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WMGI - Q2 2016 Wright Medical Group NV Earnings Call

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OVERVIEW:

WMGI reported 2Q16 results. Co. increased 2016 net sales guidance to $675-685m. 2016 adjusted cash diluted EPS, including stock-based compensation, is expected to be between negative $0.54 and negative $0.47.

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PRESENTATION

Operator

Good day ladies and gentlemen, welcome to the Wright Medical Group NV second quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, that this call is being recorded. I would now like to introduce your host for today's conference, Julie Tracy. Please go ahead.

Julie Tracy - *Wright Medical Group NV - Chief Communications Officer*

Thank you and good afternoon everyone. Welcome to the Wright Medical second quarter 2016 conference call. We appreciate you joining us. I am 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 second-quarter results and a copy of that press release is available on our website at www.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, the sale of our large joint business 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, and quarterly report on form 10-Q for the fiscal quarter ended June 26, 2016, filed or to be filed by Wright with the SEC as supplemented by our other SEC filings. Our SEC filings are available at www.SEC.gov and on our website at www.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. In addition, as a result of our previously announced anticipated sale of our large joint business to Corin, all current and historical operating results for the large joint business are reflected in discontinued operations. Unless otherwise noted, today's discussions refer to results from continuing operations. With that introduction, it is now my pleasure to turn the call over to Bob Palmisano. Bob?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Thanks Julie, welcome to Wright's second quarter earnings call. For the third consecutive quarter, all our most important financial results exceeded our expectations. Global Extremities and biologics pro forma constant currency net sales growth of 14%, adjusted EBITDA from continuing operations of $12.2 million and adjusted gross margins from continuing operations of 78.5%, reflect the strength of our markets and our unique position in them.

We continued to successfully execute our merger integration plans, and with the continued success we are seeing, we believe we're well positioned to continue our strong business momentum and to deliver on our synergy commitments as we progress through the remainder of 2016. When we announced the merger with Tornier, we set out three aggressive goals. First, to be a mid-teens growth company.

Second, to have gross margins in the high 70% range and third, to achieve adjusted EBITDA margins of approximately 20% three years post-close. After only three quarters post-close, we're well ahead of schedule on all three of these key financial metrics. Highlights in the quarter include a strong contribution from the ongoing rollout of our SIMPLICITI and ASCEND FLEX shoulder systems, which drove 20% sales growth in US shoulders and the ongoing launch of the INFINITY total ankle replacement system, which drove 33% sales growth in the US.

In addition, our US biologics grew 52% in the quarter, driven by the ongoing commercial activities for AUGMENT Bone Graft. biologics is now the fastest growing part of our business. We expect all three, all of these products, which are still in early commercial rollout to continue to be growth engines during the remainder of 2016 and beyond.

We also believe our previously announced binding offer to sell our large joint business to Corin, represents a significant opportunity going forward. As we have said, this large joint business is not aligned with our strategy to be a premier extremities and biologics company, and the sale of this business is the next logical step for Wright. We are pleased we found an excellent strategic buyer in Corin, a company that is deeply committed to the success of the hip and knee business and will continue to provide the focus and investment to enable it to reach its full potential.

We expect the transition to close by the end of the third quarter or early fourth quarter of 2016. Based on the strength of our second quarter performance and our outlook for the remainder of the year, we're increasing our full-year net sales and adjusted EBITDA guidance. Although we're only halfway through the year, the strength of our core upper extremities, lower extremity in the biologic businesses, plus our ability to capture cost synergies earlier, at a greater level than anticipated, gives us confidence to increase our outlook for the full year.

We will continue to focus on executing our integration plans to realize our full potential and believe that the positive progress we have made since the merger close sets up well for continued strong revenue growth and significant margin expansion this year, next year and beyond. I believe the future of both long-term and short-term is indeed very bright. Let me now highlight our business results for the second quarter.

Unless stated otherwise, the revenue growth rates I provide today will be based on a combined pro forma constant currency basis over the prior-year quarter. As anticipated, we begin to see the impact of revenue dissynergies in the second quarter, particularly in our US lower extremities business which grew 6% this quarter, including dissynergies. Excluding the impact of these dissynergies we continue to see strong growth driven by US total ankle business, which grew 33% for the quarter as well as nice contributions from the launch of our Salvation Limb Salvage system for treating Charcot foot and limb salvage cases.

We are still early into the launch, but based on the positive physician feedback received so far, we look forward to this product ramping up nicely throughout the year. I also want to highlight the strong performance in our US biologics business, which grew 52% in the second quarter, the fastest-growing segment of our business. This growth was driven by the ongoing launch of AUGMENT Bone Graft, as well strong performance from our other biologics products.

With regard to AUGMENT, we have converted new accounts while holding price. We continue to average over one new value analysis committee approval per working day in Q2. In addition, we trained approximately 320 US physicians during the quarter, which was double the number we trained in Q1.

Although we expect our momentum to continue as we add new customers and further penetrate top decile accounts, we do expect that normal summer seasonality will impact both on a revenue trajectory and the amount of that committee meetings and approvals, both of which we believe should pick back up late in the third quarter. The US upper extremity business continued its excellent performance with 17% growth this quarter, driven by our 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 our ongoing launch of the SIMPLICITI shoulder system in the US. Overall, the sales performance this quarter was very strong, as our innovative products in upper and lower biologics continue to drive growth and the timing of the synergies has been playing out as we had anticipated. Now moving to our progress in the merger integration.

We're continuing to successfully execute our plans with a goal of maximizing focus and alignment while minimizing disruption. As of the end of Q2, all of the US lower extremity sales force and distribution systems has been fully integrated. This is a key milestone for the integration and I'm very pleased with how quickly and cleanly we were able to get to this point.

It is important to note that the timing of the sales dissynergies is playing out exactly as we expected. With the transition of our US lower extremity sales force now complete, we will begin to -- we begin the transition process of our US upper extremity sales force and expect to have that completed by the end of the year. Based on where we are with our sales force integration with US lower extremities complete, international complete and US upper extremities in process, I believe by the end of the third quarter we will have good visibility as to the ultimate impact we will see from dissynergies.

