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WMGI - Wright Medical Group NV at JPMorgan Healthcare Conference- Q&A Session

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PRESENTATION

Andrew Hanover - *JPMorgan - Analyst*

(technical difficulty) can actually hear me. I just wanted to talk but your ability to look inside the business. And that seems to me to have improved, so your line of sight has improved. And since you have announced the transaction, you have kept all your three key objectives the same. So maybe just talk about the difference before and how that has changed from a line-of-sight perspective, how that has changed for you over time.

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

Well, yes. One of the things was we have -- when people ask me about how do we manage the Company or how do I manage it, I always come out and say I'm a data-driven guy. And maybe I'm not smart enough to be a gut-driven guy, but I'm a data-driven guy. And we collect tons of data, and our team is all aligned to that. So, we have tons of data. And even -- if the data is not good, then we know what we have to do. So whether it's good or bad, we go after the data.

One of the things that improved for me personally in this last year was getting much more knowledgeable about the upper extremity business. And I think that me being able to be more directly involved than I was at the beginning with the upper extremity business has helped, has helped me and has helped us design resources and allocate resources so that we are going after the most significant things. So, a lot of data that we've gathered.

Secondly is a more thorough and intimate understanding of the upper extremity side of the business than we had a year ago.

Andrew Hanover - *JPMorgan - Analyst*

And I just wanted to return to the third quarter really quickly, which was, I guess, in the eyes of the Street, it was a relatively in-line quarter. Right? And I think when I was at NAS, which is a completely different group than this, but I was talking to a lot of the management teams I used to work with, and they always said that when the Street gets really excited about the third quarter. Even though it's year-over-year, it's still seasonality. But on the same token, right, you have some impact from dis-synergies just in the overall business. Right? It looks like total ankle has decelerated a tad bit, just harder comps year-over-year. And I just wanted to get your view on the third quarter. Is it appropriate to extrapolate (multiple speakers) --

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

I actually thought we had a pretty good third quarter. There is a lot of seasonality in the third quarter, so you are dealing with lower numbers that little changes make more of a big difference, I think, so to get that. And I don't necessarily -- I can't deal with what Street thinks. So if there's a consensus and an average around things, I can't do -- what I can tell you is that our third quarter certainly met our internal objectives and was pretty good.

Our total ankle business, again, is very, very strong, I think, and is getting stronger all the time. So I don't think there were any cracks in the foundation at all that we saw in Q3. Q3 came in pretty much as we expected. It wasn't greatly over, so we didn't have that to crow about. But I think that the team performed very well in Q3.

Andrew Hanover - *JPMorgan - Analyst*

Can you just -- does anybody have any questions -- sorry.

Unidentified Audience Member

You said you are more deeply involved in the upper extremity business. What have you learned (technical difficulty) anything you have been trying to change?

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

Well, what we learned -- I can tell you I learned a couple of things that are really, I think, pretty important -- is that we have more of an opportunity in terms of launching new products that are currently in our pipeline than I had anticipated. So, what we've learned is let's accelerate those things. Let's move them up in our queue and put resources behind them. That's why we are launching PerFORM+ Reverse Q1/Q2 of this year. So that was scheduled to be later.

The second thing we learned is that our buyout portfolio, excluding AUGMENT, has real relevance to shoulder and upper extremity. So, we have now gone through a cross-training activity to get bio into the hands of our -- into our upper extremity reps.

And thirdly, although on the surface it looks like the productivity levels of our upper extremity reps are significantly less than our lower extremity reps, is that sales coverage is still not optimal. And so that we are now expanding the direct sales force and quota carrying reps in upper to fill those gaps. So, new products accelerated and also getting a bigger footprint in sales for things that we learned that I think will pay benefits.

Unidentified Audience Member

(inaudible) upper extremities?

Unidentified Company Representative

Excuse me? No; they are actually more heavily weighted to the lower, but some of them are upper. Even though the productivity levels are low, we still need to add some upper for coverage.

Unidentified Audience Member

So, out of the two-thirds of people that were like associates and then moved up, is that the bundle of people that were going to the upper extremities (multiple speakers) --

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

It's both. They have a group of associates that are moving up. There will also be some new hires. We are a pretty -- if you are an extremities rep in the US market, this is probably where you want to be, so just with the biggest product portfolio. So, we will be hiring some from outside, but most of the 85, two-thirds of them, are internal promotions.

