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Zimmer Biomet Holdings, Inc. (ZBH) CEO Bryan Hanson on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.77 beats by $0.02 | Revenue of $1.89B (3.03% Y/Y) beats by $17.71M

Earning Call Audio

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Zimmer Biomet Holdings, Inc. (NYSE:ZBH)

Q3 2019 Earnings Conference Call

November 05, 2019, 08:30 AM ET

Company Participants

Bryan Hanson - President and CEO

Suketu Upadhyay - EVP and CFO

Coleman Lannum - SVP, IR

Conference Call Participants

Larry Keusch - Raymond James

Steven Lichtman - Oppenheimer

Chris Pasquale - Guggenheim Securities

Pito Chickering - Deutsche Bank

Kristen Stewart - Barclays

Kyle Rose - Canaccord Genuity

Josh Jennings - Cowen and Company

Jeff Johnson - Robert W. Baird

Craig Bijou - Cantor Fitzgerald

Bob Hopkins - Bank of America Merrill Lynch

David Lewis - Morgan Stanley

Robbie Marcus - JPMorgan

Shagun Singh - Wells Fargo

Richard Newitter - SVB Leerink

Young Li - UBS

Rick Wise - Stifel, Nicolaus & Co.

Mike Matson - Needham & Company

Operator

Good morning, ladies and gentlemen, and welcome to the Zimmer Biomet Third Quarter 2019 Earnings Conference Call. [Operator Instructions]. As a reminder, this conference is being recorded today, November 5, 2019. Following today's presentation, there will be a question-and-answer session. At this time, all participants are in a listen-only mode. [Operator Instructions].

I would now like to turn the conference over to Cole Lannum, Senior Vice President, Investor Relations and IRO. Please go ahead, sir.

Coleman Lannum

Thanks, operator, and good morning, everyone. Welcome to the Tuesday morning addition of Zimmer Biomet's third quarter earnings conference call. I'm joined by Bryan Hanson and Suketu Upadhyay.

Before we get started, I'd like to remind you that our comments during this call will include forward-looking statements. Actual results may differ materially from those indicated by forward-looking statements due to a variety of risks and uncertainties.

Please note that we assume no obligation to update these forward-looking statements, even if actual results or future expectations change materially. Please refer to our SEC filings for a detailed discussion of these risks and uncertainties in addition to the inherent limitations of such forward-looking statements.

Also, the discussion on this call will include certain non-GAAP financial measures. Reconciliation of these measures to the most directly comparable GAAP financial measures is included within the earnings release found on our Web site at zimmerbiomet.com.

With that, I'll now turn over the call to Bryan. Bryan?

Bryan Hanson

Thanks, Cole. And I want to say again thanks for joining the call today. We delivered, as probably everyone has seen already with press release, a pretty strong quarter for Zimmer Biomet in third quarter with better-than-expected revenue growth driven by improved performance across all of our geographies and across all of our businesses.

Our team remains focused and engaged in our key priorities and we continue to make progress in each of these critical areas. Although there is clearly still much to be accomplished, I'm pleased with the team's momentum thus far.

In terms of supply, we have been able to meet customer demand and improve service levels, which further enhances the confidence of our sales teams around the world putting them back on the offense. We still have plenty of opportunity to decrease the complexity and increase the efficiency of our supply chain, but again to give team credit, I'm happy with the progress thus far.

Our quality remediation efforts at the Warsaw North Campus remain on track. We continue to keep the FDA updated on our progress and are highly confident in our path to full remediation. To instill further confidence in our progress, we have engaged independent third parties to conduct comprehensive mocked audits of our remediation work and the feedback has been positive.

Additionally, we are seeing the benefits of our global rollout of the Quality Begins With Me program, which is focused on driving the solid and sustainable quality culture. This program supports an environment of empowerment and accountability for all of our manufacturing team members ensuring that every individual feels personal ownership of the quality process.

Progress we are making in quality remediation is also within the free-up engineering time and allows many of these R&D members to shift back toward innovation. This gives us increased confidence in the robustness of our technology pipeline as we move into 2020 and beyond.

Our innovation focus has also shifted moving much more aggressively toward enabling technology around the implant, such as robotics, mini robotics, informatics and operating room efficiency. Although the implant will always be at the center of what we do, our goal is to provide a complete ecosystem that is both customer and patient centric.

To this end, we are excited about recent launches like ROSA Knee, mymobility developed in partnership with Apple, our Walter mini robotic platform, the Signature ONE Planner for upper extremities and increased focus on our efficient care pre-surgical planning process.

Relative to mission and culture, we've continued to focus on communicating and driving the mission of the organization as it is the primary reason we all wake up in the morning to come to work. Every team member is essential to driving our mission which is to alleviate pain and improve the quality of life for people around the world, and our team members take pride in knowing that our products improve a patient's life every 10 seconds; that's 24 hours a day, seven days a week.

We are also relentlessly focused on driving a winning ZB culture. We recently rolled out our culture of promises. These promises of shaping tomorrow, igniting collaboration and focusing to win are inspiring and actionable. Each comprises a set of practices to empower the team at every level in the organization to collaborate and innovate with an emphasis on the future, while working with clarity and focus to maximize our impact today and to deliver on our commitments.

Speaking of delivering on commitments, let's turn to third quarter results. All three of our geographies performed well with strong performance in Asia-Pacific and EMEA and improving performance in the Americas. Relative to our businesses, we are pleased with the performance of the knee franchise this quarter with solid results across all three regions.

I know that everyone is interested in hearing more about ROSA Knee, so to give you a bit more color, ROSA capital sales were strong in the quarter and accelerated from Q2. Our ROSA Knee customer pipeline continues to grow and is very strong and the feedback remains extremely positive.

To provide some context around ROSA's contribution to the third quarter global knee number, while ROSA was a strong contributor to the quarter, more than half of the overall growth came from other new products inside the knee and our base knee business. Even though we're early in the process, the team is very pleased with the ROSA launch and the overall momentum we are seeing in the robotics market.

In addition, we recently received FDA clearance for the Persona Revision system, now rounding out our flagship Persona Personalized Knee offering. Our S.E.T. business delivered solid growth in the quarter, again fueled by growing confidence from the sales force due to supply stability, new product launches across these businesses, increased traction in the specialized sales channel and a much more intense operating mechanism focused on driving results in this space.

We will continue to prioritize innovation and accelerate the expansion and investment in our specialized sales channel in order to further increase our focus and traction in these higher growth S.E.T. markets.

