

### Zimmer Third Quarter Sales and Earnings Results Exceed Consensus Forecasts

Oct 21, 2002

#### **Third Quarter Highlights:**

- Net Sales increased 18% (16% constant currency) to \$338 million
- Earnings Per Share increased 32% over prior year pro forma\* to \$0.33
- Worldwide and Americas Reconstructive Sales increased 21% and 20%, respectively
- European Sales increased 38% (26% constant currency)
- YTD September Sales exceed \$1 Billion

WARSAW, Ind., Oct 21, 2002 --Holdings, Inc. (NYSE: ZMH) today announced net sales and earnings for the quarter and nine months ended September 30, 2002 exceeding First Call consensus estimates.

#### **Third Quarter Results**

Net sales for the third quarter increased 18% (16% constant currency) to \$338 million and net earnings increased 36% to \$65 million over pro forma prior year of \$287 million and \$48 million, respectively. Diluted earnings per share increased 32% to \$0.33 for the quarter versus pro forma earnings of \$0.25 for the prior year. First Call consensus estimates had projected net sales of \$326 million and earnings per share of \$0.30. On a reported basis, diluted earnings per share increased 136% for the quarter over \$0.14 reported last year.

"We believe that global reconstructive markets are growing by approximately 15% and that Zimmer has again outpaced this growth by an estimated 40%", said Zimmer Chairman, President and Chief Executive Officer Ray Elliott. "We also had an impressive contribution from our European businesses, which increased sales by 38% in the quarter, or 26% in constant currency. Strong cash flow this quarter has allowed us to continue to lead the industry, as planned, in Research and Development investments as a percentage to sales, while at the same time reduce debt by another \$64 million.

#### **Nine Month Results**

Net sales for the nine months ended September 30, 2002 grew 16% (16% constant currency) to \$1,002 million from \$867 million in 2001. Net earnings for the nine months were \$186 million, representing an increase of 34% over the pro forma prior year of \$139 million. Diluted earnings per share for the first nine months of 2002 were \$0.95, representing an increase of 34% over \$0.71, pro forma, for the first nine months of 2001. On a reported basis, diluted earnings per share increased 73% over \$0.55 last year.

#### **Global Category Results**

Global sales of reconstructive implants increased 21% for the third quarter (19% constant currency) and increased 19% for the nine months (19% constant currency) to \$258 million and \$772 million, respectively. Knee sales increased 22% for the third quarter (20% constant currency) and increased 21% for the nine months (21% constant currency) to \$142 million and \$426 million, respectively. Hip sales increased 19% for the third quarter (17% constant currency) and increased 15% for the nine months (16% constant currency) to \$108 million and \$321 million, respectively. Sales of fracture management products increased 8% for the third quarter (7% constant currency) and 5% for the nine months (6% constant currency) to \$34 million and \$100 million, respectively. Sales of orthopaedic surgical products increased 8% for the third quarter (7% constant currency) and 7% for the nine months (8% constant currency) to \$45 million and \$131 million, respectively.

#### **Geographic Results**

The Americas led the company in overall dollar sales growth, increasing 17% in the third quarter and 18% for the nine months to \$231 million and \$689 million, respectively. For the third quarter, knee sales increased 22% led by growth in sales of the NexGen® Legacy® Posterior Stabilized Knee including the Flex Knee, the NexGen Cruciate Retaining Knee and the M/G(TM) Unicompartmental Knee, which features Minimally Invasive Solutions(TM) (MIS) Instrumentation. Hip sales increased 16% in the third quarter, driven by continued conversion to porous stems, Trabecular Metal acetabular cups, and increased sales of Trilogy® Acetabular System cups incorporating Longevity® Crosslinked Polyethylene Liners. Fracture management product sales increased 13% in the quarter in large part due to increased sales of the Zimmer® Periarticular Plating System, Zimmer® Plates and Screws internal fixation and TransFx(TM)\*\* External Fixation Systems.