Andrew Hanover - *JPMorgan - Analyst*

All right, so wins, how about -- talk about the synergies? Right, so minimal dis-synergies in the first half of this year, somewhat -- you are seeing more as we exit 2016. You will see some in 2017 plus some will go in the back half of 2017. So what would it take -- and you have a really good line of sight as far as like what the dollar is, and you feel very comfortable within the $5 million range that basically you have given, right? So 20% to 25% could be $5 million to $10 million. Right? So how do you get to the bottom end versus the top end of that? And just talk about the synergies of --

Unidentified Company Representative

Actually, this is an area where I think we have an excellent line of sight. First of all, I'd say this has played out -- you asked about the third quarter. I think the third quarter played out exactly like we told people it would for well in advance of the third quarter. And it's rolling out exactly the way we thought.

At this point, if you think about it, what creates a dis-synergy is you lose a customer. Right? I think we are pretty much done losing business at this point. Therefore, we have a very good line of sight to the number. It's not a $5 million range. It's going to be $15 million-ish in 2016, and it's going to be $10 million-ish in 2017. And the $10 million in 2017, what that comes from, really, is just a full-year impact of customers we lost in the second half of this year. So there's really not a lot left to try and predict and estimate at this point.

Our sales forces are integrated. They are off and running. And now it's about just growing the business from where we are now. We just have to annualize out of these customer losses, which will happen in the second half of next year, and then you will be able to see the true underlying growth rate.

Andrew Hanover - *JPMorgan - Analyst*

And Bob, is it -- I think, if I heard you right, you showed five out of the 30 products that you might be launching this year. Or was that an exaggeration? 30 products this year?

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

No, it is probably more than 30.

Andrew Hanover - *JPMorgan - Analyst*

More than 30? More geared half-and-half, upper or lower?

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

I think there's more volume extensions in lower, more new products in upper.

Andrew Hanover - *JPMorgan - Analyst*

Got it. Any other -- yes?

Unidentified Audience Member

Go back to AUGMENT. Is the value proposition (inaudible) is that a function of what you're finding on the value add, you are not getting pushback from value add or it has to be segmented to lower extremities (multiple stickers) --

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

AUGMENT is not approved for upper. It's just approved for lower extremity. So we don't intend to launch AUGMENT in upper anytime soon. But the opportunity in bio are our normal-court bio products that Wright has had for years, PRO-DENSE and products like that that have -- that are very appropriate uses in upper extremity that that sales force has not had use of prior to the merger.

Andrew Hanover - *JPMorgan - Analyst*

One last thing on the dis-synergies, was it primarily distributor dis-synergies or reps?

Unidentified Company Representative

Yes. Primarily -- yes, when you don't keep the distributors or the distributor reps, they move on and they pick up other lines, and they can compete with you pretty quick. And that's where you run into the dis-synergies.

Andrew Hanover - *JPMorgan - Analyst*

I want to touch on AUGMENT because obviously there has been an update from the FDA. Right? So do you mind just walking through what the process has been with the FDA, where you stand and what that (multiple speakers) --

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

Yes, we have been in contact with the FDA for some time now trying to figure out what is the regulatory path going forward to get the AUGMENT injectable approved. Again, we think it will have significant upside to us and will be easier for doctors, better for patients, etc. So, we have been going back and forth for some time and finally got a decision from the FDA late in the year, anyway, late in 2016, that this is going to be a PMA supplement in that they have this now as what is called a panel track. That does not necessarily mean -- and lots of times I don't know what the percentage of it -- does not mean it ends up in a panel. It's just that it gives them the time to study the file and the application.

We are told -- and is that panel track PMA supplements take, on average, a little over 300 days. That's just an average. Now, I am hopeful that we will not get into every time I meet with somebody is when are AUGMENT injectables going to be approved, because I will not know. There's two things that you could expect there. First of all, if we have a problem, I'll tell you. I'll tell you right away. Secondly is that, if we get approved, I'll tell you. But handicapping the win is not a game. It just is so -- we can't help you.

Andrew Hanover - *JPMorgan - Analyst*

Any other questions, anybody?

I want to talk about just handling characteristics of the biological AUGMENT. So, as you are rolling AUGMENT out, I think the consistency of AUGMENT today looks a little granular. Right? And you are trying to, obviously, get it into this injectable form that's just easier to put into the patient in that incision. Are you seeing any hesitancy at all from any of the physicians that you are rolling this out to beyond the KOLs where they are saying, you know, I really want the injectable form before I start doing more? Are you seeing any hesitancy there at all?

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

I can't say specifically. I can just relate to our experience in Australia, where we had the form that we have here and then moved to the injectable. And I have spoken directly to physicians there and in Canada who think that this is a huge advancement. They can use it when they were not able to use the PACE product. They can use it in smaller places. It has collagen carrier to it, which is easy and has great handling characteristics.

So, I don't know if people are not using, making that distinction right now. I think that most of the cases that we are doing, this is the product that they have, and they are using it or not, depending upon the case that they have.