I’d like to congratulate our dental team for another positive momentum quarter. The team’s focus on strategic priorities, execution and culture, along with target investment in key areas continue to drive the business forward. We still have much to prove in this business, but I’m happy with the current momentum and the performance of the dental team.

Relative to our Spine & CMF business, although we did see improvement from Q2, we continued to perform below market in the quarter. As we have previously stated, we don't expect to see real momentum shifting in this business until sometime in 2020.

The primary drivers for this shift will be working through the final steps of our channel consolidation in spine and leveraging our new product pipeline, including the recently launch of the TrellOss titanium 3D printed interbody system, the upcoming launch of robotics with ROSA, spine and Walter and the recently approved Tether system.

Actually, the FDA approval of the Tether, an innovative treatment for young patients with scoliosis, was a highlight in the quarter for the spine business. This approval marks the culmination of multiple years of cooperation between the FDA and Zimmer Biomet and represents the first approval for humanitarian use device in spinal pediatrics in the last 15 years.

So as you can see, we’re making steady progress shaping the future of this organization. We have built the strong foundation and with every quarter, we have continued to reduce the risk in the business and further our progress toward reshaping Zimmer Biomet for sustained success.

And with that, I’ll turn it to Suketu to get further into the numbers of the quarter.

Suketu Upadhyay

Thanks, Bryan. To reiterate, we had solid revenue growth in the quarter but also saw strength in earnings and cash flow generation. I'll provide some highlights on our third quarter financial results and unless otherwise noted, the numbers I will be discussing are on a constant currency basis.

Net sales totaled $1.9 billion in the quarter, a reported increase of 3% over the prior year and an increase of 3.9%, excluding the impact of foreign currency changes. As we've previously noted, the first half headwinds from billing days was offset in the third quarter and there's no material impact on our growth rate from billing days differences for the full year.

During the quarter, we had solid results across all geographic regions. Our Asia-Pacific team delivered strong performance with 8.8% sales growth driven by continued strength in emerging markets and across our Knee and S.E.T. segments.

Our Europe, Middle East and Africa team also had strong a quarter with 4.8% revenue growth led by S.E.T. and improvements across our Knee and Hip franchises. Developed and emerging markets within EMEA both performed well due to healthy market growth and as a result of some tender wins.

The Americas increased 2.3%, reflecting improved performance across most of our product categories driven by new product introductions, supply stability and commercial execution. Our Knee franchise grew 4.9% with solid performance across all geographic regions. Hip grew 4.3% and our S.E.T. and Dental businesses grew 6.2% and 3%, respectively. Our Spine & CMF revenues decreased 1.3% in the quarter.

As it relates to revenue in the fourth quarter, foreign exchange rates have been a headwind since our last guidance update and we now expect the impact of foreign exchange in the full year to be closer to the high end of our range.

Also, while revenue growth may be lumpy from quarter-to-quarter, our continued supply stabilization, improved execution, a new product introduction give us greater confidence in our ability to deliver consistent constant currency sales growth in line with our weighted average market growth of 2% to 3%.

Moving to the income statement. We reported GAAP diluted earnings per share for the quarter of $2.08. After accounting for special items, our adjusted diluted earnings per share were $1.77. A reconciliation of reported earnings per share to adjusted earnings per share is included in this morning's press release.

Adjusted gross margin the quarter was 72.4%, an improvement of about 80 basis points from the prior year, which was aided by a number of items, including a medical device tax refund that we referenced last quarter. Gross margin the quarter was broadly in line with the first half of 2019, despite seasonally lower revenues.

Adjusted operating expenses in the third quarter were higher than the same period last year, driven by increased investments across R&D and commercialization efforts, including spending on new product launches and sales force expansion.

Adjusted operating margin was 26.5% for the quarter, about 90 basis points ahead of prior year driven by gross margin and the adjusted effective tax rate was 16.5%. All of this translated into 8% plus growth in adjusted earnings per share demonstrating good earnings leverage on revenues.

Operating cash flow accelerated in the quarter to $578 million and our free cash flow was $425 million. During the quarter, we paid $49 million in dividends and paid down just over $300 million of debt as we continue to make progress in delevering the balance sheet.

Relative to our capital structure in light of upcoming maturities and market conditions, we may look to opportunistically refinance debt to optimize our liquidity profile and cost of capital. Before I turn it over to Bryan, I’d like to reiterate that we are pleased with our performance in the quarter and our previous guidance remains unchanged.

And with that, I’ll turn the call back over to Bryan.

Bryan Hanson

Thanks, Suketu. Before we move into Q&A, I also want to take some time to say that this is clear to me and I think really to the team here that our team members in general have a really high energy right now, the engagement is high and the focus to win is there, and I'm confident as a result of that it’s going to allow us to move forward and progress in the right manner.

This is one of the primary reasons why our confidence level is very high around consistently and durably delivering 2% to 3% top line growth through 2020. And for many other reasons and I want to make sure I'm clear on this, over time I also see a pathway for acceleration beyond 2% to 3% without the need for M&A. This will take time but the pathway is clear to this team.

Of course, our goal at the right time, in the right spaces and for the right returns is to further enhance this organic revenue growth with inorganic activity focused on increasing our growth rate and increasing our weighted average market growth rate.

And with that, I'm going to turn it back to Cole and we can jump into the questions.

Coleman Lannum

Thanks, Bryan. Before we start the Q&A session, I want to remind you to please limit yourself to a single question with a brief follow-up if needed. Feel free to put yourself back in queue afterwards. I promise we'll get through as many questions as we possibly can.

With that operator, can we please have the first question?

Question-and-Answer Session

Operator

Thank you, sir. Ladies and gentlemen, at this time we will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Larry Keusch with Raymond James.

Larry Keusch

Thank you. Good morning, everyone. Bryan, just given the announcement of the Wright acquisition by Stryker yesterday, could you talk a little bit about positioning of Zimmer's extremity business and any touch on the growth and investment strategy there?

