Wright Medical Group (Update)

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Corporate Speakers:

- Lance A. Berry; Wright Medical Group NV; SVP, CFO
- Robert Palmisano; Wright Medical Group NV; President, CEO

Participants:

- Matthew O'Brien; Piper Jaffray; Analyst
- Jeff D. Johnson; Robert W. Baird & Company, Inc.; Analyst
- Richard Newitter; Leerink Partners LLC; Analyst
- Raj Denhoy; Jefferies Group LLC; Analyst
- Joanne Wuensch; BMO Capital Markets [United States]; Analyst
- Mike Matson; Needham & Company LLC; Analyst
- Larry Biegelsen; Wells Fargo Securities LLC; Analyst
- Bob Hopkins; Bank of America Merrill Lynch; Analyst
- Matthew Blackman; Stifel Financial Corporation; Analyst

PRESENTATION

Operator: Welcome to the Wright Medical Cartiva Acquisition Conference Call.

(Operator Instructions)

As a reminder this call is being recorded.

I would now like to turn the conference over to our host for today. Lance Berry, you may begin.

Lance A. Berry: Welcome to this conference call to discuss today’s announcement that Wright and Cartiva have entered into a definitive agreement to combine businesses. We appreciate you joining us.

I am Lance Berry, Wright’s Chief Financial Officer. Julie Dewey, our Chief Communications Officer is on vacation this week so I’ll be handling the call logistics today. With me on the call is Bob Palmisano, Wright’s President and Chief Executive Officer

The agenda for this call will include an overview of the transaction that we announced earlier this morning from Bob and then I will review the financial terms.

Following our prepared remarks, we will take your questions and Bob will provide closing comments.

First a few logistical comments.

This morning we issued a press release and posted a slide presentation covering the transaction both of which can be accessed on the investor relations sections of Wright's website at wright.com. Wright will provide additional details regarding the financial impact of the transaction when we -- when we report our Third Quarter 2018 results on November 7th, 2018.

Before we begin, I'd like to remind you that this call includes forward-looking statements including statements about our outlook for 2018. 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 most recently filed Annual Report on Form 10-K, and subsequent quarterly reports on Form 10-Q, as supplemented by our other SEC filings. Our SC filing -- 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 press release and today's discussion include certain non-GAAP financial measures. Please refer to the -- to today's press release for an explanation of these non-GAAP financial measures. For the reasons explained in today's press release we are unable to provide a quantitative reconciliation of certain of the non-GAAP financial measures to the most directly comparable GAAP measures.

This conference call is not an offer to sell or a solicitation of offers to buy any securities. Any financing will be conducted pursuant to separate offering materials.

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

Robert Palmisano: Thank you, Lance and thank everybody for joining us today.

As you know, early today we announced that Wright and Cartiva have entered into a Definitive Merger Agreement under which Wright will acquire 100% of Cartiva's outstanding equity for a total price of 435 million in cash.

This transaction is a perfect strategic fit for us and is very compelling financially as it increases our pro forma revenue growth rate by approximately 100 basis points and is accretive to adjusted EBITDA margin's cash flow and non-GAAP earnings-per-share in 2019.

Once closed the Cartiva Synthetic Cartilage Implant will be the most profitable product in our Company and one of the fastest growing.

From a state -- from a stated point -- standpoint our goal is to lead with best-in-class differentiated technologies in Extremities and Biologics.

This transaction is right in line with that strategy. It accelerates our revenue growth and add a differentiated PMA-Approved Technology for a high-volume Foot & Ankle procedure.

With Cartiva and ProSTEP we will have differentiated technology in all parts of our business including core Foot & Ankle.

Cartiva Synthetic Cartilage Implant or SCI is composed of a biocompatible, durable, low-friction organic polymer that functions similarly to natural cartilage. Cartiva's SCI is the first and only PMA product for the treatment of Great Toe Osteoarthritis and the only FDA-approved cartilage-like polymer.

The product is supported by compelling clinical performance and the only product of its kind backed by Level I clinical evidence.

The Cartiva SCI offers significant patient benefit as compared to Fusion and Cheilectomy the current standards of care for Great Toe arthritis.

Unlike Fusion Cartiva reduces joint pain without sacrificing the foot -- the foot's natural movement and retains mobility and range of motion. Also due to a less restricted rehabilitation protocol Cartiva's patients typically return to function activities of a daily -- of a daily living faster than patients undergoing -- who undergo a Fusion procedure.

The Cartiva procedure can be formed -- can be performed in about 35 minutes which is approximately 40% faster than the Fusion procedure.

Additionally, whereas a Cheilectomy is generally viewed as a temporary solution for the patient that makes a later fusion more complex the Cartiva SCI is a potentially permanent solution for the -- for the patient.