From a cost synergies perspective, we are also off to a great start and we have already seen some earlier-than-anticipated cost savings, which contributed to the adjusted EBITDA over performance in the quarter. As I mentioned in our last earnings call, we have significant opportunity to improve our balance sheet, with initiatives to improve inventory, instrument set utilization and DSOs within our -- with our first focus on our legacy Wright business.

We are starting to see the impact from these initiatives, as evidenced by approximately 80 days' reduction in our gross inventory days on hand for the legacy Wright business so far this year, which underscores our conviction around fundamentally changing the way we do business so that we can have both a well-managed balance sheet and deliver high growth. Looking forward in connection with the integration of our US upper extremity sales force, we're also integrating US upper extremities distribution into our inventory hub network.

This represents a significant opportunity to increase instruments that utilization, decrease inventory and DSO and increase rep selling time. This initiative was highly successful while producing significant benefits for the legacy Wright lower extremity business and I'm looking forward to the benefit it can drive in the upper extremity business as well. In summary, the execution of our merger integration plans is firmly on track, and we're well positioned to continue our strong business momentum and deliver on our synergies commitments as we progress through 2016.

Before I turn the call over to Lance, I did want to provide a few comments on the metal-on-metal hip and related insurance litigation legacy Wright 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 second quarter that will be filed shortly. With regard to these matters, I continue to be limited in what I can say, since it is pending litigation and I'm not going to comment on our legal strategy or the details of our negotiations.

During the second and early third quarters of 2016, we believe we made meaningful progress toward resolution of our metal-on-metal hip litigation and related insurance litigation. In June 2016, we reached a confidential settlement in principle with a subgroup of three insurance carriers. Settlement discussions with the remaining three insurance carriers continue.

In July 2016, we continued with ongoing mediation discussions with the plaintiffs. As a result of these July discussions, we established a reasonably possible loss range for a substantial portion of the revision cases of $150 million to $198 million, net of expected recoveries from the insurance settlement. Accordingly, we recognized $150 million charge within discontinued operations, and are continuing settlement negotiations with the plaintiffs.

We will continue to actively work toward the goal of securing a global settlement, although as I previously said, this is complex and subject to significant uncertainties which makes the ultimate outcome and precise timing difficult to predict. I do continue to believe and expect that with the resources available to us, we will ultimately be able to resolve this matter in a way that will not be a long-term issue for us. I understand that there are many questions about the details of the litigation, however my first priority is to do what is right for Wright.

Therefore I will not be giving any further information, and as I have said before, we will not negotiate this matter in the public domain because this would hurt, not help our negotiations. We're currently unable to determine the amount or timing of any potential settlement. During the second half of the year we look forward to closing the transaction with Corin, completing our merger integration activities and exiting the year as a high growth, pure play extremity and biologics company.

We have multiple opportunities, through our robust new product pipeline to further accelerate our growth, continue to expand our markets and gain market share. In addition, we are able to devote our full resources and attention to accelerating growth opportunities in our markets. We continue to believe Wright Medical is a unique company that has the ability to drive mid-teens growth, gross margins in the high 70% range and achieve adjusted EBITDA margins of approximately 20%.

The second half of the year, we will continue to drive towards achieving these key financial metrics. With that I will now ask Lance to provide further details on our second quarter results and 2016 guidance. Lance?

Lance Berry - *Wright Medical Group NV - CFO*

Thank you, Bob. As we get started, all sales growth rates that I refer to 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 in comparison on a pro forma basis which are non-GAAP financial measures as described by Julie during the introduction of our call.

In addition, as a result of our previously announced anticipated sale of our large joints business to Corin, all current and historical operating results for the large joints business are reflected in discontinued operations. Unless otherwise noted, today's discussion refer to results from continuing operations. Please refer to the non-GAAP reconciliations in our press release and also I strongly encourage you to review the information posted on our website.

Similar to last quarter, we have provided you with the information to assist you with your modeling and to provide you with pro forma information in cash EPS through the second quarter of 2016. First, before I get into the details of the quarter, to assist you with comparing our results to your previous models, I wanted to let you know that sales for the large joints business were $10.2 million in Q2, and therefore if they had been included in continuing operations this quarter, our net sales would have been $180.9 million.

No moving on to the details of our continuing operations. Globally, the extremities and biologics business grew 14% driven by strong performance in the US upper extremities business, US total ankle replacement products and outstanding growth in US biologics business. The combined US biologics business grew 52%, driven by the ongoing launch of AUGMENT.

AUGMENT has continued to steadily increase as we work our way through the value analysis committees. We've converted new customers while holding price and expect our momentum to continue as we add new customers and further penetrate top decile accounts. The combined US upper extremities business growth of 17% in Q2 was driven by strong contributions from our US shoulder products, with growth of 20%, driven by the positive performance of the SIMPLICITI shoulder system launch and continued strong sales of ASCEND FLEX in the US.

The legacy Wright upper extremities 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. The combined US lower extremities business grew 6% in Q2, led by strong growth across the legacy Wright portfolio including 33% growth in our total ankle products. As we anticipated, we started to see dissynergies late in Q1 and continuing into Q2.

With the lower extremity and international sales force integrations complete, and the US upper integration in process, by our Q3 earnings call we expect to have good visibility into the ultimate amount of dissynergies and we're still confident that those will not exceed our original expectations of $25 million to $30 million. Our international extremities and biologics business grew 10% in Q2, led by strong growth in our European, Canada and Australia markets partially offset by slower growth in Asia and Latin America. Now moving onto some detail below the sales line.

Please note that there is some impact to the individual line items at the P&L, due to the large joints of business now being in disc ops. On our website, we provide you with historical information with the large joints business in disc ops to assist you with your modeling and analysis of the business. All of my discussions will refer to our continuing operation results.

Beginning with our Q2 gross margin, we achieved 78.5% for the quarter, an increase of 230 basis points over the same prior-year period driven by mix, leverage and lowered levels of excess and obsolete inventory reserves. We're 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 for the line items making up our Q2 operating expenses.

Selling, general and administrative expenses totaled 73.9% of net sales for the second quarter compared to 83.3% in the prior-year period. The decrease as a percent of sales was driven primarily by the impact of higher Q2 revenue driving leverage in the cost structure and capture of cost synergies. R&D expense was $12 million in Q2 of 2016 and $13.3 million in Q2 of 2015.