Bryan Hanson

Yes, absolutely. It's not surprising to me that we saw that activity out in the market. Let's face it. When we think about our S.E.T. businesses, we've been talking from the very beginning that this would be an area of concentration for us. For the most part, we have lower penetrations in these markets. They're faster growth than our core large joints markets and as a result of that they're attractive. So not surprised to see others move in that direction as well. We're going to continue our focus as well. A fact is if I look at the S.E.T. business overall for the quarter, it was pretty good performance for us. And to be honest that needs to continue. We need to continue to see at least market growth if not the high end of market growth in our S.E.T. businesses to be able to allow us to get scale in these spaces and ultimately as a result of that increase our weighted average market growth. So you will absolutely see us continue to focus here. And we're going to focus in a number of elements. First and foremost, we have to make sure that we keep our supply stability in place. As I think everybody probably remembers, it took us a little longer to get supply stability here because we focused on large joints first, but we haven't now and that is absolutely increasing the morale of the organization and that needs to stay there. We're going to be launching new products. We already have. We're going to continue to do so. We have a full pipeline. And these new products I think as everybody knows also drives morale and traction in the field sales organization. That's going to be an element of focus for us. And I got to tell you, with some of the new team members that we have, this idea of changing the operating mechanisms to be much more disciplined and much more focused, much more transparent on whether you are or not performing in the area will drive accountability in the space. And then a big one we've been talking about, which I think we're making advances on were to be the specialized sales organization, so we have focus. I got to say I think personally we still got some work to do here. To me specializing the sales organization is just step one. You also have to make sure that you have the right compensation structure in place and right operating mechanisms so that those specialized sales reps actually stay focused. A lot of times what you see is that when large joints takes off, those specialized reps go back to large joints because they can make more money there. We can't allow that to happen through our compensation scheme and also our operating mechanisms. So again, I see the S.E.T. space particularly with extremities being very attractive. We will continue to focus in this area and I'm not at all surprised to see the activity that we just heard about.

Larry Keusch

Okay, great.

Coleman Lannum

Thanks, Larry. Go ahead, Larry.

Larry Keusch

I was just going to say just to clarify there just robotics in extremities, is that a focus for you guys?

Bryan Hanson

We haven't gotten into specifics there, but one could certainly look at robotics application in large joints and believe that there would be an opportunity for us to move those applications to other areas. I don't want to get into the specifics obviously for competitive reasons, but there would be no reason to believe that robotic applications or informatics couldn't benefit extremities as well.

Coleman Lannum

Thanks, Larry. Next question please, operator?

Operator

Our next question comes from Steven Lichtman with Oppenheimer.

Steven Lichtman

Thank you. Good morning. I imagine you'll get a lot of knee questions understandably. I did want to ask about hips. It had a nice pop I thought sequentially even in taking into account the extra selling day. Can you talk, Bryan, about that franchise? What's driving it and your outlook for that hip business overall?

Bryan Hanson

Yes. I was thinking the same thing. I know we get a bunch of knee questions and ROSA questions and everything else, so I appreciate the hip question out of the gate. I appreciate that, Steve. So I'd say is I'm pretty happy with the hip performance in the quarter. Obviously we had the day benefit. We have different billing days which benefitted all our businesses. I'm not going to repeat that over and over again, but it helped. But even without that, it was a solid hip quarter for us. And we like to see those. It's interesting that when I look at the hip business, over the last number of quarters what I found is it's a little bit lumpy. We've had some quarters that have been on the low end of market growth, even some below, some right square in the middle and some above. But I think generally speaking, the way I view the hip business for us is to be growing at market, which is that kind of low-single digits market growth. What could change that over time would be really two things that we're going to be concentrating on. Number one and this is more real time is the launch of the Avenir Complete which I think everybody knows at this point is the new short stem colored version of the Avenir as surgeons [ph] know and love that can be used more for that anterior approach procedure in hip. That actually is one of the fastest growth subcategories of hip, so obviously that's a reason why we're going to be concentrating in that area. So as we get more traction with that launch, more education for surgeons so that they can do that procedure well and ultimately begin to drive scale with that product launch, that's going to help us get strength in hip over time. I never want and I'm not going to speak to specifics will be the eventual application in ROSA that would also be applied to hip. I think the combination of more scale in that anterior approach procedure, a ROSA-launched application that will be coming in the future, combination of those two things will allow us to get to that upper end of hip growth if not above the overall market growth in hip. But I want to be clear. In the short term, I'd be thinking about our hip business, that market growth and the longer term as we launch some of those other products and build scale that I referenced potentially above market growth.

Coleman Lannum

Thanks for that, Steve. Lauren, next question please?

Operator

Our next question comes from Chris Pasquale with Guggenheim.

Chris Pasquale

Thanks. Congrats on a nice quarter. Bryan, you mentioned the knee growth was really multifaceted beyond just the impact of ROSA. I was hoping you can give us a little bit more color on some of the drivers there? How much of an impact is Persona Cementless having on your business at this stage and how meaningful an addition is the new Revision system?

Bryan Hanson

Yes. First, I'll hit the Revision system. We didn't have revenue in Q3 on the Revision system, but what's interesting is that there was a lot of hype around the Revision system coming, and that's important because it drives excitement in the field. Because there are a lot of surgeons that had been waiting to move to Persona until they felt comfortable we would have a Persona Revision system. So the fact that it didn't provide any revenue didn't change the fact that it did create some hype in the marketplace in Q3. So outside of that I'd just say, the major reasons for the strong performance in knee that we saw, number one, and I'm going to keep repeating this because I think it's really important. We are seeing the morale of the commercial organization shift and shift in a meaningful way. And that puts them back on offense which is exactly where we need them to be, hence our new products. Obviously ROSA was a big part of the quarter. I already referenced that in the prepared remarks and it continues to be an engine for us, will be an engine for us as we move forward. And then all of the Persona launches that we've had, not just in the Revision system we just talked about but our Partial Persona and our Cementless Persona were very important parts of our total package there. And then again, I'm going to just keep repeating this as well. We have a much more disciplined approach to driving the operating mechanism of running the commercial organization. And that is creating an environment where we do what we say. And if we don't do what we say that there's accountability to that, there's transparency to it. So all those things kind of came together to be able to drive a strong quarter. I do want to reference when I think about Cementless since you asked about that. The fact is we're getting great feedback on all of our new products and we are getting great feedback on the Cementless version of Persona as well. And over time I expect to significantly increase the penetration of Cementless knees with the goal of achieving similar penetration rates to some of what our competitors have been saying they've been able to do. I think ROSA being out there given the accuracy in the cut should increase our ability to get Cementless penetration. And I think just the shift and focus by the sales organization is going to drive it as well. I do want to make sure that I just clarify something. When I talk about the penetration of Cementless moving to these higher percentages, it is the Persona Cementless, so it would be a percentage of the Persona family not the total knee but clearly it is a growth driver that we'll be leveraging inside the knee.

Coleman Lannum

Thanks for that, Chris. Next question please?

Operator

Our next question comes from Pito Chickering with Deutsche Bank.

