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EDITED TRANSCRIPT

WMGI - Q4 2016 Wright Medical Group NV Earnings Call

EVENT DATE/TIME: FEBRUARY 21, 2017 / 9:30PM GMT

OVERVIEW:

Co. reported 4Q16 results. Expects 2017 net sales to be approx. $755-765m.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Wright Medical Group N.V. fourth-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Julie Tracy.

Please go ahead.

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

Thank you.

Good afternoon, everyone. Welcome to Wright Medical's fourth-quarter 2016 conference call. We appreciate you joining us.

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

We issued a press release this afternoon regarding our fourth-quarter results, and a copy of that press release is available on our website at Wright.com. The agenda for this call will include a business update from Bob, a review of our financial results and 2017 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 2017, our beliefs and expectations regarding the outcome of pending litigation, 2017 cash flow, and new products including AUGMENT. 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 September 25, 2016, filed by Wright with the SEC; and Wright's annual report on Form 10-K for the year ended December 25, 2016, anticipated to be filed by Wright with the SEC by February 23, 2017, as supplemented by our other SEC filings.

Our SEC filings are available at www.SEC.gov and on our website at Wright.com. The forward-looking statements in this call speak only as of today, and we undertake no obligation to update or revise any of these statements.

Our earnings release and today's discussion include certain non-GAAP financial measures. Please refer to the reconciliations which appear in the tables of today's press release and are otherwise available on our website, as well as our Investor Relations Merger presentation dated February 21, 2017, that is also available on our website. Note further that our Form 8-K, filed today, provides a detailed narrative that describes argues of such measures.

In addition, as a result of the 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. Also note that unless otherwise noted, all growth rates discussed today are on a non-GAAP combined pro forma same sales day basis excluding the impact of conforming our revenue recognition methodology in Q4 of 2015 to legacy Tornier's methodology.

Before I turn the call over to Bob, I did want to mention that Wright will be holding an investor and analyst breakfast during the American Academy of Orthopedic Surgery's annual meeting in San Diego. This event will take place on Wednesday, March 15, from 7:00 AM to 8:45 AM Pacific Time at the Hilton San Diego Bayfront Hotel, and will feature an informal Q&A with Bob, Lance, and members of our management team. We're also honored that upper extremities specialist Dr. John Warner and lower extremities specialist Dr. Hodges Davis will be joining us and sharing their clinical perspectives.

If you're interested in attending or visiting us for an exhibit booth tour, please email me at julie.tracy@wright.com to register. If you would like more information about the AAOS annual meeting or agenda, please visit AAOS.org. We look forward to seeing you there.

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

Bob?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Thanks, Julie.

Welcome to our fourth-quarter earnings call. We had a very good fourth quarter, and our full-year results reflect continued strong underlying growth and positive momentum in all three of our high-growth businesses and our leadership positions in these markets.

Our pro forma constant currency global sales growth of 12%, despite an estimated 3% headwind from dyssynergies, was an acceleration from the third quarter of 2016. Combined with earlier-than-anticipated progress on a capturing cost synergies, resulted in net sales and positive adjusted EBITDA results that exceeded our expectations. We drove significant overperformance on the top and bottom line in all areas in 2016. We believe we are well-positioned to continue driving high sales growth rates and EBITDA margin expansion.

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Highlights in the quarter included strong contributions from our SIMPLICITI Shoulder System and the ongoing rollout of AUGMENT and the INFINITY Total Ankle Replacement System. Which, for the fourth quarter, drove 14% sales growth in US shoulder replacement; 29% sales growth in US biologics; and 23% sales growth in US total ankle replacement. Today, we believe we have grown to be number one by a wide margin in US total ankle replacement, number two in US shoulder replacement, and have the fastest growing biologic product in orthopedics.

With the significant progress made in 2016, we are a stronger business that is now well-positioned and completely focused on the high growth extremities in biologics markets. While I am very pleased with what we accomplished in 2016, we are nowhere close to meeting our full potential. We continue to have great opportunities for revenue growth and cash improvement. I believe we are positioned well for future success by achieving our key financial goals of mid-teens constant currency growth, net sales growth, gross margins in the high 70% range, and non-GAAP adjusted EBITDA margins of approximately 20% three to four years post the close of the merger.

Let me now provide some additional color on the business results for the fourth quarter. As anticipated, we continue to see the impact of revenue dyssynergies in the fourth quarter. As expected, the US lower extremities business was the most impacted by dyssynergies, evidenced by 6% sales growth in the quarter. We believe US lower extremities growth was impacted by dyssynergies in the range of 5% this quarter.

Our underlying business continued to perform well, led by nice contributions from the launch of our SALVATION limb salvage system for treating Charcot foot, as well as continued strong growth in our US total ankle business. Speaking of our US total ankle business, I did want to highlight several significant performance milestones.

2016 was a record for Wright, both for annual revenue for total ankles and for the total number of cases performed. We continue to believe that the total ankle market is significantly underpenetrated, and could ultimately grow to be four to five times its current size. We believe we are driving much of the current market expansion. We estimate that well over half the total ankle market replacements in the US in 2016 were performed with Wright products.

In addition, approximately 70% of all our total ankle replacements were completed with our PROPHECY enabling technology system. Expanding the total ankle market will continue to be a focus for us. We are looking forward with anticipation to our launch of the Envision revision ankle system in the third quarter of this year.

I also want to highlight the strong performance in US biologics' business, which grew 29% in the fourth quarter, once again the fastest-growing segment in our business. This growth was driven by the ongoing rollout of AUGMENT, as well as good performance from other biologics products. With regard to AUGMENT, we continue to convert new accounts in the quarter. We expect augment to continue to grow steadily as we continue to work through VAC approvals, add new customers, and further penetrate high-volume accounts.

With regard to AUGMENT injectable, as discussed previously, we are pursuing approval for this product with a PMA panel track supplement. This does not necessarily result in a panel meeting, but it affords the FDA additional time to review the submission beyond the 180 days. The current average for panel track supplement review and approval is over 300 days. As we said earlier this year, we do not intend to provide updates, other than letting you know when AUGMENT injectable gets approved or if the approval process is significantly negative impacted.

Our US upper extremities sales grew by 12% this quarter, driven by our innovative shoulder product portfolio, including the ASCEND FLEX shoulder and the ongoing launch of the SIMPLICITI Shoulder System. We have important new product launches on the horizon. We are focused on improving the utilization of our inventory and instrument kits, both of which we expect to be beneficial to the shoulder business in 2017.

I would now like to spend some time covering our 2017 priorities, which are revenue growth and cash. So how are we going to address both of these areas?

First, we intend to selectively expand our US salesforce by adding about 85 new direct quota-carrying reps, primarily weighted towards the lower extremity business. Out of these 85 reps, we anticipate that only about one-third will be new hires. The remaining two-thirds are current associate sales reps that will move up to be quota-carrying reps. We expect to have most of these territory additions completed in the first half of the year and begin to see the benefit in the second half of the year.