Finally, amortization expenses approximate $7.5 million in Q2 of 2016, compared to $6.8 million in the prior-year period. Below the operating income line, net interest expense and other expense totaled $6.1 million for Q2. Our Q2 tax expense is $1.1 million related to profits in taxable jurisdictions.

As reminder, we have a tax valuation allowance against our deferred tax assets in US jurisdictions. We expect to have approximately $3 million in tax expense in 2016. Finally, per share count our Q2 per-share results as adjusted are based on average diluted shares of $102.8 million for Q2 of this year, at average diluted shares of $101.7 million for Q2 of 2015.

All together, this resulted in adjusted EBITDA of $12.2 million and 7.2% of sales for the quarter. From a cash standpoint, our total cash balance at the end of Q2 was approximately $326 million. This includes approximately $238 million in net proceeds from our recent convertible debt offering.

With this financing, we've address the need to refinance our 2017 notes and raise additional funds to cover the potential AUGMENT revenue milestone payment. Additionally, we raised funds to facilitate a settlement related to our metal-on-metal litigation. At this point we believe we have addressed our near-term financing needs.

We're still evaluating our options for a line of credit to provide us with some additional operational flexibility. Both net sales and adjusted EBITDA significantly over performed our expectations. Our sales over performance was driven by strong underlying, growth less than anticipated dissynergies, and better-than-expected currency exchange rates.

Our adjusted EBITDA benefited from the drop through of the constant currency sales over performance, and we also had greater than anticipated cost synergies as we're able to get some benefits sooner than expected. Overall, our second-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 to the effect of potential future acquisitions or any other possible material business developments. Additionally, it is important to note that we were 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 a reminder, in our Q1 earnings release, we raised our net sales guidance to a range of $705 million to $715 million.

Then during the second quarter, we announced the binding offer to sell our large joints business and the resulting move of that business into discontinued operations. This adjusted our sales outlook by $37 million, resulting in a new guidance range of $668 million to $670 million. As stated in today's press release, we are increasing our net sales guidance for 2016 to $675 million to $685 million from this previous guidance range of $668 million to $678 million.

The midpoint of our guidance range assumes mid-teens pro forma constant currency growth excluding the impact of revenue dissynergies. For a full year adjusted EBITDA, in our Q1 earnings release we raised our guidance to a range of $30 million to $35 million. Moving the large joints business to disc ops negatively impacted 2016 adjusted EBITDA by approximately $5 million to $6 million, however in that announcement, we maintained our previously provided guidance range despite that negative impact.

Today we are increasing our full-year 2016 adjusted EBITDA outlook to be in the range of $40 million to $45 million from our previous range of $30 million to $35 million, which excluding the impact of moving the large joints business to disc ops, is an increase of approximately $15 million or 46% as compared to the guidance we provided in our Q1 earnings release. This increase to adjusted EBITDA is driven by the first half performance and our ability to capture synergies earlier and at a greater level than anticipated.

At this point we anticipate cost synergies in 2016 to be in the $20 million range, up from our previous expectation of $10 million to $15 million. We still anticipate $40 million to $45 million of annualized cost synergies in year three post-close. To assist with updating your models, for our updated guidance and the impact of transferring large joints to discontinued operations, here are some specifics on our outlook for line items on the P&L.

First, on gross margin -- for full-year 2016, we're expecting gross margin expansion of approximately 100 basis points to the 78% range as we leverage our global manufacturing footprint and drive improved plant utilization. This 100 basis point improvement is in line with our previous expectations. Moving large joints to disc ops benefits our gross margin by little over 100 basis points which is why we now expect gross margins in the 78% range for the year as opposed to the 77% range previously.

We expect SG&A as a percent of sales to decrease in the range of 600 basis points over the 2015 pro forma continuing operations SG&A percent of sales of 80.8% through a combination of cost synergies and leverage. SG&A as a percent of sales was slightly negatively impacted by moving large joints to disc ops, but the remaining business is delivering better leverage which will result in an expectation for SG&A as a percentage of sales roughly line with our previous expectations. R&D is still expected to be in the range of 8% of sales, and excluding any future acquisitions, amortization expense is expected range of approximately $7 million per quarter.

Before we move to the line items below the operating income line, to assist you with modeling EBITDA, I want to provide you with our outlook for depreciation expense which for the full-year 2016 is in a range of approximately $51 million to $53 million as compared to $49 million in 2015. This is slightly lower than our previous guidance, due to the impact of moving large joints to disc ops. Stock-based compensation expenses is anticipated to be in the range of $14 million to $15 million.

Now let's touch briefly on the items below the operating income line. Due to our recent convertible debt offering, our expectations for interest and other is approximately $6 million per quarter. Due to the valuation allowance on our inner wells we will not have an income tax benefit in 2016.

We expect to have approximately $3 million in tax expense related to profits and taxable jurisdictions. The Company anticipates adjusted cash earnings per share, including stock-based compensation for full-year 2016 of $-0.54 to $-0.47 per diluted share. The Company estimates approximately 103 million diluted weighted average ordinary shares outstanding for FY16.

All together these assumptions make up the midpoint of our adjusted EBITDA guidance. From a quarterly cadence perspective, you should expect significantly lower but positive EBITDA in the third quarter as we expect to have lower sales due to seasonality and additional dissynergies as compared to the first half of the year as well as some of the expending we expect to occur in the first half 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 has typically been 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 first half EBITDA over performance, Q4 may not be significantly larger than Q1 or Q2 on the EBITDA line. In closing we're very pleased with our second quarter results, where all key financial metrics exceeded our expectations again.

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. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Matt O'Brien, Piper Jaffray.

Matt O'Brien - *Piper Jaffray & Co. - Analyst*

Bob, I was hoping we could start with the dissynergy commentary that you had? I think if memory serves, you mentioned of that $25 million to $35 million of dissynergies -- most of that should be in lower extremities? Is there a way, first of all to quantify how much dissynergy you have seen at this point -- is it 10%, 25% of which you expected, that you've seen at this point?

And then with the sales force and distributors transitioned at this point, why wouldn't you feel more comfortable really taking another look at that dissynergy number and saying, we think it is going to be half or even lower than what we had expected?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I will have to -- part of that and Lance can also comment. I think that the number of $25 million to $30 million is still pretty much the right number when you consider the totality of the dissynergies over time. But as far as 2016, we think there's going to be less than that range.