Pito Chickering

Thanks, guys. It looks like I'll be the leadoff on the ROSA questions. Thank you for giving us those details on the call. If half the worldwide growth of knees came from ROSA, that implies that $15 million of ROSA sales. So looking at America knee growth, does that mean that U.S. consumables was about 384 million or flat year-over-year? And then embedded within guidance, how should we think about ROSA sales in fourth quarter versus core America's consumable growth?

Bryan Hanson

Yes. So we didn't say half. I just want to make sure that I clarify that that we said less than half of the global knee revenue came from ROSA. So again, a material impact to the quarter but it was less than half of the total revenue number. And I don't want to get into specifics of sub-region, growth profiles and certainly don't want to give any predictions of what we do in the fourth quarter. I think probably the most important thing though to think about when we think about ROSA is that the demand is high. I'm very excited about what we're seeing in the field. I've mentioned a number of times in my entire career in med tech, I've seen certain product launches really get the attention of the market and shape things. It's only been a handful of times. This is one of those times. This is exactly what we're feeling. It's early days, but there is no question the demand of ROSA is very high. And the beautiful thing about this is that as we place more ROSA systems, which will happen over time, you get this annuity revenue, you get the instruments revenue, you get the service revenue, you get pull-through of competitive implants as well and that's exciting because it gives us a more predictable view of what our knee franchise is going to be able to do over time. So I'm pretty excited about what we're seeing so far. I do want to make sure that I clarify something though and this is just something that truly is becoming more clear to all of us. The annuity revenue stream that I just talked about, it does take time to materialize after you make placements of ROSA, sometimes a quarter or even two quarters to really get a good trend going from those placements. So I truly expect that the base knee business will take some time to create positive inertia as a result of the ROSA placements and ultimately that's got to offset some of the negative inertia that we have from our competitor getting there much earlier than we did. So as much as I'm very enthusiastic about the demand for ROSA, it will take time to have that resulting impact on our base knee business. But again, couldn't be more happy with what we're seeing right now. It was an important part of the quarter and we would expect it to continue to accelerate into 2020.

Coleman Lannum

Thanks for that, Pito. Next question please?

Operator

Our next question comes from Kristen Stewart with Barclays.

Kristen Stewart

Hi, guys. Thanks for the question. I just wanted to ask a question on just margins. I know this quarter you had a bit of a benefit from FX hedges flowing through gross margins. You also had the benefit from the medical device rebate tax. How should we just think about margins as we look ahead? I know the device tax could eventually come back. I'm not sure how that would eventually flow through the impact. I don't know if it will even hit next year or if that's something that would hit the year after just depending upon how the inventory kind of flows through. How should we just think about kind of trends looking ahead? I know you guys have talked about trying to see some level of operating margin improvement next year, although I think you've said gross margins next year could see some pressure. Just trying to gauge, I know you don't want to give 2020 guidance obviously, but just directionally how are you thinking about margins maybe even not so much next year but also just looking ahead as you guys think about just the cost structure of the company? Thanks so much.

Bryan Hanson

Thanks, Kristen, for I think the longest question I've ever heard on an earnings call. Let me turn it over to Suke.

Kristen Stewart

I learned that from listening to you, Cole.

Suketu Upadhyay

Hi, Kristen. It's Suke. Good to talk to you again. So let try and take your question. I'll start with the near term and then weave it into 2020 commentary. So I think the first thing to understand is where the company's come from? And I think if you look back over the last four years, the company has contracted gross margins and operating margins close to the 400 to 500 basis points. So as we think about gross margin within the quarter and actually over the last several quarters, it's great to see that we're actually stabilizing even in the backdrop of continued price erosion that the industry faces. Our gross margin was better than prior quarter or prior year I should say by about 80 basis points for many of the reasons that you talked about. And the good thing is that it flowed through down into operating margins which were about 90 basis points ahead. In fact, this is the first quarter in several quarters where we've actually shown operating margin expansion. So again, given where the company has been, I think this is a good proof point. It is one quarter and we got many more to prove that consistently over time, but we're really happy with the progress that we've made in sort of stabilizing supply and now starting to pivot towards efficiency. As we think about the rest of the year into the fourth quarter, as we said, we're going to maintain our overall guidance range. And so our view on gross margin, operating margins are consistent that ultimately underpinned that guidance update that we gave at the last quarter, so no material changes there. As we think about 2020, our commentary is consistent with what we said before. While gross margins are a bit better this year and we feel really good about that, a lot of good progress, there are some headwinds as we move into 2020. We've talked about a few things there which are some of the cost increase and investments in getting to stabilization in supply ultimately get capitalized on the balance sheet and flow through cost of goods sold as that inventory turns. And as you know we have close to a year of an inventory which is another challenge and an opportunity we have in front of us. But those defer or capitalized cost will flow through at a higher level into 2020, so that's a headwind. We have the medical device tax one-time gain in this quarter that will not repeat next year. Of course, pricing erosion continues to be a headwind into next year. And FX hedge gains this year will be stable. So you won't see that as a tailwind or a headwind, but you won't see that as a tailwind as you saw in '18. Now having said that, there are a number of tailwinds as we go into next year. One, Bryan talked a little bit about Cementless, right, and we have other products that from a mix perspective have the benefit to gross margin. So we see that as a positive. We're also in process and also kicking off a number of cost-down initiatives across our manufacturing network and our supply chain. So that will start to yield benefit over time. However, in 2020 specifically, those headwinds more than offset the tailwinds. However, beyond 2020, we would start to see those tailwinds become more prominent. So that's a little bit of gross margin commentary. Again, very consistent with what the company has had before. Now despite gross margin headwinds into 2020, we still project that we'd be in a situation where we can generate some modest or slight level operating margin enhancement primarily driven by better revenue growth and more consistent revenue growth in that 2% to 3% range. Now having said that, we are also very excited about many of the new products we've launched, the morale in the company, the opportunity to accelerate top line, if we see the right opportunities to invest at a higher level to accelerate the top line, we may chose to reinvest that margin enhancement in 2020 to grow the top line, because we all know that driving long-term durable above market growth rate is the best path to margin expansion. So, again, our commentary on 2020 gross margins – sorry, operating margins remain consistent with where we were. So thanks for the question. A great quarter. Hopefully, we string a lot more of these together in the future.

Coleman Lannum

Thanks for that, Kristen. Next question please?

Operator

Our next question comes from Kyle Rose with Canaccord.

Kyle Rose

Great. Thank you very much for taking the question. Bryan, I just wanted to circle back on the S.E.T. business. I appreciate the color in the previous answer, but I guess maybe just help us understand what stage of the investment cycle are you in with respect to the specialized sales force in the S.E.T. business? And then any plans to potentially accelerate those investments just given you've got some potential market disruption over the course of the next 12 to 18 months with the acquisition?