With the Cartiva SCI we have the ability to drive significant market expansion. The SCI has a higher average selling price than fusion products and today there are no implants used Cheilectomy procedures.

Today there are approximately 120 Great Toe arthritis procedures performed annually in the US representing a 400 million US market opportunity for the Cartiva's SCI $3,500 average selling price versus the average -- on average less than 2,000 from fusions.

There are opportunities to expand this market further by treating patients that are younger and in earlier stages of arthritis. We believe the ability to retain motion could drive this expansion.

The Cartiva SCI is a perfect fit with our direct Foot & Ankle salesforce and has excellent pull-through and cross-selling opportunities.

Great Toe arthritis is a very common condition that is treated by most Foot & Ankle surgeons, the same surgeons that our large direct sales force is calling on today.

Cartiva is experiencing rapid commercial adoption currently and we believe that we can significantly accelerate that adoption with our large salesforce which is roughly double the size of Cartiva's current salesforce.

Additionally, the Cartiva SCI is a differentiated technology with strong patient demand and we expect that it will be an excellent door opener for our reps and provide an opportunity to pull-through sales of the rest of our Foot & Ankle portfolio.

Cartiva has minimal sales internationally but is approved in several important markets including the UK, the EU, Australia and Canada where we have strong direct Foot & Ankle presents which should be additional upside to this opportunity.

From an integration standpoint we view this transaction as very low-risk and expect minimum sales for synergies. Our salesforce is currently performing at a high level and at this differentiated product should only enhance the increasing productivity of our reps.

The product and procedure are simple and easy to learn. Also, the product is logistically ideal as it consists of a large -- and consists of a package of sterile single-use instruments and two -- implant sizes all of which should enable our salesforce to come up to speed very quickly.

The Cartiva business has very strong growth currently and we will -- we will look forward for ways for our salesforce to be additive to that growth.

We do know that there will be some disruption to Cartiva's existing distributive salesforce as a result of this acquisition but we also expect that this acquisition will allow us to further invest in the salesforce where applicable.

Where there is turnover growth of the Cartiva -- Cartiva's salesforce we expect sales -- the synergies to be minimum as the Cartiva SCI is a unique product with no substitute.

Outside of the salesforce we expect integration activities to be minimal and relatively straightforward.

In addition to being an excellent strategic fit with low integration risks this transaction is very financially compelling and will make our business financially stronger.

As I stated earlier once closed the Cartiva SCI will be the most profitable product in our Company and one of the fastest growing. The product has 90%-plus gross margins, single-use sterile instruments and two implant sizes. This results in no instrument CapEx and very little -- very limited inventory.

The product configuration is very balance-sheet friendly. The transition is accretive to our adjusted EBITDA margins and cash flow. Cartiva's EBITDA margins as a standalone Company are already accretive to our margins and Cartiva is also a cash-flow positive.

We expect the transition to contribute approximately $47 million of sales and $20 million of adjusted EBITDA and 100 basis points of adjusted EBITDA margin expansion in 2019.

Additionally, despite some expected transition expenses we expect the transaction to be additive to cash flow in 2019 and significantly additive in 2020. Additionally, the additional EBITDA from this transaction reduces our net debt to EBITDA leverage.

I will summarize the transaction as follows.

First Cartiva SCI is a unique PMA-approved product that is right in line with our strategy to lead the Extremities and Biologics market with differentiated technologies.

Second the transaction accelerates our pro forma revenue growth through the -- through the significant market expansion opportunity. Additionally, fits perfectly with our salesforce and provide significant pull-through and cross-sell opportunities.

Third we view the potential sales to synergies as minimal due to the unique nature of -- nature and PMA approval of the SCI product.

Finally the transition is very financially compelling and will strengthen the financial health of our business.

Next, I want to briefly discuss how our business is currently doing.

We noted in the press release today that based on the strong performance to date we are rising our Full-Year 2018 Net Sales guidance, excluding any impact from the Cartiva transaction to 812 to 822 million from our previous guidance of 808 to 820 million.

To date the Third Quarter performance has been strong and we have continued to build momentum in our core Foot & Ankle business. We have also continued to see strong demand for our Shoulder products and I'm very pleased with our business is progressing.

Before turning the call over to Lance, I want to express my deep appreciation to Cartiva's talented and dedicated employees and distributors' partners around the world. We look forward to working closely with them to plan integration and ensure a seamless combination.

Very minimal integration is required for this transaction and we do not anticipate disruption of our current business momentum. Continuity and a seamless customer experience are top priorities.

