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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

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

All right. Good morning, everybody. I'm Matt O'Brien from Piper Jaffray; I cover med tech here. Very, very excited and pleased to have the management team from Wright Medical with us. Bob Palmisano, CEO, and Julie Tracy, the VP of Communications and IR.

So I think we will just go ahead and kick off with -- I think a lot of people focus on kind of the minutiae with your story. But I think just to back up and start with, it would be helpful to run through the key markets that you are focused on: upper and lower extremities. Why are those markets so attractive compared to hips, knees, trauma, spine, other categories within orthopedic?

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

Well, I have -- I participated in the hip and knee business and didn't think that was a good business for us to be in, given that we were a small player and up against giants. I have exited the hip and knee business twice. Once with Wright in the MicroPort transaction; then recently, when we divested our European hip and knee businesses to Corin. And therefore, we focused really on three markets: upper extremities, lower extremities, and biologics.

And the beauty of being in these markets are these are the highest growth markets in orthopedics. And these are markets where differentiation matters a lot still. We are in the early innings of these markets -- underpenetrated markets and we have leading positions in these markets. So therefore, we can put together a story that we can be a midteens growth company, which I think is quite unique in orthopedics.

Secondly, be a very high margin company. Our margins are in the high 70s%. Again, which is unique in orthopedics, but it has to do, again, with the market still being immature to some extent and accepting a lot of differentiation in products that you don't get under the same pricing pressures you are under when you are in hip and knee or spine or those very mature market.

And the third leg of our stool is biologics. And biologics are a terrific business in that we have a whole cadre products, the most notable being AUGMENT, which is a PMA-improved bone graft product for hind foot and ankle fusions that -- and that has had a great effect on our total biologics business. And that is our largest growth business right now is biologics.

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

So just to focus in a little bit on that commentary, when you say early stages, I think it's difficult for a lot of people to wrap their minds around what that means. So you can look and see there is 800,000, 1 million knees done a year. Same thing on the hip side of things. When you talk about the penetration opportunity in ankle and shoulder, how do we think about [the alternate] --

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

There are approximately somewhere in the neighborhood of 100-plus -- 100,000 or so, give or take, foot fusions a year. And currently, 15%-ish of those are total ankle replacement.

We made a big bet on total ankle replacement several years ago based upon a lot of feedback we got from customers to make our products easier to use. And if they were easier to use, there would be more total ankle replacements done than fusions. And the benefit of this is that fusion -- the products are pretty much more commoditized. They are more like hips and knees; they behave more like hips and knees.

Total ankles don't. Total ankles are very technology driven. They're driven by ease-of-use of the surgeon. In our particular case are driven by having an enabling technology called PROPHECY, which is used in about 70% of our total ankle cases. That makes the case that the physician is working on much easier to predict, easier to use. From the inventory planning perspective, makes it easier for us.

So -- and that's growing. When we started out on this, total ankles were 5%. Now they are probably 15%. And this is the fastest-growing piece. And we have the leading positions with our implants. And then having the enabling technology, which other companies don't, give us really kind of a competitive advantage. So we are really focused on that.

And the same thing in upper extremities, where we develop great products, for example. We launched SIMPLICITI, which is a short stem/stemless shoulder. Opens up the market for younger patients. And at the same time are looking at how we make this easier for the physician to implant and to deal with. And so we have enabling technologies that we are developing with that also.

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

Got it. So let's stay in ankles a little bit. You've got INFINITY there. PROPHECY is coming. Just talk about --

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

PROPHECY is here.

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

I'm sorry, PROPHECY is here. Just recently; I'm sorry.

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

INVISION maybe you are talking about.

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

Got it. Yes, okay. So -- it's hard to keep up with all the technologies that are coming out. But you've got some others that are in the space. How successful are they being in terms of preventing you from taking that new surgeon?

And then what about -- you had to divest an ankle to one of your competitors now. And how successful are you being in maybe recapturing some of those physicians. How long would it take to maybe get back those --

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

We continue to gain share. We are growing more than double the market. So we are further penetrating and taking share. There is -- probably not a day goes by that I don't get an email or -- on our internal communications of a doctor that they've converted from a competitor to being an INFINITY user. So I think that we are in really good stead.

Our implant is easier to use and we have enabling technology. Our competitors -- although some of them have developed new products; I think Integra has developed one. I haven't seen it in use yet. But they don't have an enabling technology that we have.

