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PRESENTATION

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Good morning, everyone. Happy to kick off the JP Morgan Healthcare Conference with Wright Medical. I'm Robbie Marcus with the Med Tech Team.

Today, we have Bob Palmisano, President and CEO; and Lance Berry, CFO. Breakout will be in the Yorkshire room just around the corner.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Thank you, Robbie, and nice to see everybody here bright and early on the first day of the conference. Happy to be up here.

So I'm going to tell you about where we are and what our plans are for Wright Medical. I think it's a pretty good story.

This is all the cautionary information that, if you would really like a reading of this, Julie Tracy would -- here would be happy to accommodate you and read this to you. If not, you can check our website. It's pretty normal stuff, but I always have to make sure that I cover that.

Let me talk briefly about the late-breaking news around Wright. First of all, we did issue a press release this morning regarding preannouncing our 2017 results. Our 2017 results pretty -- came in pretty much what we expected -- came in at the high end of our range of -- our range was $740 million to $745 million. We came in just about $745 million.

I'd like to say about that is we are pleased that we were able to do that. There are a lot of moving parts in '17, but we're nowhere near satisfied. There's an incredible amount of opportunity in this company and in this industry that we think we can unlock and that we're just at the beginning stages of that.

Secondly, we announced just before the holidays the acquisition of IMASCAP, which is the company that develops the BLUEPRINT software technology. I've been asked a lot about this. Why did we go through with this acquisition? Why didn't we just continue the way we were? And I would say, first of all, this is breakthrough technology.

This is transforming our company to being something different in the -- not only in the future but in the present and in the midterm. Is that -- we believe very strongly in our major product platforms that it's not the piece of hardware that is the beginning and end of the story. It's the enabling technology that allows the surgeon and the institution and the patient to have a better solution for the surgery that really makes a difference. And BLUEPRINT really makes a difference.

We had license to the first 2 modules of that. That was it and that's just the beginning of the story about BLUEPRINT. There's so much more to the way this is going to develop and how software is going to play an integral part in our surgical solutions as we go forward.

I'd also add that this was a competitive process. It's -- this was a very desired asset and it would have been unfathomable to me that we would wake up and a press release from a competitor saying they had acquired this technology when we had done all the spade work.

So this was something that we felt very good about doing. We're very happy with the resolution and this is going to pay dividends to Wright and our -- to our company now and in the future.

We're very pleased with where we are. We are in a great spot. We play in high-growth markets. Our -- the -- in terms of medical devices and particularly in terms of orthopedics, this is really the cream of the crop here in terms of where you want to be, in terms of markets.

Our -- the lower extremities portfolio and that business is a high-growth business and we are #1 in that without a doubt.

Upper extremities, again, a market growing 7% to 9%, in that area. We are #2 and gaining. Two years ago, we were #3 and we're gaining and I think we have a vision to really be #1 in upper extremities and I think that we can attain that.

And in biologics, in total, market growing in the 5% to 6% area, but where we are participating in the more unique product areas such as where we have a PMA-approved product in AUGMENT that is critically acclaimed as -- in terms of its uses is that we are, by far, the leader.

So in total, we're playing in large markets. We're playing about -- in an $8 billion marketplace. We have very strong franchises and products around the world in those markets and our job is to maximize the potential of this and I think that's what we are really set out to do and we are well-positioned to do that.

So our strategic priorities for growth in 2018 are that we have a great franchise in upper extremities, particularly in shoulder. It is that I think, in Q3 we had high double-digit growth, 20 -- 17% or so in Q3. And we say this is a business that has much more potential in it. We have unique products, unique new products, it's really a new product story and a great distribution system around the world.

In our lower extremity business, which, in 2017, to be frank, underperformed. We had a lot of things in '17 that position us well for '18 that we accomplished. We finished up the synergy piece in the first half of the year. That was a thing that we had to get out of the way and I think that is now behind us. And also, we went -- very different approach in our sales force and integrated into our sales force a lot of new sales reps that would help us focus in different areas.