Second, we intend to continue the launch of new products and invest in keeping our product pipeline strong to drive growth opportunities. In our upper extremity business, we plan to launch PERFORM REVERSED Glenoid in the first half of the year. This is an important addition to our PERFORM platform, as it is an implant with porous metal fixation that is specifically shaped for treating patients with difficult glenoid anatomy.

We also anticipate a staged rollout of our BLUEPRINT 3-D Planning Software in the first and second quarters of 2017. We believe enabling technologies, such as BLUEPRINT, are an important differentiator in our new product strategy.

In our lower extremity business, we plan to launch line extensions for our SALVATION Limb Salvage System in the second half of 2017; roll out the Envision Revision Ankle System in the third quarter of 2017; and introduce the ORTHOLOC 3Di Ankle Fracture System in the fourth quarter of 2017. Finally, we will continue the rollout of AUGMENT which got off to a straight start in 2016, and is on a great trajectory as we head into 2017.

Regarding cash, we expect to complete the merger integration and realize the remainder of our targeted cost synergies over the course of the next two years. In addition, we will focus on initiatives to improve inventory instruments and increase DSO efficiency. These are big opportunities on our balance sheet, and we're going after them full bore.

We also have an opportunity for significant leverage going forward, as over 50% of our operating expenses are highly leveragable and do not need to grow at the rate of sales. We made great progress in these areas in 2016. We drove significant SG&A leverage in addition to our cost synergies, reduced DSO by five days, and reduced inventory days on hand by approximately 250 days for the legacy Wright extremities business. We still have a lot of opportunity to improve this going forward.

We have had a big focus on improving our balance sheet and our cash flow. The benefits that we are anticipating in 2017 are largely due to the initiatives that we've been driving over the past couple of years. I wanted briefly to highlight two specific Vital Few Initiatives for 2017 in this area that will be key to our ability to continue to improve our balance sheet in 2018 and beyond.

The first initiative is one that I have discussed before, and that is improving our US upper extremities inventory into the hub network. You will recall, we realized significant benefits when we established the hub network and moved the lower extremities inventory into the hubs. It enabled us to have much more control and visibility over the performance of our field inventory and instrument sets.

This resulted in a significant increase in our set turns, and a reduction in our field inventory days on hand. In addition, the greater visibility and control helped us to significantly increase the accuracy of our demand broadcasting. Finally, it resulted in our sales reps pending much less time on inventory management and ultimately helped us to double our sales rep productivity rate over time.

We see similar types of opportunities in the upper extremities business, and we are working to move it into the hubs as quickly as we can. This is a significant project and will take most of 2017 to complete, but we expect this will benefit us significantly in 2018 and beyond. As of today, we have moved approximately one-third of the upper extremities direct sales districts into the hubs.

The second Vital Few Initiative I want to discuss is an initiative to reduce the amount of inventory delivered for surgery. As is the case with the rest of the industry, we have a significant amount of inventory and instruments that are delivered for surgeries and not used. This eats up cash.

This issue will likely never be completely eliminated, and certainly not in the near term when there are frequently decisions made interoperably that require different types of instruments and inventory. However, even with those constraints, we have identified ways to significantly reduce the amount of inventory and instruments delivered into surgery. Most of the opportunities we have are related to how we communicate and interact with our surgeons and use enabling technologies in their hospitals and our hubs. These are practices some of our best reps follow today.

We can improve the average kits per surgery efficiency of our salesforce from what it is today to a level of our most efficient reps. We can reduce the number of kits delivered into surgery by roughly 30%. This is also a significant project that will take most of the year to implement. In 2018, we expect to see not only significant benefits to cash, but an increased inventory and instrument efficiency. But also benefits that enable us to further leverage our investment in the hubs as we reduce the level of work required to support the same level of revenue.

As I mentioned earlier, our key financial objectives have not changed. We are building a Company with sustainable mid-teens constant currency net sales growth, gross margins in the high 70% range, and non-GAAP adjusted EBITDA margins of approximately 20% three to four years post the close of the merger. We feel very confident about our ability to achieve these objectives, and believe we are positioned to perform and positioned to accelerate.

We are on a great trajectory and making significant progress on profitability and cash. The new products, the launches, the salesforce, the integration -- all that has gone well. We see ourselves continuing to grow approximately two times the market. We have multiple growth drivers in new products, as well as expanded salesforce. Our momentum is strong, and we're in a much stronger financial position today than we thought we would be at this point a year ago.

The last year I will touch on before turning the call over to Lance is our 2017 guidance and longer-term look for the business. The Company is very well-positioned strategically. With sustainable sales growth, continued progress on capturing cost synergies, and the ability to leverage existing resources, we believe we are well positioned for significant financial improvement as well.

Our 2017 guidance assumes underlying constant currency net sales growth of 12% to 14%, excluding the impact of revenue dyssynergies. With our new product launches and salesforce expansion driving growth in the second half of the year that is faster than the full year. We expect continued strong growth in our biologics business, due to the ongoing rollout of AUGMENT in the US, as well as additional uptake of our core biologic products in our upper extremities business.

We intend to continue to focus on successfully driving our SIMPLICITI and AUGMENT product rollouts, launching the PERFORM reverser shoulder, and expanding the US salesforce in order to realize our full potential. We believe that the positive progress we saw in the fourth quarter and throughout 2016 has set us up well for continued strong revenue growth and significant margin expansion in 2017 and beyond.

With that, I will now ask Lance to provide further detail on our fourth-quarter results and 2017 guidance.

Lance?

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

Thanks, Bob.

As we get started, all sales growth rates that I refer to in my prepared comments will be on a pro forma constant currency same day sales basis, excluding the impact conforming our revenue recognition methodology in Q4 of 2015 to legacy Tornier's methodology. In addition, all results of operations that I refer to in my prepared comments will be as adjusted, and comparisons will be on a pro forma basis. These are all non-GAAP financial measures, as described by Julie during the introduction of our call, with reconciliations to the closest GAAP measures on our website.

In addition, as a result of the 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 discussions refer to results from continuing operations. Please refer to the non-GAAP reconciliations in our press release. I also strongly encourage you to review the information posted on our website.

Similar to last quarter, we have provided you with information to assist you with your modeling and to provide you with pro forma information and EPS through the fourth quarter of 2016. Bob covered the highlights of our underlying sales growth in his earlier comments. I will provide some additional color on the P&L and then focus on comments on the outlook for 2017.

Globally, the extremities and biologics business grew 12%, and we estimate was impacted in the range of 3% by dyssynergies this quarter. The US lower extremity business grew 6% in Q4. The US lower extremity business was most impacted by revenue dyssynergies, which we estimate were in the range of 5% for Q4.

The US upper extremities business grew 12% in Q4 and was modestly impacted by dyssynergies. Both the US lower and upper business had a slight growth rate acceleration this quarter, despite slightly greater headwinds from dyssynergies, which contributed to the top-line over performance for the quarter.

