That business deteriorated throughout Q2 and exited at a rate lower than the full quarter.

Our guidance appropriately assumes that sales in these accounts is going to get worse before it gets better. As Bob has discussed, the core foot business is the most competitive and challenging part of the business. The market is still very healthy from a growth and margin perspective and we are committed to getting this part of the business to consistent strong growth. We've taken short-term actions to improve the competitiveness of our salesforce and we are also working on longer-term initiatives to develop more meaningful differentiation in this part of the business.

We've had some ups and downs in our core foot business, but we've always been able to return it to at or above market rates of growth and we have confidence in our ability to do that this time as well. We expect some recent big contract wins, recent experienced rep hires and a more highly motivated salesforce to all have a positive impact on the business.

From a guidance standpoint, we are taking the conservative approach and assuming that those things will take some time before they have a significant impact and therefore are not building any improvement in the core business into our guidance assumptions for the second half of the year. We have updated our full year 2019 non-GAAP adjusted EBITDA from continuing operations to $157 million to $163 million. This guidance assumes approximately 290 to 350 basis points of EBITDA margin expansion, in line with our previous guidance, despite the lower revenue levels and puts us on track to deliver our goal EBITDA margin in excess of 20% for the full fourth quarter of 2019.

On an as-adjusted basis, we expect to be in an income position in 2019, which will result in a slight increase in our diluted shares. We estimate approximately 131 million non-GAAP adjusted diluted weighted average ordinary shares outstanding for fiscal year 2019. Our full-year organic growth guidance is 10%, which implies growth in the second half of the year at approximately 8% to 9%. Taking normal international sales fluctuations into account as well as the Q2 exit rate for the U.S. core foot business, we expect Q3 organic growth rates to be in the mid-single-digit range and then low double-digits in the fourth quarter. The primary factor creating the difference in the growth rate between Q3 and Q4 is international.

Also built into our assumptions is an expectation for the U.S. lower extremities growth rate to decelerate in Q3 and then improve slightly in Q4. Our guidance assumes Cartiva sales of approximately $13 million in the back half of the year. We expect Q3 Cartiva revenue to be approximately $5.5 million in Q3 and $7.5 million in the fourth quarter. In addition, we have approximately 1 percentage point FX headwind in Q3 and minimal headwind in Q4 at current rates.

As Bob mentioned, while we are confident in the actions we have taken to improve U.S. lower extremities growth rate and turn around the Cartiva business, it will take some time before the benefits are reflected in our sales numbers. Our comments on our quarterly cadence take this into account.

We expect our Q3 EBITDA margin expansion to be considerably less than the full year, just due to the timing of spend combined with the seasonally lowest sales quarter and to be in the range of 150 basis points. We still anticipate EBITDA margin in excess of 20% for the full fourth quarter.

In closing, we are disappointed in our Q2 revenue performance and the resulting lower outlook for revenue for the year. It is frustrating for all of us: shareholders, management and employees; when there is a setback. When they occur, you have to acknowledge it and take swift aggressive action to address it and we have done that. The overall fundamentals of our business and our markets have not changed and we remain confident in the opportunities in our business. We continue to be in a great position strategically and have a full pipeline of future innovative implants and digital solutions. Despite the issues with the Cartiva distributor territories and the core foot business landing at the same time, we still grew 9.4% organic constant currency in Q2 and expect to grow 10% organic constant currency for the full year. We are also still on track to deliver on our full year and Q4 EBITDA margin goal, despite the lower revenue levels, and remain confident in our ability to achieve our long-term financial goal of double-digit organic revenue growth, maintaining gross margins in the high 70% range, and achieving non-GAAP adjusted EBITDA margin of mid-20% range exiting 2021.

Before we open the call to take your questions, I will note that Dr. Baumhauer has graciously agreed to stay on the call to answer questions. Please limit your questions for Dr. Baumhauer to matters pertaining to the Cartiva MOTION PMA study or her clinical experience with Cartiva. Any questions relating to financial projections, market sizes, estimates, et cetera will be handled by Bob and me.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Larry Biegelsen with Wells Fargo.

Shagun Singh Chadha - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Thank you so much for taking the questions. This is Shagun in for Larry. Bob, thank you so much for the color on Cartiva on the call, especially on the clinical front. I was just wondering if you're looking for focus more on physician education, given early variability in results. And then can you elaborate on how you're addressing the distributor issues that you faced in Q2? And then I have a follow-up.

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

Yes. Medical education and increased medical education is really a key point of our strategy going forward. It's always an important thing with (inaudible). I think we really intend to step this up. We will continue to train a lot of physicians, train them well, making sure that they understand what the patient selection is as well as how to set patient expectations. So I think that we're on top of that and I think that we've done a good job with that. And we will even focus more on that. How we dealt with the distributor issue is that we fired them all, quite frankly. They collectively really lost interest because they felt that they were going to lose the product and no longer wanted to invest their resources, time and energy in promoting it. Now we had agreed with them that we were going to keep them as long as they performed. But they decided that that wasn't what they wanted to do. So we now have -- I think we have one distributor left and hopefully that will work out. But the rest of the market has all been turned over to our direct salesforce and we're very optimistic about that. We had a great response in Q1 and specifically in Q2 with 29% growth in our direct salesforce. But it's not all going to come back right away, so that's why we're building in some conservatism as we go forward for the rest of the year.