But by the end of Q3, which I think is the major quarter where we have, we said that most of the synergies would hit, we will have a much better feel and outlook for what the final number will be for 2016. I do think it is safe to say that 2016 is going to be somewhat less than the $25 million to $30 million than what we had originally set for the year.

Lance Berry - *Wright Medical Group NV - CFO*

As far as quantifying for the quarter, we did not break that out separately. We did mainly see it in the lower extremity business, and you can see that in the growth rate deceleration from Q1 to Q2. Which is in line with what we anticipated.

We had talked about at the beginning of the year, something in the line of mid-single-digit type growth rates for that business, due to the dissynergies. I would say the timing of the dissynergies is playing out in line with what we expected. The amount so far in 2016 has been less, which is driving Bob's comments that 2016 will be less than the $25 million or $30 million.

But as far as the ultimate amount, the ultimate amount of lost business, I think once we get a full quarter behind us of completing the lower extremity integration and be a full quarter into the upper we will be able to have a lot better visibility to that and really dial it in.

Matt O'Brien - *Piper Jaffray & Co. - Analyst*

As a follow-up, I know you don't want to comment to much on litigation but was hoping that we could clarify couple of things? I think you said $150 million to around $200 million -- net of insurance, does that include all of the revisions that have come in to date? Does that cover the full number of revisions?

When you talk about net of insurance, I think you said three of the carriers are on board, but three of them you are still negotiating with? I guess what I'm asking, is there going to be insurance coverage amount -- the other three come on board to the midpoint of the range, $175 million would actually be lower if the other three insurance carriers decided to pay?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think the amount is -- the insurance would be on top of the range that we gave you. Again, it is just not a good idea to start talking about the intricacies of who has paid and who hasn't and what the ranges are. I think that what we have now with the range that we just gave you, is we have the goalpost that we feel that we can deal with.

Nothing is for certain, this is still fluid, as I've said, but I think it is safe to say that we are pleased. We've made some progress, we know where the goalposts are, generally speaking. And regarding what is included and what is excluded, we're not going to comment too much on that.

Other than to say that, what we think is that having a global settlement that includes most of these cases will be terrific. And if there is some leftover as the other companies have settled, that will be something we can deal with, but our objective is to get most of these things done with, as fast as we can.

Operator

Rich Newitter, Leerink Partners.

Rich Newitter - *Leerink Partners - Analyst*

I will ask the litigation one first -- I appreciate you don't want to say too much more? Your comments were helpful, but you said, Bob, that the additional three insurance carriers would be on top of the range that you specified? Does on top of mean you are saying, in theory that the way Matt was saying to look at it is the right way? That would be extra insurance coverage, most likely in addition to what you have?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

We have an agreement in principle with three carriers and we know what that amount is. The remaining three carriers we don't have an agreement on, and they're where they have always been in terms of not denying coverage, but putting coverage into one year. So there's ways to go to negotiate with those guys.

I think the range that we have is, what basically is the right medical portion of this, as opposed to the insurance. Because the insurance would be on top of what the Wright portion would be.

Rich Newitter - *Leerink Partners - Analyst*

I think that is giving me a little bit more to go on. Then, again the synergy commentary was appreciated it sounds like you will have more visibility in the third quarter but what I want to know on the biologics side, strong performance there? You mentioned some seasonality factors to consider and I just want to make sure I'm understanding?

It sounds like maybe the VACs are the people who are doing the decision making process are on vacation, or just not as efficiently focused on this as they are at other portions of the year? So this is purely maybe a slight step down relative to the Q2 and 3Q on tap in biologics? And then a rebound in 4Q is that the right way to think about it?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Q3 everything steps down a bit, both internationally and domestically. You are right in that there are many fewer back committee meetings scheduled in July and August than there was in May and June. We expect that to pick up into September.

Also, there are many fewer cases done in July and August than there are in any other months of the year. We're just alerting people to the fact that, that is normal and that is most likely what is going to happen. But the biologics business, both the AUGMENT piece and the other biologics that we have, is performing extremely well both from a financial point of view and from a clinical point of view.

We have not had any instance, that I'm aware of, that a physician said that AUGMENT did not meet your expectations. In most cases we get, this was spectacular, the healing was great, it was better than I expected -- so we really think this is a special product. It is going to be a strong growth driver for us, not only this year but for many years to come.

Rich Newitter - *Leerink Partners - Analyst*

One further on that -- did you launch the different sizing or packaging for AUGMENT yet? And is that having an impact or are you expecting to do that?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

We did launch a test so it is not in full launch. And I do not know if it will turn out to be in full launch, but we did launch -- I'm not sure think it was in Q2 -- some different size configurations. But all in all, I would say that prices held well and our unit volume is increasing nicely and is meeting our expectations.

Operator

Andrew Hanover, JPMorgan.

Andrew Hanover - *JPMorgan - Analyst*

Bob, hate to ask this one other way, but in regards to litigation, the range that you gave, the $150 million to $198 million -- is that respective of three carriers versus six carriers? Or how do you think about the range?

Lance Berry - *Wright Medical Group NV - CFO*

Andrew, this is Lance. The $150 million to $198 million is net of the proceeds from -- expected proceeds from the agreement in principle of the three carriers. It does not include anything from the other three carriers.

Andrew Hanover - *JPMorgan - Analyst*

In regards to AUGMENT, I was coming up with somewhere in the ballpark of $7 million in the quarter? I wanted to see that was reasonable and if so, it looks like May and June took a nice step up? So I was wondering how much stocking happened in the quarter if any?

Or this is just somewhat of a normalized trend moving forward?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Andrew, there's really no stocking going on. It is pretty much -- ordered for each individual surgery. So what you see is pull through, which is not really any stocking. I don't think I know, nor will we tell you each month what the amount on an individual line item, but that certainly is meeting our expectations.

Andrew Hanover - *JPMorgan - Analyst*

One other if I could, on AUGMENT -- I know there is a pilot study for AUGMENT injectable versus autologous bone? That was stopped when AUGMENT was stopped as well, so I'm wondering if you have any updates on where that trial is at the moment?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Most likely I think it will be late this year, early next year before we have made a decision and have worked through with the FDA what the plan is. The injectable product is on the market in Australia -- and I think Canada as well, I'm not sure but I know in Australia -- and we saw a meaningful uptick in business with injectable. We think this would be a good move for us.

The question is, what is the regulatory path on the injectable AUGMENT product? We do not know yet. I think it is going to be later this year or early next year -- just the way the FDA works -- before were able to really clarify that this is what we're going to do and this is the timetable.

Operator

Kaila Krum, William Blair.

Kaila Krum - *William Blair & Company - Analyst*

First, on the EBITDA performance, I would like to parse out some of the drivers of that better-than-expected performance? And what had changed since the Q1 call? Since I know you were all suggesting EBITDA would pull back more than it did this quarter?

I know you have pegged EBITDA margin at 20%, within 3 to 4 years? So just given the outperformance that we have seen thus far, is it fair to assume that 20% goal is perhaps closer to three years or sooner? Any update there would be helpful.

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think EBITDA is growing faster than we had originally expected, and that is why we're taking our guidance up. When you look at the midpoint of the range, I think it is $17 million over what we had originally given as guidance. And if you include what has gone into disc ops, it is like $23 million over what we had originally given.

We are on a really good trend. I still think the 20% target is the appropriate target, three years or so post-close. We will take another look at that, because we're growing faster at this point.

And when we give 2017 guidance we will give you a better impact of that. All in all, we're all very pleased with that. The primary benefit of an increasing this -- the primary way you get there is increasing sales performance and have greater than anticipated cost synergies and getting them quicker.

So we have to anticipate if we're going to have greater than anticipated cost synergy. We know we get them in quicker now that we had anticipated. Additionally, there is some timing that has helped us this year, that may play out differently in the years ahead but obviously overall a very good trend for us.

Kaila Krum - *William Blair & Company - Analyst*

Another on the litigation side? Can you give us a sense for your level of confidence that the $190 million is worst-case scenario? And then I know that timing is obviously tough, but any clarity around steps that need to be completed now prior to global settlement?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

What was the first part of that, Kaila, I'm sorry I missed it.

Kaila Krum - *William Blair & Company - Analyst*

If you can give us a sense for your level of confidence that $198 million is the worst case scenario?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

That is the range. Our point of view is that we should be within that range. You never have a deal until you have a deal, so I'm reluctant to say that is a slam dunk or anything else.

But that is why we're saying it the way we are, is that we have a range, we are accruing reserve at the bottom end of the range, but I think that looks pretty good.

Kaila Krum - *William Blair & Company - Analyst*

Then just again, if you can give us any clarity around the steps that have to be completed prior to global settlement?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Thank you, Kaila, I cannot comment. There is ongoing negotiations and as I have always said it is complex, there are many plaintiffs, many law firms and there are a subgroup of lead law firms and all this is very complicated. But the progress we have made in Q2 is meaningful.

Operator

Larry Biegelsen, Wells Fargo.

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

Lance, I wanted to drill down on the sales guidance? IR had the second half implied growth is 6% to 9% -- I think you did 14% in the first half? Can you give us a little bit of color around, do you expect Q3, Q4 to look similar?

What gets weaker in the second half of the first half? I assume it is upper, given the integration? And if you do grow 6% to 9% in the second half of the year, what gives you the confidence you will be growing at mid teens rate again in 2017?

I think you said you would grow to mid teen rate once fully integrated, and I think you said on this call the integration would be complete by the end of 2016.

Lance Berry - *Wright Medical Group NV - CFO*

Larry, first of all, starting backwards if you look into 2017, what we have always said is, grow mid teens excluding dissynergies. And you really have to annualize out those dissynergies before you totally see the mid teens growth rate. So in the first half of the year we have had -- in Q1 we had fairly minimal dissynergies.

In Q2 we did see dissynergies but we still were able to grow in the mid teens. So I think that is some strong evidence that without a big headwind from dissynergies, that is the kind of trajectory the business is on. But we will see a much bigger impact from dissynergies in the second half and that will be a drag until we can annualize out of those.

That is one thing, if you look first half to second half. The other thing is we do annualize launch of AUGMENT in Q4 that will impact the biologics growth rate some. And then as it is right now, our guidance is for a little bit of currency headwind in the second half.

There is a little bit of cushion in the guidance, but that is another factor as well. You add all of those things up and that gets into the difference between the first half and the second half.

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

Lance, just a couple of follow ups on that? Do you still expect mid teens, I'm sorry, dissynergies in 2017? And then my question on upper versus lower, is it really the upper which was really strong this quarter that you expect to slow a little bit in the second half because of the integration? Just those two questions.

Lance Berry - *Wright Medical Group NV - CFO*

I think definitely upper has not experienced really any dissynergies at this point, so we would expect to see some of that in the second half. If you lose business in the second half of the year, that is a drag on your growth rate until you have annualized the loss of that business. Which should be the second half of next year.

We don't necessarily expect to see additional dissynergies in meeting additional loss of business in 2017, but it is until you annualize the hit it does impact your growth rate.

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

Lastly for me -- the FX cushion? I think it was about $10 million, you said on the Q1 call? Is there still about a $10 million cushion in the 2016 guidance?

Lance Berry - *Wright Medical Group NV - CFO*

The $10 million is more like on the Q4 call. I think Q1 we said slightly less than 1% and I would say at this point the cushion is less than 0.5%.

Operator

Raj Denhoy, Jefferies.

Raj Denhoy - *Jefferies LLC - Analyst*

Larry deviated from the pattern of the litigation question and another one so I will go back to that. On the litigation, the one thing that you noted in here, is that you are still in discussions, or you are having mediation discussions with the plaintiffs? I think we you described previously is that the plaintiffs have yet to really coalesce into a group?

This is maybe a couple of months ago so sounds like maybe that has progressed? Given that you are still in discussions with them, how to get comfortable with that bound of $198 million on the upper end?

Lance Berry - *Wright Medical Group NV - CFO*

Raj, this gets into getting into details of the negotiations. I would say we have been involved in formal mediation with the plaintiffs and based on that mediation and the agreement in principle with three of the insurance carriers, we were comfortable in developing this range. And really I cannot get into any more details than that.

Raj Denhoy - *Jefferies LLC - Analyst*

On the lower extremities the dissynergies that you are seeing now? The growth in the US clearly fell off, but I am curious, how quickly you can reverse that? Is this something that we simply have to anniversary it out over the span of a year?

Are there things you can do now that you realize where the dissynergies would develop in the sense of the sales people that would leave, and what pockets might develop? Is that something you can address sooner than having to anniversary it?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think what happens, Raj, is that when you lose reps, or groups of reps or distributors is that you take a hit right away, but then you have the opportunity to go back and try to gain those customers back again. It is not that necessarily that you have a loss of customers as much as you have a disruption in your distribution channel. That can be corrected and should be corrected as you go forward.

We have seen that where we try to bring a distributor over, or we did bring a distributor over, and then later they changed their mind and went out on their own and with some other company. By the way we don't usually lose distributors to major companies, they usually go to some people I have never heard of, but they take a certain amount of revenue with them. There always is the opportunity to go back and get that, and I think that we will aggressively be doing that.

As we develop our plans, we think that our lower extremity business should be able to get back to that growth rate that we have had. Our new products will help it, but our core products, also, once we get through this dissynergies thing. I always look at the synergies as something that is going to have an impact for a period of time.

It is hard to say how long that period of time is but we still think that we have the bag of products that are superior. We have the most full bag and the most superior products that we should be able to get a lot of these actual surgeries back over time. Its a little bit of disruption it is playing out pretty much how like we thought.

We took a lot of, there was a lot of discussion on our last call, maybe the call before that, we did not see that many dissynergies, thinking this was going to be a lot less. And we kept on cautioning people to understand that we have been here before, when we did the hip and knee business. It plays out over time and you cannot underestimate it because these folks, these particular distributors are independent business people to a large extent.

Do what is best for them. And if they think giving up the right line going with some other company's product line and giving them a lot more freedom than we give them because we try to control, that is what happens. But it is never, we never think we're going to lose this forever, and so we will see how it plays out.

But I do think we are committed to this goal of a mid teens growth company. We are there now and that all of our businesses are performing well and we have tremendous revenue growth in our new products. Our SALVATION, INFINITY, SIMPLICITI, AUGMENT, we're very confident about our outlook of the mid teens for the company.

Raj Denhoy - *Jefferies LLC - Analyst*

One follow-up related to that? The falloff we saw in growth from 11.6% to 6.3% US growth in lower extremities -- have we seen the worst of it? Or is there, one is -- but you think you have lost in all back now it gets better?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think in the third quarter you are going to see continued losses, but I would say this -- had we not had the dissynergies we would be strongly mid teens in our lower extremity business.

Operator

Mike Matson, Needham and Company.

Mike Matson - *Needham & Company - Analyst*

Just wondering if you can give us an update on total ankle penetration? Do you have any feel for where its at for the broader market?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I don't have any new, quantifiable, objective third-party information. But given that we are growing so strongly and I think a lot of other companies are reporting growth also, that penetration is picking up. When we started really focusing in on total ankle, it was less than 10% penetration of available cases and now, last time we took an objective look, it was over 15%.

So it has accelerated from that, Mike, but I do not have a precise number I am willing to put out there because we haven't -- what we usually do is contract with outside parties to do these kinds of service and we have not done that in the last 90 days or so.

Mike Matson - *Needham & Company - Analyst*

Obviously, AUGMENT is doing really well? You mentioned you're opening a number of new accounts? So wondering to what degree this is enabling pull-throughs-slash-market share gains with your lower extremity hardware products?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

There has been a significant number of sales of AUGMENT into accounts that we had never done business with before. In those accounts, we also are able to now see some pull-through of other products. I think this is something that should accelerate over time, but we're really into it.

We've only had AUGMENT on the market three quarters now but we are starting to see, have some success around that. We think that is a meaningful part of our go-forward strategy.

Operator

Matt Miksic, UBS.

Matt Miksic - *UBS - Analyst*

Bob, one follow-up on your comment on EBITDA? Very strong result in the quarter, but you talked about some of the benefit there coming from getting faster-than-expected cost synergies or cost benefit, and obviously some of it driven by the strong top line? But I'd love to get a sense of -- you said it changed a little bit but how much of that is driven more by better-than-expected integration process, maybe, and how much is sustainable in terms of that strength?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think it is a good mix of both. Most of it I believe, and Lance can pop in, comes from over performance in the revenue line. That is what drives a lot of it.

Without strong revenue, we just wouldn't get the EBITDA that we have gotten. But the synergy, the cost synergy is coming in quicker helps us, but that is somewhat timing -- there is some timing involved in that. But I don't know whether it is 50-50 but I still think the most meaningful part comes from revenue.

Lance Berry - *Wright Medical Group NV - CFO*

The follow up on that, Matt, if you go back to our original guidance, back in February and you exclude the negative impact of moving large joints to disc ops, we moved our EBITDA guidance up by about $23 million. And we noted on the call that our original expectation for cost synergies in 2016 was in the $10 million to $15 million range. And right now we're trending more towards the $20 million range.

That will give you some sense of magnitude on cost synergies versus other things -- in particular sales over performance and leverage driving increased EBITDA. As Bob said, some of that is timing so we were able to execute better and get those cost synergies into the model sooner which helps calendar year 2016. Were not ready to commit to any difference on our longer-term goal of $40 million to $45 million of cost synergies by year three, but obviously getting the cost savings into the model sooner is great.

Matt Miksic - *UBS - Analyst*

The other follow up on one of the topics that has come up a couple of times here is dissynergies -- coming in the back half are upper extremities and I would love to get a sense of what is driving that? I know we have not seen any yet, and I know you have dealt them in, but give us some color if you would as to how that plays out in upper?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

It will play out the same way pretty much it did in lower, although there is a little bit less risk, I believe, in upper than there was in lower. Lower, when we looked at our total pie of dissynergies, the majority of it came from lower. Because in the upper extremity business, it is really a current right lower extremity rep, handing off the business to a legacy Tornier upper extremity rep that already has a business in that area and will be able to focus on upper extremity.

So I think is much less risky and there's also less dollars involved. The upper extremity, the risk, I believe, in upper extremity was about $20 million in total. And it was more than double that in lower extremity. The upper extremity dissynergies, just by size of the business and the nature of the two sales forces should be less than the lower extremity.