Our international extremities and biologics business grew for 13% in Q4, driven by strong performance both in direct and distributor markets. International had a great finish to the year, posting much stronger growth rates than we have seen in recent quarters and also driving most of the top-line overperformance this quarter. As we've discussed in the past, you should expect to see variability in our international growth rates from quarter to quarter.

Now moving on to some detail below the sales line. Please note that all of my discussions will refer to our continuing operations results.

Beginning with our Q4 adjusted gross margin, we achieved 77.6% for the quarter, a decrease of approximately 100 basis points over the same prior-year period, driven primarily by geographic mix. As to the line items making up our Q4 operating expenses, selling, general and administrative expenses totaled 68.7% of net sales for the fourth quarter, compared to 73.7% in the prior-year period. The decrease as a percent of sales was driven primarily by the impact of higher Q4 revenue driving leverage in the cost structure and the capture of cost synergies.

R&D expense was $13.9 million in Q4 of 2016, and $13.7 million in Q4 of 2015. Finally, amortization expense was approximately $7.4 million in Q4 of 2016, compared to $9 million in the prior-year period. Below the operating income line, net interest expense was $6.1 million and Other expense was $2.3 million for Q4.

For share count, our Q4 per share results as adjusted are based on average diluted shares of 103.3 million for Q4. If the Company had been in a net income position, average diluted shares for Q4 of 2016 would've been approximately 104.5 million shares.

Altogether, this resulted in adjusted EBITDA of $22.7 million and 11.7% of net sales for the quarter. For the full year, we had adjusted EBITDA of $53.6 million and 7.8% of sales. This was significantly ahead of our expectations, as we were able to capture $30 million in cost synergies and drive leverage on sales growth.

From a cash standpoint, our total cash balance including restricted cash at the end of Q4 was approximately $412 million. During Q4, we secured a line of credit to provide additional operational flexibility. Our Q4 cash balance reflects $30 million in minimum borrowings on the line.

In addition, we funded $150 million in escrow during the fourth quarter to fund a portion of the metal on metal Master Settlement agreement. This was funded by cash on hand, as well as proceeds from insurance recoveries. This balance is included as restricted cash on our balance sheet.

Overall, we are extremely pleased with our fourth-quarter and full-year 2016 results. Our revenue performance across all lines of business demonstrates the strength of our portfolio.

We saw adjusted EBITDA expansion of approximately 500 basis points better than our original guidance for the full year, due to our ability to drive leverage on our revenue overperformance and capture cost synergies earlier than anticipated. This gives us positive momentum as we head into 2017.

I will now discuss our 2017 full-year guidance. Consistent with Wright's past practice, please note that our guidance ranges and assumptions for 2017 exclude any consideration for the effect of potential future acquisitions or any other possible material business developments.

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

Starting now with sales. As stated in today's press release, we anticipate net sales for full-year 2017 of approximately $755 million to $765 million. This range assumes a negative impact from foreign currency exchange rates as compared to 2016 of approximately 2 percentage points. This assumes about a 1 percentage point cushion as compared to current currency rates.

$10 million of net sales dyssynergies resulting from customers lost over the course of 2016 due to the salesforce integrations. Approximately $3 million of dyssynergies from the anticipated divestiture of the international Salto ankle business, and a positive impact of approximately 1% due to four extra selling days in the fourth quarter of 2017.

This net sales guidance range implies constant currency net sales growth of 11% to 13%; approximately 12% to 14%, excluding the negative impacts of revenue dyssynergies and Salto divestiture of approximately 2%; and the approximately 1% positive impact of the extra selling days.

Before we get into some details on 2017 sales, I first wanted to comment on the revenue dyssynergies. These dyssynergies are created due to lost customers resulting from our salesforce integrations. Our salesforce integrations have been complete globally for over a quarter now.

We saw very minimal additional impact from dyssynergies in Q4 as compared to Q3, and we expect no further customer losses related to integration. The impact to 2017 is simply that we will have a full-year impact of those customer losses in 2017, as opposed to a partial-year impact in 2016. Therefore, it will be a headwind on our growth rate until we fully annualize the customer losses in the fourth quarter of 2017. At this point, the $10 million impact to 2017 is a known a number, and we believe there is no potential risk or upside to this number.

To assist you with your modeling, I also wanted to provide some directional comments on some of the components of net sales. Unless otherwise noted, these growth rates are constant currency and include the impact of dyssynergies and the additional selling days.

For the US, we anticipate growth in the low to mid-teens, as we expect continued strong growth to be dampened by the dyssynergies. The US growth rates should improve steadily throughout the year, as we have less headwind each quarter from dyssynergies, and as we see greater benefits from this year's product launches and salesforce expansion efforts. We still expect biologics to be the fastest-growing part of the US business. But it will be significantly less than the growth rates we saw in 2016 as we face increasingly tougher comps for AUGMENT.

We expect our shoulder new product launches will drive upper to be the next fastest-growing part of the US business, and to grow well above market rates. The lower business faces the biggest headwinds from the annualization of dyssynergies, but we still expect to grow at least in line with market despite these headwinds.

International net sales are expected to grow in the mid- to high-single digits on a constant currency basis, including an approximately $3 million negative impact from the anticipated divestiture of the international Salto ankle business. As is typically the case, you should expect to see some variability across the quarters in the international growth rate. This completes my prepared comments on net sales.

Turning now to the P&L. Our outlook for full-year 2017 non-GAAP adjusted EBITDA from continuing operations is $78.5 million to $85.5 million. From an adjusted EBITDA perspective, we expect to continue to drive significant leverage and realize some additional cost synergies.

We still expect to realize $40 million to $45 million of cost synergies by year three post close. The $30 million of cost synergies in 2016 was double the expectation we provided at the beginning of the year and two-thirds of the way to our year-three goal.

At the midpoint, our 2017 non-GAAP adjusted EBITDA guidance represents more than 12 full percentage points of EBITDA margin improvement over the first two years, 2016 and 2017, post close of the merger. And right on track with our plan to get to approximately 20% EBITDA margins three to four years post close. We are very happy that we were able to drive that expansion sooner than we anticipated due to excellent integration execution in 2016.

Now for some specifics on the individual line items on the P&L. First on gross margin. For 2017, we're expecting gross margins to be in the 78% range, in line with 2016.

We expect SG&A as a percent of sales to decrease approximately 300 basis points, primarily through leverage, with some additional benefit from cost synergies. We are making some investments this year to move the US upper extremity business into our hub network, and then we expect to leverage those going forward. R&D is expected to be approximately 7% to 8% of sales. Excluding any future acquisitions, amortization expense is expected to be in the range of approximately $7 million per quarter.

Before we move to 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 2017 is the range of approximately $58 million to $60 million, as compared to $56 million in 2015. Stock-based compensation expense is anticipated to be in the range of $19 million to $20 million.

Now let's touch briefly on the items below the operating income line. Our expectation for Interest and Other is approximately $7.6 million per quarter. Due to the valuation allowance on our NOLs, we will not have an income tax benefit in 2017. We expect to have approximately $4 million in tax expense related to profits in taxable jurisdictions.