Shagun Singh Chadha - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Thank you. That's really helpful. And Bob, I was hoping you could touch on WMG's pipeline beyond 2019. What are you most excited about for next year? And do you feel confident in delivering double-digit growth in 2020?

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

Yes, we feel confident in '19 after having double-digit growth and certainly confident in 2020 of having double-digit growth. I think we'll be still in the early stages of the Cartiva launch next year. We have new products in our pipeline that as I said in my prepared remarks, several new products as it affects bunions, which are one of the largest areas in forefoot procedures. We think we have some unique solutions there. We said we're starting in physician preference testing late this year and should be in the market next year. Additionally, digital is coming and we think that to address this core market, this core foot market is that having differentiation is going to be key. I say often that one of the problems in this area for us is that it's the one market that we deal with that doesn't really have a lot of product differentiation. So you're constantly in a battle every day. I describe it as a "knife fight" every day. And some days you win the knife fight and some days you lose the knife fight. In Q2 we lost the knife fight more than we had hoped. But the real key here is not just saying that's the way it has to be. Short term, we believe that we will be bringing more knife fighters to the knife fight and having more motivated knife fighters in the knife fight. Long term though, I think the real solution is in having differentiated products. And differentiated products, you may think it's has to do with basic plates and screws. But having digital assisted surgery we think will really separate us, particularly from the small non-public companies that I referred to before, because they're not going to have digital solutions. And we will be able to equip our reps, the physicians that we do business with, to hopefully have better outcomes, because they will have the aid of digital, which we know is very important. We've seen this in shoulders and other areas. The more enabling technologies, the better enabling technologies, the better the outcomes and the more market share you're going to get. So that's how I look at it, Shagun.

Operator

Our next question comes from Brandon Henry with RBC.

Brandon Christopher Henry - *RBC Capital Markets, LLC, Research Division - Analyst*

Can you help me understand the difference in the performance in the foot versus the ankle business 2Q? I don't know if I heard a growth rate for total ankle. And then just also help me understand why you believe the salesforce turnover kind of spiked in the second quarter and then maybe your expectations for salesforce hires for the remainder of 2019. And then I just have a follow-up.

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

So Brandon, this is Lance. I'll take the total ankle question. The total ankle growth was lower than what we've seen in Q2 also. It was 5%. So we're not really worried about that. We've seen blips like that in the past. I think in Q4 '17 it was roughly 5%. And then we've seen it bounce back and be strong after that. So sometimes we see these anomalies and we had that in the quarter. But nothing has changed related to the market or our position in the market or our system and ability to drive market expansion. But it was softer this quarter.

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

And also I'd add that year-to-date it's still 12% and I think that some of that is attributable to the same issue of salesforce that we had in our core products. These are basically the same reps and as we had a lot of regrettable turnover in our core business, that also affected the total ankle business. But I think that total ankle business is more sticky. Reps tend to like to do it and that's where we're recruiting reps in and I think this is a big advantage that we have. The reason for the turnover, Brandon, and I covered this a little bit in my prepared remarks, is that we had -- the competitor that is coming up strongest now is about 20%. If you lump it together, are the small combined. And they don't necessarily or they're not necessarily involved in providing a lot of medical education, providing a lot of new products, providing a lot of resources. They're able to recruit sales reps based upon a very high commission rate that will bring a lot of business with them. And this has always been part of their game. But it really intensified in Q2 and particularly in mid-May. We were at an off-site meeting and I'll never forget it in mid-May. And I saw all our salespeople kind of huddled together and they were -- the long and short of it was is that we had lost about 7 or 8 sales reps in the previous 2 days and it was all to the same 2 companies. And it was this kind of a system where they were just going to pay real high commission rates and with very low demands. We tend to be a little bit more demanding. They didn't offer any things like medical education or any kind of support that we give. But this was very attractive to a number of sales reps. Now, that's part of a process. We operate a little bit differently. We operate that we will have good products, a big pipeline of new products, hopefully differentiated products, give a lot of support. But we did have to fix the comp issues so that we could be more competitive short term. We didn't want that to continue. So we took 2 short-term actions. One was to raise the comp levels for our reps and secondly is to try to bring onboard some extra reps, so having more motivated sword fighters and more sword fighters is our short-term solution to that. The longer-term solution is having differentiated products, particularly digitally enhanced products.

Brandon Christopher Henry - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay, thanks for that color. And then just a follow-up question on Cartiva. I'm still confused on kind of the disconnect you saw in the second quarter between the distributor and the direct or related Cartiva sales. So just kind of help me understand that and why the distributor problems kind of weren't thought out prior to the deal closing. And then also, there was a negative kind of single-center study that came out in Cartiva in June. So maybe just respond to that and then did you see any further drop-off in Cartiva sales after that study was released? Thanks.