Andrew Hanover - *JPMorgan - Analyst*

And the receptivity from the FDA right now, given all of the challenges with AUGMENT at the beginning and just the biologics in general at the FDA, has there been any change in their views on biologics? Has it been a cordial conversation (multiple speakers)?

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

Yes. We got AUGMENT finally approved with some fits and starts basically by making a sound, scientific argument. And that overwhelmed, we feel, the objection that some in the FDA had towards biologics and human growth factors. So, I think that having won that battle based on real science is that -- it's my hope that the next phase will be easier. But you never know. You never know, but we learned a lot. We have even more data than we had before. So, I anticipate that we will get injectable approved.

Andrew Hanover - *JPMorgan - Analyst*

And on INVISION -- so INVISION is going to launch in the back half of this year. Maybe, Lance, you want to touch on -- obviously, you are not giving guidance today, but how do we think about the cadence in the back half of this year? The receptivity from the physician community to be able to actually have a backup is a positive. But do you see that growth immediately? Do you see that growth kind of stage out, so it's not as big in 2017 but more in 2018? How do you think about that?

Unidentified Company Representative

You've just got to think about that we are not expecting to drive large amounts of revenue from the actual INVISION product. Right? It is one of the last remaining barriers to adoption that surgeons have for doing primary total ankles. So I don't think it's going to be an immediate overnight uptick. If you are a surgeon that is not doing total ankles because you are concerned about lack of revision options, even when it's launched, you've got to get training, you've got to start doing surgeries, you are going to start with a small number of patients and then it's going to grow from there.

But as we start -- we look at the things you have to do to get from the $90 million to the $500 million from the market, the revision is a very large component. Training and lack of revision options were the top two things out of all of the information we gathered on barriers to adoption of total ankles. And so we certainly have the training taken care of and with PROPHECY in being able to see the surgery in advance, we have that taken care of fantastic. And the revision option, I think, is going to be a big piece. But it's hard to determine like does that create an inflection point? Is there a continued steady growth? But either way, it's not going to have a huge impact on 2017.

The bigger impact on 2017 growth rates, honestly, is just we get out of the headwind of the dis-synergies when we get to the second half of the year and you start to see better -- us printing growth rates more in line with what our true underlying business growth is.

Andrew Hanover - *JPMorgan - Analyst*

Okay. So, let's go back to just talk about the total ankle replacement, just opportunity. Right? Bob, you talked about it today. Right? Obviously, Salto has been divested. Just talk about your experience right now, where the total ankle replacement market is today from a per (inaudible) penetration standpoint and whether or not you are seeing Salto at all in any of your V counts as a competitive conversion (multiple speakers) --

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

We are still in the early innings but growing rapidly. I still think that there will be many periods of time that 20% type growth in total ankle continues. And I think that our product portfolio is driving that. We have INBONE for complex cases. We have INFINITY for basically normal cases. We have PROPHECY that helps in a myriad of ways and is enabling physicians, enabling technology. And now we are going to have INVISION.

So, I think that this market we really do see accelerating. We always -- and I think generally people think of total ankle replacement as this $80 million to $90 million market. It's really not, when you look at the potential of cases that could have total ankles.

Everybody here is a lot younger than I am. So like I say, it's not all that long ago knees were fused. And who would ever do that today?

I would suspect that total ankle replacement is going to be somewhat similar to that, not exactly, but in terms of particularly as now we have better diagnostic tools, we are able to plan surgeries better and doctors are much more comfortable. And INVISION is a piece of that, making doctors much more comfortable.

Andrew Hanover - *JPMorgan - Analyst*

And on the SALVATION side of the equation, how much of a contributor was SALVATION in 2016? How much more meaningful can it be in 2017 and also as you do some line extensions as well there? Lance, do you want to go after that?

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

So, it did contribute nicely in 2016. We think that has quite a bit more runway. That's, we think, a really nice market. It's decent-sized. It's not focused on by anyone, really, other than us. It has great average selling prices with, really, no pressure because this is really a last-ditch effort for these patients, and hospitals and doctors are pretty much willing to do whatever it takes to try and get the patient heading back in the right direction. So, I think having some specifically designed products for this disease state, if you will, but then also having medical education developed specifically for this and partnering with the surgeon community to try to help them come up with solutions for one of the more difficult things they have to deal with in their patient base are going to help us to continue to grow, and it will contribute in 2017 and beyond.

Andrew Hanover - *JPMorgan - Analyst*

Any questions in the audience at all?

So, in upper extremities, I just want to talk about the launch of PerFORM. And you are supposed to launch it in the first half of this coming year.

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

PerFORM Reverse.