The Company estimates approximately 104.5 million diluted weighted average ordinary shares outstanding for FY17. If the Company were in a net income position, diluted weighted average ordinary shares outstanding for FY17 is estimated to be approximately 106.5 million shares.

Briefly, as it relates to catch, we do expect to use cash in 2017 to fund normal business operations, discontinued operations, and integration-related costs. We continue to believe our cash balance is sufficient to fund these items. Excluding the impact of disc ops and any potential AUGMENT revenue milestone payment, we expect to be roughly cash neutral for the year and turn cash flow positive in the first half of 2017, around the middle of the year.

In 2016, excluding the impact of discontinued operations and the proceeds from the sale of the hip and knee business and financing activities, we consumed approximately $41 million of cash. This expected year-over-year improvement is greater than our expected increase in adjusted EBITDA, and demonstrates the significant progress we're making not only in improving profitability, but also in improving our balance sheet.

As it relates to quarterly guidance, as was the case in 2016, for 2017 we will update our annual guidance each quarter, but will not be giving guidance expectations for the current quarter. We do want to provide you with information on the expected cadence of our business to assist you in modeling our quarterly performance.

Overall, we expect constant currency sales growth rates to be lower in the first half of the year and then accelerate to the mid-teens in the back half of 2017, as we annualize dyssynergies and benefit from our new product launches and salesforce expansion. We expect our adjusted EBITDA margin improvement of 300 basis points for the full year to be fairly consistent over the course of the year.

In closing, Q4 was a great finish to a great year. We enter 2017 as a Company completely focused on the high-growth extremities and biologics markets. Our plan to improve our financial results is ahead of schedule, with revenue and EBITDA levels significantly higher than the expectations we laid out a year ago.

We have completed all of our salesforce integrations and the vast majority of our other merger integration projects, effectively mitigating the risk to integration would disrupt our business. We are looking forward to 2017, where we will be able to devote our efforts completely to driving our new products, expanding our direct salesforces, and improving our business processes. We still have significant opportunities to improve the performance of the business, and we will be attacking them aggressively in 2017.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kaila Krum, William Blair.

Kaila Krum - *William Blair & Company - Analyst*

Thanks for taking my questions and congrats on a great quarter. I would like to just start up on the revenue growth guidance, and a little bit more detail about how we should think about the progression of revenues over the course of the year. Because on an adjusted basis, when we do exclude the dissynergies, it sounds like you're already growing in the mid-teens.

There's a lot of -- clearly a lot of potential tailwind in the form of new product introductions, sales rep hires, that I would imagine have the potential to accelerate that performance. So I guess I'm just wondering, is it feasible to think that you will be growing towards the high end of that 14 % to 16% mid teens revenue growth goal as we exit 2017? [At least] on a same selling day basis, or what would prevent you from doing so?

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

Kaila, this is Lance. I will give a couple comments and let Bob add.

So first of all, Q4 was great. We saw really strong international growth, way stronger than what we have been seeing, and our commentary on international would lead you to believe you shouldn't expect that level of growth in international going forward. So that from a run rate perspective heading into 2017 is a little bit lower.

As you think about the cadence throughout the year, the first half of the year the growth rates are going to be dampened by the dissynergies and we should naturally accelerate as we get those behind us a little bit more each quarter of the year. And then we should benefit additionally from the new product launches and the salesforce expansion that you mentioned. So we definitely expect the growth rate for the second half of the year to be better than the guidance we're giving for the full year.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

The only thing I would add to that is in our international business, quite frankly, the finish was very strong and actually it was a little bit of a surprise to me. The overage came from -- a lot of the overage anyway, came from distributor markets. And that business tends to be lumpy, and you don't really have visibility all the way down to the end user all the time.

So we don't know at this point if that will repeat itself in 2017. Hope it does, but are unsure just given the nature of that.

But Lance is correct. The first half of the year I think is going to be strong. But we do have those things in front of us, the dissynergies, that we talked about.

And then as we get into the second half of the year, when those dissynergies are basically behind us and we have more of an impact of our new products and also the added boost of our 85 additional territories, I think that we should see that accelerated. But at this point in time, it seems like the guidance that we're giving you is what it is at this point in time. I think last year we increased guidance three times throughout the year, and there were a lot more unknowns last year.

There are fewer unknowns this year. So I would think that the way we have this laid out, and it is really just an educated guess at this point in time, but we think that this is a pretty good look at the way we see the business in February of 2017.

Kaila Krum - *William Blair & Company - Analyst*

Okay, that's helpful. And then I guess on the margin side, in January you guys gave a lot of color around the drivers of operating leverage and you have never given us those before. I think that the path to 20% EBITDA seems much more transparent at this point. So I guess, when we start to think about net profitability, how feasible at this point do that you might be to reach net income positive by the end of 2017?

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

Kaila, we've really been focused on the EBITDA metric more than the net income metric. We haven't given guidance specifically on net income. There's a few other moving parts on that.

I would just say we feel really good about the progress we're making on EBITDA margins over the course of 2016 and 2017, and feel like that's a good number for 2017. As far as net income is concerned, obviously we want to get that number positive as fast as we can as well, but not positioned to make a specific call on timing of that at the moment.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I also think that the thing that I personally get focused on is cash. I always think that's the best metric. And I think we've improved that dramatically, and there will be a milestone for us, I think, as we get into the second half of the year and be cash flow positive.

And I think that is what I'm focused on, and that's what we talk a lot about, balance sheet and balance sheet management. This is a great opportunity for us. We are focused on it.

We're going after it. And I think that as we get into the years 2018 to 2019, really being a strong cash generator will be a hallmark of our Company as well as being a high growth company.

Kaila Krum - *William Blair & Company - Analyst*

Perfect, thank you.

Operator

Matthew O'Brien, Piper Jaffray.

JP Peltier - *Piper Jaffray - Analyst*

Hello, good afternoon. This is actually JP in for Matt. Thanks for taking the questions.

I just wanted to start with the balance sheet initiatives you alluded to there. Say you do get all these initiatives in terms of reducing DSOs and your inventory management, I'm just trying to figure out how much cash do you really think is caught up in working capital that you can get back over the next couple years?

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

Really the way we think about it is not so much as taking the cash that's there today, it's we can be a high-growth business and be cash flow positive. So as we -- it would take a lot less to fund in inventory and instrument sets and investment in receivables, to fund this mid-teens type growth business that we're trying to be.

So it's really more of an avoidance of cash out going forward than it is more of a harvesting of cash that's sitting on the balance sheet today. There is some of that, that will occur, but it's really more being much more cash efficient as we grow the business going forward.

JP Peltier - *Piper Jaffray - Analyst*

Got it, and then one more for me on the total ankle market. You've talked before about it going from $90 million up to, I think, around $500 million, 4X or 5X what it is today.