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

Regarding the distributor issue, is that we had good growth in Q4 of last year and good growth in Q1 of this year. So it was hard to see going into Q2 what was in front of us. And as I said in my prepared remarks is that collectively distributors at that point thought that they were all going to lose Cartiva and stop investing in it. As a matter of fact, many distributors had specified Cartiva sales reps in their distributorship. Many of those let those people go and did not continue to support the product. As a matter of fact, particularly when some negative notes came out, it added to the confusion and used that to drive distributors away. We felt that when we spoke to them that we were not going to bring them back and the best thing to do was to go direct. We did not want to do that at the beginning. Now, I tried this several different ways with trying to convert distributor dollars into revenues for the company. And it seems like none of it seems to work. But probably in retrospect, what we should have done is taken a bigger hit up front and saying, this is going to happen. Just build it into your model. But we were optimistic, given that we were going to keep these distributors. They were going to keep their accounts and that as long as they performed well, they were going to keep the product. I failed to fully appreciate the paranoia of this group of people.

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

And Brandon, you had a question about that single-site study. Dr. Baumhauer, I think you're familiar with that study. Would you be comfortable commenting on that?

Judith Baumhauer

Yes. I'd be delighted to. That's a level 4 study. So that's a single series from a single surgeon group of patients. And that study certainly put Cartiva in a great toe, but it had so much variation from what we did as a level 1 study that it was really comparing apples and oranges. The authors of that study -- and they honestly admitted to all of these things. But they stated that they changed their surgical technique halfway through. They did things like they didn't follow the inclusion or exclusion criteria. They had patients that were included that had osteoporosis or weak bone, patients that didn't have any preoperative outcome assessments. So you really didn't know what change there was over time. So it could have been a fact that those patients didn't really have the level of pain that would warrant an operation. They wouldn't have benefited from this operation. We know a lot of those things now. It also didn't really follow the recovery map that we have for how patients will do over time. As I often say to my patients, I say, don't judge me for 3 months. And the reason for it is you drill a hole and it takes about 3 months for bone to catch its breath from that endeavor, although you can walk on it and it's a very quick ability to get back to daily living activities. It takes longer to sort of realize the pain relief and improved function. And I think if they just had towed the line, they would have had a little bit better outcomes and a better experience with this. They also sort of poked the bear during the course of this recovery by injecting it with cortisone and putting on motion devices that would allow for passive motion. We know now from knees and hips and other joints that we don't use passive motion devices any longer. We don't do it in the ankles. But they did it in the toe. And moving a toe and irritating it more will just irritate it more. So I think all of those things might have contributed to some of the results that they had. But I do feel the paper was very helpful, because what it did was it sort of showed us that really needed to emphasize the recovery, the inclusion-exclusion criteria, the selection of the right patients, the recovery map that we anticipate. And as Bob commented on, we have a great effort now towards education for surgeons so that they will understand that this is a great operation and you need to educate your patients about what they can expect over time. And I think if you do that, you're going to get actual results that we saw on the level 1 study. So I think you need to take that study with a little bit of grain of salt. It certainly is a lower level of evidence study than what we did and I think it has a lot of variation to it. And I only mentioned a few items. But there are many more. They did multiple operations on the patient where we had an isolated great toe arthritis patient. So they did patients that already had prior operations and the impact on the outcomes also would be difficult to understand based on our study. So those are all the things that you have to consider.

Operator

Our next question comes from Mike Matson with Needham & Company

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

I guess I had another one for Dr. Baumhauer. I just wanted to ask about the pain. It seems to last longer potentially, as you noted. And I was wondering if you had any thoughts as to the reason for that. I guess on the last response you kind of indicated you thought it might have something to do with the hole that's being cut into the bone. But just curious why you think the recovery times are longer.

Judith Baumhauer

Yes, you say the pain lasts longer. I would say that it doesn't decline at the same slope, if you will. And that's because the toe is still moving and you're still functioning. And we're not giving it rest during that time interval. It just -- I always tell my patients, it's like baking a cake. You know, you put the cake in the oven. And even if you turn up the oven temperature or whatever, it's just not going to bake right. You just have to wait for the time it finishes and then pull the cake out. And it's like that with the toe. It takes a period of time for you to go through a process of drilling the hole and the soft tissue dissection that occurs around that. Remember with fusion, there is no request to do any motion. But with the Cartiva, the toe continues to function during the time frame that it's recovering. It's almost like working on a car when it's still moving down the highway. So I would say that time is a benefit here and we do know that at 3 months it turns the corner and patients perceive that based on the graphs and at the 6 months even better, a year even better, 2 year equivalence -- 5.8 years equivalency with what you see with a great toe fusion. So I hope that answers your question.

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

Yes, it does. And I guess just with your real-world experience with the product, I mean has it been comparable to the outcomes that you saw on the MOTION trial?

Judith Baumhauer

Yes, absolutely. My experience has been parallel to what we saw in the MOTION trial and that's why I use the word confidence, because I can use it with confidence. And I can guide my patients to let them know what they can expect in the time frame that they can expect it. And when you tell them things like that, then they're able to wait. As a matter of fact, if I told a patient, oh, you wanted to get better by 3 months. Well, have a fusion. They say, no, no. Wait a minute. I'll still have my Cartiva. I'll just give it a -- I'll accept your recovery time. They just want to preserve motion.

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

Okay. So it sounds like just managing the patients' expectations is kind of the key here to let them know that it could take a little longer than they might otherwise expect.