We are also very appreciated of our Wright colleagues who have worked so hard to bring our companies to this point.

In summary this transaction is very compelling for Wright. In addition to the opportunities and [selling] growth and profitability, we talked about earlier this transaction presents the opportunity to participate in a significant upside and future growth prospects expected from a larger, stronger, combined organization.

I would like now to pass it to Lance who will go through the financial aspects of this transaction.

Lance A. Berry: Thanks Bob. And good morning, everyone.

Although there are some limitations on what we can disclose by way of financial metrics until after the transaction is completed there is some detail I can give you today and the -- and the potential for what this acquisition may represent.

Under the terms of the agreement with Cartiva, Wright will acquire 100% of Cartiva's outstanding equity at a total price of 435 million in cash.

The Company anticipates funding the purchase price through the sale of equity securities at some point prior to the closing of the transaction.

The Cartiva transaction is expected to close in the fourth quarter 2018 subject to the satisfaction of customary closing conditions including Hart-Scott-Rodino clearance.

As Bob highlighted earlier this transaction is very financially compelling. Wright expects Full-Year 2018 Cartiva revenues to be approximately 35 million which represents approximately 50% growth over 2017 with gross margins and adjusted EBITDA margins accretive to Wright.

The actual impact to Wright of Cartiva revenue in 2018 will depend on the date the transaction closes and we are not providing any guidance on that at this point. We will update you once the deal closes.

We provide updated Full-Year 2018 guidance including the impact of the Cartiva acquisition post the closing of the transaction.

Assuming a close of the transaction in 2018 Wright anticipates the acquisition to increase 2019 revenue by approximately 47 million and adjusted EBITDA by approximately 20 million which we anticipate will be approximately 100 basis points accretive to pro forma revenue growth rates and approximately 100 basis points accretive to adjusted EBITDA margin. We also expect the transaction will be added to the cash flow in 2019 and significantly additive in 2020.

The unique and differentiated nature of the Cartiva SCI technology, the significant market-expansion opportunity, and the impact to our revenue grow -- growth rate are very exciting.

Equally exciting is the impact this acquisition has on the financial profile of our business. The transaction significantly increases our adjusted EBITDA and cash flow and reduces our net debt to EBITDA leverage while accelerating our pro forma revenue growth rate.

In summary we are very excited about the significant opportunities this transaction represents for both of our business.

With that I'll now open up the call for questions.

QUESTIONS AND ANSWERS

Operator: Thank you.

(Operator Instructions)

Our first question comes from Matthew O'Brien of Piper Jaffray. Your line is now open.

Matthew O'Brien: Good morning. Thanks so much for taking the questions.

I guess just for starters, either Bob or Lance can you talk a little bit about the overlap that you're seeing between the two organizations just in terms of where you can see some pull-through potential as we exit this year into next year?

Lance A. Berry: Well, it has a couple aspects to it Matt.

First of all, I think that you know, we have a large direct salesforce that this will be easily integrated into.

We have seen Cartiva product in the marketplace for a while now they have done very well, customers are very loyal to it and so it gives us the opportunity with our large direct salesforce to really you know, expand that.

Also, there are areas of the country that Cartiva's current salesforce, distributor salesforce doesn't cover which we have direct coverage in.

And secondly is that you know, there are many physicians who are using this product that are not currently customers of Wright so this gives us those opportunities also.

I think it's an easy product for our salesforce to get up to speed on. It's very, very straightforward, medical education and rep training should be handled very quickly.

And so soon as this deal closes I think that we could be off and running in conjunction with the current Cartiva salesforce.

Matthew O'Brien: Okay and then as a follow-up you grew 50% so that business grown 50% this year, you say at about you know, mid 30s next year for the growth. Why is that number the right number given the size of your salesforce and the international expansion why wouldn't that come a little bit faster may be even a little upside?

Lance A. Berry: You know, it could. It's just hard to project that -- out like that.

You know, one of the reasons you know, businesses with small revenue gross grow faster on a percentage basis is that you're able to get the early adopters in your you know, -- faster so it takes a little while -- a little bit longer generally when you're going more through the psychographics of physicians but even at -- even at 30-some percent growth next year and these margins it's a -- it's a great deal.

We do have as you pointed out -- currently the -- there's very minimal sales internationally and we think this is an opportunity for us. That may take a little bit longer to get our salesforce internationally up to speed but once we get it I think that this will be a big -- a big product for us internationally also.

I think that it's a -- I feel good about what we've forecasted, about 47 million that gives us about 1% growth accretive to where we thought we'd be next year and hopefully you know, we can do better than that.

Matthew O'Brien: Thank you.

Operator: Thank you.

Our next question comes from Jeff Johnson of Baird. Your line is now open.