We have a saying around Wright Medical is to restore the core. Our business in lower extremities is good in our technologically advanced products. But in our core products, that business has changed dramatically in the last couple of years with a lot of small players coming into the market.

People that used to be distributors for either us or Tornier now will have their own little business in particular geographies. But also the movement from institutions to ASCs for a lot of procedures, and we are now in a position that we think we can maximize that and that was a year -- so 2017 was a year of transition in that.

International is always choppy. About half our business is through distributors and that business, year-to-year, quarter-to-quarter is a little bit hard to predict, but our direct business, our direct subsidiary business is very, very strong and will continue to grow and we are focusing in on that now and in the future.

And as I mentioned, driving enabling technologies. No one has what we have. People have products and implants and pieces of metal. We have, in our lower extremity, our flagship products like total ankle and INFINITY with PROPHECY. We have about a 60% market share in total ankle replacement. About 70% of all our cases use PROPHECY. It's a real advantage for doctors.

Now, when we get BLUEPRINT really out and operating at full steam, we will have the same advantage in shoulders. So that's -- a very strong philosophy in Wright Medical is don't focus on the implant, focus on the solution, focus on the surgery and what is needed to make that better, and we do that.

Cash. We are working on improving our inventory in instrument efficiency. We have a lot of programs in effect to do that. This is an inventory-rich industry. It's -- every company is faced with this. I think we can do better. We have -- and we are focused on this. I've been focused on this and our whole organization is focused on this.

Also, we're improving our day sales outstanding. I think we -- we've been able to reduce that significantly over the last several years and that trend continues. And we need to continue leveraging SG&A and I'll get into that a little bit later.

So growth. We -- a lot of growth is dependent upon products and new products. We have a whole pallet of new products both in upper and lower and even biologics that we think, in 2018, will help drive our business. And I'll just mention them and then a little bit more.

Minimally invasive surgery in lower extremity. This is a very small incision that goes to the exact spot that the surgeon needs and we could put very small implants into this incision. The healing is faster, the results are better and it takes less time. And we're going to be launching that in Q2. And if any of you are planning on attending the Academy of Orthopedics Meeting in New Orleans in March, I think we'll have a lot to say about this and give examples of that at that time.

Continuing our total ankle expansion. We are launching a product late in the year called INFINITY BIOFOAM. BIOFOAM is a titanium coating that is 3D-printed on parts of the implant that make integration into the bone better and more stable. And this will, again, continue our advancement towards having a full suite of products, not first generation, not second generation, not third generation, but fourth generation in our total ankle portfolio.

INVISION we launched this year. INVISION is the -- INVISION is our revision system for total ankle. It's in great demand. We've had great success with it. We are launching PROPHECY INVISION this year to make that whole thing go better and easier for physicians.

ORTHOLOC 3Di, right into our core, a product that will help us grow our core business. We launched that in midyear of '16 and really underappreciated the demand for that and are now in a position that we can supply that much better.

SALVATION is our Charcot product for Charcot foot, limb salvage. It's a great business for us and we have a lead in that and we continue to advance our product offerings and our instrumentation in SALVATION.

Upper extremities. The home run product of '16 we launched is PERFORM Reversed Glenoid. We launched that midyear. Again, one of these things where we under-anticipated the original demand. It got caught up late in the year and really drove our business. It really drove our business to be -- our upper extremity business and our shoulder business to have a terrific '17. We will have that for the full year and be in a very good supply position for the full year. So this will be a real growth driver in '18.

SIMPLICITI is our short-stem stemless shoulder system, uses less bone. We've been in the market with this for about 1.5 years now maybe. And we have converted a lot of doctors that we used not to do business with to using our products because of SIMPLICITI.

You may have read that a competitor has recently got an approval of a short-stem device and I'm sure that it's a fine device. Let me tell you this though, is that we've competed against that device in Europe for a number of years now and we have been able to increase our market share every time in every place that we've competed head-to-head.

So although that's -- our competitors now have a short-stem device that they will be launching in '18, it is that we feel that it's a very sticky product. We were able -- we're very -- able to compete with it around the world and that -- and the movement toward short-stem devices is good for us in general. So we're not too concerned about that.

And, of course, BLUEPRINT. As we integrate BLUEPRINT into our business, it will solidify our relationships with our physicians. It will make their lives easier and better and more predictable. And we're just at the beginning of this. We have so much more ways to go here as we integrate software technology into our surgical offerings.

Biologics. AUGMENT has been terrific. The results have been terrific. The critical acclaim has been terrific. I have mentioned in the past is that we have now another advancement in AUGMENT in the FDA process. It is an injectable form of AUGMENT, which we have now in some international markets. And it's on a panel track, but that doesn't mean it's going to need a panel meeting.

We have no -- I can't comment about when this will be approved or -- because I don't know, but I will say is that I'm an optimistic guy, just as I was with the original AUGMENT, that this will be approved and will have a pretty good impact on our biologics business. Where we launched injectable in our international markets, we thought -- we saw about a 30% increase because of the handling characteristics and the additional places that the doctors like to use AUGMENT injectable.

So let me just go into upper extremities a little bit. Again, new products. It's that we are -- one of the big things, just as we launched INVISION in our lower extremity business as a revision product to help drive adoption and help doctors do more surgeries, is that we are now launching a revision system -- revision shoulder system and that will happen later in the year.

PERFORM Reversed Glenoid, we'll have for the full year. We had it for about half the year in '17. And in that half year we weren't always in a full supply situation because we underestimated the demand. And we'll be in great shape with that.

BLUEPRINT, again, will make us -- help us with institutions, physicians and patients and help us in terms of helping us make sure that we have the right inventory at the right place at the right time and not too much as we typically do.

Pyrocarbon is a material. It is a very unique material that we have that reduces significantly the friction in the articulating surface which means that, theoretically, the implant will last longer. And that's one of the holy grails in implants, is make them last longer. And if they last longer, I can put them in younger patients. And this is now under an IDE, not immediately going to be in the market, but will be, hopefully, in the next several years out.

So just a little bit on this home run product. I keep on talking about, PERFORM Reversed Glenoid. It has 3 real advantages over anything else that's out there. Fixation is that it has a porous metal that fixates the implant to the bone and helps bind and integrate that into the bone. That is 3D-printed on the implant.

Augmentation, it is a -- in that we have so many -- we have many different permutations of the product so that we can pick a product, particularly now that we have BLUEPRINT, that will help us pick the right product for that patient. Now it's not a custom product, but it's a very compatible product that fits the anatomy of that particular patient, and orientation.

We have a very unique independent central screw that allows for infinitely adjustable permutations of the implant. Again, this is driving our upper extremity business in '17 and will in '18 and we have a significant lead here with this product.

BLUEPRINT. Let me talk about BLUEPRINT in a little bit more detail. BLUEPRINT today, again, we have -- this is just the first 2 modules. This is the tip of the iceberg in terms of what this technology will do.

So what we have versus some competitive offerings that also have some software attached to them. Ours is surgeon-controlled, whereas the competitive offering is done by an engineer in a different facility. That's somewhat like our PROPHECY is currently, is that that is not surgeon-controlled. That is done by us; when a doctor sends a case in we develop that. Eventually, PROPHECY will be just like BLUEPRINT, but not right yet. We're just focused on upper.

Real-time planning access. So we -- the doctor could plan this case right up the time they go in surgery with BLUEPRINT as opposed to when you have to have -- send this out and get it back where you have a very delayed planning access. We can use side-by-side comparisons. A doctor can say I can do it this way, I can do it that way, and look at how that will play out with a 3D animation, whereas anything else just is a single plan review.

Very importantly, we are able to have bone density visualization. No one else can do that. Often what happens is a doctor is planning to do a reverse shoulder and gets in there and say, well, the bone density isn't what I need to do that, so now I have to do an anatomic shoulder, which means that we're bringing -- we're -- us bringing in all the inventory for both a reverse and an anatomic at the same time.

We can visualize this so it will make everyone's life better. And we can have simulation of the humeral and glenoid. So you can go with 3D, you have 360 kind of look at this, all the way around and plan your cases, whereas no one else can do that. So this is exciting, but nowhere near what it's going to be.

We look at -- we call it a digital ecosystem that will get us from where we are now all the way through, we believe, things such as augmented reality using all the -- artificial intelligence, all those kinds of things. I believe this is real. We're going to have self-driving cars soon. We're going to have augmented reality in surgery and I don't think it's that far out and we already are well ahead of the curve there.

This benefits hospitals, patients and us. It will be at a reduced cost for hospitals in that they will be sterilizing less instruments and less implants and OR time should decrease. Same thing for patients is that there will be less time under anesthetic, which is good for them, and -- as we plan these cases better and their recovery time should be better.

And, for us, is that we should see the benefit of having significantly less inventory going into each surgery, the better we can plan these cases. We should get better outcomes.

We have a way of looking at cases using a whole file. We have about 7,300 cases currently now in our database that doctors -- that the artificial intelligence module will sync to to say this -- with this thing going on, this is the approach that is usually most successful, those kinds of things. So it's very exciting, a very exciting product that we were very pleased to have.

Briefly on lower extremities. We're looking for a mix between core products and -- core products and advanced products. I mentioned minimally invasive surgery, INFINITY BIOFOAM, INVISION, PROPHECY INVISION, ORTHOLOC 3Di, SALVATION expansions as well as the AUGMENT PMA.

So there's a mixture here of new products in lower extremity between core and advanced and no one has the breadth of product lines that we currently have and with our product pipeline is that no one will have that. Our technologically advanced products, our flagship products that are very unique carry high ASPs and high margins and we continue to invest in that such as the -- such as our INFINITY BIOFOAM this year as well as SALVATION and the AUGMENT PMA.

So we are very dedicated to regrowing our lower extremity business. Our focus is on growing the core. We need -- and we think that we've gotten the distraction that -- with the new sales force that we suffered in 2017. I think that we mostly have that behind us. And as we go through 2018, we look forward to that business being back on track as it had been before '17.

Before this year, before this new sales force is we had no sales reps focused on core. They did both core, advanced and bio. Currently, in our philosophy to regrow the core, is about half our sales reps are focused on core products and this should really help play benefits. And our new compensation plan for reps is based upon growth. And so we're going well.

Let me talk a little about leverage. We talked about the key drivers in terms of our products. About 50% of our expense base is highly leverageable, we believe -- or is leverageable. About half of it is in depreciation and amortization and R&D and sales will grow at the rate of sales, but the other parts of our P&L, sales management, marketing, medical education, distribution and G&A are highly leverageable.

So if you look at R&D and sales growing at the rate of sales in terms of expenses, if you look at the sales management, G&A and all those other products growing at inflation or below, is you get a very highly leverageable business. And we're seeing -- I think we'll really see the benefits of that in '18.

Just briefly on cash and liquidity because we get asked this a lot is that we do have enough cash to run the business in case anybody is wondering. We always like more obviously. We expect in '18 to be getting -- we expect in '18 to be cash flow positive, #1, which is obviously a good thing.

We also expect that we will be getting some insurance -- some proceeds from insurance in '18 related to the metal-on-metal litigation that was -- that's been in the past, but we're always looking at ways to increasing our liquidity and leveraging our balance sheet, but we're in a good position, we think, cash-wise.