Judith Baumhauer

Yes.

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

All right, and then another question on the guidance. Just can you give us some sense of how much of the Cartiva sales in the original guidance were coming from the distributors and the reduction, how much of that -- is that really just isolated to the distributor issue? Or is some of that for other reasons or just to be conservative with the direct reps?

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

Mike, that is all related to the sales in the now former Cartiva distributor territories. I think we talked about on the past couple of calls that the 20 or so distributors that we retained had really the vast majority of the business at acquisition. So of the existing business that was the biggest part. So the reduction is in those territories. A lot of that occurred in Q2, particularly if you could look at where it exited. I think to be safe, we're assuming it's going to go down further. And then our team is going to be able to grow it back from there. But that's what is built into the guidance.

Operator

And our next question comes from Mathew Blackman with Stifel.

Mathew Justin Blackman - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Bob, maybe if you could take a step back and compare and contrast the intensity of the headwinds you're facing today in the core lower extremity business versus those you experienced a couple years ago. Do they feel similar, more intense, less intense? And then I have a follow-up.

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

I mean it's different. At that time, it somehow was again a distributor issue that we had a lot of distributors that were handling the previous Tornier lower extremity business that we decided, unlike this time which we tried to keep them. That time we decided to replace them all at once. And that caused the issues and we tried to hire a lot of new reps in at one time. And it takes time to do that and it takes time for reps to get situated and productive. So that's different than this time. What we had and we saw in Q2 was this growing entity of these physician-owned non-public companies that don't try to do anything in terms of differentiation or medical education, but are really involved in aggressively going after reps, design surgeons and physician investors. So there were 2 different things, quite frankly. Now the result is the same in that we have a hole to climb out of. But I think that we have tried to take that into account in setting our guidance for that business. I think that we reacted quickly and as quickly as we could in May and June to get ourselves situated. But a lot of the damage is done and it will take some time to undo. But the long term, we believe that this is what we like to do. We like to build product differentiation into our portfolio. We don't like necessarily to be in markets that are commodity-like. And so we have a plan that we foresaw when we decided to form a whole digital organization to help us not only in upper extremities, but lower extremities, have product differentiation. So I think we're on the right track. I wish it would all happen tomorrow. But to be realistic, it's going to take a while.

Mathew Justin Blackman - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Yes, I guess what I really was asking, do you think it's going take heavier lifting to get out of this hole? Just the ability to get out of the hole that you're in, obviously these are two different situations. But just comparing the amount of work that you need to do to get out of the?

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

Yes, I think that the way I'm looking at this is that Q3, the quarter that we're in, is going to be somewhat similar to Q2, maybe even less. We should start to see some uptick in Q4. And then as we get into next year, I think we should be able to get back on our trajectory of having market growth rates for our core products.

Mathew Justin Blackman - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay, that's helpful. And then the follow-up is, would you hope to have the bulk of the new reps, the backfill of these reps hired by the end of this quarter or into next? And just remind us how quickly it does take (inaudible).

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

It's an ongoing process. One of the things we learned when we added a lot of reps was that we thought that -- we tried hiring non-orthopedic reps and training them. That did not work well for us. So what we know is that we have to hire orthopedic reps. There are a lot of orthopedic reps that would like to join Wright, because of all the support that we give. And those are the people -- and companies like Synthes has really disbanded their extremities salesforce. So there is plenty of people with proper training, I wouldn't say minimal training, could be get up and running productively. So we've hired some. We continue to do that. And I think that should all be done, the additions should be all done by the end of the year. What I would say is that with the other part of that is to stop people from leaving. And I think that has gotten better since we revised our comp plan. However, that continues to be an issue. We have reps that do a million or $2 million of revenue. One of these companies that I referred to before can take these reps, pay them on a straight commission basis, and they're making double what any other orthopedic company will pay them. But that's just usually for a year. Then it goes back down. So we continue to fight that battle as well.

Operator

And our next question comes from Robbie Marcus with JP Morgan.

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

Maybe if I could put a little finer point, a lot of people are trying to get at the U.S. salesforce productivity. And by my math, it looks like you're cutting second half growth in the core business ex-Cartiva about 3% to 8%. And either Bob or Lance, I guess what are you going to do to prevent this one-year market growth rates on easier comps? One year you have difficulty. What are you going to do strategically? Because I'll tell you, Bob, I mean I'd like to take the easier job with the great pay as well. And I'm sure you're always going to face that with the reps. So, I guess from a more holistic strategic point of view, what are you going to do to maybe steady out the performance here in this knife fight that you say?

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

I think the main thing, as I mentioned, is that we need to get product differentiation more in play in that part of the business. And we're not starting from scratch. We've already started. And I think that's primarily the overall strategy, as well as having more knife fighters and better knife fighters. But primarily is that they have product differentiation, it will make a big difference.

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

You know, Robbie, also the allure of a high commission rate to high commission rate is not guaranteed comp. And you know, some of our products have fallen into the category of things that are less differentiated, but not all of them. And so a rep is not going to be able necessarily be able to port all their business over. And so this is not an unwinnable fight, as it is today. But we definitely need to get it more based on differentiation longer term.