Jeff D. Johnson: Thank you.

Morning guys. Can you hear me okay?

Lance A. Berry: Yes

Robert Palmisano: Yes.

Jeff D. Johnson: Great.

Bob it looks like at least from your slide that may be the Cartiva procedures taking about 10% share or so the Big Toe surgeries over the last 18 to 24 months. How do you think that scales over the next few years?

And then maybe if you could help us out talking about just about the current users, either the breadth of users or the depth you know, your current surgeons using this, have they converted this all to their Big Toe procedures or they kind of testing the waters right now?

Just trying to understand the uptake on the early adopters. Thanks.

Robert Palmisano: You know, the physicians that I'm familiar with and I spoke to several of them at the recent [AA FIOS] Meeting, that use this product it basically converts -- most of their procedures to that, there might be some outliers but they basically convert all their procedures to this.

It's very compelling for a physician. It takes them significantly less time to do the procedure.

It's very compelling for the patient because not only do they get motion back which is you know, which is a -- underlying philosophy that things that we like to do.

One of the reasons our Toe & Ankle business is so important to us is that we think that it's important for patients to get motion back and this procedure and the Great Toe gets -- gets -- gets motion back.

Thirdly, is that the recovery time is much better. You know, with a fuse -- fusion of the -- of the Big Toe joint is that patients generally wear a boot for six-day weeks which means they can't drive a car for example whereas with this procedure you could drive a car the next day.

So there's -- there's a lot of benefits to patients, and to physicians, and so I think that they should accelerate faster particularly as we integrate it into you know, -- a bigger organization and wrap up medical education and ramp up all the support that we like to give products.

And so, we think that it should accelerate and be more of a standard care hopefully in the years to come.

I can't exactly say when we reach 50% or 80% of the market but that certainly our intent.

Jeff D. Johnson: Yes. Understood.

And I guess Bob the follow-up and that would be you know, if they convert most of their surgeries over this I know the math doesn't work perfectly this way but just let's then there touching 5 to 10% of the surgeons out there at this point how much surgeons do you touch on the lower Extremity side, on the Foot & Ankle side?

You know, does your salesforce already reached 70% of those surgeons and that [the plan] or how to think about it here in the next couple of years?

Thanks.

Robert Palmisano: I don't know the exact number. I know it's several thousand -- several thousand customers of ours now you know, a lot of them use you know, lots of different products but we are currently calling on several thousand customers.

And so these are all opportunities for us and you know, particularly as this product is a PMA product so the clinical evidence is very sound.

That's one of the main things when you're introducing something new to customers as they're very concerned about that and so this should help.

Again, as we ramp up you know, what typical kind of very meaningful Med Ed and all those kinds of things, we should be able to I think to convert doctors.

I also would say is that once doctors start using this product they rarely stop using the product, they get very committed to it because of the patient (inaudible), their experience and the patient experience.

Jeff D. Johnson: Understood. Thank you.

Operator: Thank you.

Our next question comes from Richard Newitter of Leerink Partners. Your line is now open.

Richard Newitter: Great. Thanks for taking the questions.

Bob, I'm curious about this product within the context of the shift and the tend towards Ambulatory surgery -- Center surgery, which is an area where I believe you had said that you know, your product portfolio and your salesforce focus and selling around the procedure, you're starting to make inroads there but you had some trouble.

Is this a procedure that kind of feeds into that setting and will kind of enhance that strategy and talk a little bit about that?

Thanks. And then I'll follow-up.

Robert Palmisano: Yes. Thank you -- thank you Richard.

Yes. This procedure is generally done on outpatient settings whether it's a hospital outpatient or an ASC setting that's where these you know, 90-plus percent of these procedures are done if not a 100% so it fits in with that.

I think that we've -- we're -- we have been pretty successful so far this year in advancing our businesses in ASCs, this should help.

And it's a (inaudible) it's about a 35-minute procedure versus the Fusion procedure which is close to an hour so it's -- it fits into that very nicely which is the way a lot of the market is going into outpatient where possible so this fits very nicely into that.

Richard Newitter: Okay, great.

And then, this is the second one.

You know, we've seen sign of best-made plans in the past work out with either salesforce restructuring or even integration of sales organizations. I guess you know, what is the confidence here that kind of everything that you've laid out in terms of timelines and kind of disruptions or potential disruptions is truly minimized compared to may be some prior initiatives or transactions that you've done?

How confident are you that this is going to be seamless?

Thanks.

Robert Palmisano: Yes, first of all, I like to say is that our (inaudible) salesforce is really operating at a high level right now and that's why we feel confident -- felt confident, a lot of -- we felt even more confident about doing this transaction and raising our guidance that we talked -- that I mentioned earlier is that we're doing well.

