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WMGI - Q1 2019 Wright Medical Group NV Earnings Call

EVENT DATE/TIME: MAY 07, 2019 / 8:30PM GMT

OVERVIEW:

WMGI reported 1Q19 YoverY global net sales growth in constant currency of 18%. Co. expects 2019 net sales to be approx. $954-966m.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2019 Wright Medical Group N.V. Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Julie Dewey. Ma'am, you may begin.

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

Thank you, and good afternoon, everyone. Welcome to Wright Medical's First Quarter 2019 Conference Call. We appreciate you joining us. I'm Julie Dewey, Wright's Chief Communications Officer, and with me on the call today are Bob Palmisano, Wright's President and Chief Executive Officer; and Lance Berry, Wright's Executive Vice President, Chief Financial and Operations Officer.

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

Before we begin, I'd like to remind you that this call includes forward-looking statements, including statements about our outlook for 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 section entitled Cautionary Note Regarding Forward-Looking Statements in the press release we issued today.

More information about risks can be found under the heading Risk Factors in Wright's most recently filed annual report on Form 10-K and subsequent quarterly reports on Form 10-Q as 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 reconciliation 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 discussions refer to results from continuing operations. Also note that unless otherwise noted, all growth rates discussed today are on a non-GAAP constant currency basis compared to the prior year quarter.

Before I turn the call over to Bob, we wanted to thank all of our analysts and investors who voted to recognize Wright's investor relations program in the 2019 Institutional Investor Awards. We appreciate your support and feedback and are grateful for your recognition.

It's now my pleasure to turn the call over to Bob. Bob?

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

Thanks, Julie, and welcome to our first quarter earnings call. Our first quarter net sales results represent an outstanding start to 2019 with 18% as reported constant currency growth and 13% pro forma and organic constant currency growth driven by exceptional performance across our total U.S. business with organic growth of 17%.

A few highlights are: U.S. upper extremities growth of 21%, underlying U.S. biologics growth of 20% and 11% organic U.S. foot and ankle growth, with 18% growth in our total ankle franchise and strong double-digit growth in the ambulatory surgery center segment. In addition, Cartiva finished ahead of our expectations and returned to year-over-year growth ahead of schedule.

Our U.S. shoulder business delivered another strong performance with 21% growth, which is approximately triple the market growth rate. We continue to take share in U.S. shoulder and had approximately 130 new shoulder customers in Q1 driven primarily by our BLUEPRINT technology. Additionally, we are now #1 in the shoulder market internationally. We anticipate that our SIMPLICITI shoulder and ongoing PERFORM Reversed launch, accelerating adoption of our BLUEPRINT enabling technology and the upcoming launch of our REVIVE revision shoulder system will continue to drive outstanding shoulder sales growth in 2019 and beyond.

In addition to the strong sales growth results, we also achieved record gross margins of 80%. 80% is outstanding. This will fluctuate somewhat quarter-to-quarter due to geographical and product mix. However, we have made significant improvements to our supply chain which we believe are sustainable over a long period and gives us great confidence in our ability to deliver gross margins in the very high 70% range.

We also delivered adjusted EBITDA margin expansion of approximately 300 basis points, all of which we believe put us on a strong pathway for the remainder of the year and right on track to achieve our previously stated goal of double-digit net sales growth and adjusted EBITDA margin in excess of 20% for the full fourth quarter of 2019. We intend to continue to focus on strong execution and new product launches throughout 2019. We continue to anticipate growth for the full year in our upper extremity business will be double the market rate of growth driven by new products, specifically the PERFORM Reversed shoulder, SIMPLICITI shoulder and adoption of BLUEPRINT and the upcoming full launch of the REVIVE revision system.

Regarding the REVIVE revision shoulder, REVIVE is the shoulder market's first completely dedicated revision system which provides surgeons with specialized extraction instruments for implant removal and a unique humeral prosthesis for achieving successful joint reconstruction. Shoulder surgery volumes have doubled in the last 10 years, and we believe we are approaching an inflection point for revision surgeries. The upcoming launch of our REVIVE revision shoulder system is a significant, new product launch for our shoulder business and highlights our ability to help physicians address the segment of the shoulder market which is growing at approximately twice the primary shoulder replacement market.

On the lower extremity side of the business, we had an excellent quarter organically with high teens growth in total ankle and strong double-digit growth in the ASC portion of the business. Additionally, Cartiva was fully launched with our U.S. lower extremity sales force on January 1, including the integration of the former Cartiva distributors which we have chosen to retain. We couldn't be happier with the Cartiva acquisition. This provides us with another platform technology with high gross margins and many avenues for growth.

Sales force and customer feedback on the product has been very positive. It is the first and only PMA product for the treatment of great toe osteoarthritis and the only product of its kind backed by Level 1 clinical evidence. We are in execution mode now. And based upon our past experience, we are confident in our ability to execute and grow this market in the way we are anticipating.

Today we are focused on the launch of Cartiva in the U.S. great toe arthritis as an alternative to cheilectomy which is approximately a $400 million market opportunity in the U.S. Additionally, in the second half of the year, we will be direct in the U.K. and Australia, 2 of the largest international foot and ankle markets. We also have future opportunities to expand use to the thumb. We have not communicated a specific time line for the thumb indication in the U.S., but the IDE study is ongoing. In Europe, we have a CE mark for Cartiva that has a broad label and it is already being used in the thumb and other areas. We are currently addressing the size of those opportunities and evaluating how best to harness this experience and move forward.