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

Okay, and then just a follow up on that, Lance, it sound like comp is moving higher. You're going to have to do some hiring in the back part of the year. Just help us walk through maybe some of the puts and takes. I know the EBITDA numbers are coming down. But the margin isn't changing terribly and you're still north of 20% in the fourth quarter. So help us just maybe with some of the puts and takes on where the increased spend is offsetting some lower spend and how to think about that trend going into next year.

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

Sure. Yes, there's definitely some increased spend on sales comp, both for a number of reps, but then also just the compensation for the reps we have. We were able to obviously offset a lot of that and get even with the lower revenue number and higher sales comp, hit our EBITDA margin targets for the year. So we were able to offset a lot of that. As you're thinking about just in the context of the lower extremity business, some of that is just reallocation to other areas. Until we get the salesforce right, there's no need to spend on some of those other areas. Now we're not cutting back on anything around R&D or trying to drop product differentiation or anything like that. But you know, we have to reprioritize a little in the short term to get the more knife fighters and keep the ones that we have. And so that's where a lot of that has come from.

Operator

Our next question comes from Matt O'Brien with Piper Jaffray.

Kevin Farshci

This is Kevin Farshci on for Matt O'Brien. Thanks so much for taking the questions, a few quick ones from me. I'll ask them at once. I wanted to start on why the Q2 Cartiva issue is maybe transitory. You mentioned high 20s growth on the direct side, obviously pretty good. Can you provide color on reorder rates, utilization for Cartiva from docs that have been using the product, say, more than 6 months, more than 12 months? And then secondly, when you originally did the deal, you said that standalone the business is really only in the U.S. The international number was up meaningfully year-over-year and also sequentially. So it seems like the scaling appears to be working. Can you kind of talk about the pace of growth internationally in the coming quarters and are you going to be going direct sooner in some regions and how much benefit can you get there overall?

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

I'll take the usage. I'd say just we have a lot of data. We referenced some of it in the prepared comments, around the behavior of current users and more importantly the expected future behavior of current users. And that's with maybe I'll reference a large survey that we did and in that survey 95% of current users expect to maintain or increase their usage going forward. So I think we feel good that this is something that current Cartiva users see as an important tool in their toolkit and feel good about that. And then we're also seeing great performance in our direct territories with the product. So I mean that's what gives us confidence that it's, as we said, transitory, and that we're going to see improvement over time. We just needed to get access for our direct salesforce into those territories, which we have now. And then we need to give them some time to regain that business.

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

Regarding the international piece of that, Kevin, I think it was in July that we actually went direct in most of the European countries. The U.K. is by the far largest opportunity. But we're also in Australia. So it's really too early to tell, but I think that we're going to do real well. We did a lot of pre-work there and I think that as far as I understand, we're off to a great start. I'd also mentioned that as I said in my prepared remarks is that later this year, in physician preference testing we the thumb product being launched in the U.K. and maybe some other direct markets, I'm not sure. And so I think that the opportunity is to grow faster than we had expected in international markets. But give us a quarter or two to digest that. But I'm feeling really optimistic about that right now.

Operator

Our next question comes from Travis Steed with Bank of America.

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

So Lance, I think you commented less than 3 months ago there was strong momentum in the business and 2Q could be better than Q1. So maybe elaborate on why all this happened so quickly over less than a 2-month period and why it was such a surprise and also your confidence that these reset expectations in the new 2019 guidance are the right numbers. How confident are you in achieving those numbers now?

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

Yes, so we did point to an expectation for a slightly lower growth rate in Q2 than we had in Q1 in total. But we definitely had a lot of confidence coming out of both Q4 and Q1 results, 2 quarters in a row. And we definitely did get surprised in the second half of the quarter. I think Bob referenced a specific mid-quarter meeting where we had a spike in turnover that we were dealing with. And then the Cartiva distributors were definitely significantly worse in the second half of the quarter than the first. So I mean I just have to concede that yes, we got surprised on those two fronts and have tried to react immediately to deal with both of those. As far as confidence in the second half, we understand where we exited Q2. So we know what we have rolling into Q3 in the second half of the year. And we've tried to be realistic on our expectations for how long it's going to take to get some improvement in the two areas where we've had some issues. Really, the rest of the business is doing really well. I mean rightly so, we're talking about the issues on this call. But the rest of the business is really in line or better with what we've been expecting and what we've talked about at the beginning of the year. So we feel good about that. And we're not really expecting improvement in the Cartiva distributor territories or the core foot business in the second half. So that's how we're trying to handle guidance and be realistic about the time it's going to take for the actions that we're taking to really show up in the numbers.

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

And Travis, I would add is that I'm going to really be clear, very disappointed in our Q2 results. Given that, I think we missed consensus by about 1%. And we made EBITDA. So we were disappointed. But the issue and why guidance for the rest of year is lower is that we exited Q2 with a 1% miss. But the trajectory was bad. That's why the guidance for the rest of the year is where it is. And I think it's very realistic. Hopefully we can beat it, but we were not only dealing with a $3 million 1% miss, we're dealing with we had a trajectory that we need to reverse before we can grow again.

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

I don't know if you're willing to say how many sales reps you lost in the quarter and if that's stabilized in kind of the last few weeks of the quarter? And also the $8 million in Cartiva this quarter, how much of that came from the direct reps? I'm just trying to get a better sense of the organic ramp you need in the back half to get the $30 million.