So where are we? We are in a position where we run great businesses. We have great products. We're leaders in our businesses and growing our leadership position in these fast-growth markets. There are multiple drivers for success. We will get this lower extremity organization revved up and running in 2018 and turn that into a real positive part of our business. And we are on a very fast growth path to profitability and a stronger financial profile.

So 2018, as we look forward, it's going to be a great year. We think we ended up 2017 with some good momentum. 2018 is a year that we really expect to execute well and deliver the results that everybody expects.

Thank you. See you at the breakouts. (technical difficulty)

QUESTIONS AND ANSWERS

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Maybe you can start -- you reported good results for the fourth quarter you beat by $2 million versus the Street. It looks like the US was the primary source of that upside. Is there any color you could give into the individual businesses into what happened in the quarter?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, the standout performer in all of '17 was really our upper extremity business and more in particular our US shoulder business. I think in Q3 when we announced -- when we gave our results -- I think we had about 17% growth was that -- 17% growth in US shoulders. And we continue to see strong performance in the remainder of '17 and strong momentum.

And it's really led by the new products in our upper extremity business, particularly the PERFORM Reversed Glenoid product that I talked about in the presentation. And I expect that '18 will be a very solid high growth area in US shoulders, but particularly our new products, as we are more in a full supply situation that we weren't in all aspects in '17. So that was a real standout performer.

On the other side, our lower extremity business performed pretty much like we thought it would. We had a lot of headwinds, at the beginning of the year we had dis-synergies. And as we got through into the year we had a lot of disruption and distraction in our US sales force as we were trying to integrate in 100 new sales reps that would -- while term was the right decision for us to make, but in terms of -- immediately it caused some distractions, particularly in our core area.

We saw for the last couple years our core products kind of disintegrate -- kind of deteriorating a little bit from a high growth area to kind of flat. And we set out to do 2 things. It's to increase the number of feet on the street and, secondly, have people focus on core products.

And we're there now and that we think -- we have 100 more reps and over half of those reps are now focused on core. So we expect -- and we do still have the largest and most complete offerings in the industry. So we expect that business to be able to start accelerating back -- in the future, in '18.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Well good. On the third quarter call, you talked about 2018 preliminary guidance for around double-digit growth, which the Street was taking to be around 10%. Estimates are in the $807 million to $808 million range with a few outliers pushing up to about $810 million. Anything you saw in the fourth quarter that would make you change your 2018 (multiple speakers)?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

I can't be responsible for the Street forecast, but I can say that what we said in Q3 is that we still believe in that.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And that still holds? Anything that might make you more excited after seeing the fourth quarter?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Nothing I'm prepared to talk about now. As we get in our call in February, we'll have a lot more color on that. But I think, just take what we said in Q3 and I would use that.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Maybe taking in the U.S. shoulder business just on approval by Zimmer for a similar product that you said in the presentation you've been competing against in Europe. Is that an area you think that we could see strong mid-teens growth like we saw in '17 again in '18 or do you think the new competition might pressure you (multiple speakers)?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, there -- we know this product. We've seen it. We've competed against it. There is no fathomable reason that we see that anyone would switch from using SIMPLICITI to this. What's up for grab are new customers that don't use short-stem devices and those are ones that we'll compete against. I think that having the experience of many thousands of cases under our belt in the U.S. with notable physicians using it, secondly having BLUEPRINT available to help them, all will help us.

We do like the trend toward short-stem devices. We think this is a good thing. This makes the pool of potential patients bigger and that -- we have been very successful with it and the ASPs are better in the SIMPLICITI devices.

So we'll see how it goes. We're very -- we've been expecting this competition for a long time now. We thought that it would be 1.5 years ago or last year and it's here. But we haven't been sitting back not doing anything. So -- and we've increased our base of customers significantly and I don't see people switching just for the sake of anything because there's no reason to do that.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And in this area, you just did a recent acquisition of IMASCAP. I think this was an asset that people were surprised to see you buy. I don't think a lot of people realized that you didn't already own the asset or the software behind it. So maybe if you could just talk about the rationale and how this will help you vertically integrate the product better through your business?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes. First of all, this technology is vital. We believe that enabling technology, software enable -- enhanced enabling technology is the future. I think it will leapfrog over mechanical kinds of systems like robotics in the future.

We had license to only 2 modules of that -- of BLUEPRINT and they were -- and that's currently what we're using, but there are many, many more that are under development that would make a big difference in terms of providing a full surgical solution, a digital ecosystem as we like to call it, to customers.

This was a competitive process. There were other people very interested in making offers on this asset. I would imagine that all investors would have been deeply chagrined to wake up one day and say Xxx Company has acquired IMASCAP instead of us, and we would have been deeply chagrined.

So this was a competitive process. We're in this to win it. We wanted this technology. We have more experience with it. We know the potential of it. We know the power of it. And I think we made a pretty good deal and made a good deal that will help us short-term, medium-term and really long-term as we develop this technology to its fullest extent.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

If anybody wants to ask questions, just go ahead and jump in. If not, I'll keep going.

All right. Maybe one of the other areas that people have been focusing on is your lower sales force expansion that started off, you added 50%, maybe a little more growing pains than you thought at first. Now, you've had several quarters underneath your belt. Maybe what, if anything, would you have done differently? And then, how should the environment get better into 2018?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Those are very good questions and we're very introspective about this ourselves. All things considered equal, we would have done it sooner because we saw our core business really leveling off. In '16, it was really kind of really flattening, but our total ankle business kind of -- was growing at such high rates it kind of hid that.

The problem was obviously is that we were in the midst of the integration of the Tornier acquisition at the time and we couldn't see our ways to do that. But even given that, given what happened in '17, is that we should have done that and gotten that out of the way and '17, I think, would have been a little bit better.

But we now have that -- all the learnings of that under our belt. The people have been hired, trained. Some people that we hired and trained were the wrong people. We've gotten through that -- because we added so many people I think now we're pretty well-satisfied with our sales force, with our management.

We've gone through a lot of changes in the sales force management area. Our -- the VP of Sales, the regional managers, those kinds of folks, that we've subtracted and added in those areas to make it -- to make us better. And we're -- I think we're poised in '18 really to see the benefits of that.

Now, this doesn't turn around overnight. You don't go from this to that. It's that you go from this to kind of like more of a moderate curve. But we feel that we will -- that this is the right strategy. We now have the execution, we think, well in hand. And our focus on core in terms of new products, 50% of our sales force focused on this, will get us back to growing our core business we feel at very progressive rates as we go forward.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And a lot of these new reps are focused more on base business sort of procedure, core procedures which are shorter (multiple speakers).

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes, they are. They're more based on the core products.

The other dynamic in place I mentioned briefly in the presentation is a pretty significant movement from a lot of these procedures in core procedures being done in hospitals now being done in ASCs, in ambulatory surgery centers. And this is a different dynamic. Price is pretty important.

A different kind of service is important, not so much technical service, but when I have a case, I need you there with this product at this time as opposed to we can plan this well ahead. So all those things, all those dynamics, I think, that we understand, we're organized to meet them. And so I think that we're in good shape now.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

So how much of stemming the losses there is simply about just having more feet on the street, being in the right place at the right time and how much is the portfolio?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

It's more -- I think there're 3 things. It's more feet on the street where necessary. Having a significant amount of the sales force focused on core as opposed to being very widely not focused in doing total ankle like -- the sales force liked to do total ankle because they made more commissions as opposed to a hammertoe, which they don't make a lot of commission, so having people focus on that.

And secondly, a reinvigoration of new products into core. I mentioned a few of them, the ORTHOLOC 3Di product, the minimally invasive surgery offerings that were -- that are being launched this year. So all 3 of those things will play a significant role.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Can you just compare and contrast that with what was launched let's call it a year ago or 2 years ago in core? Or there -- you said 3 significant new products, were there 2 or 1 or...

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, you might have -- I think that most of the products -- we haven't launched a lot of new products in core lately and the ones that we do are just kind of like a different kind of plate or something like that as opposed to an offering like -- minimally invasive surgery is a totally different thing.

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

Yes. I would say in '17, probably the only real launch for core was the ORTHOLOC Ankle Fracture, which was midyear. And as Bob talked about, we really under-forecasted demand. So we really didn't have the sets to make a big difference in the core.

And so we're -- I mean -- which is great, there was just a lot more demand than we expected, but we're having to rectifying the inventory and instrument situation currently, which we think will be -- it's one of the reasons we've highlighted it for '18 even though it launched in '17 is we're thinking it will be a much bigger contributor in '18.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Question.

Unidentified Analyst

(inaudible) U.S tax reform and how do you expect that to affect your effective tax rate going forward (inaudible)?

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

Let me just repeat the question. It was on our thoughts on U.S. tax reform.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes. Go ahead, Lance.

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

Yes. So first of all, our effective tax rate is very near 0 currently. We have an enormous NOL position and we have valuation allowances on those. So from an actual ETR standpoint, it really doesn't have an effect.

If you take it really up a level and say what does it mean for us. It really doesn't mean a ton for our company because of our unique situation, which is foreign domiciled with significant amount of U.S. NOLs. So there are details of things that we have to work through, but kind of at a macro level, it's not a huge impact for us.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Other questions?

Unidentified Analyst

With the size of organization on the foot and ankle side -- with all the reps that you added, who else has a similar sized sales force? And are there any -- given what you said, price and moving the ASCs, are there any players in the space that are maybe not acting properly?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

No. I mean, I don't know if they're acting properly or not, but I assume they all are. The change has been more of not like a big company. I mean, actually Stryker, I understand, this is second-hand to me, actually used to have a direct sales force and now they merged them into their other -- their trauma business, so they're not separating. But it's the growth of a lot of small companies.

When Tornier and Wright merged, there were a lot of distributors that were in play. In other words, we had a direct sales rep and when we merged with Tornier, there was a distributor. That distributor went away and that territory was now managed by a direct sales rep. That distributor didn't go away. That distributor got his own line of screws and plates and started the Julie Tracy Foot and Plate business.

And that's where more of the competition has come from is these small, regional, formerly distributors that are now actually sourcing products and had relationships with those physicians because they called on them for years, and that's more where the competition has come from. No one has -- that I'm not aware -- no one has anywhere close to our 300-person direct sales force.

Unidentified Analyst

How much of your commodity business is overlapping with docs that do foot and ankle?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, I mean...

Unidentified Analyst

Are your foot and ankle guys (inaudible)?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

I would say our -- some docs do both total ankle replacement and -- most of them do total ankle replacement and fusion core -- core products. There are -- but there're a lot of doctors that don't do total foot and ankle -- total ankle replacements that just do core.

So we were not focused on that, nor were we focused, to the extent we needed to be focused, on the transition from hospitals to ASCs. And now, again, that was -- that business was -- it became very competitive from these small regional distributors now having product lines.

Unidentified Analyst

Just a short-term and long-term one. Short-term one is just what kind of effect do you see in the fourth quarter around the third party issues in lower?

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

You mean the supplier issues that we called out in the press release?

Unidentified Analyst

Yes.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

You want to repeat the question?

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

Yes. The short-term question was around what impact did we see around the short-term supply issue that we -- on the -- with the third party vendor.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Yes. That did affect us some in Q4 on our total ankle -- in our total ankle business. This is -- it's a coding issue. We do not do our own coding. We send that out. Two years ago, we had one supplier that's proved unsatisfactory. We added a second supplier. That didn't solve the problem. Now we added a third supplier. So now, we think that we have that under control, but it did affect us some in '17 and in Q4 in our total ankle business.