So I think that our whole strategy around total ankle replacement is great implants, easy-to-use, surrounded by enabling technology. Surrounded that with great medical education and a very productive sales force makes us kind of unique. That's why we are growing double the market.

So these are very attractive markets. People are going to gravitate towards them. Big competitors are going to gravitate towards them. But I think our position in them of what we have currently and what we have in the pipeline will keep us out in front of competitors for quite a while.

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

Okay. And so when you say -- we are going to get to bigger numbers and you can't keep doubling the market. But can you keep doubling the market for the next couple of years? Or do we see that [dip in arrow] next year?

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

Well, I don't know for how long. But we were growing -- a year ago, we were growing at 40% or so in total ankle. So that -- now we are in the 20s% -- around 20%. So I think --

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

Law of large numbers come in [on that].

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

So I think that growth will slow down, but it's still very underpenetrated. There's still a lot of opportunity here. You have physicians that have -- that do fusions rather than total ankles with patients that are appropriate for a total ankles.

We now have a product that we've talked about coming into the market next year called INVISION, which is a true revision product. This will give doctors that don't do a lot of total ankles the ability and certainly the confidence that they will undertake these cases. Because if something does go wrong, they now have a bailout option, which they didn't have before.

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

Got it. So sticking on that a little bit, I think you said Q3 of next year for INVISION. How --

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

It's launched in Europe now, but it's being launched in the US Q3.

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

So today, if one of your docs is using your -- call it INFINITY for primary and then they have to do a revision case, they're going to a competitor. Is there any way to --

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

They are usually going to an in-bone.

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

An in-bone. Okay, so their own in-bone.

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

Our in-bone ankle, yes.

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

So then what kind of benefit are you going to get from INVISION then? Is it going to be more opening up new docs or --

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

Yes, it's going to be that and competitive docs. INVISION itself is not going to be a huge product. Again, it's an enabling product in that it's a -- it's not the primary implant, it is the implant that people use when the original implant needs to be revised.

And in Europe, where the product is launched, we are revising a lot of products. Most of them not right products. Most of them are competitors' products that we are using INVISION to revise. It's still the only product on the market there -- the leading product on the market now in terms of revisions.

So I think it's going to help that, and it's also again, as I said before, it's going to help doctors that don't do a lot have more confidence in doing total ankles. Because if the patient is younger, and then in 20 years from now, it's going to need a revision, they are going to know that they have products that they can use.

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

Wow, your ankles are lasting 20 years now. That's quite an improvement

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

Maybe. (laughter)

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

So switching gears a little bit on the upper extremity side with SIMPLICITI, it's been obviously a huge contributor. What kind of runway do we have left with that product?

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

Well, it's a lot. Again, we have probably -- no competitor has launched a stemless or short stem product yet. They will. I don't know exactly what -- probably sometime in 2017, maybe 2018. But I also think that the -- so there's a lot of runway left in the anatomic end of the market.

But the growing part of the market and where we are going in shoulders is more reversed. And so that -- we will have to be on top of that also with short stem designs in the future. So as we look at our R&D pipeline, those are the kinds of things that we are focused on is fully exploiting the anatomic short stem, but then being able to introduce that over time.

And I'm not going to commit to the exact timing as to having reversed products in short stem and stemless --

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

Okay, so you don't want to talk too much on timing. But is that something that by the end of the decade we should think about?

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

Yes, I would think by the end of the decade.

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

Okay. Good. That's good to hear. Okay. And then as far as SIMPLICITI goes, are you still getting premium pricing for that product?

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

Yes. SIMPLICITI has three advantages. First of all, again, we can treat younger patients because it uses less bone than the long stem design. Secondly, it helps us with taking competitive patients -- doctors because they don't have this available to them with their current companies that they are doing business with and they can get it from us. So we are able to gain new customers.

Secondly, it does cannibalize our business to some extent also, but the ASPs are 60% higher. So we are happy to have that count. So it benefits us in really three ways.

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

Got it, okay. So I think you've talked a little bit about dissynergies from the Tornier integration. And it seems like you are saying at this point the lower extremity dissynergies are behind you. You're done with that. Is that fair? Is there any risk [of bleeding] --

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

Other than the anniversarying of them, yes. We said when we set out that we would have about $25 million to $30 million in dissynergies as a result of this merger. And that we thought in the first year we would have $20 million to $25 million or something like that in it, and it's going to be less than that. It's going to be probably in the $15 million area, but we will get the rest of them next year as we anniversary the dissynergies.