The second piece of this is unlike for example when the (inaudible) major when we brought into our salesforce a lot of competitive Foot & Ankle products that -- core Foot & Ankle products, these were -- these were nice products what they really weren't differentiated in any way and therefore once the sales -- the salesforce of all of the -- who stayed and who went and those kinds of things evolve and that people who left who were used to selling those products, it was very easy for them to latch onto another distributorship or even start their own business which many of them did in core Foot & Ankle.

This is very different in that this is a unique product, it's a PMA product so no one can go out and get something similar -- similar to this and start -- and start -- and start selling it.

I think the -- those couple of things, first of all our Group is operating at a very high level. They've done a terrific job in gaining momentum this year.

And also, the fact that this is such a unique product with a PMA that there is no competition to other than the fusion procedures which I think we can -- this product competes very, very well against.

Operator: Thank--

Richard Newitter: Right.

Operator: -- you.

Our next question comes from Raj Denhoy of Jeffries. Your line is now open.

Raj Denhoy: Hi, good morning. I wonder if I could maybe ask a couple on the product and then one is on the transaction.

So on the product itself maybe you could talk about the reimbursement landscape you know, just kind of a cursory look? This morning, it's looks like it's still considered investigational by a lot of players what's the status there and how much of a deterrent is that to adoption?

Lance A. Berry: Yes Raj. This is Lance. I'll take that.

It's investigational but I wouldn't say a large number of players. In general, it's covered. There's an existing DRG.

From a surgeon standpoint it's about the same reimbursement to the surgeon whether they're doing a Cartiva SCI or a Fusion or a Cheilectomy.

However, the Cartiva procedure is about 40% faster than a Fusion so as a surgeon level you know, it has -- it has benefits.

We think that can be helpful for adoption and then reimbursement in general isn't an issue for adoption of the product.

Raj Denhoy: Okay.

And then just kind of on additional applications for it. You know, obviously it's in the Big Toe now but you have designs or plans to perhaps explore in other joints?

Robert Palmisano: Yes. There's currently a IDE for expansion into the Thumb, same type of thing you know, arthritis and that's you know, -- that's I think that IDE approves sometime in '17.

We're not sure whether this is a PMA or PMA supplement. That's you know, another negotiation with the FDA but we really haven't built in anything for that in the -- in the outlook that we have given you in terms of -- in terms of revenue.

It's something down the road. It's going to take a couple of years, I think to finalize but there are -- there are other applications to it.

Raj Denhoy: Okay. Great.

And then just one last one just on the you know, the transaction itself. You know, I think -- and now the Company is you know, is fairly levered at this point you know, your debt to EBITDA is -- even though you raised EBITDA today it's still pretty, pretty stretched at this point.

I know you're raising equity to support this and you haven't put in the financing contingencies so maybe you could just talk a little bit about you know, why now is the right time to do this transaction, given where the Company's balance sheet is?

Lance A. Berry: Well, Raj, as we stated we plan to fund the acquisition through a sale of equity securities so you really can think about this really as like an all stock deal for us, for Wright.

And you see why in that context, it actually helps our debt to EBITDA leverage. We are adding a pretty significant amount of EBITDA and we're doing that without adding any debt so we think this can actually help the financial profile.

It's also -- this product is very strong from a cash flow standpoint given the -- really no instrument CapEx and very low inventory so really from a you know, financial health of the business we think this is a significant improvement.

Robert Palmisano: Yes Raj. As regarding timing the timing of this transaction really wasn't up to us. I mean you know, you -- this was a competitive process and we knew this product for a long time and had a lot of insights into it.

We decided that it was much better for us to have this product than one of our competitors and we felt we could do more with it and we didn't want -- and we didn't want to -- one of our competitors to have it because we think it was unique and would erode our business over time if someone else had it.

So the timing is the timing and just because there was a very competitive process underway and we decided that we were -- we really thought that we would do well with this product and that's why we did the transaction.

Raj Denhoy: No, it's super helpful.

Just one clarification. You know, you do have some cash on the balance sheet as well so how much equity do you think you will have to raise?

Lance A. Berry: I think you should assume that we will fund the entire purchase price through equity.

Raj Denhoy: Okay. Great.

Thank you.

Operator: Thank you.

Our next question comes from Joanne Wuensch from BMO Capital Markets. Your line is now open.

Joanne Wuensch: Thank you very much for taking the question.

I want to spend a moment on cross-selling. It sounds as if this is a complementary product into your Foot & Ankle salesforce. How do we think about the ability to -- for pull-through on the cross-selling aspect of it?