And then I want to at least try to understand what's the biggest hindrance option at this point, and then try to frame up how important revision is because I think it is important to have a revision system out there. So is there a way to frame X percent of the dots that don't want to switch, and don't want to because there's no revision on the market or how can we think about it?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

The way we looked at it is that of the cases that fusion is the current choice for -- and we had an outside consulting firm look at this a while ago. And they concluded that somewhere in the area of 80, 90% of them are candidates for total ankle replacement. The biggest drawback in adoption is the history of total ankle replacement.

A lot of doctors years ago tried it, and I think with a product that didn't work real well and swore off it for life, I guess. And now with the new products that are much easier to use and I would put INFINITY as the design thought behind INFINITY was making it easier for a physician to use. And when you combine that with enabling technologies such as PROPHECY, you get a system that doctors are converting to.

So when we look at market expansion, we're looking at doctors that are converting at least some of their practice from fusions to implants. And it used to be that they would just do these on just their worst cases, now we see more and more movement to giving their patients the benefit of mobility and getting a total ankle replacement. And as the market gets bigger and these doctors get more comfortable with that and our training even gets better, so we see that market, that opportunity.

So when we used to think -- when we first got heavily into total ankle replacement, we looked at it in terms of what it was, which was at the time probably a $60 million of $70 million opportunity. Now we're looking at a $400 million or $500 million, and thinking that we now have products easier to implant, we have enabling technology, and we have much better medical education and a history that is cycle graphically moving physicians from late adopters psychological to being in the mainstream with total ankle replacement.

So this is a fast-growing market. We have leading physicians. And as I said in my prepared remarks, in 2016 we think certainly well over 50% of all the total ankle replacements were Wright products. The revision system is a very, very important part of this.

We have now a full continuance. We have INBONE, INFINITY, Envision coming out in the third quarter along with PROPHECY. So it's a great spot to be in from a technology point of view.

JP Peltier - *Piper Jaffray - Analyst*

Great, thank you.

Operator

Richard Newitter, Leerink Partners.

Richard Newitter - *Leerink Partners - Analyst*

Hello, thanks for taking the questions and congrats on the quarter. I wanted to just start, Bob, you've mentioned over 30 new products on tap for 2017. That's a big number, it's a robust pipeline you have there.

You have mentioned a bunch on the call, but in the four to five range in numbers. I guess one, with AAOS coming up, are we going to see at least a preview into the slew that gets you the remainder (multiple speakers)?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I am sure you will, Rich. We mentioned the big ones. There are always a lot of line extensions that make things better in some ways or another, but they are not big revenue generators.

So when we talk about the PERFORM reverse glenoid, that's a big product. Envision will have a big impact, although not a lot of revenue attached to it.

So when we talk about our new products in these calls and in our regular meetings, is that we are just mentioning the big ones. The rest of those are normal line extensions generally speaking, both upper and lower, and you get to a pretty big number. But the big ones are the ones that we tend to talk about.

Richard Newitter - *Leerink Partners - Analyst*

Okay, that's helpful. And then this is a multi-faceted question but the same topic. You're talking about ways to strip a working capital use out of the model by more efficient inventory set management and what not.

I'm just wondering how much of this is technology driven? For example, it seems like the PROPHECY and being able to do more pre-op planning, things of that sort, how much of that is going to help you maybe with some of this inventory management?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

That's a piece of it. We think that particularly on the lower extremity side, I mentioned that about 70% of our total ankle replacements, that's INFINITY and INBONE together, use PROPHECY. We are able to pre-plan those and bring in the right inventory for that case and not a whole slew of inventory.

On the upper side, it's a little bit more complicated, in that a doctor may intend to use to do a reverse shoulder, but gets in there or do it with SIMPLICITI and gets in there and doesn't find the bone quality that's appropriate, and then has to switch procedures and go to either an anatomic or a regular sten. So that [means] the opportunities are there, but they are not as great.

SIMPLICITI will -- a blueprint will help somewhat in terms of our pre-operative planning. But that's going to be a little bit tougher of a slog to bring in a significantly less inventory in the upper side. But it is a big opportunity.

If you ever saw the amount of inventory that goes into a case versus what is actually implanted, you would be astonished. But I think that one of our [vita few] teams, it's called Irish inventory surgery -- so it's a whole program we got here. Inventory reducing surgery, IRIS, is getting at this both -- but the impact will probably be faster or more profound in the lower business than the upper business right now.

Richard Newitter - *Leerink Partners - Analyst*

Okay, thanks.

Operator

Andrew Hanover, JPMorgan.

Andrew Hanover - *JPMorgan - Analyst*

Thanks for taking our question and congratulations on the quarter. I wanted to start off with a question around AUGMENT and then one just in thinking about the sales rep ad.

And the first one I wanted to go off of on AUGMENT, is really having to do with the fact that we have the monthly information and I know exactly how you all think about that and it is hard to on our side to really come up with a real revenue for AUGMENT. And because we've already passed trailing 12 months, it's really even harder given the fact that we don't know how the US versus OUS did.

And so my math is for the fourth quarter is probably somewhere between $7 million to $8 million. And I was just wondering if we get any more clarity on the US performance versus OUS performance? And, Lance, whether or not -- how you're thinking about injectable approval and whether that is baked into guidance in the second half of the year?

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

Andrew, we have not ever given color on individual product line revenue, and we are not intending to do that with AUGMENT. We had 29% growth in US biologics this quarter, which is the annualization of the first full quarter of AUGMENT. So still drive almost 30% growth in the biologics line, I think is a strong indicator that AUGMENT is doing well and continuing to grow, and that's about as much detail as we're going to give on that. Then, Bob, I don't know if you want to talk about injectables.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

In 2016, it was a gradual build because we had to go through the VAC committee approvals, and we're still not 100% there, there are still some out there that we are dealing with. But we are now able to anniversary and grow off of that into 2017, and we left 2016 really on a terrific trajectory on AUGMENT and are extremely pleased. And I think 2017 will be a fantastic year for our total biologics business led by AUGMENT.

We don't know when injectable will be a approved. We went through this a great deal when we previously when we -- just getting the regular AUGMENT approval.

It's just so hard to estimate, so we have nothing in our forecast at all for injectable. If it happens this year great, but I don't think that, that is likely. I'm planning that into any type of a forecast, and we'll let you know the second it's approved.

Andrew Hanover - *JPMorgan - Analyst*

Great. And then one last one on the 85 quota-carrying reps and how to think about that from a leverage standpoint. Obviously, two-thirds of 85 are going to be associates being promoted.

So is it correct if I think about that from the standpoint you will get leverage from those associates because those people might have been getting a salary at some point, and now they're going to be commission based so you get some leverage there? And then, the new reps depending whether or not they are competitive reps that are on garn leave or off garn leave or just completely new altogether, how do I think about that from a leverage standpoint as well? Thank you.

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

Andrew, really we have said as it relates to the actual salesforce, rep level salesforce costs, that is not an area where we're looking to drive leverage. We're not expecting to go backwards in any way, but we're not looking to drive leverage. So really you should think about these 85 additional quota-carrying reps, we're able to fund that while growing that salesforce cost generally in line with the rate of sales growth.