Bryan Hanson

Yes, you're reading our minds I think on that one. I would say we're in the early innings of a robust look at specialization done the right way, because as I referenced before, it's not just specialization, it has to be in tandem with better compensation structures so that you've got the right incentives in place and the right operating mechanisms to ensure that you keep that focus. So I'd say we're early innings and we are moving as far as we possibly can to get to the late innings. And we do believe that just by the very nature of integrations in our space that there will be some disruption in the extremities market and we certainly want to make sure that we take advantage of that.

Coleman Lannum

Thanks for that, Kyle. Next question please?

Operator

Our next question comes from Josh Jennings with Cowen.

Josh Jennings

Hi. Good morning. Thanks for taking the questions. I was hoping Bryan just to get a little bit more about how the ROSA launch has evolved and any incremental color you can share just about how you build out the sales force, any items around placements versus capital sales? And then just what should we expect in terms of the data accrual pathway, any cadaver data that should be coming out soon or anything that we – acute data that we could see from any of the early adopters at AAOS? Sorry, a multipart question but thanks for taking it.

Bryan Hanson

Yes, no problem at all. ROSA obviously is a big focus for all of us and we're all very focused on making sure it goes well. I would just tell you that generally again the feedback has been positive. We've been very aggressive in adding commercial infrastructure. When I think about ROSA and I think about capacity, I think about it in manufacturing, I think about it in commercial footprint, I think about it in education capability and in service. All those things need to be in place so that we can move aggressively to play through robotic systems in the correct way. And I can tell you that we've been moving very fast in each of those buckets to make sure we have the right capacity. Just from an example, just in a very short period of time we've added another 60 reps that are dedicated to selling capital not just ROSA Knee, but other parts of our capital as well, but a lot of their focus right now is in ROSA Knee. We've done a lot to train surgeons too, believe me. We've been increasing our capability through the semis that we have that can go to your location and train you and other hard locations where you can get the training done as well. And so we've gotten now in the hundreds of surgeons that have been trained, which is a very important part of moving the needle forward. And now we have close to 2,000 cases that have been done out in the real world with ROSA and that feedback continues to be strong. So again, very happy with the progress that we're making so far in building the capacity to do this the right way, and we fully expect that to continue as we move into 2020. This will be one of the primary growth engines of the organization. We will absolutely make sure that we do it right.

Coleman Lannum

Thanks for that, Josh. Next question please?

Operator

Our next question comes from Jeff Johnson with Baird.

Jeff Johnson

Thank you. Good morning, guys. Can you hear me okay?

Coleman Lannum

Yes, Jeff. Go right ahead.

Jeff Johnson

All right, great. Good morning. So, Bryan, I wanted to focus maybe on pricing. In the quarter it was down a little bit more than we've seen in both the Americas and on a global basis. With especially the mix of knee products we're seeing launched, our assumption had been and still is that pricing should actually get maybe a little bit better for you guys going forward. But just wanted to check kind of more your forward outlook on pricing I guess but also some explanation on what happened in the third quarter? Thank you.

Bryan Hanson

Yes. I really try to stay away from thinking too much about what happens in an individual quarter on pricing. There's just so many different variables involved in it. If we got all worked up about a specific quarter up or down, we'd be wasting a lot of our time. What I would tell you is that I don't see anything fundamentally from a pricing perspective in knee or otherwise that has me concerned. I still think of that 2% to 3% being pretty consistent overall for our business with negative pricing pressure. I would agree with you though and again it's going to take time to be able to prove this out, but one would assume as we get better at placing robotic systems, as we get better at doing longer-term contracts with the ZB Connect organization that we put in place which is really a corporate sales organization, one could assume that at some point with those contracts in place you could stabilize pricing and potentially begin to offset some of that headwind. I don't want to get ahead of us here. I don't want to get over our skis on that, but that would certainly be a focus of the organization to try to retard some of that pricing pressure by doing longer-term contracts that are good for us and good for the customer.

Coleman Lannum

Thanks for that, Jeff. Next question please?

Operator

Our next question comes from Craig Bijou with Cantor Fitzgerald.

Craig Bijou

Good morning, guys. Thanks for taking the question. Maybe a follow up on the acquisition that was announced yesterday. You guys have said that as you're stabilizing the business, you're at least now more willing to look at M&A. So if the business is stabilizing, you're paying down some debt. So I want to get your thoughts on what you're seeing out there in the market, namely availability of assets, valuations? And then how we should expect you guys to use M&A to bolster the existing businesses through tuck-ins or even potentially expand the offerings beyond your core today?

Bryan Hanson

Okay. Well, I'm glad that somebody saw that acquisition out there, so we appreciate you bringing that up. So what I'll tell you is I've been pretty clear from the beginning. I think the team has in general that we really wanted to get into M&A but do it in a way that was logical. First and foremost, we wanted to make sure that we stabilize the core business. That was an important part. You don't want to distract an organization when they're trying to get their feet underneath them. And the fact is we've done that. We do feel that we're moving in the direction of stabilizing the core business. We've also assembled what I would define as a much stronger M&A team and have begun to establish a new M&A process and an integration playbook or workbook, if you will. And then we're moving in the right direction when it comes to paying down our debt ratio. So when you just combine those things, it clearly states that we're in a better position today to be able to look at active portfolio management than we were even six months ago. So one would expect us to be much more focused in this area as we move forward. What I'd also say is let's face it. As a team, as ZB in the past, we have not had the best track record when it comes to M&A and I certainly feel that we have the right team in place today, the right process to change this, but our preference out of the gate is to kind of the test the team with tuck-in acquisitions in spaces that we actually have the right to win. Now once we've proven that we can accomplish these types of acquisitions, then we'd start to think about potentially larger acquisitions or more diversified acquisitions, things that would diversify us further into new spaces. But that said, as a caveat, I just want to make sure that you know if the right asset that was larger or more diversified than what I'm referencing came along, it has strategic fit, it had good return metrics, we would certainly look at it. But the plan would be to do those tuck-ins, test the system a bit and make sure that we play in areas that we have a higher chance of winning. Suke, do you have anything --?

Suketu Upadhyay

Yes, I was just going to say, Craig, just building off of what Bryan said, I think the company's capital structure supports that view as well. We continue to make progress in paying down debt and delevering the balance sheet. Our very strong stable cash flows as a company also put us in a position to give us strategic flexibility. And as Bryan – we often look at does the deal potentially meet strategic hurdles, financial hurdles but then we also look very closely at the overall leverage impact of those transactions and we'd want to make sure that anything we enter into gives us the glide path to maintain that investment grade over a reasonable period of time.

Bryan Hanson

If you think about obviously the deal you were referencing kind of tongue and cheek, that's obviously a bit bigger of a bite than we'd be looking to take out of the gate. Clearly, a space that we're interested in but that wouldn't be the size or scope of a bite that we would take right out of gate here.

Craig Bijou

Thanks for the color, guys.

Coleman Lannum

Thanks, Craig. Next question please?

Operator

Our next question comes from Bob Hopkins with Bank of America.

Bob Hopkins

Thanks and good morning. So, Bryan, I was wondering if I can just get you to comment a little bit on your core hip and knee markets because even excluding the selling day, it seemed like all of the four largest players in orthopedics saw a nice underlying organic acceleration in hip and knee growth in Q3. And I'm just wondering, is there anything going on in the market worth commenting on or is this just a strong economy and good utilization? Any thoughts there I appreciate it.

Bryan Hanson

It's so hard to say. First of all, thanks for the question. What I've almost trained myself to do and my team is to not pay too much attention to an individual quarter and the momentum that we might see. I can do the math the same as you by looking at all the other players and what they present in a quarter. But there are just so many other variables associated with why somebody's quarter might look the way it does that I try not to get too caught up in something that looks negative in the quarter or something that looks positive in a quarter. So I'm not really reading much into it to be honest. I truly do believe that the market growth is stable. It was a pretty strong quarter for all of us. If that happens again in the fourth quarter and the first quarter and the second quarter, then we have a trend. But otherwise I've seen these up quarters and then down quarters and people get all worked up about them. But I just don't want to burn the time or the effort associated with that because until you get a few of them together, it doesn't really mean anything to me anyway.

Coleman Lannum

Thanks for that, Bob. Next question please?

Operator

Our next question comes from David Lewis with Morgan Stanley.

David Lewis

Good morning. Just had a quick follow up for Suke and then one for Bryan, I'll ask them both together. Suke, one thing that was absent for your 2020 earnings comment was just SG&A. This is the first time in almost two years that SG&A is down year-over-year. It's obviously a glimpse of what higher revenue can do. Any reason that would reverse – that trend would reverse in 2020? And then, Bryan, if I take kind of stock out of your tenure at the business, your commentary on spine and dental from a year and a half ago to today, it's almost sort of reversed a bit and I wonder if you could sort of juxtapose how you're seeing the strategy now look for these two businesses? Thanks so much.

Suketu Upadhyay

So, David, thanks for the questions. So first on SG&A, year-over-year we are higher as you mentioned. This is on a seasonally lower revenue base, so of course commissions et cetera are going to be lower. So you should expect in the third quarter a lower SG&A number. But again, we were in line or slightly ahead on an absolute dollars basis versus the prior year. We expect that to ramp up into the fourth quarter, one, because of higher revenues again from seasonality but also we're investing I would say in a much bigger way against some of this growth drivers that Bryan talked about both in knee as well as beyond knee in some of the ecosystem that surrounds that key implant, but also within our S.E.T. business. So again, we expect that overall SG&A profile to accelerate as we move into the fourth quarter. And then we're not giving specific guidance into 2020. We do expect parts of the business there will be increases in spend, but we're also looking for resource allocation shifts. So we may chose to de-prioritize other parts of the business so that we can invest in higher growth, higher margin opportunities. We're going to constantly look for G&A efficiencies to help fund that increased investment. So again, I'm not going to give too much guidance on 2020 and what the SG&A profile would look like, but the one thing I can say with confidence is we're going to invest in a bigger way against those growth drivers to accelerate that top line.

Bryan Hanson

All right. And on the spine and dental business, what I would say is that they really did kind of start in the same place from our perspective. Both were struggling negative growth and both had new leadership and they were focusing on putting a game plan in place that would allow stabilization and eventually positive revenue growth. So both had the same plan. What I would tell you is that we probably, at least I did, underestimated how complicated to being able to roll the spine plan out would be, particularly when you're talking about channel dyssynergies that occur when you make significant changes. So if I just take spine first and foremost, I would say that's really been the thing that has retarded our ability to get back to flat growth and then to market growth. I feel at least good that we improved from Q2 when we look at Q3 and we continue to perform below market though, and certainly I believe not at our best. We're working through the channel consolidation that we talked about and finished towards the end of this year, but we still have work to do there. We just need to make sure that channel continues to gel. I know we're going to launch our new products. We haven't had a lot of new product launches in this space in a while and that is something that needs to come, and quite frankly we delayed some of that from a ROSA perspective because we wanted to double down in ROSA Knee. So we fully expect now with robotics like ROSA coming in, with Walter coming in, with the TrellOss titanium interbody that we just launched that's a limited launch, but that was a gap in our portfolio, with the Tether technology that we just go approval on, these should be the things that allow this organization to begin to stabilize as we move into 2020 hopefully get back to market growth. That would be the way that I would look at spine. If I think about dental, the less complicated space than spine, you have less risk of dyssynergy. There's always risk, so I don't want to diminish what this team has had to deal with, but the fact is it's just less complicated, less dyssynergy risk in this business and the team's done a nice job and they really have focused with the limited assets they have in the right areas. They've driven a culture of accountability and they've shown that they can perform. Now at the end of the day, I still look at that business and say we have a ways to go, we're still below market. So I'd like to see them show durability and positive growth, that's the first step. And then the second step is over time get to market growth and show durability in that. So that's really the big difference between the two and gives you a bit of backdrop in each of the businesses in the way I'm thinking about.

Coleman Lannum

Thanks for that, David. Next question please?

Operator

Next question comes from Robbie Marcus with JPMorgan.

Robbie Marcus

Thanks for taking the question and congrats on the nice quarter. Bryan, you've done a great job stabilizing the business. Next step is to get back to market growth. What are the steps that you still need to complete before we can start to see the margin expansion down the P&L? Is that – you made it pretty clear it's not next year. Is that something we could see in '21 and what the drivers to really get there?