Unidentified Analyst

Is there a -- I mean, it's not a huge business for you that...

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

I would say our total ankle business is $70 million or so? I forget.

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

Roughly.

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

Yes. I mean you can back in this -- based on comments we've said, it's a $60 million to $70 million business.

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

Yes.

Unidentified Analyst

A longer-term question. Again, just -- we'll get more color on 2018 on the next call, but where it seems like from the third quarter commentary, low double digits to mid-teens longer term. Can you kind of bridge some of the drivers to get up towards that mid-teens growth level?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Well, I think that's still where we think we can get to eventually, mid-teens. And it has to do with more of these enabling technologies really being just core to the way surgery is done. And I think it's going to be -- it's not going to be overnight. It's going to be kind of a prove it to me kind of a thing over a period of time, but I think that's critical.

I think that all we need to do is get our -- if we can maintain the current level of growth in our upper extremity business, if we can get back to where we were in '16 on our lower extremity business, you're there.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

You had a pretty healthy list of new product offerings coming in 2018. Are there any that you're more excited about or that you want to make investors aware of?

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Minimally invasive surgery is, I think, is actually going to be a very huge deal, and we'll spend a lot of time with this at the Academy and give demonstrations. This -- we've had this product in Europe, particularly in the U.K., for some time and it's kind of dominated the core business there. So I think that is one that we're very excited about.

Obviously, AUGMENT injectable, when that gets approved, that's something we're very excited about. And all the other product -- some that we launched in '16 will be in full business in '17, will also carry us, but those are the 2 I would call out at this point.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Lance, maybe you could -- you had a slide up in the presentation, but maybe you could help us remember the status of all the cash flows that will be going out over the next few months and how much cash you'll end pro forma once those go out.

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

Yes. So I would refer everyone to one of the presentation. We tried to lay out those things. We had quite a bit of cash on the balance sheet at the end of Q3, but we do have some pretty chunky outlays ahead of us.

We have kind of what's left on the original metal-on-metal settlement. We had -- we announced a settlement to really clean up kind of the remainder of the metal-on-metal cases that is contingent on receiving some insurance proceeds, but we do have a net liability there.

Hopefully, we're going to hit the AUGMENT or BioMimetic milestone payment soon, which is $42 million. And then we've already used a little less than $50 million of cash on the IMASCAP acquisition.

So if you take those things and compare them to the balance sheet and also the remaining availability on our line of credit, we probably have, after we do those things, around $100 million of liquidity available to us, which we think is plenty to run the business plus, excluding these really large outlays in '18, we expect to generate some level of cash and be really turning the corner to be creating cash as opposed to consuming it. So that's all good.

Having said that, I think Bob and I will be thinking about -- he talked about this in the presentation a little bit. It's always good to have more. You want to make sure you have flexibility. This IMASCAP acquisition was really important and, because of where we were, we had the ability to do that.

And so if there's technology -- we've always said if there are technologies out there that are differentiated in our space, then we're going to want to own them and that you have to be able to execute on those. And really, you'd prefer to be in a position to be able to do those as opposed to having to finance contingency or anything like that.

So we have plenty of money to run the business, but we will be looking at ways opportunistically are there ways that we can enhance our balance sheet. And we'll be thinking about that over the course of '18.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

And what's the preferred route for that? Is it debt? Equity?

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

I think it's something we have to think about. I mean, we do have some -- multiple options there and I think it's something we have to work through. We do have some convertible debt that's coming due in early 2020. And so we've got to start thinking about that at some point, that that'll need to be refinanced in some form.

So I don't think we've settled on a definitive answer to that. We just want to be clear with everyone that we'll be thinking about ways to enhance our flexibility.

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

I think we're just about out of time.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Great. We'll end it there.

Robert J. Palmisano - *Wright Medical Group N.V. - CEO, President and Executive Director*

Thank you.

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

Thanks, everybody.