Operator

Jeff Johnson, Robert Baird.

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

Thanks, good afternoon, guys. Just a couple clarifying questions here I guess more than anything.

Bob, you addressed it on the international comments in the quarter and I know you don't have great visibility to the end user as you mentioned. But any sense if in the fourth quarter any of that was inventory load in? Did you sign up any new distributors? How close do you think that matches sell through?

And then on the upper extremity side, we're all trying to feel out some of this cash stuff. Could you give us any numbers or maybe how much inventory sits in upper extremities right now, or what the net change you think over the next year you could take out just in upper extremities inventory if that is added to one of your vital fuse this year? Thank you.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I will take the first one, and maybe Lance can take the second one. Regarding our international distributors, we did not add any distributors at the end of the year. These were existing distributors.

We don't think that this was in any way inventory loading. It was products that the distributors needed. And the question that we always have is, what level of inventory do they have as you go through the year because you don't know what their sub distributors have sold through.

So that's why we're always cautious about this. But that the -- so the international business in the direct markets which are the large countries also did well. So that's very stable and growing at a very, very good clip.

But the thing that was more of a surprise, as I mentioned, was the strength of our distributor sales in certain markets. We knew we were going to get sales, but the level of them was a little bit higher than we had thought. So it was no new distributors it was our existing distributors, and hopefully that as we go through the year we will be getting reorders so we will be able to calibrate better as to what they are selling through.

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

And then, Jeff, on the upper extremity, we haven't broken out those details on inventory. The thing I would just point to is excluding the discontinued operations and any potential AUGMENT revenue milestone payment, we're expecting to be roughly cash neutral for 2017. Which is a little over a

$40 million year-over-year improvement, which is greater than our adjusted EBITDA improvement while we are planning on growing revenue significantly.

So we wouldn't be able to do that if we weren't driving some significant improvement in working capital inventory and DSO. So we haven't laid out any specific details on the how much of inventory is where, but I think that's a good indication that we are planning good progress in the guidance we gave.

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

That makes sense, thanks, Lance. And the last question just on AUGMENT, we're all trying to feel out, maybe read the tea leaves, as much as we can anyway. As we look at some of the revenue data you guys file and some of the unit data we try to pull and look at, there's a little bit of mismatch going on here to where we're trying to figure out if maybe you changed the CC size or the vial size at all. I know at one point, you were talking about maybe going down to a smaller vial size.

Have you made any changes like that, or where are you at in that decision process? And then maybe how many new accounts do you think are left to convert or open up for AUGMENT versus how much of the growth this year do you think will come from just increased penetration in those accounts you already have?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Throughout the year, we had two sizes. We had a 3 CC size and a 1.5 CC size. I think on average the average case used in excess of 4 CCs. So that was the case throughout most of 2016.

Regarding the penetration level, there are still some big chains to penetrate, some larger ones. And we made great progress with our VAC committee process in 2016, and particularly those that we got in the last half of the year, we'll have the benefit of having those for the full year. So that should be all positive.

But there's still a concerted effort, an opportunity out there in terms of some of the larger decile accounts. And usually these top decile accounts, it takes two or three shots at them to actually get the approval. So I am confident that as we go out at the year that, that gap will be significantly closed.

But even given that, the trajectory we're on is very, very strong. Generally speaking, we get repeat orders from every account. So we couldn't be more pleased actually where we are.

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

Thank you.

Operator

Mike Matson, Needham.

Mike Matson - *Needham & Company - Analyst*

Hello, thanks for taking my questions. I guess I just wanted to start with the salesforce expansion. I was just wondering if you could maybe explain your thought process and what led you to the decision to add the 85 reps, and is that a sign that the rest of the salesforce is reaching peak productivity at this point?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Mike, a couple things. Just looking back historically, when we separated out from Microport and decided to go on our direct salesforce, we basically took what was there. We hired the distributor reps, and they became our direct salesforce.

We made several acquisitions throughout the period of years, and we just added those sales reps in to our Company. I'm talking lower extremities specifically right now.

What we thought -- we never took a grounds up approach of saying, what do we actually need and where do they need to be. It was all just based historically, and it's kept on perpetuating itself.

So in 2016, our sales management folks, particularly in lower extremities and then it was expanded somewhat into upper, decided to take a scientific look at this. And they used an outside firm, and figured out what would be the ideal coverage. How do we maximize the opportunity?

And so they came up with this plan that we would need so many sales reps, and these sales reps should be in these particular territories. And that equated down to in total, upper and lower together, 85 reps -- 85 additional territories to really maximize the opportunity that we had.

I would say is that in the lower extremity business, our $1.2 million average per sales rep was really pushing up on the maximum and it was felt that perhaps we were leaving some money on the table in that area. And particularly in some large geographical areas we had reps doing $3 million, and it was hard for them to keep the growth up.

So we wanted to be a growth company. We took a look at this from the ground up, and did a zero based look at it and came up with this strategy.

And we were lucky in that we did have a large cadre of assistant and associate sales reps in our organization that were dying to be quota-carrying reps because they could make more money. A lot of their training was done and we know who they are, and then the remainder we were able to hire from outside. I think Wright is a pretty attractive place to work right now for extremity reps.

So I think we took a very scientific data-driven approach and came up with this. We talked through this throughout the first quarter of the first couple months of the year, and announced the final results at our national sales meeting which was held probably two or three weeks ago and I think we're all in a great place. I think it's been well accepted, it's been well rolled out, and we are very happy with where we are and we think that this will add a great deal of revenue to our Company over a period of time.

Mike Matson - *Needham & Company - Analyst*

Okay, thanks. And I just had one follow up, hopefully it will have a shorter answer. But are you at the point where you feel comfortable enough with the Tornier deal to consider doing additional M&A?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I will give you a short answer. In terms of hardware, we don't think we need anything. If I were to say what areas would you look at if you were in the mode of doing M&A, biologics is an area that we're looking to grow.

I have said often is that I would love to have a company that a third of our revenue came from biologics. We're a long way from there, but biologics would be the only area that I think that we would be apt to do something in.

Mike Matson - *Needham & Company - Analyst*

Thank you.

Operator

Matt Taylor, Barclays.

Matt Taylor - *Barclays Capital - Analyst*

Hello, thanks for taking the question. I guess I just wanted to follow up on an earlier question.

Bob, you mentioned the one-eyed system in Envision as being really meaningful. Out of the rest of the 30 products that you are launching, what are the other one or two that you would call out as really producing the most new revenue in 2017?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I think the ORTHOLOC 3Di Ankle Fracture System we think is a big product. That's in probably later the year, but it's a big important product and is a void in our portfolio.

The PERFORM Reverse, we are rolling that out in the first and second quarter. We are rolling it out today, but it won't have maximum penetration until the end of the second quarter, and that's a big one. That's a huge product for us.