Robert Palmisano: Well as I said a lot of these customers Joanne are currently not our customers, some of them are. We get access to them.

But more importantly is that when physicians think of Wright they should think of leading technologies, just not you know, things that everyone else has and that's the way we want to be.

I think that we will get access to more surgeons. We have again, it's the PMA Level I data so we should be able to expand the market into physicians that currently you know, are just doing what they've always done.

This is a new product but I think it's going to be easier for them to get their hands around. The surgical technique is relatively easy, I guess that's easy for me to say but it's relative, they're relative, the surgical technique is very straightforward and I think physicians once they try it and they do a few, they'll get very comfortable doing.

And then we have -- as you know, we have the largest portfolio Foot & Ankle products in the industry so if there's something else that these physicians want other than this which gives us entry I think that cross-selling process should be easier for us.

But this is a -- this is a great -- this is a great thing for us having these leading technologies. I often bemoan the fact in core Foot & Ankle that these were more like commodities and that every -- they all work well and everybody had kind of the same thing and so the loyalty wasn't to the product or the Company.

The kind of loyalty was you know, to the relationship so with a -- with a product like this that is so unique is that -- I think we're -- able frame an argument around product and technology.

And the things that we bring to bear you know, ProSTEP is another thing like that so when we look at you know, our Forefront procedures and thinking of them all kind of the same between ProSTEP, the million-base of surgical products we have and Cartiva now is that -- is that we have very unique products in a very large market and I think that is a great thing.

So that's why we're so enthusiastic about this.

Joanne Wuensch: Thank you.

And as a follow-up question, we were all together just two weeks ago on your Second Quarter Earnings Call where you raised guidance and then you raise it again this morning. What's changed over the last two weeks that's giving you that confidence?

Robert Palmisano: Well yes. I think it was like I say so, yes.

We're now two thirds through Q3 and what we expected in Q3 couple weeks ago when we were in -- we saw good signs at that point and we try to be optimistic but the momentum really continued and grew. As we said on the call is that we expected our Shoulder business to deaccelerate slightly throughout Q3 because we had comps from last year that were difficult.

We haven't seen that to any great extent so our Shoulder business is still very strong.

More importantly our core Foot & Ankle business -- our Foot & Ankle business -- our total Foot & Ankle business, we expect that to accelerate through the rest of the year and that is -- that has occurred, that is occurring.

So both of those things are -- give us a lot more confidence in the -- in the end of the year.

And we wanted to raise guidance which is unusual thing I think midway through the quarter to give everyone confidence that we were doing it -- we were doing -- we were doing this transaction not because of any problems in our business, there were -- our businesses going very, very well but because we thought it could be good for us both short and long-term for us.

We thought it was important that everyone understand that our underlying business is very good and this is just going to make it better so that's why we did it now.

Joanne Wuensch: Thank you very much. Have a great morning.

Robert Palmisano: Thank you.

Operator: Thank you.

Our next question comes from Mike Matson of Needham & Company. Your line is now open.

Mike Matson: Hi, good morning. Thanks for taking my questions.

I guess I just wanted to start with the Cartiva opportunity outside the US you know, how much of their sales have been outside the US and you know, how is that market compared to the US size particularly in those markets where your -- where you're planning to sell it?

Robert Palmisano: Yes Mike. So far, the sales outside the US for Cartiva has been very minimal and you know, I don't have great numbers for you on market size but I would highlight that the product is approved in the UK and Australia in particular, which are strong -- really probably our strongest Foot & Ankle markets outside the US.

There's a lot of surgeons' specializations in those markets. There's usually typically pretty solid average selling prices in those markets and we have pretty substantial direct Foot & Ankle focused sales forces in those markets.

We think that can be a good opportunity over time. Also, it's broadly available in the EU and Canada so I think that's an area [of return] as you know, we work through the distribution network and get that into our teams' hands where we can draw up some upside.

Mike Matson: Okay thanks.

And just to be clear, the use of this product to replace some of those other types of procedures for Big Toe, is not going to cannibalize any of your other products that you sell?

Thanks.

Robert Palmisano: Yes, hopefully.

Yes, two things.

First of all, it will cannibalize some of our products that currently we are selling to the same -- those same surgeons but it is at a much higher ASP, much higher ASP than the higher gross margin.

So that -- but I would also leave you with this thought is that it -- today it is cannibalizing our products.

This product is gaining a lot of momentum in the marketplace and we're -- we've been fighting it off with the -- with you know, basic you know, plates and screws and this is a much better solution.

It's better that we have it. It will cannibalize some of us but more -- but at a higher ASP but more importantly I think we'll be able to expand our market presence into accounts that currently are using competitors' plates and screws.