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

Yes, on the Cartiva, we're not splitting it out. We said that obviously heading into the quarter the majority of the business was with the distributors. I would say in the quarter it ended up being closer to 50-50. So that gives you some context without giving you exact numbers. And I'm sorry. What was the other part of the question? Oh, the turnover. Yes, we typically don't give exact turnover numbers. I think the big thing is it was kind of in a very concentrated period of time some pretty regrettable losses and that was more impactful, per se, than if I gave you a number year-over-year. Not all turnover is the same.

Operator

Our next question comes from Joanne Wuensch with BMO Capital Markets.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

I've got a bunch of questions. I'll try and consolidate them. Physician-owned non-public companies have been around for a long time. So what made your lower extremities salesforce sort of the target of them this quarter? I'm going to keep going here. And if they were offering fabulous deals, why would we not have a similar situation in upper extremities?

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

We have competed with these folks for some time and I think we've been successful at times and have been less successful other times. The intensity has really picked up, as they are becoming increasingly ambivalent and increasingly more aggressive in soliciting design surgeons, whether or not they have actual projects for them is irrelevant. Secondly is that on a temporary basis they can offer significantly more compensation to reps. And so we think that we can deal with them, but in any particular time and particularly when they're super aggressive -- you could take 8 or 10 reps that have million dollar territories. And that goes away and it takes a while to get it back. And I think that's the scope of things we're talking about. We have a 350-ish kind of salesforce. And 8 or 10 territories can really swing greatly the overall outcome. So it doesn't take a lot, but it takes the right ones that cause the difficulty. And what I keep on saying is that the answer to this is short term is to do what we're doing. Long term is have product differentiate which these companies will not be able to compete with effectively.

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

And Joanne, I think you asked why not in upper? The dynamics are completely different in upper extremity. You don't have these smaller non-public companies that have a shoulder. That's really not the case. The other thing too is there's a lot more product differentiation in that space as there is -- again, this is primarily related to the core foot, mainly forefoot business where there's less differentiation and a high number of smaller competitors.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Okay. When you bought Cartiva, the deal model was to have a 1% accretion to revenue and I think it was 100 basis points to adjusted EBITDA. Is that intact?

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

Well, no. I mean our pro forma revenue growth is going to be slightly less than our organic revenue growth for 2019. Now I think Cartiva can still be accretive beyond '19. But for '19, no, that's not intact. For EBITDA margin, we're still delivering our overall EBITDA margin goals, whether that's from Cartiva or something else. We're going to get to where we said we're going to get to.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Okay. Finally, upper extremities, can you give us something positive please on anything, product pipeline or I just would like something positive.

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

Yes, Joanne, we continue to have mid-teens or better growth in that area, growing double the market. We relaunched the REVIVE product at the end of Q2. We think that's going to have a significant opportunity for us in the last half of the year and going forward. We have obviously some tough comps versus last year in the non-REVIVE part of the business. But that business is spectacular and continues to perform well. There's no issues with distributors, no issues with turnover. BLUEPRINT is a real catalyst and gaining more and more traction and helping us convert more and more doctors all the time. We're introducing new features to BLUEPRINT this year. And I think that that's really a great story. And as Lance alluded to, in upper extremity, there's huge differences in product. Product differentiation is huge in that area and I think that that's why we've been so successful. At the time of the merger with Tornier, we were the #3 player and we're being very bullish about predicting by the end of this year we will be the #1 player. So despite our trials and tribulations is that we will at the end of this year be the #1 player globally in both lower extremity and upper extremity.

Operator

And our next question comes from Chris Pasquale with Guggenheim.

Christopher Thomas Pasquale - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

Bob, you mentioned digitally enhanced products in lower extremities a couple of times as part of the solution in terms of differentiating the portfolio. My sense from the conversation we had last quarter when you broke out the digital group internally was that the efforts in lower extremities were still pretty early. So how far away are you from actually having those products to set your core foot portfolio apart?

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

You know it is early and I'm not going to give the time line today. But it's not tomorrow. But these projects have already started. It's not like we're starting from scratch. We have a high level, high capacity team and I just think that this is really going to make a difference. And I am driving them every day to do it quicker, quicker, quicker. But I don't want to say, because I'll get into this trap that one can get into when trying to predict something you really don't know the time lines for, as to saying, well you said it was going to be this and it's not. So I'd rather just say in hopefully the near future we will have digitally enhanced core foot products that would provide a real advantage in the market.

Christopher Thomas Pasquale - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

And you have a number of differentiated products in your lower extremities portfolio today. And I know that the selling strategy historically has been to silo those relative to the core portfolio. But several of them read directly on these same physicians and these same procedures, things like PROstep, AUGMENT. So why is there not an opportunity to leverage that differentiated portfolio when you're contracting with hospitals and surgeons, rather than try to play the same game that your competitors are playing in terms of compensation and blanketing the market with reps?

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

Yes, Chris. That's a great question. There is an opportunity to do that. And we have had some success there. We referenced some recent big contract wins and some big IDNs. Also our ASC business is doing a lot better and a lot of that has to do with turning it in more to a facility sale as opposed to an individual procedure sale. And things like AUGMENT and PROstep are very helpful for that. So directionally that's correct. Right now though, there's still a fairly meaningful chunk of the business where the differentiation is pretty incremental between any company and that's the part of the business that is more susceptible by being moved with a rep relationship. And that's the part that we have to protect long term with differentiation in short term with basically equipping the salesforce to be (inaudible) and retainable.

Christopher Thomas Pasquale - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

Thanks. And I'm going to sneak one on Cartiva and the new sizes you're launching. I'd be curious to hear your thoughts and maybe Dr. Baumhauer's thoughts on how significant those are in terms of expanding the range of patients who can be treated.

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

Dr. Baumhauer, do you have an opinion on that?

Judith Baumhauer

Well, I just caught the -- when you talk about the range of patients that are treated, do you mean can you just expand what you're talking about?

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

Their question, Dr. Baumhauer, was the two additional sizes that got approved. How significant is that and how many additional patients does that open up as applicable to the procedure?

Judith Baumhauer

So I think that the two additional sizes will be helpful for patients that have a smaller and larger-sized foot. So that will be helpful. And although I can't really speak to non-FDA approved things that I've done in the United States, I can talk about my discussions I've had with the Canadian group and the U.K. group. And they have approval to be able to utilize implants in the lesser toes at the MTP joints. And I think their experience with that has been very good and I think there's publications coming down the pike in regards to that. So I think it will be helpful for us in the long term. But as it's approved currently for the great toe, there are toes that are problematic that need different sizes. So it will be helpful for a little bit larger and a little bit smaller.

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

I would remind you, Chris, is that the approval outside the U.S. is much broader. So the product can be used in many more areas than just the big toe. And these sizes are probably more significant for those markets.

Operator

And our next question is from Raj Denhoy with Jefferies.

Rajbir Singh Denhoy - *Jefferies LLC, Research Division - MD, Equity Research & Senior Equity Research Analyst*

Maybe, Bob, when you think about the loss of doctors, when you lose reps you lose doctors you mentioned. And you're bringing new folks in to replace the reps you've lost. I mean how long does it take to get these relationship back going again? And I know you've kind of guided to the back half numbers. But is there any risk that it takes longer for these reps to get productive?

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

It's hard to give a specific time. I think that what I was talking about in my remarks and answers to some of the questions was that these competitors that I talked about in this basket of competitors, tends to go after surgeons and offer them design work on a consulting agreement so that they can -- and then they would bring their business with them. Now in some cases, there are actual projects and some cases there are not. And that's just a fact. So once that happens is that really that surgeon is generally gone and you have to then replace them with your salesforce to get more surgeons. When we lost -- I don't think we're in the same position that the reps that we're losing are taking all their business with them. They're taking some, particular this core business that is pretty undifferentiated. But these competitors do not have total ankle. They do not have Charcot.

They don't have Cartiva and a whole range of products. And we're able to maintain relationships for those products, even though the core business is gone with the rep. So it's hard to say how long that takes. But we got it back, when we lost all those reps and distributor reps in 2017, in 2018 we had a pretty successful rebound. So it's hard to say.

Rajbir Singh Denhoy - *Jefferies LLC, Research Division - MD, Equity Research & Senior Equity Research Analyst*

Right. And I guess this has been asked a bunch of times. But just I guess the struggle is that we did go through this before, right? You mentioned it took you a couple of years post Tornier to get the lower salesforce finally in place. It was just about a year ago, right. And then 1 year later, things have sort of slipped again. How do we get comfortable that it doesn't happen again, right? And I think you're probably going to highlight the products and things you're going to bring to market. But it seems like this is a lot more economically driven in some ways. And so how do you make sure this doesn't continue to happen to you guys?

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

The dynamics are different. I'm not saying the result is different. But certainly the dynamics are different in that previously is that we had a significant part of that core business in Tornier distributors and we decided rightly or wrongly to bring that business into the direct salesforce, because we had two sales reps in the same area in a lot of cases. And we didn't think that was productive. So we let the distributor reps go and what they did is they kept a lot of those relationships with a lot of those doctors. But what's happening today is different in that the sales reps that we have, have been somewhat susceptible to these companies that are not offering the full range of products or the full range of medical education, but are offering high commissions. And that's attractive to a certain number of reps and it doesn't take a lot to make a big difference. As I described before, 9 or 10 of these at a million dollars apiece makes a big difference.

Operator

And our next question comes from Richard Newitter with SVB Leerink.

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

It's just two quick ones here. The first is just, Bob, how confident are you that product differentiation in this more commoditized portion of the market is ultimately going to help you win the fight going forward and that there's not something more structural that we'll talking about in a few quarters where it's just customer wants price and prioritizes that over product differentiation? And then I have one more, thanks.

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

Yes, I think that's always going to be a part of the market that's very price sensitive or whatever. However, product differentiation that leads to better outcomes that physicians are pretty motivated by that and they're pretty motivated by having their patients have the best outcomes possible. So I've been in medical devices 20 years or so. And I would always say that give me the product differentiation any day. I can work with that. I can grow that. When I'm in the commodity markets, you're always susceptible to poaching. You're always susceptible to all kinds of dynamics that don't have anything to do with the quality of products or how it affects the physicians as well as patients. And that's primarily what we believe in. And so I think that for a certain part of the market that it won't make a difference. But I think that it will make enough of a market that we should be able to get market growth rates at or above market rates for sure, if we have product differentiation.