Bryan Hanson

Yes. What I would tell you is the most important driver to being able to drive margin expansion is top line growth. You haven't heard it being coupled the way we talk about it on this call, but top line growth is the gift that keeps giving when you talk about leveraging the P&L. So that will come. Obviously, we already feel like we're in that 2% to 3%. That's a big difference from where we were before and that does help drive margin. The other pieces are just going to be the good old fashion cost down. We haven't had a lot of focus in our manufacturing organization to take cost down. We've only had the headwinds. We've had no push against those headwinds and that's something that has changed. It takes a while for that work to capitalize into our gross margin number, but that will be coming. And then we're also going to be looking at our organization to say, are we spending in the right areas? The fact is, we spend a lot of money and we haven't been as judicious or disciplined in the way we spend that money. So you're going to see certain categories that are very interesting to us that have high weighted average market growth opportunities where we think we have the right to win, we're going to be doubling down in spend and we're going to be taking from areas that don't have those same opportunities, so kind of a mix shift that occurs there as well. So it isn't just increasing spend to get growth, it's being smarter about how we spend the money we already have. So all those things I think will contribute. And the fact is, one of the strategic pillars that we have as an organization is to be a top quartile performer in total shareholder return. That does not happen without margin expansion. So just know as we get passed 2020, we will have our eye very focused on margin expansion because it is a very important part of the equation to deliver one of our strategic commitments.

Coleman Lannum

Thanks for that, Robbie. Next question please?

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

Shagun Singh

Thank you so much. This is Shagun in for Larry. Bryan, I wanted to talk about supply levels. The current supply levels are factored into your 2019 guidance, but you haven't negated that you will be supply constrained on ROSA for some time. So can you give us an update on supply, which products continue to be impacted, what steps are you taking to expand the supply for ROSA TKA in 2020? And then will there be sufficient supply for ROSA ONE Spine beginning next year, especially as you try to meet larger orders for ROSA TKA? Thank you so much.

Bryan Hanson

Yes, I appreciate the question. So what I would just tell you is that I don't view supply in any way, shape or form as a barrier for us to deliver the commitments that we have put out there. We're going to over achieve those commitments, by the way, if things go the right way. I would just tell you that with ROSA in particular, I don't see any supply constraints at this point. We put a governor on how we're approaching the market because we want to make sure that we do this smart, that we learn what the flaws may be in the way we educate when we bring ROSA to the marketplace. So we put a governor on how we're going to market, but it's not because of capacity constraints. So I just want to make sure that I'm clear on that. As a matter of fact, I'd go further to say I hope we have a capacity problem in 2020 because that would mean that we're doing very, very well in the marketplace. So I don't see capacity from a manufacturing perspective and/or the other variables associated with commercial infrastructure, education, service levels, I don't see those things being an issue for us with ROSA and I don't see them being a major barrier for us in any product category.

Coleman Lannum

And, Shagun, I want to make sure we're very clear. Consistent with what Bryan just said, we've never said that capacity was an issue for ROSA. So that may be what some people have speculated out there, but this is not a change from anything we've said all along. We've never said that that's going to be an issue.

Bryan Hanson

Again, I hope it's an issue in 2020. That will be very good for all of us.

Shagun Singh

Thank you.

Coleman Lannum

Next question please?

Operator

Our next question comes from Richard Newitter with SVB Leerink.

Richard Newitter

Hi. Thanks for taking the questions. Just going back to the margin expansion commentary for 2020, I appreciate and totally understand why top line is paramount and why you'd invest. I guess I just want to make sure I'm understanding. If you see opportunity to accelerate or the investment to ultimately drive higher top line, is that a comment to suggest that that would potentially lead to a situation where there's no margin expansion or just the limited margin expansion guidance that you have out there for 2020 is inclusive of the potential for kind of accelerated investment? Thanks.

Bryan Hanson

I'd just comment and Suke, if you want to provide any additional color. I think the original way you're looking at it is correct. We're looking at marginal margin expansion in 2020. But if we see an opportunity to be able to invest and drive revenue growth rate up in the short term, we're going to take advantage of that. That is the thing you should want, that is the thing that we want, because that's the only sustainable way to drive margin over time. We can easily cut cost and that can give you a lot of margin expansion in 2020, but that would the absolute wrong thing to do because the top line growth and accelerating that top line growth is the way to do it sustainably. So if we have opportunity in 2020 to be very clear to be able to invest and drive short-term growth, we will do that and forego margin expansion in 2020 with the idea that that gives us the runway to a do it sustainably and really being to show that traction in 2021.

Coleman Lannum

And, Rich, let me clarify again. Again, that's consistent with what we've said along. We've talked about potentially getting margin expansion in 2020. We've also every single time given the caveat that even if we do that, it would be relatively small given the pressures that we've talked about on gross margin. So I don't think that should come as a surprise to anyone. Next question please?

Operator

Our next question comes from Matt Taylor with UBS.

Young Li

Hi, guys. This is Young Li for Matt. Thanks for taking our question. I appreciate the comment earlier on the 2,000 ROSA cases. Can you maybe just talk broadly about the utilization rate within ROSA accounts? Are you seeing deep penetration within the accounts, signs of pull through, any type of color would be really helpful?

Bryan Hanson

Yes. So what I would just say is just do a correction here. It's been well more than 1,000 cases that we've had on the real world with ROSA so far out of the gate, and again feedback has been very strong. What I would say is we're learning. Utilization rates were all over the place. It depends on how long the system has been in, how focused the surgeon is that we're bringing it in is on using it in his cases or her cases. So I'd just say it's too early to say what the utilization rate we think is actually going to be. But we've seen so far is pretty consistent with what our competitor has talked about. That just gives you some feel for it. What I would say as we continue to move forward, we'll get a better understanding of that utilization. I would expect that over time as people get used to the system that we would actually see more utilization than what's out there today, because one of the primary things that frustrate surgeons with robotics is typically robotics slows them down in the surgical procedure and as a result of that they don't get the same throughput, which means they don't use all the time because they want to make sure that they have patients moving through the operating room. Just like a factory, you've got the fixed expenses, you want to move the patient through because that's how the surgeons make money and the hospital makes money. Our robotics system actually makes that easier because it doesn't change as much as the workflow and allows the surgeon to conduct a product basically in the same time they had before the robotics system, but just more accuracy now. So again, too early to tell but I would expect our utilization to look pretty good over time.

Coleman Lannum

Thanks for that, Young. Next question?

Operator

We'll take our next question from Rick Wise with Stifel.

Rick Wise

Good morning, Bryan. Maybe with a bunch of the specific questions asked, I'd focus on the turnaround itself. You're driving obviously a significant turnaround at Zimmer with significant cultural and operational change. And at a high level, I'm sort of curious, where do you think we are in that process? It seems like in multiple fronts you're well ahead;

spine more work to do, but maybe from here you could highlight some of the specific operational work to be done in terms of – and I'm just throwing out some ideas, answer it as you will, the manufacturing footprint, the ability, the possibility of working capital reduction, just the whole operational excellence process that I assume over time will also lead to enhanced cash flow, more available capital elsewhere. Just that whole theme as you contemplate what you're trying to make happen in Zimmer? Thanks so much.