Lance A. Berry: Mike, I would also add to that, there's -- there's about as many Cheilectomies performed for Great Toe arthritis as there are fusions and currently there's no implants for Cheilectomy so there's really not any revenue generated.

And you know, a pretty meaningful portion of Cartiva sales to date you know, they have a high confidence level, has been really the procedure is done instead of a Cheilectomy so there's really strong market expansion opportunity by cannibalizing cheilectomies that pretty much nobody is getting revenue on today.

Mike Matson: Okay, great. Thanks a lot.

Operator: Thank you.

Our next question comes from Larry Biegelsen of Wells Fargo. Your line is now open.

Larry Biegelsen: Hey guys. Congrats in the deal. Thanks for taking the question.

First Bob I understand you expect 50% growth in 2018, about mid 30s in 2019. You know, any color beyond that? You see this as maybe you know, growing 10 to 20% beyond that?

And I had a follow-up.

Robert Palmisano: Well the market opportunity is large so you know, I -- so hopefully you know, we will be able to continue that growth and I in know I can't give you a number whether it's going to be 20 or 30 beyond that -- 20% or 30% beyond that but I do think that this is a you know, is nowhere -- it's just that -- it you know, -- they say about "a nine-iron game," this is really "the middle of the first," right now as opposed to anywhere down the road.

I think that that will take place and as our previous call -- we still have an international -- and international opportunity that we don't have really baked into these numbers because there is basically hardly any sales outside the US.

We think that you know, it's going to be high-growth, whether it's going to be 30% or 20%, in '20,'21, I don't know yet but I do think that the -- it's a very -- it's -- we're just at the beginning stages and we'll see how it goes so.

Larry Biegelsen: Thanks.

And as my follow-up Bob, you mentioned that this is through distributors. Is it a 100% distributors and can you talk a little bit more about the integration processes? You said there is you know, some potential for disruption?

Robert Palmisano: Yes.

Larry Biegelsen: And just lastly, I don't think we'll get -- Lance, at 1% accretion to sales and EBITDA, I don't know if you'll tell us what you're assuming for 2019 at this point, it seems like you know, a pretty wide margin?

And then I'll drop. Thanks a lot.

Lance A. Berry: Yes. Maybe I'll address the '19 now. You know, the streets all -- the streets all has their models for '18 and '19 and you know, we gave you very specific data points on the amount of revenues that this would add for pro forma Full-Year '18 and what we expect the '19 and I think you guys all do the math on that you should come out with a growth rate that's about a point higher than what you all have right now.

We'll probably just leave it at that for now as it relates to '19.

And then, sorry, the rest of your question was -- all the integration--

Larry Biegelsen: (inaudible), yes.

Lance A. Berry: -- Yes, so you know, right now there's a lot of momentum in the business and we don't want to disrupt that and so what -- initially we're going to try and find ways that we can just have our salesforce be additive to the sales efforts that are -- that are out there right now.

You know, obviously on a long-term basis sales territories and physicians are about you know, about performance but really in the short term you know, we just want to make sure that we keep as much momentum out there as we can.

Now having said that I think realistically we know we do these things, there's going to be situations where there's going to be some turnover in the -- in the Cartiva salesforce and there will be a little bit of disruption.

But what will offset that is having a significantly larger number of people carrying the product that can -- that can add sales to it.

So net-net we think that this thing is you know, not going to go backwards. We're -- we're going to continue to see good growth out of it.

Robert Palmisano: You know, Larry I would add to that is that the -- our teams are starting to meet this week to plan a process that will be seamless to customers and you know, everyone will have their inputs.

We don't have a final solution. We've been through this -- you now I've -- I've been through this a number of times and first of all we don't want to do any harm to the current business and so that's the underlying principle that we -- that we work on, it's like the [hyper-critical] "first do no harm."

And but we will have a team of people from you know, the Cartiva side and the Wright side starting to meet this week and plan a process by which you know, there's minimal integration risk.

Regard -- outside the salesforce there really isn't much regarding integration but we will address all those -- all those functions, all those departments with the same process, "first do no harm," get teams of people from both sides talking and letting -- getting everything out so that we can -- we can make the best -- the best decisions for the business going forward.

Larry Biegelsen: Thanks for taking the questions.

Operator: Thank you.

Our next question comes from Bob Hopkins of BofA. Your line is now open.

Bob Hopkins: Hi, great and good morning. Just a couple of quick ones. I apologize if I missed something, actually a lot going on this morning.

It's just curious about, if you could kind of talk a little bit long-term where you potentially see you know, this product going, are there other indications where the -- where the product could have applicability, just where is some of the potential you know, kind of long-term indications for this product?