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

Okay, and actually two more. One, does your view of the lower extremities end market growth change at all from roughly high single digits? And then just a follow-up, the defense strategy that you're playing with respect to compensation rejiggering to ensure no more poaching hopefully;

what's your level of confidence that you're not going to lose any more of your heavy hitters? I mean have you locked some of your key reps in for year-long or more contracts?

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

Yes, I think the end markets haven't change in our opinion. You know, 7% maybe 8%, in that area is the data that is available. And I think that hasn't changed. What it is, is there are more people in it dividing up that market. And again, more of these small non-public physician-owned companies that are being pretty aggressive with it. And what was the second question, Rich?

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

Just the nature of the compensation rejiggering.

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

Oh, yes. Well, we're being as aggressive as possible. We have outside people helping us to help us design this. I can't say that everyone is protected and everyone is not subject to a fantastic offer that they may get. But I think in general, we're seeing a slowdown in that and hopefully that -- I think we will be successful with both the compensation, the career opportunities, the support; and you put the whole package together, I think that we should be successful. And our turnover rate in general, even in the second quarter was not abnormally high. It was high, but it was not abnormally high. What was different about the second quarter is that it was very intense in a very short period of time.

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

Operator, before we announce the next question, we have time for one quick or maybe two quick questions. So I'm sorry we're not going to be able to get to everybody in the queue tonight. The call has run over an extra half an hour or so. So we'll take another couple of quick questions. So I apologize for that, but I don't want to have the call run way over. So we'll take two more questions and then that will be it.

Operator

And our next question is from Craig Bijou with Cantor Fitzgerald.

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

I'll be quick. So I just want to ask on Cartiva long-term growth, Lance, I appreciate the comments breaking out the cadence for the second half. And so I guess if we use the $7.5 million that you mentioned in Q4, can we expect acceleration from that point, maybe sequential acceleration? Or how should we think about Cartiva growth in 2020 and then even 2021?

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

Yes, Craig, I don't think we're ready to get into that. We're really not talking about 2020 at all right now beyond our kind of long-term stated objectives of double-digit organic growth, and certainly not ready to give specifics around Cartiva. I think the main thing is we have a lot of confidence in the product long term. And it's really just a question of how long does it take us to dig out of the hole created with these distributor territories. So we tried to give you, I mean just as explicit guidance possible for the second half of this year. And then let's get a little further along and then we'll be ready to talk more about 2020.

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

Okay, thanks. And one quick one on total ankle. I know you guys said growth was 5% and that was likely an anomaly. But I just wanted to see if there was any competitive pressure or anything else you saw from the total ankle market specifically in the quarter. Thanks.

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

No. No, we haven't. Competitors are pretty much the same. We're maintaining a very high market share, probably 70% or so. So no, there's no competitive issues in total ankle that I'm aware of.

Operator

Thank you. And our last question is from Matt Taylor with UBS.

Matthew Charles Taylor - *UBS Investment Bank, Research Division - Equity Research Analyst of Medical Supplies & Devices*

I was wondering if you could give us some insight into your projections for net additions to your lower extremities sales force for the year after you put some of these actions in place and going forward. Can you talk about your goals there in '19 and '20?

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

You're talking about number of people?

Matthew Charles Taylor - *UBS Investment Bank, Research Division - Equity Research Analyst of Medical Supplies & Devices*

The knife fighters, yes.

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

I think that we're going to be hiring as many qualified people as we can. And so I'm not going to give a specific number, because if we find more people that want to come on board than we think we need, we're probably going to go after them in the short term. We typically have turnover. So if we over-hire that's going to be fine, because eventually we'll need them.

Matthew Charles Taylor - *UBS Investment Bank, Research Division - Equity Research Analyst of Medical Supplies & Devices*

Okay, then the second question is when you think about your acquisition strategy, I mean obviously you had a lot of distributors drop off here with Cartiva. For other deals going forward, does that mean that you have to discount the distributor revenue more or does it change your approach at all?

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

That's an excellent question. I would say that I would be very wary acquiring any company, no matter how much I like the product that most of its revenues come from a distributor salesforce. It's very difficult, and we found this out through getting beat up a couple times now that it's very difficult to translate those distributor revenue dollars into our company revenue dollars and that the distributors are -- these are usually small product lines within a distributorship. They may get attention for a while and then particularly as a distributor thinks that -- so you may or may not have it. They get very paranoid and stop investing in it. So I would say that in terms of strategy on M&A, I would think it would be very difficult to get me across the line with a product area that is mostly distributor revenue based.

Operator

Thank you. And this concludes our Q&A session for today. I would like to turn the call back to Bob Palmisano for his final remarks.

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

Thank you, operator, and thank you all for joining us today. It was a very lively discussion. I look forward to speaking to you again next quarter on our earnings call. We appreciate your interest and your continued support and this concludes our call.

Operator

And with that, ladies and gentlemen, we thank you for participating in today's program. You may now disconnect.