U.S. biologics had a great first quarter driven by the underlying growth and the strong adoption of AUGMENT Injectable. As we expected, the combination of the proven efficacy of AUGMENT combined with the superior handling characteristics of injectable are driving both increased usage at existing customers and new customer acquisition.

Also, as I'm sure you saw today, we announced that we are creating a new digital organization and appointing Jason Asper, our current Strategy, Business Development and IT Officer to the role of Chief Digital Officer. Jason and his team will be responsible for the development and execution of our digital surgery strategy as well as our internal IT functions.

Since the acquisition of IMASCAP, the upper extremities team has done an incredible job of setting our software organization up for success and developing a strategy and pipeline that I believe will be transformational for shoulder surgery. We have created this new digital organization for 3 reasons: first, to accelerate the breakthrough the upper extremities team has already done and expand our shoulder software pipeline; two, to leverage our significant software capabilities across our entire business, including parts of lower extremities; and three, to potentially leverage our breakthrough technology long term into other areas of medtech outside of extremities.

Specifically on BLUEPRINT for shoulder, I would like to discuss 2 near-term items in our pipeline. First is an outcomes database where surgeons can easily collect data on the outcomes of their patients. BLUEPRINT planning data will be synched automatically to the patient's profile and then relevant information on the patient's outcomes can be captured by the surgeon or directly by the patient through a mobile device, such as a smartphone. This information can be used by the surgeon to improve their practice and over time we will also be able to use this information combined with artificial intelligence to continuously improve our surgical plan recommendations. We expect the outcomes database to launch in the second half of this year.

The second item in the pipeline is artificial intelligence-based surgical plan recommendations. We currently have over 5,000 cases in our database, many of which have been planned by world-renowned surgeons, which we are combining with artificial intelligence to provide surgeons with recommended surgical plan. In a matter of minutes after a patient scan has been uploaded to BLUEPRINT via the cloud, surgeons will be provided with a plan recommendation, including whether the procedure should use anatomic or reversed implants. Surgeons can then customize the plan to their preferences. Future enhancements to this functionality will enable BLUEPRINT to learn each individual surgeon's preferences and implant usage over time and incorporate those into the plan recommendations. We anticipate the initial artificial intelligence-based plan recommendations to launch in the first half of next year, 2020.

These are just 2 of the items on our BLUEPRINT shoulder pipeline. We have a very full pipeline. As I stated previously, I believe that we will transform shoulder surgery over the next few years. We also are quickly filling in our pipeline for software for foot and ankle. The first priority is leveraging BLUEPRINT, automated 3D modeling capabilities and upcoming outcomes database to total ankle.

In summary, we have accomplished much on all our financial and organizational metrics over the past several quarters. We see that pace continuing. We exited the quarter on a strong, positive trajectory and I continue to be optimistic as we look forward. I believe we are set up well for double-digit net sales growth and significant EBITDA expansion in 2019 and beyond. We also believe that our new digital organization that was announced earlier today will pay dividends well into the future. We have leadership positions in all 3 of the fastest-growing markets in orthopedics. Additionally, we have truly differentiated products in all our market segments, exceptional enabling technologies for shoulder and total ankle, very high gross margins and specialized sales forces that are performing at a high level.

With that, I'll now ask Lance to provide further details on our first quarter 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 rates refer to our constant currency growth rates compared to the prior year quarter and our results of operations refer to our as adjusted results, which are non-GAAP financial measures as described by Julie during the introduction of our call. Unless otherwise noted, today's discussions refer to results from continuing operations. Please refer to the non-GAAP reconciliations in our press release.

Globally, our net sales grew 18% constant currency and 13% organic constant currency. We saw strong sales performance in all segments of the business with continued exceptional growth in U.S. upper extremities, a strong start from Cartiva and an acceleration in the U.S. biologics business driven by AUGMENT Injectable sales. The U.S. biologics business grew 25% in the quarter with an approximate $800,000 or 5 percentage point benefit from a bulk sale of PDGF raw material resulting from a legacy contractual obligation of BioMimetic. We do not expect any additional PDGF raw material sales this year. Excluding this benefit, the U.S. biologics business grew 20% led by sales of AUGMENT Injectable.

The international business grew 4% in the first quarter. As we previously mentioned, the stocking distributor business has volatility that impacts growth rates quarter-to-quarter. We continue to expect the international business to grow in the high single digits for the full year.

Now moving on to some detail below the sales line. Beginning with our Q1 adjusted gross margin, we achieved adjusted gross margins of 80% for the quarter. As for the line items making up Q1 operating expenses, selling, general and administrative expenses as adjusted totaled 66.4% of net sales for the first quarter, a 270 basis point improvement to Q1 2018 due largely to our ability to hold G&A and distribution spending flat while driving 18% revenue growth as well as some timing on sales and marketing spend.

R&D expense as adjusted was $17 million in Q1 of 2019 and $13.9 million in Q1 of 2018. And finally, amortization expense was approximately $7.6 million in Q1 of 2019 compared to $7.1 million in the prior year period.

Below the operating income line, net interest and other expense was $7.4 million for Q1 of 2019 compared to $7.9 million in the prior year period. For share count, our Q1 per share results as adjusted are based on adjusted average diluted shares of 129 million for Q1.

Altogether, this resulted in adjusted EBITDA of $37.4 million and 16.3% of net sales for the quarter.

From a cash standpoint, our total cash balance at the end of Q1 was approximately $161.5 million. The decrease in this balance from Q4 was primarily driven by payments on our metal-on-metal master settlement agreements and payment of our annual incentive compensation. Other than these items, our cash flows were meaningfully positive in Q1.

Overall, Q1 was a quarter of solid execution, evidenced by net sales and adjusted EBITDA results that were ahead of our expectations for the quarter.

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 developments. Additionally, it is important to note that we'll 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 will refer to our as adjusted results of continuing operations. Our press release issued today notes those items that are excluded from our as adjusted results.

Starting now with sales, we continue to anticipate net sales for full year 2019 of approximately $954 million to $966 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 $47 million of Cartiva sales in 2019.

This range implies full year 2019 constant currency net sales growth of 15% to 17%, pro forma constant currency net sales growth of 11% to 13% and organic constant currency net sales growth of 10% to 12%. We stated on our last earnings call that on a pro forma basis, we expect growth more in line with the lower end of our guidance range in the first half of the year and then accelerate to the higher end of our guidance range in the back half of the year as we expect to see an accelerated benefit from Cartiva.

Historically, the seasonal trend is that our Q2 revenue dollars have been generally flat to Q1 revenue. We have good momentum in our U.S. business and would expect to do a little better than that this year from a dollar perspective. However, we still expect our pro forma growth rate for Q2 to be more toward the low end of our full year guidance range as we face tougher comparables in our U.S. business in the second quarter. Also, although currency is a headwind of approximately 1 percentage point for the full year, the impact is closer to 2 percentage point headwind in the first half of the year and then less than 1 point in the second half.

Turning now to the P&L. We continue to anticipate full year 2019 non-GAAP adjusted EBITDA in the range of $160 million to $170 million as we expect revenue growth to drive continued leverage in SG&A. This guidance range assumes 280 to 360 basis points of EBITDA margin expansion in 2019 and puts us on track to exceed our goal of EBITDA margin of approximately 20% for the full fourth quarter of 2019.

As we stated on our Q4 call, we expect lower EBITDA expansion in the first half of the year and acceleration in the back half of the year. As I noted earlier, our Q1 EBITDA was ahead of expectations partly due to timing of some spending that we expect to catch up in Q2 which will result in Q2 EBITDA margin expansion quite a bit lower than our expectations for the full year and EBITDA on absolute dollars that is lower than Q1 levels.

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 shares outstanding for fiscal year 2019.

In closing, we made great progress in Q1. The upper extremity business continued to gain market share and deliver outstanding results. The U.S. lower extremity business propelled by Cartiva, total ankle and ProStep delivered a strong Q1 and is on a positive trajectory. Finally, strong AUGMENT Injectable adoption drove 20% underlying U.S. biologics growth. We continue to deliver best-in-class gross margin and to drive EBITDA margin expansion and have ongoing opportunities for more improvement in this area with the addition of Cartiva and driving continued leverage in the business.

Overall, we are pleased with our start to 2019 and look forward to aggressively attacking the significant opportunities to drive the performance of the business the rest of the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Matthew O'Brien with Piper Jaffray.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

I guess for starters, obviously, the U.S. number was pretty eye-popping this quarter. Lance, I didn't quite catch the commentary about the biologics benefit that you got in the quarter. Were you anticipating that going into the quarter or that level of it? And then, Bob, just on the upper extremity side, obviously you've mentioned a lot of new docs there, but there's a lot of different components that are contributing there. So can you just maybe tease out or provide a little bit more color on some of the biggest growth drivers there and the sustainability of those growth drivers, especially coming off a pretty difficult comp from last year.

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

Yes, Matt, on the bio, the benefit from the bulk order was about $800,000 and that had about a 5 percentage point impact on the U.S. biologics growth rate. So excluding that, the U.S. biologics still grew 20%, which is an acceleration and really solid performance driven by injectable. Those bulk PDGF sales are rare. They're sporadic. We don't expect any more this year and don't -- really not something you should count on in the future, and that's why we're calling it out this quarter. Still fantastic biologics growth without that.

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

Yes. And Matt, and regarding the upper extremity, we did add 130 new surgeon customers in Q1, which is the highest amount ever in our company. And in speaking to our group that this is generally led by a kind of a wow factor after they learn about BLUEPRINT. And so BLUEPRINT is driving a lot of that growth. The future of our software-enabled technology is very bright. That's why we announced this digital organization because we think this is a strong indication that this is the way to go. Additionally, our new products that we've launched in the last year or so, PERFORM Reversed and SIMPLICITI, which is a couple of years old, continue to grow at very strong rates. And our growth is very strong across our U.S. markets and quite strong internationally, particularly in our direct markets in Europe where we have overtaken the next largest provider and become #1 in international in upper extremity, shoulders. So it's a great performance by that team. We have a lot going, but the future with what we're doing with BLUEPRINT and our whole digital strategy, I think, gives us confidence that this is not only sustainable. I think it can just be just the tip of the iceberg so.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. That's helpful. And then as a follow-up, just the Cartiva number in the quarter was good again, especially OUS was stronger than expected. So can you talk a little bit about the OUS growth there? And then just you have been through these iterations of sales forces in the past, and there's been some leakage that's occurred. So just some of the risks that you may see as far as some disruptions going forward after this integration's happened and having gone through it, the ability to kind of mitigate some of that risk.