Andrew Hanover - *JPMorgan - Analyst*

Reverse, yes, exactly. How should we think about that opportunity? Does it roll out quickly? Is it a solo stage rollout? Just some thoughts around that?

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

So, this is a major joint arthroplasty product, so those come with instruments and implant sets. And so, by necessity, they have to come out over time. But we will be off and running pretty good right out of the gate. You really think about our product portfolio with, really on the anatomic side, with the Synflex convertible stem and then with SIMPLICITI, I think we are a clear technology leader there.

And then, on the glenoid side, we launched PerFORM+, which is the anatomic glenoid that provides a lot more options for the surgeon to match defects in the glenoid, but we don't have that on the REVERSE side. And PerFORM Reverse is going to fill that need, and it's also -- it's going to have a porous metal fixation. And really, I think it's going to take us from a really solid Reverse portfolio. We are going to have the best, not only on the anatomic portion but also on the Reverse side. And we are going to be in a great position product-wise as we move into the second half of 2017.

Andrew Hanover - *JPMorgan - Analyst*

All right. So to kind of -- towards the tail end here, I want to go through the rest of the P&L. So if we can just -- if you don't mind just going back through the levers, your 20%, or near 20%, EBITDA margin goal. And how do you get there? I think you have weighted it out over the last couple of years, but can you weight it out a little bit more today?

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

Lance could pop in, if he wants. But I think it is predicated on maintaining this growth rate, this midteens growth rate, that we have. Certainly, our margins are where we want it. But getting the synergies, the 40% to 45%, again, well in hand, I think, a good line of sight to that, and leveraging our P&L, particularly as we get below the sales and R&D line. And we are looking at marketing expense, general G&A expense. Those kinds of areas of our P&L just need to grow at inflationary levels. They don't need to grow at the rate of sales, so that, as sales increase double digits, we get a tremendous amount of drop-through in the P&L.

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

Yes. So really, Bob talked about this. We have areas where we've made big investments over the past two to three years. Right? Medical education, sales management. You've got to have sales management if you have a direct sales force. Putting our inventory hubs out all across the US. So those are all in the model now. Right? So those are -- we are not going to cut those expenses, but they don't need to grow at the rate of sales. So, that's moving into the return phase on these really big, important investments we made in the past.

And then G&A, unfortunately, just due to our history, two companies coming to one, legacy Wright grew up to a $500 million broad orthopedic business and back down to half that, an extremely sluggish business. We are just not set up optimally as if we had grown up from zero to a $700 million extremities business. So there's a lot of G&A in those. A lot of it is mainly in these corporate functions that you just have to have as a standalone public Company to run. And then also all of our systems and processes across the world, they are just not ideal. We are probably still running on 10-plus ERP systems. Those things, you can't just snap your fingers and make them optimal overnight, but you can chip away at them over time and make some progress.

And the big thing is we can run the business on what we have now. So even if it's not optimal, it certainly doesn't need to be bigger. Okay? Our infrastructure is totally adequate to support the business. And then we can make progress on it over time to move it more towards what it needs to be to support this high-growth extremities business and come down a lot as a percent of sales.

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

When we did the -- when we talked about the merger with Tornier, an underlying principle, and I said it in my prepared remarks earlier, is that there's a lot of anxiety about putting companies like this together. Most of these things don't work out as you have planned. There's a lot of mistakes being made. I took over a company that was a disaster because of -- not Wright but ev3, that was a disaster because of a poorly planned integration. And I realized at the time is that the best thing to do was similar to the Hippocratic oath. First, do no harm. Right? So that was an underlying premise. And I was going to stipulate to the fact that, yes, we could be more efficient. But we do not want to make big mistakes. And long-term, it would be better served by doing this all right in a normal course, and getting to the type of company we want to be, which is this growth company, this margin company and this EBITDA company, and that we would have something solid rather than making some mistakes that I've seen being made by rushing into that.

So, Lance is correct, is that it's not ideal. It hasn't been ideal, but now we are at a stage where we've made the investments. We can leverage it and we don't need to grow these expenses anymore.

Andrew Hanover - *JPMorgan - Analyst*

A question, one last one. Is there a clinical path that you have laid out for (technical difficulty) injectables (inaudible)?

Jennifer Walker - *Wright Medical Group N.V. - SVP Process Improvement*

It's a (inaudible) supplement.

Andrew Hanover - *JPMorgan - Analyst*

So, there's no additional clinical data to think about?

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

We have not been asked to provide any additional clinical data at this point in time.

Andrew Hanover - *JPMorgan - Analyst*

All right. With that, thank you all very much.

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

Thank you.

Andrew Hanover - *JPMorgan - Analyst*

I appreciate it.