Matt Taylor - *Barclays Capital - Analyst*

Okay. Some people have touched on this theme, but I guess I wanted to explore a little bit more the kind of productivity you could get out of the hires that you're making and maybe you could separate that by the internal versus external ones. I'm assuming some of the external ones are going to be on [on non-fees], so just wondering if the contribution could be faster than normal and how you could [plane] the two?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

There's going to be cannibalization of sales as you go through this, it's not all addition. So you just can't take the number of sales reps by their productivity rate and get a formula that tells you how much you're going to get, because a territory that is currently doing $3 million might be divided into three. But it's still $3 million until they are able to grow it, and that will take place hopefully over the second half of this year into 2018.

So it's a little bit hard to predict the effect of that. But we have built into our guidance what we think will be the effect of the sales rep adds as well as our new products and our underlying trajectory of our business throughout 2017.

Matt Taylor - *Barclays Capital - Analyst*

Thanks, that's helpful. Nice quarter.

Operator

Larry Biegelsen, Wells Fargo.

Unidentified Participant - - *Analyst*

Hello, guys. It's actually Craig on for Larry. Thanks for taking the questions.

I wanted to follow up on a couple of questions or comments made earlier in the call. Specifically on the PERFORM Reverse, Bob, I think you said that it was a big opportunity and a huge opportunity.

So just wanted to see if there was a way that you could quantify that in terms of maybe the size of the market opportunity and then secondly, just what does it mean for your franchise? Is it competitive conversions or just adding a new product to the bag?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

No, this is a -- I am not going to be able to say the size of this product line because that gets a little bit too granular when we have to talk about each product line. But I do think that this is an area that will give us a competitive advantage.

It's a product that really is specific to the type of anatomy that the defect is in. It has a porous metal characteristic to it that works well and is sought after. So I think that the product itself gives us one more competitive advantage in our upper extremity business.

We are, by all accounts, at this point, the number two company in total shoulder. And I think that our technology just from a technology point of view, we are number one and that we have the short stem design. No one else has that in the market yet, and now we have this PERFORM Reverse glenoid that is a real competitive advantage over folks. So what we're thinking is we are gaining share against most of just about all of our competitors, and the gap, I think, is widening as we go on.

Unidentified Participant - - *Analyst*

Okay, thanks. And if I could add one on injectable AUGMENT. Assuming you guys get approval later this year or whenever it may be, is there any additional investment that you guys need to make in either manufacturing or in building out the salesforce or any other additional costs, or will you be able to just drop that in the reps bag?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Yes this will be easy, it's actually easier than the current form of AUGMENT. So there will be no additional cost, some slight training, but it's mostly online kinds of training. So no, this is not going to -- it doesn't have additional -- does not for all practical purposes have additional cost to it.

Unidentified Participant - - *Analyst*

Great, thanks for taking the questions.

Operator

Raj Denhoy, Jefferies.

Raj Denhoy - *Jefferies LLC - Analyst*

Hello, thanks. So just a couple actually if I could. On the metal on metal hip litigation, there were still three insurers I think at last update that had yet to settle, have you made any progress there with those?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

We're still in negotiations with them, so I can't say that, that is settled. We are working on it, Raj, that's the best I can say about it.

Raj Denhoy - *Jefferies LLC - Analyst*

Okay, fair enough. And then maybe just to follow up on the shoulder question, I think by all accounts I would agree that you guys do have the broadest portfolio, most complete.

But when you think about the competitive landscape, are you aware of any other short-stem implants or even more minimally invasive or bone sparing reverse implants in development? Because when you think about the growth you guys are putting up, I think this quarter there was 14% in shoulders. Do you imagine that, that could accelerate from here given that you now have even a better portfolio as you are moving into 2017?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

We hope that in 2017, 2018 it does accelerate. We think that that is what we're trying to do, and I just think that the gap between us and our competitors is widening. I don't know of any specific competitor that will be launching a SIMPLICITI short ten type of product in the near term.

So I think that when we look at 2017, we are looking at pretty much a constant basis of our products and our competitor's products. So there's nothing that I am aware that say that a competitor has a short stem or stemless device that's going to be in the market right away, anyway. At some point in time, I sure they well.

Raj Denhoy - *Jefferies LLC - Analyst*

Great. And just maybe two quick follow ups on SIMPLICITI. Is there anything you're willing to give us in terms of what percentage of your anatomic implants are now SIMPLICITI, and whether the ASP increase, I think you were talking about a 50% upcharge for SIMPLICITI, is that still holding at this point?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

The ASP on SIMPLICITI is about 60% higher than the normal products that we have, and that is holding. As a matter of fact, pricing across our portfolio of lower and upper is very stable, and has been stable. So I don't think I can give you any more specifics than that.

Raj Denhoy - *Jefferies LLC - Analyst*

Anything about the penetration of SIMPLICITI or what percentage your shoulder implants at this point are short term?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

No, I don't think I can give you that but I can tell you we still look at this as about a $200 million, $250 million market. It cannibalizes a lot of procedures that we would have done without SIMPLICITI, but with the 60% ASP it's a really good deal.

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

And we think it still has a lot of room to go.

Raj Denhoy - *Jefferies LLC - Analyst*

Okay. Great, thanks.

Operator

Glenn Novarro, RBC Capital Markets.

Glenn Novarro - *RBC Capital Markets - Analyst*

Hello, thanks, guys. Just one question, and it's for Lance. Lance, I just wanted a little bit more help on how I should think about the top line for 2017 on a quarterly basis?

You said that second half top line will be mid-teens, first half lower. We've got the extra selling day in the fourth quarter, and we are selling the Salto ankle in the third quarter.

And just trying to get the numbers to work, it looks like we should be thinking about revenue growth in the first quarter of this year in the 10% to 12% range, and then in the fourth quarter in that 18% range. So am I thinking about it -- are we in the zone of how we should be staggering the quarters for 2017? Thanks.

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

Yes, I know it's a little bit confusing and I'm not sure if your question was an as-reported or a constant currency growth. The simplest way to think about it just in getting the wrong numbers right and in line if you choose to be with our guidance. Is you have as-reported growth of 9% to 11% growth for the year, and that's definitely going to be lower in the first half of the year because it's going to be more impacted by dissynergies. And then the second half of the year doesn't have nearly as much dissynergy headwind and it has the benefit of the product launches and the salesforce expansion.

So that's probably the simplest way to think about getting absolute dollar numbers right. And then it's a little bit more complicated to try and get into same day and constant currency, and I would be happy to follow up with you off-line to go through that in more detail.

Glenn Novarro - *RBC Capital Markets - Analyst*

Okay. Yes, I was thinking constant currency, but obviously there's going to be a big fourth-quarter hockey stick given the extra days, correct?

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

Yes. The extra days will impact a lot, and that's what we talked about on a same-day basis constant currency splitting the dissynergies and Salto, which is we think really more of a normalized run rate of what the business is doing is 12% to 14%. But that's a lot of moving parts to try to get to an absolute revenue dollar number that lines up with our actual top-line guidance of $755 million to $765 million.