Matt Miksic - *UBS - Analyst*

Just to clarify you are just saying that should, could come in the back half because that is what you planned for the year, but it just hasn't happened yet?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

We haven't really executed the upper extremity integration yet. That is in the last half. We have fully executed the lower extremity integration.

Matt Miksic - *UBS - Analyst*

Wouldn't be part of the team if I didn't ask a follow-up question on litigation, but I hope it is an easy one. I want to make sure I understand this reserve is cumulative? Or does that include other things that were reserved before around this?

I thought you had taken a reserve earlier on? If you could give us the total number of there is one, or if there are two separate numbers?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

To this point we have not had a reserve for our metal-on-metal hip litigation. So we've had lots of disclosures, we've not had an actual reserve. The $150 million low end of the range that we disclosed today is what we accrued, and that is really our first accrual absent any one-off specific case reserves that we would have that we've booked for metal-on-metal.

Matt Miksic - *UBS - Analyst*

If I could squeeze in one more on this subject, the market, as you look at integration you talked about losing reps and backfilling reps, I believe. Can you give us a sense of -- we talked a lot about integration, but how much new reps are you bringing in, if any? Or is that just not on the table now? Maybe what the competitive market for reps in upper and lower look like right now?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think there have been, particularly in the lower extremity business, a very low turnover of reps and that has been pretty solid for a period of time. In upper, there has been a little bit more, as there has been a lot more change in that business, but it is all working very well as you can see. We had 20% growth in shoulder in the US, 17% growth in upper extremities in total.

Although there has been some turnover, they are executing extremely well.

Matt Miksic - *UBS - Analyst*

Adding at this point, or no need?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think the size of our sales force, in both upper and lower are pretty well set. So I wouldn't think we are adding additional reps. With the size of our salesforce, a couple of hundred people, there is normal turnover and change that happens for a whole variety of reasons but in total the numbers are going to be pretty much the way it is.

Operator

Jason Bednar, Robert W Baird.

Jason Bednar - *Robert W. Baird & Co. - Analyst*

Most have been answered already but a couple of one-off product-related questions from us. First, its been a couple of quarters since we heard you talk about invision? I know it can be somewhat small because revision ankle, but any update on that system and the timeline or expect to launch details of that product?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

The product is in position preference testing in the second half of this year, we expect to launch in Q1 of 2017. As you alluded to, Jason, we don't see this as a big dollar volume product. But we do see it as driving conversion to total ankle, as it does give doctors a true revision system.

And a lot of them are reluctant to do total ankle because they don't have a revision system. So we think it is a meaningful product in totality, and would be very happy to get it on the market and we feel pretty confident of our timeline of beginning of 2017.

Jason Bednar - *Robert W. Baird & Co. - Analyst*

One other one from us here -- I know you mentioned SALVATION off to a good start here? Wondering if there's any way to quantify the impact? Or what kind of qualitative feedback you're getting?

Just trying to understand where we are here in early stages of uptake of that system.

Bob Palmisano - *Wright Medical Group NV - President & CEO*

SALVATION is going gang busters. Reps love it, its high commission, there's very little pricing pushback because of what it does and how it helps people as a last resort. Its a big market, a market that is big as what total ankle was when we started, so it is a big opportunity.

Jason, while I got you, Julie is telling me that I made a mistake on the launch for Invision -- she said its now Q3 rather than Q1 of 2017. I just want to clarify that.

Operator

Glenn Novarro, RBC Capital Markets.

Glenn Novarro - *RBC Capital Markets - Analyst*

I do have to ask my question on litigation. We've done a lot of work, we've written a lot of research on this. And one of the things when you are trying to calculate, ultimately, what the settlement will be, you've got to make an assumption as to how many of the claimants have actually come back for a revision?

Can you share with us your assumptions as to the number of percentage of patients that will actually come back for revisions?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

No, I cannot. Sorry. It really gets to the core of the negotiations.

Glenn Novarro - *RBC Capital Markets - Analyst*

Let me ask a follow up on AUGMENT. Part of the success of AUGMENT right now is opening up new hospitals, new surgeons and so forth. I'm wondering, Bob, if you can give us some data points as to how some of the early adopters are using AUGMENT?

Have they gone from using it once a week to twice a week? Are the reorder rates like 99%? Just anything you can give us in terms of data points that tell us some of the early users have been strong adopters.

And we can continue to see this pace as new people come on board? And then as a follow-up, AUGMENT has an extremely high gross margin. I know you're not going to give me the gross margin, but can you say is it already starting to contribute to the slightly higher gross margins for the Company?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

AUGMENT does contribute positively to the gross margins of the company. Regarding some data points, the normal sequence of events is doctors, the early adopters, like I guess any doctors -- is what they tend to do is they use the product in a couple of cases and then they wait for the first signs of healing. They usually do scans 6 to 8 weeks out -- so in that 6 to 8 week period, they are not doing many cases or any cases.

They're waiting to see how it performs. Then, once they get the results back, then they become -- we call doctors. They do not use it in all cases.

It is very patient specific and sometimes there's a discussion whether it is appropriate or not and what we think is appropriate, and we can work with the doctor, we do those cases. But that is the kind of normal sequence, is that once a doctor does a couple cases, waits a period of time, gets the results, then they adopt the product and use it on what they would consider all appropriate cases.

I do think that if we ever do decide on an injectable that will aid the appropriate cases because the product will be easier to use in some cases than it is currently. I would also say that the results from any measure that we have, has exceeded everyone's expectations. So we expect this to continue to grow.

The leading indicators are always going to be number of physicians trained and bat committee approvals. Then you get, then you start seeing guys doing a couple of cases, waiting their 6 to 8 weeks and then doing more. The original guys now -- doctors, men and women are doing these procedures -- are now adopting for the cases that are appropriate in their eyes to use AUGMENT on. And that is what they're doing, but it is not 100% of these cases or will never be that, but it is a good portion of them.

Glenn Novarro - *RBC Capital Markets - Analyst*

But you are seeing high satisfaction rates, extremely high reorder rates, and I guess from some of the early users, utilization increase quarter after quarter.