Lower got done faster. Upper actually got done faster, too, but it's more second-half loaded. And there is less money involved in upper, but we set out -- we said that most dissynergies are going to hit in third and fourth quarter. And that's what we've seen. But we are still better than we thought we were going to be at the beginning of the year.

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

Yes. So what were some of those biggest dissynergies that you saw? Was it reps? Was it surgeons?

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

It was reps and distributors. It was where Tornier had a lower extremity business, Wright have a lower extremity business, and so those overlapped in a lot of areas. And mostly the right lower extremity sales force was direct and most of the -- just about all of the Tornier lower extremity business was distributors.

So as we looked at how we were going to go into the future, generally we chose in the lower extremity to be more direct. And therefore, the distributors that had accounts in that same area left and went to a competitor and took business with them and physicians that they had relationships with them. So that when you lose the rep or the distributor, lots of times the physician follows.

Now we have an opportunity to get them back, and we have gotten a lot of them back based upon the technology that we have in lower extremity. But that's the source of dissynergies: when you have overlapping territories, someone leaves, someone stays, and you have this gap in between.

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

Got it. Okay. So just I'll pause real quick, see if there's any questions from the audience. Go right ahead, please.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

So for the webcast, I will repeat the question. Just any M&A strategy going forward?

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

I would say we are not active in that right now. We've gone through a lot in the last couple of years. Not only the divestiture of our hip and knee business, the merger with Tornier, now the divestiture of the other hip and knee business that we acquire is a lot.

And that's gone very well, the putting these two companies together. We have a full complement of products on a hardware -- particularly on hardware in that there is nothing that -- someone is saying that we need to have this, we need to have that. We don't have any of that. We have a full complement of products.

But we are -- if we were to do things, it would be more in the area of I think biologics. And we don't have anything pending. I guarantee you there is nothing out there that we are looking at right now. But that's an area -- I would like to have a company -- and I say this all the time. I would like to have a company that's a third upper, a third lower, a third biologics at some point.

And we have a good biologics business. Our biologics business is growing 40% area. It will slow down a little bit next year as we anniversary a lot of AUGMENT, but the benefits of this are terrific -- of having more biologics business than hardware. But getting that mix more equal would be very beneficial for us.

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

Okay, let's switch gears once more to AUGMENT. Looking at the October data that came out, it looked like the per day number was probably the lowest of the year. First of all, is our math right there? And then secondly, how is it going with the value-added committees?

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

Yes, I don't know. I don't follow it month to month and I don't think anybody should read into that month-to-month number. Out of all, I think AUGMENT is going terrifically well.

But there are three things to think about AUGMENT. A couple of leading indicators. Value analysis committee: a leading indicator. We are currently getting about one approval per working day on value analysis committees for AUGMENT. And we have gotten that all year long, except for the period of July and August when value analysis committees don't meet. So that's a leading indicator, and that's terrific.

Secondly, medical education is that we are quote unquote sold out on most of our medical education events regarding biologics and AUGMENT. And AUGMENT has had a great halo effect on our total biologics business also, I would say.

And thirdly, the other thing is clinical results. Clinical results have been outstanding. Just outstanding. And so doctors that use AUGMENT are generally repeat customers over and over again now. And have seen great benefits to adding AUGMENT into their hind foot and ankle fusion cases.

So we think those three areas -- and I particularly -- I would particularly say is that clinical results are what's going to drive this product into the future. And clinical results have been universally meeting or exceeding expectations. And we track that.

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

Okay. So as we think about 2017, and I know you don't want to get into guidance too much today, but I'm going to ask the question anyway. You are modeling 11% -- or the Street is modeling 11% growth for next year. You're doing that this year even with the dissynergies that you are running into.

AUGMENT should see more momentum next year. Why should the Street be modeling a similar type of a growth rate for next year as those dissynergies go away?

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

Well, again, we are not giving guidance, but I do think the trajectory in 2017 would be similar to 2016. If you take out dissynergies, I would think it look pretty same (sic).