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

Well, we're real happy with Cartiva. We had a great feedback all across the board on this product. As you may recall is that there are approximately 40 or so distributors that were actually the sales force of Cartiva before the acquisition. And at the beginning of January this year, we parted ways with about half of those distributors and kept about 20 and then integrated Cartiva into our direct sales organization where they were not in a competing situation with those distributors. So where we are today is that I think our direct organization is really coming up to speed rapidly with Cartiva, and there's a lot of, we think, upside there.

On the distributor side, it's always a thing of evaluation that because distributors carry multiple products from multiple suppliers and we will keep those distributors that we have provided that they continue to perform at a level. So that is something that we will be constantly evaluating as we go through the year. But I think generally speaking with maybe a few exceptions is that, we're happy with the distributors and we're happy with direct sales force.

Operator

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

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

Wanted to focus on 2 areas in the U.S. business that did a lot better this quarter than expected, the ASC business and upper extremities. So the ASC business grew double digits. How big an acceleration is that from the last few quarters and what's the sustainable growth rate there given you're launching new products? And on the shoulder business, you're still guiding to mid-teens for the full year, but comps get a lot easier. How should we think about the offsets in the upper extremities business? And is the revision shoulder an incremental driver later this year?

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

Yes. Regarding the ASC business, that was in decline as you remember in 2017. And because we traditionally have not paid a lot of attention to it, we've put together a team of people to focus on that. And that's now growing strong double digits. And I think that we will continue on that. We have products that are directly for ASCs. We have an organization that calls on ASCs. And we have a whole new focus on that. So I think that is sustainable. I think can actually accelerate. We have a lot of -- quite frankly, we have a lot of experimentation going on in ASCs and some of it works, some of it doesn't work, but that's the nature of it. But we think this growth rate that we're at is a phenomenal reversal of the trajectory that we were on. And I think that there's a lot of future opportunity there to even grow faster.

Regarding upper extremity, I think that it's just a phenomenally strong business. And I give a lot of credit to the management there and to the sales execution that they have undertaken and the R&D organization that's developed outstanding products ahead of everybody else. And a lot of these products are sticky, so once doctors tend to use them, they tend to continue to use them. And also, I think things like our new products are really enhanced by the BLUEPRINT technology that it makes the whole thing easier for physicians, better outcomes and we'll have that in a database soon. And so I think that will continue to grow.

The REVIVE shoulder, I think that if I can use the similarity to the lower extremity where we launched the revision system a year or 2 ago, is that, that in itself doesn't drive a huge amount of upside. What it does though is it gives the physicians a lot of confidence in doing the initial shoulder that if something happens, they will have an opt-out. It's a little bit different in shoulder in that we're at a point now where a lot of the initial shoulders are 10 years old plus. And that's around the period of time that revisions generally happen. So I think we're really on a good schedule to have this product available. And I think it will drive some additional business. I'm not exactly sure how much, but also will enhance our normal shoulder business by surgeons doing business with a company that has a full line of products that can handle just about anything that they're faced with.

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

Travis, you had part of your question there. Could you repeat about comps and growth rates, you cut out a little bit there.

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

Yes. In the shoulder business, you grew 21% this year or in Q1, but you're expecting, I think, mid-teens for the full year, but comps are getting easier. I just wanted to see if there was any offsets that we should be considering.

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

Yes. I'm not sure I follow the comps are getting easier comment. I mean I think we grew 22% in Q2 of last year. And it was like high teens, like 19%, I think, in Q3 and Q4. So I mean the comps are just -- it's just an ever-bigger number that we're trying to grow off of. I mean I would say our comps are getting more challenging every single quarter.

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

Okay. And then just a follow-up question. That's very helpful. The 130 new surgeons you're adding, any sense for how widely they're adopting the Wright portfolio? And as you broaden out BLUEPRINT, you're clearly adding more value. Can you talk about opportunities to move beyond just enabling technology and start charging for some of the value that you're providing?

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

Yes. Regarding the 130 docs, I don't have a statistic as to what volume they're doing. These are just new surgeons in Q1. So we wouldn't have that data yet. Traditionally, we tend to keep them because of the full range of products, the support that they get as well as the reason they came is BLUEPRINT. And that's even getting better.

Getting to the second part of your question. One of the reasons that we launched this whole digital organization was to see what could be done to monetize this technology outside of normal extremities, where we don't charge for and feel we make our living off of the implants that are connected to that. We have been encouraged by the fact that this technology is so advanced that it could be applicable to other areas where there's an opportunity to have a monetary source there. So we're just evaluating that. We have some outside people that are helping us look at that. And I think that will be, hopefully, will be a long-range play for us, but it's nothing immediate. The immediate things are, and we talked about shoulder and also expanding BLUEPRINT into areas of lower extremity that I think could be very helpful there and drive market share advancements for us in lower extremity as it has done in upper extremity.

Operator

Our next question comes from Jeff Johnson with Baird.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. Let me ask, I guess, 2 questions, another one on Cartiva. Just Bob as you go into the U.K. and Australia later this year, can you just walk us through kind of the pacing of new markets? Are there 1, 2, 3 years here of new markets you can go into with Cartiva on the great toe indication? And then on the thumb indication, can you just remind us. If you're in an IDE now, if things would go forward, if you'd go all the way through pivotal and get the product approved, what's the kind of timing? Is that a 2 to 3-year cycle from here?

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

Yes. I think that the IDE is going to be completed next year. And then you go through the collection of data and then the submission. So you're talking 2, 3 years on that. However, in Europe, we do have clearance, a CE mark that we could sell that in today. And we started to do that. So there's also other areas that we are evaluating the synthetic cartilage opportunity for. There's been some work done in a lot of different joints, including knees, that we're evaluating. So I think that there's a bigger opportunity to move more quickly in Europe where we have CE mark.

Now Cartiva has been in Europe and other markets for a while. And the difference that we're making in those markets that we specifically mentioned is that we are going from a distributor to a direct sale organization. And so we think long term that will help. And generally speaking, there's a little bit of friction, right, when you do that, but that's all included in our guidance so. And those take effect in the second half of the year. So we should see some, hopefully, by the end of the year where you'll be seeing some positive effect of going direct in those markets and hopefully launching some products in Europe that we're currently working on so.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right. Yes. That's helpful. And maybe just one follow-up question on REVIVE. You mentioned that you didn't expect it to drive necessarily upside just as a revision shoulder itself, more of just making surgeons more comfortable with the primary. But what about in competitive accounts, would REVIVE be used to revise somebody else's primary shoulder? And does that have an opportunity to maybe go in and convert some accounts?

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

Yes. It does. And it was designed with that in mind. So that's a good opportunity for us. And I also think that it's a little bit different than the experience we had in lower, where these primary shoulders that were installed 10 years or so ago are at the stage where there's going to be more revisions. So it might be more important a product than was our revision system in lower when we launched that.

Operator

Our next question comes from Craig Bijou with Cantor Fitzgerald.

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

Let me start with U.S. biologics. So obviously, strong growth there. And I know, Lance, you called out the $1 million or $800,000 in benefit. But when you look at 20%, is there any way that you could parse out kind of the strength in whether existing users are using AUGMENT Injectable in more cases or if you're actually attracting new users to AUGMENT?

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

Yes. So we don't have exact data to share with you on that, but it's clearly both. I mean we're clearly getting benefit from both. It's not just more usage in our existing customer base. We're opening up new accounts.

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

We have said previous to the launch of AUGMENT Injectable that our experience internationally when AUGMENT Injectable was launched is that there's about a 30% uptick. And I think we're on a clear path to have that in the U.S. also.

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

And maybe just a follow-up on that. I mean as you guys are getting into those new accounts, what kind of pull-through are you seeing with the rest of your portfolio?

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

I think it's a door opener in that this is the only technology, this AUGMENT, now AUGMENT Injectable, of its kind that has the evidence that it has and is a door opener for us in a lot of accounts. I'd also say is that part of our growth in the ASC segment is due to AUGMENT Injectable. We've seen a lot of use of AUGMENT Injectable in ASCs that we hadn't seen before we actually had AUGMENT Injectable as a product.

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

Great. That's helpful. And then on total ankle, obviously, you guys called out another strong quarter. I think you get the questions all the time. What's going on in that market? But I mean any new color? Anything you're seeing from a transition from fusion to total ankle? And then anything on the competitive front from any of the new launches that have come out over the last year or 2?

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

No. I did see some data just recently that said that the total ankle market was growing about 10% or 11%. And don't forget, we're growing double that. So we're a big part of that 10% or 11% that everybody else is pretty small. And again, I think we just have a great product and we also have enabling technology, PROPHECY. And I think this is kind of in the DNA of our company that we have great products, great implants, but we surround them with products that make the surgeon experience easier and less time-consuming in a lot of cases. So I think that's a strong indicator.

And regarding competition, I'm very respectful of competition, but I think that it's not strong in this market. We were really the leader by a wide margin. And we'll continue to strive to even expand that further.

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

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

This is Shagun in for Larry. I wanted to circle back on Cartiva. Sales were down about 3% sequentially, slightly below what we were estimating, but you did indicate on the call that it was ahead of what you were dialing in for the quarter. So can you help us understand what kind of disruption you were expecting in Q1 and what did you see? And then what gives you the confidence that the $47 million is achievable for the full year?

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

Well, I'm not exactly sure how you came to your estimate. Ours was ahead of our expectations. Don't forget, Q4 is seasonally very strong and higher than Q1. So we built that into our thinking in our forecast. And I mentioned earlier is that you do see some friction initially when you go from distributor to direct, and that was built into our thinking and came in better than we have thought that's why the quarter was better.

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

Got it. And what gives you the confidence in the $47 million number going forward?

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

Well, we're on a great trajectory. Our direct sales force is really gathering a lot of steam on this. We're going direct in a few international markets that will, I think, over time, add sales for us. But when we put the $47 million forecast together, we looked at all that data. We were pretty much on or ahead of where we thought we would be. So there's no reason to think that we wouldn't get to the number that we had previously announced.

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

And just as a follow-up, Bob, you had outlined various new products and opportunities for indication expansion and that would be part of your growth strategy. Can you provide us with an update there? Any time lines or even if you could help us understand which products could come sooner versus later? So some of the products you had mentioned was the patient-specific shoulders, SIMPLICITI 2.0, Cartiva indication to the thumb. I guess you indicated that was 2 to 3 years out. And then AUGMENT inject to the midfoot, how big is that opportunity?

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

Well, I think that there are 4 probably new products, 3 of which are in the process of being anniversary-ed from last year, PERFORM Reversed, AUGMENT Injectable and...

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

PROstep.

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

PROstep, the minimally invasive surgery. And the one that is going to be able to launch this year is REVIVE. So I think all those products are pretty healthy and growing. We tend to do a great job on new products and meet our expectations. I think we will continue to do that.

I do think that the big drivers in our growth continue to be the full shoulder platform that we have combined with BLUEPRINT. I said we added 130 new surgeon customers in Q1, which is the largest number ever. Those turn into procedures down the road, not down the road right away usually. We have very strong business going on in our ASC channel which has really turned around for us. So there's a lot of stuff in the organization that is working really well, and that's why I think that we had a very strong Q1. 13% growth is nothing to sneeze at. And I think that for the year, we're pretty confident that we will be in our range that we had set out.

Operator

Our next question comes from Richard Newitter with SVB Leerink.

Dylan Joseph Gantley - *SVB Leerink LLC, Research Division - Associate*

This is Dylan on for Rich. I wanted to start with a couple of product questions here and then I had one on margins. To begin with shoulder, I'm curious what the attach rate was for BLUEPRINT this quarter and where you guys see that trending this year and maybe longer term?

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

I'm not sure what you -- you said the attach rate?

Dylan Joseph Gantley - *SVB Leerink LLC, Research Division - Associate*

Yes, of your customers. How many of them are using BLUEPRINT while they're doing the procedure?

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

I'm not exactly sure how many are using. Now I can tell you about the proxy that we use for that is saved cases, and that's running pretty consistently around 40% of all cases are saved.

Dylan Joseph Gantley - *SVB Leerink LLC, Research Division - Associate*

Okay. Perfect. And you think that's a pretty good rate longer term or do you see...

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

Don't forget, that's 40% of a much larger number. So it continues to grow. And I think that as we get into the pipeline that we talked about in terms of outcomes database and artificial intelligence, that will even become greater.

Dylan Joseph Gantley - *SVB Leerink LLC, Research Division - Associate*

Okay. Perfect. Keeping in shoulder, I was curious what you think maybe penetration rate is for the stemless SIMPLICITI there, kind of where we are now, where you see that going? And then just in terms of market dynamics there, are you hearing or seeing anything from competition?

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

Yes. I don't know what the share of stemless devices are. And we really haven't seen much from competition. There's been a few launches of new products, but we really haven't seen much of them in the market. I'd also add that I'm told by surgeons that the stemless devices, they prefer to use them if they can, but that they're technically more challenging than the regular longer-stem devices and that BLUEPRINT provides a real big advantage particularly on short-stem or stemless procedures. So I think this market is a good market, continues to grow with those high ASPs. And to date, we really haven't seen much in the way of competition.

Dylan Joseph Gantley - *SVB Leerink LLC, Research Division - Associate*

Got it. And just one more housekeeping item. I think you mentioned some timing of expenses drove some of the EBITDA margin outperformance this quarter. I was hoping for a little clarity on what those investments were and maybe some of the timing for us later in the year?

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

Yes. I think it's just somewhat typical starting the year. It's not really that unusual for taking a little bit of time to get things in place, to get the spending happening, getting people hired, getting initiatives going. You see that it's fairly common. So it's just typical spending that we're planning on doing for the year. And it's just a little bit of timing between Q1 and Q2. We expect by the end of Q2 that, that will all be caught up and there certainly aren't any initiatives that we're concerned or behind or anything like that.

Operator

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

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

Just a couple of quick questions. Actually, the first one is everything seems to be going very well. What keeps you up at night? What are you worried about?

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

I sleep pretty well. It's the rest of my group that doesn't sleep well. No, I think that parts of our segment are just performing outstandingly well and it's kind of a reoccurring thing. The one area that I describe as kind of a knife fight every day is our core lower extremity business in that, that's an area that there's a lot of competition in, bigger companies, smaller companies. There's competition for sales. There's competition for reps. There's competition all over the field. But that core lower extremity business, the plates and screw business, that's not all that exciting, represents a significant part of our business. So that's the part that I fret about quite frankly. And the last couple of quarters, they performed well. And I hope that they continue that. There are other areas, for example, total ankle and shoulder, we have really defined competitive advantages, structural advantages. And can't be arrogant and you can't sit back, but I'm less concerned about them because we have such advancement over our competitors.

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

And as my second question, BLUEPRINT really seems to be driving the upper extremities revenue. Can we think of PROPHECY doing the same thing for lower extremities at some stage?

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

There's no science to this other than we're trying to best estimate is that, we have about 70% of the total ankle business. And there are many competitors, big competitors too in the space, but we have about 70% of that. In about 70% of those cases, 70%-plus use PROPHECY. And so I think PROPHECY does drive that business. That is the real advantage that we have. I mean our implant is great, INFINITY and INBONE, but the really differentiating factor is our PROPHECY enabling technology.

Operator

Our next question comes from Robbie Marcus with JPMorgan.

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

Congrats on a good quarter. I apologize, I've been jumping around, so if any of these have been asked, please feel free not to answer them. But maybe first off, the Cartiva deal looks like it's been doing really well to date. You have a number of new indications that could be coming online in the future. Help us understand what the feedback in the field is on this and how much of a halo effect are you seeing pulling through other products in the lower extremity business here?