Bob Palmisano - *Wright Medical Group NV - President & CEO*

We're seeing very high satisfaction rates, absolutely. I do not know and I'm not saying there aren't any, I don't know of any physician that has stopped using it and has said I'm not going to use it. I've used it, but -- I have seen just the opposite -- people have been very enthusiastic about continuing to use it.

Glenn Novarro - *RBC Capital Markets - Analyst*

Just to clarify, my question on the gross margin from AUGMENT? I know its a high gross margin product for you -- I know it will be a big contributor down the road? My question was, is it already starting to contribute? Is it already becoming a source of gross margin?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think it is slightly, but it is really too small. All of our new products have gross margins above the norm of the Company, which is pretty good at 78.5%. INFINITY is a strong gross margin product, SIMPLICITI is a great gross margin product and that is why new, differentiated products are so important and we put such a high regard on them because you don't get those pricing pressures that you have on more the commodity-type products.

That is really underlies the strategy we have about these things, is want to have highly differentiated products that are needed in the marketplace that we have the ability to make at reasonable cost and have high gross margins out of it. Our gross margins are pretty strong and I'm really proud of that, but I do also think that it has to do with product mix to some extent. It has to do with how we book reserves for inventory write-offs and things like that. But also I think we're pretty efficient manufacturing and have good, good standard cross programs that produce gross margins as well.

Operator

Chris Pasquale, Guggenheim.

Chris Pasquale - *JPMorgan - Analyst*

One question on upper extremities, which was a nice surprise again this quarter? What has changed over the past few quarters to drive the acceleration there? Is SIMPLICITI having a halo effect on the rest of the business? Or are you seeing some other benefit from having the legacy Tornier product portfolio under the right umbrella?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I do think that both parts of that business are doing well -- when I say both parts I'm talking about the anatomical as well as the reverse shoulder. ASCEND FLEX is doing real well. SIMPLICITI is really a gang busters kind of a product and the ASPs are significantly higher on SIMPLICITI -- so the ASPs are about 60% higher than they are on ASCEND.

As we were able to -- in some ways it is cannibalizing some products, but in some ways its into new markets, particularly younger patients with the short stem design. So I think the acceleration is both on the ASCEND product and moving -- in the US, most of the shoulder replacements are anatomic as opposed to reverse. Internationally, it is just the opposite.

But we think -- we're predicting over time that the US market will eventually more mirror the international market and more will be reversed. We are benefiting from all of those different dynamics right now.

Chris Pasquale - *JPMorgan - Analyst*

Following up on the dissynergy comments, I apologize if I missed this, but what do you estimate the lower extremities business grew this quarter excluding the impact of dissynergies?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I think it is probably in double digits, Chris.

Chris Pasquale - *JPMorgan - Analyst*

Last year was on a mid teens growth -- you don't think that is changed all that much?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Maybe slightly, but I still think it is in that area.

Operator

Travis Steed, Bank of America.

Travis Steed - *BofA Merrill Lynch - Analyst*

Wanted to follow up on AUGMENT? Having a really good uptake in doctor training, and continue to get the back approvals at a good rate -- just curious is there any difference in utilization between some of the early adopters that started adopting AUGMENT last year, versus some of the newer adopters over the last quarter?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Nothing significant. It is a pretty straightforward product to use and these guys adapt pretty quickly, so I would say that it is pretty similar of what we saw in the early adopters and late last year, early this year versus what we're seeing now -- it is pretty similar.

Travis Steed - *BofA Merrill Lynch - Analyst*

Just wanted to follow up on -- has there been any competitive response? How are your competitors responding? Surgeons not to use AUGMENT?

And also do you think the reason that you're not seeing quite as big of an uptake in AUGMENT is because you are holding on price? Is price something that is not really a factor once you get to the analysis committee?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

I cannot say price is not a factor but we have been able to hold price and still grow very significantly. When you certainly get into value analysis committees they are very concerned with price and they are not used to seeing a lot of products come through with the level I PMA data that we have, so takes an educational process to get them there. I would -- my point is that AUGMENT is on a great trajectory, its certainly meeting our expectations.

We look forward to the second part of the are particularly as we get through the summer months, which are usually pretty slow. And then to see a reacceleration of AUGMENT later in the year. But I am very pleased with the way this is going -- I guess I would put it that way.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

I apologize, I've been jumping in between calls -- if this has been asked. It sounds like at the beginning of this presentation you talked about international sales overall being strong in Europe, Canada and Australia but somewhat slower in Asia and Latin America? Is there anything to read into that or is it product related?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

No, what happened -- in Latin America and Asia, those sales were chunky, I would put it that way. And those are stocking distributor markets, so you have to get all the way through the distribution channel to have visibility to what the sell through is. That can vary from quarter to quarter by a lot.

In our direct markets in international we have done very well, particularly UK, Australia, Canada, and that is where we make decent margins and have good growth opportunities. But the stocking distributor markets are always going to be a bit chunky.

Joanne Wuensch - *BMO Capital Markets - Analyst*

If you step back and take a look at the competitive landscape, I think you talked about the foot and ankle landscape, but if we look at shoulders, how has that changed over the last couple of years -- or last couple of months for that matter?

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Not much. I think shoulders is a more mature market than is foot and ankle. I would say using the old baseball analogy is probably mid innings and foot and ankle is early innings. There are a lot of shoulders out there -- it is a very competitive market.

Having lead products, having SIMPLICITI out there, well ahead of competitors is a huge advantage. And the products tend to be pretty sticky, so we think we will be able to keep that up. But we do say in 2017, most likely there will be other short stem or stemless products on the market. But we have a strong head of steam and I think we will continue to see abnormally high growth rates.

Operator

That does conclude today's Q&A portion of the call. I'd like to turn call back over to Bob Palmisano for any closing remarks.

Bob Palmisano - *Wright Medical Group NV - President & CEO*

Thank you operator, and thank all of you for joining us today. We have multiple opportunities through our robust new product pipeline to further accelerate our growth, continue to expand our markets and gain market share. With the execution of integration plans off to a positive and productive start, we're now well positioned to continue to accelerate our business momentum and drive market-leading growth and profitability.

I want to reiterate my excitement for the bright future that I believe is ahead for our company, and express my appreciation to our team for their efforts during the second quarter. I look forward to updating you on our next 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. You may all disconnect. Everyone have a great day.