I think that AUGMENT will continue to grow, but on a growth basis would be less because this was the first year of introduction, so you have that dynamic in place. But I do think that we will be -- we have said that X dissynergies, we are a midteens growth company. I think that's where we are. That's what we plan to be, and so I don't -- I think we should be similar in 2017.

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

Okay. So --

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

We had said $10 million slight headwind in 2017. But then you also have to factor in there's another $3 million to $4 million of a potential Salto international --

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

That's right.

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

Got it, okay.

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

Right. The ankle business that they have an option on to acquire. So there's basically about the same amount of headwind next year as there was this year.

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

About $15 million roughly? Okay. That's fair. I can't wait to get to this point next year and not have to ask you this question, God willing. Let's just talk about the whole hip litigation thing, where we sit.

And I think -- just if you can frame it up for folks at this point. You've got a settlement in place that covers roughly 95% of the revision cases that are outstanding

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

85%.

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

85%. But I thought that was a 95% opt-in?

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

It's 95% opt in of the --

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

Of the 85%?

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

Yes.

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

Okay.

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

Of the cases that -- of the 1,200 or so cases that we have settled.

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

That's the opt-in rate, yes.

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

Got it. And that payout is [that] as it is, it doesn't include potentially three other insurance companies. I'm sure we will get some kind of visibility on that sometime next year. But then how do we think about the remaining 15% of those cases? Is it going to be case-by-case, so they'll come in --

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

There's a couple of things. We -- as part of the overall settlement, we didn't settle any cases that were not revised. And that is fairly similar to what other companies did. Secondly, we didn't settle cases that had statute of limitations issues.

And thirdly, we didn't settle cases that have been over eight years. The revision took place after eight years of implant, which are, again, fairly similar. So those cases are still out there.

And secondly -- and also, there are some cases that are not part of the master agreement -- what's called the MDL -- that are progressing in state court. As a matter fact, we recently won one of those in Missouri a week or two ago, which was great for us. But -- so there are cases out there, but the settlement includes, as you said, 85% of the revised cases. And that's the big chunk of money.

And the rest of it -- statute of limitation cases. Some of them are really clear. Some of them, there is some question about. But generally speaking, we are not going to settle those the same -- anywhere near the same amounts that we settled the other cases.

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

In eight-plus years. We view those that weren't covered very differently than the ones that were in the settlement.

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

Okay. What's the difference there between what's --

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

One is eight-plus years of implants. [I'll let Bob take the others] statute of limitations.

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

What the issue is metal ion, and generally that happens soon after the surgery. It doesn't take eight years. And so most companies that have settled these cases haven't settled cases that have been out that far.

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

So is it fair to think that that extra 15% may not be that big of a potential liability?

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

It's hard to say. I don't want to characterize it, but I do think that we haven't settled with three of the insurance carriers. And we are confident that there will be more funds coming in.

So we are not -- we think that we are in a good place compared to -- we are really in a good place having this settlement done at the amounts that we had. It's not pleasant. It's not -- you know, it's $240 million, of which $180 million is ours. It's not pleasant, but it's a -- I think mostly in the rearview mirror now.

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

Got it. Okay. And then we probably have time for one more question. As far as profitability goes, you have been very clear: get to 20% EBITDA margins 3 to 4 years post and to do about 7% this year on the EBITDA side. How do we think about the progression to 20%? Is it linear or step functions? What are some of the drivers there?

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

Well, I think there's two areas. First of all, it's achieving the cost synergy number. And the quicker we do that, the better. We have laid out $40 million to $45 million in core synergies. By the end of this year, we will have about $25 million of that done and the remaining over the next 2 years. And the quicker we get that done, the more step function you have in terms of it.

And the other piece of that is leverage, is that the reason that -- we about -- I think we are at $20 million, $25 million over our forecast this year in EBITDA. And about half of that coming from synergies and about half of that coming from leverage.

And I think that we will attempt to keep our cost basis growing at inflationary kinds of rates and getting the leverage that we can get from the additional midteens growth area to flow down. So for us, it's pretty achievable to get to 20% EBITDA -- EBITDA margins in 3 to 4 years post the merger. So we are on track -- we are actually, we are ahead of schedule.

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

Yes. And it wasn't that long ago it was pretty negative. So we've made a lot of really good progress this year so far.

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

Got it. Very helpful. I think we're out of time, so really do appreciate you coming out and talking with us. Thanks so much.

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

Thank you.

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

Thanks, Matt.