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

Well, I think the feedback that we're getting is very positive regarding Cartiva. And that's from not only our own people but from physicians. I'm sure that from time to time with any new product, somebody's going to have a negative experience about a product that we expect that. But the vast majority of this is going extraordinarily well. It's a great thing when a patient comes in and then the doctor can offer the patient fusion, which will fuse the joint or an opportunity to retain motion in that joint that will work really well. And for some reason it doesn't is that they could just revise that pretty easily and go back to a fusion. So it's a great product anyhow. And as I said in my introductory remarks, couldn't be happier with it.

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

Great. Just one housekeeping question. Lance, it looked like at low you said the tenders can be lumpy. Do you still have confidence in the high single digit? Any halfway that we should be thinking about in 2Q, 3Q, 4Q of how the, call it, if there are big tenders or lack of tenders we should be thinking about in the model?

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

Yes. I mean obviously the international business is pretty volatile due to the stocking distributors and what's going on in any individual market. You can have a new regulatory approval or open a new distributor and it can create fairly significantly large amount of sales in a single quarter. And some of those can be harder to time. So we really, I guess, are only looking at it more on an annual basis. Things even out over the course of a year. It was a little bit low this quarter, might be a little bit low next quarter, but we're still comfortable we can get to high single digits over the course of the year. And the reason that is, our direct business is performing like we expect it to and there's no issues in our stocking distributor network. We still have a healthy network and still have demand there. So the lumpiness is kind of tough for all of us, but still feel comfortable with the full year.

Operator

Our next question comes from Raj Denhoy with Jefferies.

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

Congratulations on a very strong quarter. Maybe, Lance, I could ask about the margins. Again, nice progression on that front and you continue to find leverage on the SG&A line or the sales and marketing line, I should say. And I guess I'm curious where you think you are in that process, right, in terms of the productivity of the sales force and how long you can continue to leverage that before you potentially might need to invest again?

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

We really kind of look at the piece of our business that we're not trying to leverage everything and that there's parts we're trying to drive a lot of the leverage on and parts that we want to reinvest in. And when we look at that kind of rep level cost and research and development, those 2 things, we're really not looking to drive leverage. We're going to reinvest. And those are our differentiators. We have been and we expect to continue to reinvest in those things either really in line with the rate of sales. So you should assume we've been hiring reps in our upper and lower business. And we're going to continue to do that to continue to drive growth.

Now if you get outside of the rep level cost, you start looking at marketing and net ads and sales management, those are things that need to grow but not at the rate of sales. And then if you look at really G&A and distribution, we're trying to keep those as flat as we absolutely can. And really had really pretty flat for Q1 for those 2 areas which drove a lot of leverage in SG&A. So that's kind of our game plan. And we think we have a long ways to go on that. And we don't think that, that plan runs out of gas anytime soon.

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

Great. That's helpful. And maybe just, Bob, one for you on the new digital initiative. I know you had mentioned a couple of things about over time maybe being able to charge for software and some of the services you're offering there. Is there anything you can give us just in terms of timing and when you think this will become something more tangible, something we can actually start to put in the model for you guys?

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

No. Other than the initiatives that we have in extremities which are in front of us which will help drive our extremities business, these other opportunities are further out and need to be developed. But we have people looking at this, outside people looking at this leading us to believe that there may be an opportunity, a significant opportunity because the technology is so compelling and advanced that it's applicable to other areas and we're going to take a look at that.

We've been in this digital business actually for a couple of years now since the acquisition IMASCAP, but it was really limited to shoulder and getting all our segmentation, the 3D planning, all that done. Now we're at a point where we think that if we accelerate everything and put our organization together is that's going to pay huge dividends.

It's a very fast-growing area. I described it as, it's growing at warp speed. We have a lead now. That doesn't mean that necessarily we will have a lead a year from now unless we attack it and focus on it. That's why we've put this organization together. We don't want to look back and say, gee whiz, some competitor came in and took this opportunity away from us. So we're going to be driving this and have a lead and we'll hopefully grow our lead. And then also be able to get in some other areas, primarily in short-term we're interested in enabling technology, digital enabling technology to help grow and expand our shoulder and our foot and ankle business.

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

I guess at AAOS you sort of took the tack that the digital initiatives might in a sense not -- or at least for the time being, you don't need a robotic solution in a sense that all of this will replace and even be better than anything robotic out there. Do you still have that same view that in a sense you're doing everything you could do robotically with what you're doing with digital and so you don't need to go down that route?

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

I think that in terms of the small joint and what we have confirmed is that software is a much more elegant solution, we believe, than robotics. And that particularly as we get downstream and have interoperative guidance, which is one of the things that's on our development plate, is that will be a terrific accelerator for our products. And robotics, this will be, in our opinion, from what I believe, will be a leapfrog over robotics which is a mechanical system that is expensive, needs maintenance and has not yet at all been, I think, developed in small joints. So we're going down this road. We think it's the right road. All our physicians are pretty darn happy with it. And so I think time will tell. I possibly can be wrong. I don't think so. I think software is a much more elegant solution than robotics in these areas.

Operator

Our next question comes from Matt Miksic with Crédit Suisse.

Matthew Stephan Miksic - *Crédit Suisse AG, Research Division - Senior Research Analyst*

One follow-up, Lance, on the EBITDA commentary that you had. And I apologize if you quantified this earlier. But I think in your commentary in prepared remarks you said that the EBITDA upside was partially due to the timing. I was wondering if you could quantify that a little bit, maybe provide a little more color what that spending was and where EBITDA might have been without that sort of change in timing. And then I had a follow-up on this digital strategy.