Glenn Novarro - *RBC Capital Markets - Analyst*

Okay. All right, we will follow up off-line. Thanks, Lance.

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

Okay, thanks.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Good evening, can you hear me okay?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Yes.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Wonderful. A couple of things. One of the things which you highlighted in the past is how AUGMENT has helped open up new accounts for you, and talked a little bit about maybe some pull through in sales. Can you address where you are in that process, please?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

I can't give you a specific number, Joanne, but I can tell you is that we have a significant number of accounts that we sell AUGMENT in and had never sold any hardware in previously. And we are now able to get hardware sales in addition to that, maybe in a future call we'll be able to give you a little bit more color about that. But I was just at our national sales meeting and that this was a point well made by many speakers about how AUGMENT has opened the doors in accounts that they could no longer -- that they had not been able to get into.

I also think that with AUGMENT injectable this will be a big factor in that AUGMENT injectable is so much more user-friendly. And that doctors I think will, particularly given that we have a great history with the clinical results so far, will help drive new accounts of AUGMENT users then those accounts hopefully will drive additional hardware sales.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay. And my second question, it has to do with adjusted EBITDA which is tracking ahead of schedule. When I do simple math, you are exiting 2016 with a $90 million revenue, not revenue, adjusted EBITDA run rate. Guidance is for $78.5 million to $88.5 million which is down, how do we think about that?

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

First of all, Joanne, is you got to realize with seasonality Q4 is typically by far our strongest quarter. So if you're just taking that number and trying to blow that out as a run rate, that's going to be over inflated pretty much every year. So that's the simplest answer on how you basically laid out the run rate versus 2017.

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Joanne Wuensch - *BMO Capital Markets - Analyst*

But in a more complex form, could you give us an idea of how you expect it to track next year and what's really driving the faster than expected booking of it?

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

Sure. So if you think about 2017, we are expecting EBITDA margin expansion pretty consistent across each quarter of the year. So we expected about 300 basis points expansion for the full year, and something generally in line with that across each of the quarters.

As far as why it is faster, first of all, we got almost double the cost synergies realized in 2016 than we had originally laid out, which is fantastic. Because we already have those in the bag. Also, we had some really strong revenue over performance in 2016, and we were able to have that create additional leverage as well.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay, thank you. Nice quarter.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

Thank you.

Operator

Matt Miksic, UBS.

Matt Miksic - *UBS - Analyst*

Hello, thanks for taking our questions. One on upper, and one on the some of the inventory and working capital initiatives you've got. So on upper extremities, you touched on some of this, your new product adding to expanding the shoulder market.

If you could -- this is a market for some time that I think has been viewed as underpenetrated, even in the historical anatomic and reverse categories. Can you give us a sense of to what degree that expanding and potentially if you do feel like you need a PROPHECY type solution in the upper? And then I have one follow up.

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

The underlying market is we think is growing at 7% to 9%. That's the number we hear all the time, and we think that's right. So we are growing significantly -- almost two times that when you think about 2017 and beyond.

And I think it has to do with our pipeline of products. We think that PERFORM Reverse is the big product. More of the US market seems to be moving towards reverse shoulders, similar to what we have seen in Europe, and that will be a bigger part of the business we think 2017 and beyond.

Enabling technologies we think are really an important differentiator for us. We do have PROPHECY which is a big differentiator in the lower extremity.

Blueprint, we think we're rolling it out in stages. First quarter, second quarter of this year. It's an important service that will help physicians plan their cases, and be able to try different technologies on a computer without actually implanting them and see what they think would work best. And I think just like PROPHECY, over time this will become an important differentiator for us.

And so, this is something that we talked about in 2016 as the way we look at our R&D pipeline. We do have a lot of products that are like add ons and small little products, but our big products we think that if we can attach an enabling technology to them it differentiates us. It makes the procedure easier for the physician, and even in the case of PROPHECY, takes significantly less time by being able to pre-plan.

There was a very important paper that came out of Duke a couple months ago basically saying that when you use PROPHECY in a total ankle case it takes about 40 minutes less. That's a significant time savings for the physician, for the hospital and beneficial to the patient. So I think that these are the kinds of things that I think that we are honed in on as important parts of our product portfolio as we go forward.

Matt Miksic - *UBS - Analyst*

That's great. And then on the working capital and salesforce changes that you are making and fine tuning, this is something that I think I've seen you do a terrific job in the past, operating improvement to cash flow improvements. But it's also, these kinds of things as you know, are places where muscular skeletal companies have gotten tripped up in the past.

Either trimming too tightly on instrument sets or inventories, of course some of those are indirect field forces and so they are different situations than you are in. But I would love to hear you talk maybe about what kinds of safeguards are you putting in place to prevent yourself from either going too far or the kinds of things that other folks have run into in the past?

Robert Palmisano - *Wright Medical Group N.V. - President & CEO*

That's a great question, because we are very interested in this obviously. We reduced our lower extremity days on hand by 250 days last year. It's quite dramatic.

The idea is, what we want to do is eliminate the waste. We don't want to eliminate what's needed, and the better we can pre-plan the more waste we can eliminate.

Secondly is that we have a hub network that is unique. In that we're able to then instead of having where you -- particularly with the indirect salesforce, where you have in essence a distribution system with each rep or each distributor.

We now will only -- we will have 20 or 21 of these distribution points that we can control that inventory and get it to the right place at the right time, as opposed to when you have an issue with products that are so dispersed as they used to be with Wright, quite frankly, before we had the hub. And with the upper extremity before we actually get all these into the hub, there is big opportunities without at all getting into a situation of not having enough inventory.

The objective is, is to have the right inventory at the right place at the right time, our hub network as well as our understanding of what inventory is actually needed for a case and pre-planning that [goal] is important. And I think we can make progress on that. You want to add anything to that, Lance? You're involved in this.

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

The other thing I would add is that with the hub, we just have so much more information. We can be very data driven about what inventory and instruments are needed for the case. We're not just taking a top-down approach of saying we're just going to have less inventory, figure it out.

We have thousands and thousands of surgeries where we have the exact data by surgeon on what was sent to surgery and then what was actually used. So that's a real benefit of the hub network is that we can be data driven about it. And as Bob said, we can agree collectively what's needed for surgery as opposed to what's not needed for surgery. And I think that's probably a big difference from what I have seen historically both at Wright and I would assume at other orthopedic companies.

Matt Miksic - *UBS - Analyst*

That's great, thanks.

Operator

Thank you, and this does conclude the question-and-answer session of today's program. I would like to hand the program back to Bob Palmisano for any further remarks.

Robert Palmisano - *Wright Medical Group N.V. - 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. I believe we are well positioned to continue to accelerate our business momentum and drive market-leading growth.

And I want to express my appreciation to our team for their efforts in 2016, and I look forward to updating you on our next quarter earnings call. We appreciate your interest and your continued support. This concludes our call. Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