Bryan Hanson

Absolutely and I appreciate the question. So what I would tell you is that we still have to make sure that a lot of the things that we've changed actually gel. The fact is when you've had an organization that has been struggling for as long as Zimmer Biomet has, it takes a lot of change. The only way you're going to actually fix it, moving in the right direction and truly shape it for success to make significant change, and we have. And so just to give you a couple of examples of those things that we still need to get some time, but we're moving in the right direction. We've got to give it some time. It'd be the number of new leaders that I have in the business. You think about the number of new leaders that I've brought in, 70% plus of my team is new, that same thing is happening below them. So we need to make sure that those individuals settle in. They show durability in driving this kind of increased effectiveness and I'm just going to call this maniacal focus on delivering what we say we're going to deliver. That's a cultural shift for the organization that we'll take. So I just got to see that happen. A lot of these people have been here less than a year, so I need to make sure that they're getting traction. We've also changed the structure of every one of our regions in every one of our businesses, and again less than a year ago. So we need to make sure that that gels and that we continue to drive success with it. And we've got a bunch of new products that we've launched. We had to get the new product engine going. That was a big part of the variables in this equation. It's happening. We're still in the early phases of those launches. It's going well, but they need to go through that full launch phase and they need to continue to perform the way they are performing today. Those are a lot of things. Another big one is I feel really good about where we are with quality remediation in the North Campus. But the fact is the only square part that counts is when the FDA comes back in and they tell us that they love what we've done. Now we think we're in a position to be able to make that happen, but that's still something that's got to gel. As we continue to progress through those in parallel, we're now working on things that you're talking about. We're moving away from this idea of supply stability and moving to efficiency in supply. And when I look at the network of manufacturing facilities we have, we've got to attack that. We got to do it in a smart and strategic way to understand what the footprint should look like and over time we need to reduce the footprint to make sure that we have the right organizational structure and footprint to be able to support what we need. I also look at this business, this is what's nice as being an outsider to orthopedics coming in and I will get the inefficiency associated with the amount of inventory that we have and the amount of inventory we write off every year in E&O, hundreds of millions of dollars every year that impacts my P&L. We are going to attack that. We're putting teams in place now to understand why is the DOH the way it is, how do we start to bring that DOH down through systems and different business models and ultimately as a result of that start to get the benefit of reducing the E&O, because that will help our P&L. So know for sure that we're already beginning to pay attention to those facets of the business and we see opportunity. There's no question. It's going to take time to get after it, because we still have to have these other parts of the business gel that we've been moving forward on, but we're already starting action in those areas.

Suketu Upadhyay

Rick, this is Suke. Just to build on what Bryan said, we sort of summarize all that to the entire organization through four key pillars which is ultimately aimed at being a top quartile performer. And so we look at that and we speak to the organization about revenue acceleration, where do we need to invest, what markets, what categories that have high market growth rates, where the products that are going to take us above weighted average market growth. Then we look at margin expansion. Bryan talked about how do we declutter the supply chain, through SKU rationalization, through better optimization of our footprint, through other efficiency and value engineering type ideas, but also through SG&A and taking our very fragmented sort of operating base and start to gain some more efficiencies out of that. The third level we then talk about is free cash flow yield. So how do we improve the cash flow generation on our earnings? And Bryan talked about one of the biggest opportunities that we're attacking is around working capital and specifically on inventory and just how much we have out there and the opportunities to even get to a peer level of working capital would free up and liberate a lot of additional free cash flow that would give us optionality in filling portfolio gaps. And then the last metric that we look at and that the organization basis decisions on is ROIC. And so it's not only the elements that Bryan talked about but it's summarized very succinctly and lived by, by the organizational process for key metrics.

Coleman Lannum

Operator, we got time for one last question, then we need to wrap please.

Operator

Our final question comes from Mike Matson with Needham & Company.

Mike Matson

Hi. Good morning. Thanks for fitting me in. So, Bryan, I think you mentioned that you think that Zimmer can grow over the 2% to 3% WAMGR without doing M&A. So just curious what would drive that? Is that primarily robotics? Is it share gains? Is it something else? Thanks.

Bryan Hanson

Yes, it's a great question. So first and foremost, we have to see and I believe we will because of the structure we're putting into place and the morale change, but we have to see the Americas improve. And just general, if I think about geographically speaking, the Americas has to improve. It's 62% of our business. It has to move in the right direction. Underneath that, the things that we're going to be highly focused on is getting our knee franchise above market. And I really do believe it's going to take time for all the reasons that I mentioned before, but we can get durably the knee market – our knee business to grow above market. That has to happen. It's got to happen through new product launches, particularly around ROSA, but also the ecosystem that we're building in and around it and then just traction and focusing on the fastest growth submarkets. You've got Cementless, you've got Partial and you've got robotics; very attractive submarkets of knee where we have very good launches and morale boost inside of those. Another big one is S.E.T. with specific focus in extremities. The fact is we have to get that durably in mid-single digits.

That's the market growth. We have to be able to be there consistently. We haven't proven that in the past. We're moving in the right direction. We have new products. We have the specialization of the sales organization. We're changing the comp structure. We're making sure that we have better operating mechanisms. But those things must happen. If I can just get knee above market, we can get S.E.T. at market. I can keep hip right around that market growth and I can get some slightly improvement in spine and dental staying where it is, that can get us above that 2% to 3% growth. I don't want to offer this up today. I really want people thinking as you model 2020, 2% to 3% is the right place to be. But I absolutely see a pathway to get above 2% to 3%. I think just a backdoor here. If you go back – I don't think I mentioned this, but you go back to 2015, we've only had three quarters as a company, as Zimmer Biomet, including this one where we were above 2% growth. That's going all the way back to 2015. So let us just get used to being able to do the 2% to 3% durably. And once we do that, we're not going to be happy with that. Obviously, we're going to move north of it. That will come through things that I just mentioned. And very soon with the right targets, with the right returns, we'll add to that our M&A to be able to boost traction in that area.

Coleman Lannum

Thanks for that, Mike. And with that, we're going to conclude the call. Really appreciate everyone joining us. Also really appreciate that everyone, with the exception of one person, complied with the one question-only rule. I'll talk to that person offline. But thanks to everyone because of that we were able to get a lot of questions in.

As a reminder, a replay of the call will be available later today for a review on our Web site at zimmerbiomet.com. And we'll able to take your questions as needed. Have a great day and great week. Bye-bye.

Operator

Thank you again for participating in today's conference call. You may now disconnect.