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

Yes. Matt, we didn't give a specific quantification. We did said EBITDA was ahead of our internal expectations for the quarter and that was partly due to this timing which we expect to catch up in the second quarter. And we made some qualitative comments about Q2 that given some of that catch up, we would actually expect Q2 EBITDA to be lower in absolute dollars than Q1. But like I said, I would also reiterate that we were ahead of plan versus our own internal plan in Q1 and that upside was only partially driven by the spending timing.

Matthew Stephan Miksic - *Crédit Suisse AG, Research Division - Senior Research Analyst*

Okay. So there's some upside operationally, some upside timing, down sequentially which is important. Obviously, down sequentially from a percentage basis would maybe be more dramatic, it sounds like. And just if I could, on margins, one more sort of. I think it came up earlier, this idea of holding G&A flat, something we talked about before. Sorry if I missed it, but was it flat to down or was it flat or are there any aspects of G&A ability to come down?

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

So we talked about G&A and distribution together being relatively flat. You can think about distribution is going to want to grow closer to the rate of sales. So I would say keeping that, those 2 combined flat is really in my opinion very impressive and shows that we're really driving a lot of efficiencies there. There's areas of G&A that can come down. I think in total, G&A is going to be closer to flat, maybe down slightly. And I think, again, when you throw distribution in there which is a big number in our business and keeping that number closer to flat as opposed to growing with the rate of sales is it really drives a lot of leverage.

Matthew Stephan Miksic - *Crédit Suisse AG, Research Division - Senior Research Analyst*

And then not to belabor this point, but it sounds like if distribution was at the rate of sales and G&A and distribution were flat, I mean I'm not a math whiz, but G&A had to be down in the quarter. Is that...

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

Distribution was not up at the rate of sales. I said it wants to grow at the rate of sales and we're driving efficiencies to keep it from driving it up at the rate of sales.

Matthew Stephan Miksic - *Crédit Suisse AG, Research Division - Senior Research Analyst*

I got you. I got you. Okay. So we don't want to get too optimistic about that. Then on the digital strategy, maybe also from a cost perspective, you're sort of focusing on this area you just spoke about, Bob. And is there some element of investment here that's meaningful for us to talk about or care about? And then one of the adoption numbers that I heard and you mentioned 40% of stored cases or something like that, but I thought that I heard that folks are using it for a very large number of their cases. It just seemed like the adoption of the software compared to other musculoskeletal specialties is higher. I just want to verify if that's true and why is this getting much more uptake than new? Surgeons elsewhere might say it's little factor on the timing outside the OR, whatever, is just not worth it. You seem to be getting more uptake and I'd just love to hear your thoughts on why.

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

Well, if you attend any of our surgeon meeting and listen to the surgeons that use BLUEPRINT, they will tell you that it's really changed their whole experience in the OR. And they're able to plan better, execute better, help potentially use less time, some of them tell us. But physicians have a full visualization to what they're getting themselves into, and that's a big advantage.

Now with this outcomes database that we're talking about is that physicians will be able actually to even plan better. We will have a high degree of confidence when going into an OR of whether there's going to be an anatomic or reversed case. What exact hardware products that are necessary for the case that will help us as a company. But I do think that this is a dramatic technology that is really still in the first or second inning. And we have a plan that we are executing against that this digital organization is meant to help accelerate and get there faster and then move it into other areas of the company, particularly lower extremity so.

So doctors tell us that -- I haven't heard any doctor that told me they used to use it and now don't. Every doctor has said, this is dramatic. It's different. For them, it makes the whole experience better. Combined with our implants, makes us -- the reason we've been able to grow so dramatically, I think, is a combination of our implants, our BLUEPRINT as well as the unbelievably strong sales force.

Operator

And our final question comes from Matt Taylor with UBS.

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

So I wanted to just ask about the call-out of the 130 additional physicians in the shoulder business. Can you talk about what that typically would be if this was a record? And where are you seeing them come from? Are they competitive transfers?

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

I don't have the background as to where this was a year ago, but it wasn't what we're doing today. So most of these physicians are competitive physicians that have gone to a course or a presentation that has highlighted the BLUEPRINT technology and has been the critical missing piece for them that they have decided to use our products. We think it's sustainable. We're pretty confident it's sustainable. And we will continue to grow. I hope that next quarter we'll be able to see it's even better, who knows. But it's a dramatic number for sure.

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

And last one just for thumb. I think somebody asked this before but you didn't directly answer it. How big is the thumb market?

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

Yes. We haven't actually given it. For the U.S., that's a little bit further out, so we haven't actually given specific market data on that at this point. I think for high-level modeling, you can think about it something in the general ballpark as the great toe. It's probably just at the starting point. And as we get closer to getting visibility to approval and something like that, we'll refine that and give you guys better visibility.

Operator

Thank you. And this does conclude today's question-and-answer session. I would now like to turn the call back over to Bob Palmisano for any closing remarks.

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

Thanks, operator, and thank you all for joining us today. I want to express my appreciation to our team and for their efforts in Q1. I look forward to speaking with you again next quarter, in next quarter's earnings call. We appreciate your interest and your continued support. This concludes our call.

Operator

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