Thank you.

Robert Palmisano: Yes. Thanks Bob.

Yes. And I mentioned earlier is that there is an IDE that was approved I believe in 2017 for the Thumb, the same type of procedure for the Thumb for osteoarthritis of the thumb, that is in the work and you know, so there is an IDE.

The Company is talking with the FDA about how to proceed with that, whether it's going to be a full PMA or a PMA supplement or PMA with clinical -- so that's still undergoing.

But I think that's the next product you will see from this.

But I would say quite frankly this is probably couple of years out so what we're talking about really right now is the business in our -- in our lower Extremity.

Of course, we do have a very strong upper Extremity salesforce so that if we ever do get things approved for a thumb where we could work that in very nicely also.

But this is a product that you know, we do look at long-term as a platform for other aspects. We will -- we will evaluate all those opportunities.

You know, very -- strategically, I mentioned in my prepared remarks and -- is that this is such a -- such a great feat -- fit for us.

I've been asked many, many times, many, many times about M&A and what we will be looking for in terms of M&A in the future and I am very clear that I don't think that what we need is more kinds of plates and screws and those kinds of products.

I always thought that what we really wanted was more -- less traditional orthopedic products and I always mention bio or bio-type products, I thought were the things I am most interested in doing and this is what I would consider a bio-type product in that it's -- usage of working capital are very similar to traditional orthopedics.

We don't have kits. We don't have trays. We don't have large inventory that we have to move around that eat up our -- eat up our cash.

So this is -- this fits all those needs so a great product for patients and physicians also a great product for us in that it fits that profile that we're trying to expand our portfolio any areas that don't demand all that working capital that traditional orthopedics have.

Bob Hopkins: Thank you for that.

And then just one last question is the did you guys have any you know, pre-existing relationship with this Company? Obviously, it seems very interesting, I assume given the space and give them all that you just articulated, it would be a pretty competitive process so I just wanted to kind of ask if you -- what kind of pre-existing relationships did you have and about the you know, competitive nature of the process?

Thank you.

Robert Palmisano: We were competitors of theirs see I mean that's the way -- before this happened and they were trying to take our business and in some areas were successful at that.

We didn't have any other kinds of really direct relationship with people. There were some people from Wright that work at Cartiva; they're formerly Wright employees that do work at Cartiva that we had no particular insight.

This was a competitive process but there were several people in it. I you know, I don't know specifically the names of them but I would assume that they were large orthopedic players and I'm glad that we have it and they don't.

Bob Hopkins: Thanks for taking the questions.

Operator: Thank you.

Our next question comes from Matthew Blackman of Stifel. Your line is now open.

Matthew Blackman: Good morning. A couple of quick Cartiva questions and a follow-up on guidance.

First on Cartiva, does Cartiva has to go through value committees to get into the new US accounts?

And I'm sorry if I missed it but are there any future earn-outs included in this transaction?

Lance A. Berry: Sure Matt. The -- yes, I mean you would assume that as a new technology -- I mean pretty much everything has to go through a value-added committee to some degree.

[I mean you can tell] from the rapid growth they are having that they are effectively working through that to the extent that they have to go through it and we don't expect that to be a big limiter on growth.

And then there are no earn-outs in this deal. It's an all-cash upfront deal.

Robert Palmisano: But I'll also add is that most of this procedure is done on outpatient so far ASCs don't have value-added--

Lance A. Berry: -- that's true. A good point.

Robert Palmisano: -- so.

Lance A. Berry: Yes.

Matthew Blackman: Okay.

And then on the roughly $3 million annual guidance raise of the midpoint you mentioned it's based in strong quarter-to-date performance. Should we think about 3Q being roughly $3 million higher or similar rate -- contemplate stronger 4Q sales as well?

Lance A. Berry: That's the total year, I don't think we're not saying that's all going to be in Q3 but that's a total year at this point.

We'll update this at the Q3 call, which is really what the rest of the year will look like so.

Matthew Blackman: All right. Thank you very much. Appreciate it.

Operator: Thank you.

And ladies and gentlemen this does conclude our question-and-answer session.

I would now like to turn the call back over to you Bob Palmisano for any closing remarks.

Robert Palmisano: Thank you, Operator.

We want to reiterate our excitement for this transaction which represents an exciting transformation of a next chapter for both companies.

I believe there is a bright future ahead for Wright.

I also wish to thank the collective teams at Cartiva and Wright for working so closely together to get us to where we are today.

We are extremely excited about the opportunity and to bring our two companies together to extend our leadership position as the premier high-growth Extremities and Biologics Company.

Thank you for joining us today. We appreciate your interest and your continued support.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect.