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WMGI - Q1 2016 Wright Medical Group NV Earnings Call

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OVERVIEW:

Co. reported 1Q16 results. Expects full-year 2016 net sales to be $705-715m and adjusted cash diluted EPS, including stock-based compensation to be negative $0.64 to negative $0.59.

THOMSON REUTERS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2016 Wright Medical Group N.V. earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Ms. Julie Tracy. You may begin.

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

Thank you and good afternoon, everyone. Welcome to Wright Medical's first-quarter 2016 conference call. We appreciate you joining us.

I'm Julie Tracy, Wright's Chief Communications Officer. With me on the call today are Bob Palmisano, Wright's President and Chief Executive Officer, and Lance Berry, Wright's Chief Financial Officer.

We issued a press release this afternoon regarding our first-quarter results. 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 and updated 2016 guidance from Lance, a question-and-answer session, and then conclude with closing comments from Bob.

Before we begin, I would like to remind you that this call includes forward-looking statements, including statements about our outlook for 2016, our beliefs and expectations regarding the outcome of pending litigation, the completed merger with Tornier, and AUGMENT Bone Graft. 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 annual report on Form 10-K for the fiscal year ended December 27, 2015, filed by Wright with the FCC 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.

Before I turn the call over to Bob, I want to express our sincere appreciation to the investment community for recognizing Wright in the annual IR Magazine Award. For the third year in a row, Wright received the award for Best IR Program in the smallcap company category.

On behalf of Bob, Lance, and the entire Wright team, I want to thank you for this recognition and for your support of our company. As always, our goal is to provide you with extraordinary service, accessibility, and support. We want to be your first investment choice and look forward to working with you in 2016.

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

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Thanks, Julie, and welcome to everyone joining us today. The first quarter of 2016 was terrific in every aspect of our business and continued to build on our strong year-end momentum we established.

We delivered outstanding first-quarter results that reflect the strong underlying growth in all three areas of our business -- upper extremities, lower extremities, and biologics -- resulting in pro forma constant currency global extremities and biologics net sales growth of 14%.

Excellent leverage on our sales overperformance combined with earlier-than-anticipated progress in capturing cost synergies resulted in positive EBITDA -- adjusted EBITDA results of $16 million and net sales and EBITDA that significantly exceeded our expectations.

We continued to successfully execute our merger integration plans. And with the early success we are seeing, we believe we are well positioned to continue our strong business momentum and deliver on our synergy commitments as we progress through 2016.

Highlights in the quarter included strong contributions from our new SIMPLICITI shoulder system and the ongoing rollout of ASCEND FLEX convertible shoulder system and ongoing launch of INFINITY total ankle replacement system, which drove 31% sales growth in US total ankle replacement for the first quarter of 2016 over the prior-year quarter. In addition, our US biologics net sales grew 48% in the quarter over the prior-year quarter, driven by the ongoing commercial activities for AUGMENT Bone Graft. We expect all these products, which are still in early stage of commercial roll out, will continue to be growth engines in 2016.

Based on the strength of our first-quarter performance and our outlook for the remainder of the year, we are increasing our full-year net sales and adjusted EBITDA guidance. Although we were still very early in the year, the strength of our core upper extremities, lower extremities, and biologics businesses, plus our ability to execute on cost synergies ahead of schedule, gives us confidence to increase our outlook for the full year.

We will continue to focus on executing our integration plans to realize the full potential. And we believe that the positive progress we have made since the merger closed sets up well for continued strong revenue growth and significant margin expansion this year and next year and beyond. I believe the future, both short term and long term, is indeed very bright.

Let me now highlight our business results for the first quarter. Unless otherwise stated, the revenue growth rates I provide today will be based on a combined pro forma constant currency basis over the prior-year quarter.

The US lower extremity business continued its strong performance, with 12% growth this quarter, a 200 basis points acceleration from Q4, as high-teens growth in the legacy Wright products were partially offset by anticipated continued declines in the legacy Tornier lower extremity products.

In addition to the continued strong growth contributions from the total ankle business, we are now beginning to get nice contributions from the launch of our SALVATION Limb Salvage system. Q1 was the first quarter of commercial launch in the US and the initial response from physicians has been very strong.

This portfolio is made up of three different product platforms that can be used for advanced limb salvage cases, all with Charcot-specific indications for use. We are very excited about the market for SALVATION as it is of similar size as the total ankle market and we have a full portfolio of leading products.

We expect to build the market for SALVATION by focusing on training and education and targeting foot and ankle physicians who specialize in treating limb salvage cases. In addition, we are now also seeing that SALVATION is helping us pull through sales in our core reconstructive plates and screws. We are very early into the launch, but based on the positive physician feedback received so far, we look forward to this process -- to this product ramping nicely throughout the year.

I also want to highlight the strong performance in our US biologics business, which grew 48% in the first quarter, driven by the ongoing launch of AUGMENT Bone Graft as well as strong performance from our other biologic products. Biologics is now the fastest-growing segment in our business.

With regard to AUGMENT, we are in full swing for 2016, averaging over one new value analysis committee approval per working day in Q1. During the first quarter, we trained over 160 US physicians and continue to convert new accounts while holding price. We expect our momentum to continue as we add new customers and further penetrate top decile accounts.

While we are very excited about what AUGMENT can do for our business, we are even more excited about what it can do for patients, based on surgeon feedback we have received, which has been overwhelmingly universally positive. The US upper extremity business grew 16% this quarter, driven by continued strong momentum from legacy Tornier upper extremity business's innovative product portfolio and clinically superior sales team.

The ASCEND FLEX shoulder continued to perform well and its growth was supplemented by the positive performance of the launch of the SIMPLICITI Shoulder System in the US. In addition, the IDE clinical study results that supported the FDA clearance for SIMPLICITI were published in the Journal of Bone and Joint Surgery in April.

The results demonstrated good results -- good outcomes at the minimum two years following use of SIMPLICITI canal-sparing humeral component when compared with pre-existing data on the standard stem implant. Clinical results include a range of motion and progressive outcome scores improved significantly, and radiographic analysis showed no signs of loosening subsidence or migration of the humeral components or surviving [glinoy] components at two years' follow-up.

These results also speak to the growing awareness and acceptance of canal-sparing total shoulder devices within both the specialist and generalist orthopedic surgeon groups, both of whom we are targeting with the SIMPLICITI Shoulder.

As the first-of-its-kind implant cleared for use in the US, SIMPLICITI offers decreased surgical times, less blood loss, and preservation of bone. It also provides us with a significant first-mover access to an approximate $200 million to $250 million market comprised of portions of the total shoulder, hemi-shoulder, and humeral head resurfacing categories.

SIMPLICITI has the potential to take share in all these existing shoulder categories as well as expand the market to younger, more active patients who have historically deferred shoulder replacement procedures. To date, we are outpacing our training targets for SIMPLICITI, and physician feedback has been excellent.

Now moving to our progress on the merger integration. We are continuing to successfully execute our plans with a goal of maximizing focus and alignment while minimizing disruption. With regard to sales integration, as we've previously reported, we completed the communication of all go-forward roles in the US commercial organization, including sales territories, compensation plans, and product bags.

We are now focused on executing smooth territory transitions to minimize revenue dissynergies and maximize the growth opportunities we have as a combined company. As of today, approximately 90% of the lower extremity sales force has been fully integrated. We continue to expect to have these transitions substantially complete by the end of the second quarter in our US lower extremities business and by the end of the year in our US upper extremity business.

We have also made great progress integrating the legacy Wright and Tornier businesses in key international markets such as Australia, the UK, and Canada as well as other European markets. Specifically, we have combined the leadership teams in all of our international markets, integrated the sales forces in most of our international markets, and consolidated office locations in Australia, Canada, and the UK. I am very pleased with the progress we have made in our very complex international merger integration to date, particularly in our large direct markets.

From a cost synergy perspective, we are also off to a great start and already seeing some earlier-than-anticipated cost savings, which contributed to the adjusted EBITDA overperformance in the quarter. I continue to have a lot of confidence in our cost synergy plan and our ability to deliver $10 million to $15 million in cost synergies in 2016 and $40 million to $45 million in year three post merger close.

In summary, the execution of our merger integration plans is firmly on track and we are well positioned to continue strong business momentum and to deliver on our synergy commitments as we progress through 2016.

You may have heard me refer to 2016 as the year of the balance sheet at Wright. In the orthopedic industry, you frequently see trade-offs between managing the balance sheet and driving growth. Our balance sheet initiative is -- our balance sheet initiatives are fundamentally changing the way we do business, as we can do both. We can manage our balance sheet; at the same time, have high growth.

Specifically, we have quite a few initiatives to improve inventory, instrument set utilization, and DSOs in the legacy Wright business. This initiative addresses all aspects of our supply chain, from demand forecasting all the way through billing and cash collections from our customers. We are already seeing some early results from this initiative, specifically a 60% reduction in instrument CapEx in legacy Wright business compared to 2015.

Although our current focus has been largely legacy Wright business, there is an equally large opportunity for improvement in the legacy Tornier supply chain as well as longer term, our expectation would be to fold the legacy Tornier business into these new processes.

Before I turn the call over to Lance, I did want to provide a brief update and some comments on the metal-on-metal hip and Microport litigation the Company is involved in. First, I encourage you to read the disclosures in our SEC filings, including our previously filed 10-K and the 10-Q for the first quarter that will be filed shortly.

With regard to our Microport litigation, we successfully settled all outstanding litigation with Microport. Although the settlement terms are confidential, the amount involved is not material. You will recall that we previously disclosed that Microport had made claims against us totaling approximately $112.5 million. We are pleased that we have been able to settle this matter for a reasonable amount and take this issue off the table.

With regard to our metal-on-metal hip litigation, I continue to be limited in what I can say since this is pending litigation. And I am not going to comment on our legal strategy. We did successfully settle the California Bellwether case in March. The settlement amount and other details are confidential, but I can tell you that the settlement amount was not material and insurance paid the settlement directly.

As I said on our last call, I've seen a lot of litigation during my many years as a public company CEO. Litigation can be complex and subject to significant uncertainties which makes the ultimate outcome and precise timing difficult to predict. But it's my belief and expectation that with the resources available to us, we will ultimately be able to resolve this matter in a way that will not be of long-term issue for us.

To reiterate what I previously said: we will not negotiate this matter in the public domain. And we are currently not able to determine the amount or timing of any potential settlement.

Finally, I did want to say a few words about Dave Mowry's departure, which we announced last month. It has been a pleasure for me to work with Dave again, as we bought two companies together to create the new Wright Medical, the premier high-growth extremities and biologic companies.

Dave played an instrumental role not only in bringing our companies together, but ensuring we had a robust integration plan of processes, clear alignment across our organization, and focused execution following the merger close. Although we were sorry to see him go, we all wish him well and great success in his new endeavor.

With our merger off to a strong start, with focused integration teams and leaders, I believe we are well positioned to continue to execute our plans and accelerate our momentum. Following the merger, we have leading positions in the highest-growth markets in orthopedics with differentiated technology and focused sales force.

We have multiple opportunities through our robust new product pipeline to further accelerate our growth, continue to expand our market, and gain market share. With the execution of our integration plans off to a positive and productive start, we are well positioned to continue to accelerate our business momentum and drive market-leading growth and profitability.

With that, I will now ask Lance to provide further details on our first-quarter results and 2016 guidance. Lance?

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

Thanks, Bob. As we get started, all sales growth rates that I refer to in my prepared comments will be on a pro forma constant currency basis over the prior-year quarter. Our results of operations refer to our as-adjusted results and comparisons on a pro forma basis, 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. And I also strongly encourage you to review the information posted on our website. Similar to last quarter, we have provided you with information to assist you with your modeling and to provide you with pro forma information in cash EPS through the first quarter of 2016.

Globally, the extremities and biologics business grew 14%, driven by strong performances in the legacy Wright US lower extremities business and the legacy Tornier US upper extremities business and outstanding growth in the US biologics business. The combined US lower extremities business grew 12% in Q1, led by strong performance across the legacy Wright portfolio, which grew in the high teens, including 31% growth in our total ankle products.

Partially offsetting the strong performance was an anticipated decline of 30% in the legacy Tornier lower extremities products. We do still anticipate revenue dissynergies as we move throughout the year and we started to see those late in Q1 in April.

The combined US biologics business grew 48%, driven by the ongoing launch of AUGMENT. AUGMENT continues to steadily increase as we work our way through the value analysis committees, and we anticipate that to continue to be the case throughout the year.

The combined US upper extremities business growth of 16% in Q1 was driven by strong contributions from our ASCEND FLEX shoulder system and the positive performance of the launch of the SIMPLICITI shoulder system in the US. The legacy Wright upper extremity business has not yet seen the revenue dissynergies that we anticipate in that business, as the sales force integration will not be completed until the end of the year.

Our international extremities and biologics business grew 7% in Q1, led by strong growth in our Australia and European markets, partially offset by slower growth in Asia and Latin America. We believe this is partly driven by timing and stocking distributor markets and anticipate stronger growth in international in the remainder of the year.

Now moving on to some detail below the sales line. Beginning with our Q1 gross margin, we achieved 77.4% for the quarter, an increase of 150 basis points over the same prior-year period, driven by both mix and leverage. We are confident in our ability to drive continued improvement in gross margins and expect to see positive impacts from the merger as we begin to leverage our global manufacturing footprint.

As to the line items making up our Q1 operating expenses, selling, general, and administrative expenses totaled 70.8% of net sales for the first quarter compared to 81% in the prior-year period. The decrease as a percent of sales was driven primarily by the impact of higher Q1 revenue driving leverage in the cost structure and earlier-than-anticipated progress on capturing cost synergies.

R&D expense was $12.4 million in Q1 of 2016 and $13.1 million in Q1 of 2015. And finally, amortization expense was approximately $6.6 million compared to $7.1 million in the prior-year period.

Below the operating income line, net interest expense and other expense totaled $5 million for Q1. Our Q1 tax expense was $800,000, related to profits in taxable jurisdictions. As a reminder, we have a tax valuation allowance against our deferred tax assets in US jurisdictions. We expect to have approximately $4 million in tax expense in 2016.

Finally for share count, our Q1 per-share results as adjusted are based on average diluted shares of 102.7 million for Q1 of this year and average diluted shares of 101.4 million for Q1 2015. Altogether, this resulted in an adjusted EBITDA of $16.2 million for the quarter. From a cash standpoint, our total cash balance at the end of Q1 was approximately $121 million, which was ahead of our expectation due to EBITDA favorability and timing of capital expenditures.

Both net sales and adjusted EBITDA significantly overperformed our expectations. Our sales overperformance was driven by strong underlying growth, less-than-anticipated dissynergies, and better-than-expected currency. Our adjusted EBITDA benefited from the dropthrough of the constant currency sales overperformance, and we also had greater-than-anticipated cost synergies, as we were able to get some benefits sooner than expected.

Additionally, adjusted EBITDA benefited from favorable timing on investments, which we don't expect to be permanent for the full year. Overall, our first-quarter results were excellent and demonstrated the powerful leverage opportunity we have as we drive strong growth in extremities and biologics.

I will now transition to a discussion on our 2016 full-year guidance. Consistent with Wright's past practice, please note that our guidance ranges and assumptions for 2016 exclude any consideration for the effect of potential future acquisitions or any other possible material business developments.

Additionally, it is important to note that we will be using a number of non-GAAP financial measures to describe our outlook for the business. In particular, unless stated otherwise, all of today's discussions regarding our financial guidance refer to our as-adjusted results of continuing operations. Our press release issued today notes those items that are excluded from our as-adjusted results.

Starting now with sales. As stated in today's press release, we are increasing our net sales guidance for 2016 to $705 million to $715 million from our previous guidance range of $695 million to $705 million. This $10 million increase is driven by the Q1 overperformance.

This range assumes approximately 1.5 percentage points of headwind from currency as compared to 2015 and has approximately 1.5 percentage points of cushion as compared to current currency rates. Additionally, this range reflects approximately $25 million to $30 million of potential net sales dissynergies expected to be realized throughout 2016 from the merger with Tornier. The midpoint of this net sales guidance range assumes extremities and biologics pro forma constant currency growth of 14%, excluding the impact of revenue dissynergies.

We are also increasing our full-year 2016 adjusted EBITDA to be in the range of $30 million to $35 million from our previous range of $20 million to $30 million. This increase to EBITDA was driven by the Q1 performance, taking into account that some of the overperformance was driven by timing and spending. Also with the amount of cost synergies realized to date, we are comfortable narrowing our range.

From a quarterly cadence perspective, you should expect significantly lower but positive EBITDA in the second quarter as we expect to have lower sales due to seasonality and additional dissynergies as compared to the first quarter as well as some of the spending we expected to occur in Q1 shifting to later quarters. We continue to expect Q3 to be the lowest quarter for net sales and adjusted EBITDA, primarily due to seasonality.

Q4 is the seasonally strongest quarter for both net sales and adjusted EBITDA, and we still anticipate Q4 to be our largest quarter for net sales and adjusted EBITDA. However, given the significant Q1 EBITDA overperformance, Q4 may not be significantly larger than Q1 on the EBITDA line.

The Company anticipates adjusted cash earnings per share, including stock-based compensation, for full-year 2016 of negative $0.64 to negative $0.59 per diluted share. The Company estimates approximately 103 million diluted weighted average ordinary shares outstanding for fiscal year 2016.

Briefly, as it relates to cash, we do expect to use cash in 2016 to fund normal business operations, discontinued operations, and integration-related costs. We continue to believe our cash balance is sufficient to fund these items until we are cash flow positive.

However, as we have previously indicated, we will likely need to raise additional funds to pay off the remaining balance of our 2017 convert and to provide funds for a potential AUGMENT milestone payment. Other things we have to consider include possible out-of-pocket payments to facilitate a global settlement of our metal-on-metal hip litigation as well as potential exposures to claims not included in the settlement, such as future claims and claimants who elect to opt out of a global settlement. As we evaluate the amount and type of financing, we have to take all these factors into consideration and we are evaluating all our options.

As a reminder, we have historically financed the business through cash converts with call spreads. This form of financing has very minimal equity dilution, even with significant stock appreciation, as the principal is always payable in cash.

In addition, we are evaluating our options for a line of credit to provide additional operational flexibility. We have not made any firm decisions at this time.

Finally, I did want to point out that we filed a universal shelf registration statement today. We put the shelf on file really just as a matter of good hygiene. With all the changes to our reporting resulting from the merger, putting the shelf up now significantly reduces our workload if we were to do any form of registered offering in the future.

In closing, we are very pleased with our first-quarter results, where all key financial metrics exceeded our expectations. We believe we have a great plan to drive sales, improve profitability, and improve the underlying operation of the business in 2016. And we are focused on executing that plan with excellence.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Travis Steed, Bank of America.

Travis Steed - *BofA Merrill Lynch - Analyst*

Thanks for taking the questions. So Bob, you've been pretty confident in the past that the litigation issues will be resolved. As you sit here today, are you any more or less confident in moving past these issues in the near term?

And I also noticed that you said the settlement back in March was covered by insurance. Does this mean that you made progress with the insurance companies?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, I think we are equally confident today as we were last time we spoke about this. Insurance is an important ingredient in the settlement. There are six insurance carriers that -- in play here. Not all of them are on the same page and that's part of the complexity of the issue. But we are looking forward to getting these behind us. I think that we have the resources through insurance and other means to get this behind us.

But it's a complex issue. There are 2,000 or so claims. We don't know how many of those are valid claims at this point. And by valid claims, we mean revised -- patients that have had revisions. There are more than 20 legal firms in the mix. Four or five are acting as leads. They have to be corralled and come to a common point of view.

And so there's just a tremendous amount of complexity to get this thing behind us. We are working diligently. We think that we will be able to get it behind us. It's not something that we think in any way has any long-term implications for the Company. Our operations are very, very strong and we are focused on that and the litigation. We are going to do what we can to get that behind us as quickly as possible at the least amount of cost.

Travis Steed - *BofA Merrill Lynch - Analyst*

All right. Great. And then, Lance, one for you. Can you help us understand what drove the upside in EBITDA in the quarter? And can you parse out what was cost synergy, mix and leverage, timing on the investments. Just a little numbers there to help us quantify the impact?

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

Sure. Probably stay high level. One, we had really good sales overperformance. Some of that was currency, but a lot of it was just the underlying business. And really, a lot of the EBITDA overperformance was just generating leverage on that sales overperformance and I think really shows the type of leverage opportunity we have going forward.

We did do a good job on the cost synergies, and we were a little ahead of schedule there. And then there was some timing. I think really if you kind of look at where Q1 came in and how much overperformance there was. We didn't raise the guidance the full amount. That probably gives you some sense for how much of that we feel like was timing versus permanent overperformance.

Travis Steed - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Jeff Johnson, Robert Baird.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Lance, kind of a similar question, just on the revenue side. Any chance you can parse out kind of the FX tailwind versus the operational outperformance versus maybe the sales dissynergies coming in lighter than you thought in the quarter?

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

I'd say on the sales, probably in the neighborhood of, say, $3 million of currency in the quarter. And the rest of that was really just underlying performance.

Sometimes it gets really difficult to parse out dissynergy versus underlying, but I'll just point out that we had an acceleration in the lower extremity business where we were expecting to see the most near-term dissynergies versus Q4. And that shows you that there's really strong underlying performance, not just an absence of dissynergies.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

That's helpful. I guess if I think the $3 million comment you made there on currency in the quarter, if I annualize that to $12 million and you're raising by $10 million, is it fair to say that basically embedded in your guidance now is no change versus your prior expectations for core underlying or sales dissynergies? And it's all just currency in how you raise that $10 million this quarter?

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

No. Because we are not -- basically, if you look at our previous commentary, we have more currency cushion than we did previously. So I think you can say that really letting the Q1 underlying performance flow through for the full year and we are not really building in any future currency upside at this point. We're just trying to be transparent with you.

We said there's about 1.5 percentage points of cushion in our guidance if currency stays where it is now. That's pretty typical practice for us at this point in the year to have a decent cushion on currency just because we don't have any control over that. So no, we are definitely -- our guidance implies more than just currency improvement. The Q1 performance is flowing through.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then I was in and out of the call a little bit, so maybe you gave a number. But our math was that AUGMENT in the quarter may be right around $7 million or so. Is that a reasonable number? How are you thinking about the targets? I think you laid out $10 million to $12 million in the first seven or eight months. How are you tracking relative to that?

And then Bob, just my last follow-up. Just on the claims -- the 2,000 claims -- that number has been I think stagnant for the last six of months or so that you've been filing in the Qs and Ks. Are claims still coming in? Is there anything you can say about the rate of those claims coming in? Is there a cutoff date when those claims would have to be made just as we think about the total number of claims that might ultimately -- that you might have to ultimately fight against there?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Okay. Regarding AUGMENT, I would think that we are tracking to our plan on AUGMENT. Everything is good. To consider -- we look at revenue. Revenue is really a lagging indicator of really the strength of that -- what's going on with AUGMENT.

The leading indicators are VAC committee approvals and trainings, both of which have been extremely strong. I think I mentioned in my prepared remarks that we got on average one approval per working day -- over one approval per working day from various VAC committees, which is a lot of work. And those then downstream result in revenues, and the same thing with the training.

So we are on plan -- tracking to our plan on AUGMENT and are very optimistic about that. And our whole biologics platform of 48% growth is pretty dramatic. I have said on previous calls that I would love to have a company that's a third upper extremities, a third lower extremities, and a third biologics.

With 48% growth in biologics and just a puny 14% growth in the rest of our business, I think I should be able to get there by 2025 or something like that. Only kidding. But I do think that biologics is a very important part of our business going forward.

Regarding the claims, I think it's hard to say there's been more claims -- what [about] claims? We don't know. There's a certain amount of -- a large number of claims that are under so-called tolling agreements. So we don't know what's inside of those claims necessarily, but there have continued to be additional claims coming in over the transom on a pretty regular basis.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thank you.

Operator

Mike Weinstein, JPMorgan.

Unidentified Participant

Hi, this is Andrew in for Mike. I just wanted to -- one product question and then one just market in general question. On the product specific, AUGMENT has been out there for six months. You've had success this past quarter with the value-add committees. Just wondering what the replenishment rates are looking like at this point in the launch?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I think that -- I don't have a number to give you. I can tell you what generally happens is when doctors use the product, they -- first, they use it in one or two cases and then they wait six to eight weeks and then look at their x-rays and scans to see what healing has taken place. And then after that, then they adopt.

I think that everyone that's gone through that cycle has reordered, that I know of. I don't think anybody has said I'm going to try one case and not do any more. The clinical results have been universally strong. We have not had anyone said that it didn't meet or exceed their expectations. So we have to look at AUGMENT -- it's still in its early stages, but all indications are that this is going to be a homerun for us.

Unidentified Participant

Great. And then on the market question, this quarter has been -- we've seen some strong ortho numbers being posted. And just wanted to sort of get your take on what you are seeing in the underlying market. Is it pent-up demand that's now spilling over from the fourth quarter in the first quarter? The shift to outpatient centers. Just wanted to get your general take on the market.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I think that the market growth rates that we think exist -- of course, there's not real hard data on this. These are all estimates by marketing and sales groups -- seem to be pretty similar to what they were in Q4. In other words, upper extremities in the 7% to 9% growth area and lower extremities in the 8% to 10% growth area.

We are almost double that. So we are leading a lot of that growth, but I think that what we're seeing is market growth rates similar to what they were in Q4 of 2015.

Unidentified Participant

Thanks.

Operator

Matt Miksic, UBS.

Matt Miksic - *UBS - Analyst*

Thanks for taking our questions. So a follow-up on the synergies or some of the dissynergies that you mentioned, Lance. You went through the quarter and commented on trends into Q2. Could you give us a sense of on the ground what those things are, whether they are changes in reps or on the revenue side?

And maybe what some of the -- I think you mentioned you are a little bit ahead on cost synergies, what some of those things were. Are we into the manufacturing process or insourcing yet or is that further out? That kind of color would be helpful, and I had one more follow-up.

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

Sure, Matt. So on the dissynergies, that is heavily rep-driven and anticipated. And just want to make sure we had another really strong quarter. Want to make sure people understood that we didn't have a lot of dissynergies, but we also saw acceleration in the underlying business as well.

But we do still expect to have those dissynergies. That's still the assumption, and we started to see those as expected to come into the mix late in Q1 and continue into April. It's nothing that we hadn't anticipated. We certainly don't have any concerns about being worse than our guidance. But we do want to make sure people understand that we do still expect that to occur.

On the cost synergy side, really, we had a lot of great activity in the first three months of the year and it's pretty broad-based. It's really not manufacturing yet. That's a little further out. But we've made some excellent progress in the corporate functions.

And I would say also, our international business has made some really excellent progress only six months into the integration. I think Bob highlighted some things in his prepared comments. And kind of all those things together have put us a little ahead of schedule and are giving us even more confidence on the bottom line.

Matt Miksic - *UBS - Analyst*

That's great. And then to follow-up on some of the new products. And I guess I would put AUGMENT in this category, too. First, maybe you talked about value analysis committee wins, which is great color.

Can you give us a sense of how much of that activity is in centers where you already have some business or how much you are able to bring this into new centers? I'm trying to get a sense of how much of a catalyst these new products are to pulling through some of your other core businesses into accounts, maybe where you don't already have a good position.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I don't have a specific number. I think the majority of the sales were in institutions where we already had some business, although there were some real wins in institutions that we had or no presence in that AUGMENT should be a driver of bringing in some of our existing products.

The value analysis committee process is important, but what it is is really what I would consider just a license to hunt. It doesn't assure you of anything. It just says that physicians who are affiliated with those institutions or chains -- some institutions are large and have multiple locations -- are free to use AUGMENT if they choose to. And then you also then have to convince the surgeon.

But we usually don't go into a value analysis committee unless we have surgeon support in those institutions. So it's a little bit circular, so that's how we win that approval generally is showing up with a full dossier of clinical data along with the surgeon that's dying to use the product. And when we have those two things is that usually we come out of there with a win.

But it's just hand-to-hand combat. We've had great success. We anticipate a continued success. But I mentioned it the way I did because I think it's one of these things that's really a leading indicator. We are all interested in revenue. I'm very, very interested in revenue. But that takes place after we've done these other things.

Matt Miksic - *UBS - Analyst*

Got it. Thank you.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Thanks for taking the question. Let me just start with the dissynergies. And I understand that you started to see some at the end of Q1 into Q2. But Bob, when do you think you are out of the woods on the dissynergies?

And I'm trying to understand: you didn't see as much as you expected in Q4. You didn't see as much as you expected in Q1, but yet you are kind of keeping the $25 million to $30 million. So I'm just wondering if there's some conservatism in that number?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, I have said all along, Larry, that what I am sure of is that we will not exceed the amount of dissynergy that we have said. I feel very confident about that.

I do think that the dissynergies will accelerate some. As Lance mentioned, we saw late in Q1 and now in April is that we've had some. I think that by the end of Q3, perhaps spilling a little over to Q4, is that we should be pretty much at the end of that. Then of course next year, we have to anniversary some of that, but I'm confident that the synergies won't be worse than we said. Perhaps they will be better, but I'm not counting on it.

And that we should be out of the woods completely by late this year. And then just have this -- a normal business, with hopefully our growth rates remaining in the mid-teens as they are now when you just exclude everything.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

That's helpful. And were there any day-count issues in Q1? And the revenue guidance you gave by line -- by segment on the Q4 call, anything you would tweak based on the Q1 results? Thanks a lot, guys.

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

Larry, no day changes highlighted this time. And as far as the kind of line commentary, I think at this point in the year, we are just going to leave that the same. We did raise the total, which I think that means you can expect some of those obviously to be a little bit better than our previous commentary. But no specific updates this early in the year.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

All right. Thanks, guys.

Operator

Raj Denhoy, Jefferies.

Raj Denhoy - *Jefferies LLC - Analyst*

Just a couple quick questions; a lot has been asked already. But as you've seen the early success of AUGMENT, I'm curious if there's anything you've learned in terms of -- that might have changed your view on the size of the market or what the potential indications that's been used in our -- just really any early learnings that you might be willing to share with us?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

No, nothing significant. What we're anxious to do, obviously, is exploit fully the markets for the label that we currently have, but move very swiftly to expand our label.

We saw a significant uptake in Australia when we introduced the injectable form of AUGMENT. This decreased time that doctors and the people that assist them in the OR have to prepare AUGMENT as well as being able to get it into different kinds of places in the foot that the existing form does not allow. So I think that expanding the label to that will help us significantly grow faster. But it's the same market.

We are also looking at expanding our label into other markets. We haven't come to a final conclusion on that yet, but I think we will pretty shortly because we've been studying this now for six months or so. And I'm a pretty impatient guy and I'm ready to get going on this and get an IDE filed and move to additional labeling. And to even bigger markets than we have in hind foot and ankle fusion.

Raj Denhoy - *Jefferies LLC - Analyst*

So lots of questions that could come out of that. But in terms of the timing of the injectable, do you have any updates there? And I don't [hear] much on your --

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Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

We have to negotiate the kind of -- no, I don't. Because we haven't finalized with the FDA how are they going to process this. The most optimistic point of view is that this is a 510k and it could happen relatively soon.

The most pessimistic view is that it's a PMA and will take years. The middle ground is a PMA supplement, which I think is most likely. And that's hard to say, but it certainly will be a year or plus to get that through.

Raj Denhoy - *Jefferies LLC - Analyst*

Okay. That's helpful. I'll leave it there. Thank you.

Operator

(Operator Instructions) Mike Matson, Needham.

Mike Matson - *Needham & Company - Analyst*

Thanks for taking my questions. I guess, Lance, I just wanted to ask about your guidance around the seasonality. If I heard you correctly, I think you said that the second quarter would be the lowest for revenue.

Is that correct? And I guess I would think that would typically be the third quarter, not the second quarter.

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

Mike, you did not hear that correctly. What we said was we do anticipate that the third quarter will be the lowest. That's the seasonally lowest quarter. What we said, though, was we do expect the second quarter to be lower revenue than Q1 and significantly lower EBITDA due to not only lower revenue, but also some of the spending we were expecting to occur in Q1 shifting to Q2 and other quarters.

Mike Matson - *Needham & Company - Analyst*

Okay. Thanks. And just given Dave Mowry's departure, I was wondering if you could comment at all on succession planning?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, I would say that right now, we have three divisions with division presidents and they used to report to Dave. Or I shouldn't say used to, because he is still COO. But when he actually is finished at Wright, they will report to me.

I don't think we are going to comment much further on succession planning beyond that. Although I do have an agreement with the Board of Directors that we will be putting forward sometime this year a succession planning program -- plan that they have to agree to. Succession planning at the CEO level is really a Board issue, not necessarily a CEO issue.

I have no plans to leave. I'm very excited about what we're doing here at Wright; having a good time doing it. We are making a lot of progress. I think back to the Company as it was [20] years ago versus where we are today. I'm very happy with everything that we've done and where we are and are very anxious to see us reach our potential.

So as of now, I'm still the guy here. We'll develop some succession planning with the Board. I don't know how we'll communicate that or if we will ever communicate that, but it's something that I'll be working on with the Board in the next couple months.

Mike Matson - *Needham & Company - Analyst*

All right. Thanks a lot. That's all I have.

Operator

Kaila Krum, William Blair.

Kaila Krum - *William Blair & Company - Analyst*

Thanks for taking my questions. I just have one on AUGMENT and then a follow-up on the revenue dissynergies. So you mentioned you trained 160 US physicians in the first quarter on AUGMENT.

So I guess I'm curious: first, can you help us understand how sustainable that rate of training is in the coming quarters? And then you mentioned that you are averaging about one new value analysis committee approval a day. So can you give us a sense for how quickly that those decisions ultimately translate to revenue?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, regarding the training, I think that we will continue roughly at the same rate as we were in Q1. We have trainings planned throughout Q2 and beyond. This is again a very strong indicator of interest from physicians to give up a day or two of their life to go attend a training program. So from what I understand is that that's going to continue at about the same rates that we did in Q1.

What was the second part of your question, Kaila?

Kaila Krum - *William Blair & Company - Analyst*

So you mentioned that you are averaging about one new value analysis committee approval per day. So can you just give us a sense for how quickly that those decisions can translate to revenue?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

As I said, the approval is more or less a license to hunt, so you still have to have the physician do cases. I would think generally speaking, because we usually go into value analysis committees with a surgeon that wants to use the product, they turn the cases pretty quickly. I can't say if it's on day one, but certainly within the first month or so, I would expect that usually we start seeing cases in those institutions.

Kaila Krum - *William Blair & Company - Analyst*

Okay. That's helpful. And then just a follow-up on the earlier questions on the revenue dissynergies you saw late in the quarter. Clearly, the underlying performance is growing more quickly than we expected, but do you just have any sense for why perhaps you may have seen that step-up late in the quarter versus potentially earlier in the integration?

And then I guess just what gives you kind of the visibility confidence in lifting guidance with that in mind? Thanks.

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

Sure. So the dissynergies is always tough from a timing standpoint. I think it's easier to nail down how much you think it is going to be than exactly when it's going to occur. And it's kind of a difficult thing because from our experience, we know it's typically from a delay, but you almost have to be a little conservative on timing because you would hate to be right on the amount and wrong on the timing and it be an issue.

So those are all things we have to take into consideration. So I don't think there's any big change or surprise that it's taken about this amount of time to show up. It could have shown up sooner, but it hasn't. It's starting now.

And as far as our confidence level, I think related to guidance, we had a really good quarter. Not just due to an absence of dissynergies, but just a strong underlying performance in the business. And you can see that with the acceleration in the US lower extremities business and the US bio business. So those things give us confidence.

And then really, nothing's changed around our views on what we think the total amount of the dissynergies are going to be. We feel like we've had those pegged for awhile now, and nothing's happened that changes our view on that.

Kaila Krum - *William Blair & Company - Analyst*

Thanks, guys.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

I have two questions. The first one has to do with the discussion around understanding the size of a potential settlement and taking that into your consideration along with AUGMENT milestone and your convertible refinancing.

Do we know to think of the raise as somewhat more linked to this litigation resolution? Or are they still sort of tougher than equal?

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

Joanne, we just have to take all those things into consideration. And it is a little complicated. We definitively have to do something to deal with the 2017 notes and the AUGMENT milestone. So we're going to need to take care of that.

But at the same time, we can't just ignore the possibility that we would need additional funds for a settlement. So we are trying our best to understand all those factors and take them all into consideration as we think through how we want to do our financing.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay. The second question has to do with your sales force. We've had a lot of questions now about dissynergies. Could you just briefly talk about sales force stability at this stage of the integration? And thank you; very nice quarter.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Thanks, Joanne. I think that the sales force in the lower extremity business is 90% integrated at this point and the rest of it will be done by the end of June. And they are doing great, and it seems like a very stable organization.

There's always puts and takes, but generally speaking is that -- and it's the same in the upper extremity portion of the business. We have a little more ways to go there in terms of the integration of the legacy Wright upper extremity business into the upper extremity business unit. But both organizations are really doing well, as witnessed by the numbers that they put up. They've had outstanding success.

I also think that if you are a rep and you are in orthopedics -- or not necessarily in orthopedics -- and you want a great opportunity to make a lot of money, this is the place to be. I mean, we have great products. We have great growth. We have an unbelievable strong pipeline of new products.

And so we have had great success in recruiting reps from all different walks of life. It's not something that is difficult for us at this stage, thank God. But we can't get arrogant about it and think we're great. We have to keep on performing. We have to keep on training.

We have done an awful lot of innovative stuff regarding training of reps. We have hubs, we have training centers, we have RBs that train. So while we take it very, very seriously. And I really believe that if you are a rep and you want to make -- have a good career and make a lot of money, this is the place to be. So maybe I can recruit some analysts to come work for us soon.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you.

Operator

Matt Taylor, Barclays.

Matt Taylor - *Barclays Capital - Analyst*

Thanks for taking the question. So my first question is kind of qualitative feedback on the quarter. Since you did outperform expectations sort of everywhere, I guess, what was most surprising to you? Was there anything that you see as really more of a one-time acceleration that wouldn't be sustainable?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I think that we were strong across the [board] -- that might be surprising. Usually is that you find some weakness somewhere, but all the business units did well. And so there were no surprises, nor do I think there were one-time kinds of things in there.

There was no -- for example, there was no big one-time stocking order for our distributor that sometimes gets the SKU off of. So all business units did well, so that is extremely positive. And I think that's going to continue throughout the year.

So we are very confident about the kind of plan that we laid out awhile ago when we announced this merger is that we think that we are going to be a midteens growth company. As a matter of fact, we are a midteens growth company. We're going to be a 20% EBITDA company in three or four years after and we are well on our way.

I remember saying in January that you should see this turn fairly quickly. Now, it turned faster and more than I thought coming in at the EBITDA that we did, but that just shows you the power of leverage that we have and the drop-through effect that we can do at that where -- as sales increases, we are going to get really strong leverage going forward.

And we have a lot of other things that are in the works regarding strong balance sheet management that has been absent not only in our Company, but in most orthopedic companies, that we think we're well on the way of being really an excellent balance-sheet-managed company as well as a high-revenue growth company.

So there were no one-timers in here that I can think of. And the only surprise I would say is that all units did well at the same time. Usually there's some weakness somewhere and there wasn't in Q1.

Matt Taylor - *Barclays Capital - Analyst*

All right. Great. And this is the first quarter you talked more in-depth about the SALVATION growth starting to come through. Is that just because you are now really pushing it out there for launch or is there now physicians that are reordering it? Maybe just provide some more color, if you could, on how SALVATION is going.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Yes. SALVATION is a terrific category for us to be in. It's not as broad-based in terms of physicians. These are usually limb salvage specialists that do these procedures. So it's not necessarily the same group of physicians that do more broad kinds of procedures, and it's a smaller group.

And so in a way, it's good in that they are easier to train and they are very willing to share with each other because they are dealing with limb salvage their techniques and best practices. So like anything, the leading indicators of success are the interest and the willingness to get trained that physicians put themselves into.

And this has been outstanding. This has been a market that's been underserved for a very long period of time. We now have products that really work, and we do have just a phenomenally strong training to get people up to speed. And have a community of doctors that are willing to share their experiences all around the world.

So this is a very important product for us. It's a large market opportunity. We have leading products. And as I said in my prepared remarks, I look at this in a similar way as I look at the total ankle business.

We made a big bet on total ankle a couple years ago. That's paid off. We are making a big bet here on SALVATION, and I'm pretty sure this is going to pay off.

Matt Taylor - *Barclays Capital - Analyst*

Great. Thanks for your time and nice quarter.

Operator

Richard Newitter, Leerink Partners.

Richard Newitter - *Leerink Partners - Analyst*

Thanks for taking the questions. I have two: one on AUGMENT and one on gross margin. On AUGMENT, I was wondering, Bob, can you describe as you go through the value analysis committee how price kind of factors into the discussion there? And really what I'm asking, too, is price holding steady or has there been any surprise on kind of the receptivity or lack thereof to the pricing of the product?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I would say that price is the issue in value analysis committees. That's why they are there. The heads of these value analysis committees in large institutions get -- I think their bonuses are paid on how much money they save off list price. So that we are up against that all the time.

However, price has held for us. We have not gotten into a mode of discounting. And so we are doing very, very well. So we are looking at some iterations of AUGMENT -- perhaps we have a -- it's sold currently in a 3cc format.

We may offer a 1.5cc format at a different price that may -- based off any price issues some people have. Because some people think that we are forcing them to buy more than they need for the procedure. So we are testing a 1.5cc iteration now, and we'll see how that goes and if we make that broad-based.

But price is holding. It's a high-margin product. And so you said your next question is on gross margin and I think that the faster we grow AUGMENT, the better gross margins are going to be.

Richard Newitter - *Leerink Partners - Analyst*

Got it. And maybe just -- you seem very optimistic on not just the mix shift potential benefits from AUGMENT and gross margin, but also kind of some of the more logistical aspects: the inventory management and processes that you are implementing.

So I understand that Tornier kind of coming under your umbrella for these processes is a little bit out in front of you. Can you say when you are going to bring kind of the Tornier kind of inefficiencies into your efficiency programs?

And then two: where should we think of gross margin kind of going? Where do you kind of have a goal set over the next several years? Thanks.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I think we started it in the lower extremity business on these initiatives -- I think there were five or six teams that are working on everything from improving our forecast accuracy, increasing our inventory turns, utilization of our factories, product lifecycle management. And I'm probably missing one because I'm speaking fast. But all those things are initiatives that are underway that have a dollar sign next to them that we should realize significant savings on those.

Now, as we get into those processes and they get institutionalized in the lower extremity businesses, we will do the same in the upper extremity business. There's the same opportunities there in terms of being more efficient, in terms of getting greater inventory turns, and in terms of having automated systems that allow us to bill and collect money from customers more quickly than we had in the past.

So we are looking at a real big change in those operational areas. They don't necessarily -- those things don't necessarily affect gross margin, except the utilization one and the product lifecycle management one in that we are not making small batches of products that go obsolete very quickly. So that saves us on E&O expenses. But it's all good.

I have said -- I mentioned earlier, I said that when we start talking about a merger, I foresaw a company that was going to grow midteens and a 20% EBITDA and is going to have gross margins in the high 70%s. And that's what I believe we will have, and that's a pretty good company, I think. So that's where I think we are going to be.

Operator

Matt O'Brien, Piper Jaffray.

J.P. McKim - *Piper Jaffray & Co. - Analyst*

This is JP in for Matt. Thanks for taking the question. I just had a couple clarifying questions and then one on the lower extremities market.

But your comments on the Bellwether case -- I just wanted to clarify that it was settled and then insurance paid for the whole settlement. So Wright really had no liability at all. And I'm not a lawyer, but the Bellwether usually is a good precedent for all the other ones, right?

And then on the currency guidance for the year, is this 1.5% cushion -- if rates stayed where they were today, your guidance would in essence just be $10 million higher?

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

I'll take the currency one. And I mean, essentially yes. Assuming all other things were equal and currency stayed exactly where it is, then yes, it would have that much incremental benefit.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Regarding the Bellwether case. Again, this is a settled case that the terms are confidential, so I really can't get into it. But it was settled and we've had a very good manner and we had no out-of-pocket expenses.

J.P. McKim - *Piper Jaffray & Co. - Analyst*

Got it. So insurance covered everything?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Yes.

J.P. McKim - *Piper Jaffray & Co. - Analyst*

Okay. And then just one quickly on the lower extremities market. It seems your commentary with kind of others in the space that you've seen a nice acceleration in this market.

I'm just trying to get to the bottom of what's driving that. Are people more and more comfortable with doing these total ankle replacements? Or is it the products are just getting better? Would just like to get your thoughts there.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, it's a couple things. The total ankle market was terrific -- has been terrific for two years now. And it is a flagship product in that it draws other products into those practices as well. And we grew 31% over the same period last year in the first quarter. So that is a big driver of our lower extremity growth.

Also new products such as SALVATION, which I mentioned, got off to a great start in Q1. And we have a very, very strong core business.

And I alluded to this in an answer to another question is that we have a very strong sales organization. They are well trained. They are paid well and they are pretty -- in that 85% of our lower extremity sales force is direct within our control. So that all adds up to -- I think those and some other things probably add up to why we are being so successful.

I would say that if you take out the decline that we had from the legacy Tornier lower extremity business, which we anticipated, which was what we were looking, and you look at just the growth of the Wright lower extremity products that we have had is that the growth in that segment was high teens in itself. So that was pretty terrific.

J.P. McKim - *Piper Jaffray & Co. - Analyst*

Great. Thank you.

Operator

Glenn Novarro, RBC Capital.

Unidentified Participant

Thanks for taking my question. This is actually Brandon on for Glenn. Can you discuss how the rollout of SIMPLICITI is going and if you expect this to cannibalize any of the Company's existing business? Maybe also talk about has the premium pricing for SIMPLICITI stuck?

And then also on the training, if you have any targets on the number of surgeons you've trained or you expect to train for SIMPLICITI for the year?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

The launch is going extremely well. I don't have the exact number of surgeons that have been trained in front of me, but I know that they are full out in execution mode in terms of training physicians.

We've always anticipated that SIMPLICITI would cannibalize some of the other markets -- other part products in this category. But that's fine with us in that SIMPLICITI is at about a 60% premium than the ASCEND FLEX products. So that's all good.

We are the only company right now that is in the market with this type of a product. Others will come, and hopefully we'll have other new products down the road that will continue to advance us in this area.

But we couldn't be happier with the launch. When we look at the growth of our Company and new products and a unique product pipeline is part of that, and we have those both through lower extremity, upper extremity, as well as biologics. So in all three areas, our product pipeline is delivering and doing extremely well.

Unidentified Participant

Okay. And then just a couple other questions on shoulders. What inning do you think the ASCEND FLEX product launch is in? And then just with the US shoulder market in general, what inning do you think we are in in terms of conversion to reverse shoulders? And then finally, if you have any commentary on shoulder pricing -- how that's trended?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

The ASCEND FLEX launch is in its early stages -- again, doing well. Other than pricing, what was your other question?

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

Reverse penetration.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

So if you look at outside the US versus inside the US -- outside the US is about 60% reverse and 40% anatomic in terms of units. US is just the opposite -- again, in terms of units. But in terms of dollars, because of the premium, they are about equal in terms of dollars.

There is a trend -- a very noticeable trend towards reverse. And we expect that sometime, and I'm not exactly sure, is that the dynamics that we're seeing outside the US in terms of the percentage of reverse versus anatomic will be similar in the US versus outside the US.

Unidentified Participant

Okay. And then just any commentary on pricing trends in foot and ankle and shoulder?

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

I think pricing in the shoulder is pretty stable; it may be down a point -- point and a half, something like that. In the lower extremity, it's actually -- we've had some slight increases about the same: a point, point and a half, something like that.

Unidentified Participant

Okay. Thanks.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back over to Mr. Bob Palmisano for closing remarks.

Bob Palmisano - *Wright Medical Group N.V. - President and CEO*

Well, thank you, operator, and thank you -- thank all of you for joining us today. Our focus will continue to be on execution, and I believe all of the pieces are in place to make Wright Medical the strongest player in the extremities biologics businesses.

You can expect to see a lot more in the months to come as we work hard not just to be a great extremities and biologics company, but an industry innovator that harnesses technology, processes, and collective strength of our team to take us to the next level of focused excellence and further accelerate our growth opportunities and path to profitability, all of which we believe will generate long-term value for our shareholders.

We want to reiterate -- I want to reiterate my excitement for the bright future that I believe is ahead of our Company. Of course, none of this happens without a lot of hard work and discipline. I want to thank and express my appreciation to our team for their efforts during the first quarter, with an additional thank you and best wishes to my friend, Dave Mowry.

I look forward to updating you on our next quarter 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 the program and you may all disconnect. Everyone have a great day.