Asia Pacific net sales increased 10% in the third quarter (8% constant currency) and 4% for the nine months (8% constant currency) to \$68 million and \$195 million, respectively. For the third quarter, knee sales increased 11% (8% constant currency), reflecting continuing strong sales of NexGen Legacy Posterior Stabilized Flex Knee. Hip sales increased 19% in the third quarter (16% constant currency) driven primarily by continued conversion to porous stems and sales of Trilogy Acetabular System cups incorporating Longevity Crosslinked Polyethylene Liners. Fracture management product sales

decreased 8% (decreased 10% constant currency) reflecting a decline in M/DN<sup>®</sup> Intramedullary Fixation and compression hip screw sales, primarily in Japan.

Europe net sales increased 38% in the third quarter (26% constant currency) and 26% for the nine months (23% constant currency) to \$39 million and \$119 million, respectively. The third quarter increase was driven by higher sales in Central and Eastern Europe, France, Germany, Holland, Italy, Scandinavia, Spain and the United Kingdom. In the third quarter, knee sales increased 39% (26% constant currency) driven by strong sales of the NexGen Legacy system of knee prostheses as well as the M/G Unicompartmental Knee with MIS Instrumentation. Hip sales increased 43% in the third quarter (31% constant currency) supported by increased sales of Trilogy Acetabular System cups incorporating Longevity Crosslinked Polyethylene Liners, the ZMR® Hip System and VerSys® porous stems.

#### **Guidance**

The company has confirmed projections for the fourth quarter 2002 including revenue in a range of \$350 to \$360 million and EPS of approximately \$0.33, implying \$1.28 for the full year 2002. Additionally, company projections for the full year 2003 include revenue growth of 13% to 15% and EPS growth of 15% to 17%, implying EPS at a minimum of \$0.05 above the current 2003 full year First Call consensus estimates of \$1.42.

The company will discuss third quarter results during an investor conference call to be held on Tuesday, October 22, 2002 at 8am EDT. A live audio webcast of Zimmer's conference call will be accessible through the Zimmer website at www.zimmer.com (Investor Relations section). The webcast will be archived for future replay.

Individuals who wish to dial into the conference call may do so at (800) 406-1106. International callers should dial (706) 634-7075. A digital recording will be available two hours after the completion of the conference from October 22, 2002 to November 5, 2002. To access the recording, US/Canada callers should dial (800) 642-1687, or for International callers, dial (706) 645-9291, and enter the Conference ID, 5639560.

Zimmer, based in Warsaw, Indiana, is a global leader in the design, development, manufacture and marketing of reconstructive orthopaedic implants and fracture management products. Orthopaedic reconstruction implants restore joint function lost due to disease or trauma in joints such as knees, hips, shoulders and elbows. Fracture management products are devices used primarily to reattach or stabilize damaged bone and tissue to support the body's natural healing process. Zimmer also manufactures and markets other products related to orthopaedic and general surgery. Zimmer was founded in 1927 and has more than 3,600 employees worldwide.

This press release contains forward-looking statements based on current expectations, estimates, forecasts and projections about the orthopaedics industry, management's beliefs and assumptions made by management. Forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," and "seeks" or the negative of such terms or other variations on such terms or comparable terminology. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially. These risks and uncertainties include, but are not limited to, price and product competition, rapid technological development, demographic changes, dependence on new product development, the mix of our products and services, customer demand for our products and services, our ability to successfully integrate acquired companies, control of costs and expenses, our ability to form and implement alliances, international growth, U.S. and foreign government regulation, reimbursement levels from third-party payors, general industry and market conditions and growth rates and general domestic and international economic conditions including interest rate and currency exchange rate fluctuations. For a further list and description of such risks and uncertainties, see the reports filed by Zimmer with the Securities and Exchange Commission. Zimmer disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Visit Zimmer on the worldwide web at www.zimmer.com .

\*2001 Pro forma earnings exclude costs of separation from the company's former parent and include interest expense for all periods; pro forma reporting is presented as a result of the Company's 2001 spin-off from its former parent.

\*\*Trademark of Immedica, Inc.

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 and 2001

(in millions, except per share amounts)

(unaudited)

% Increase/
2001 (Decrease)
As Pro As Pro
2002 Reported Forma\* Reported Forma\*

Net Sales	\$337.5	\$286.7	\$286.7	17.7%	17.7%
Cost of products sold	85.1	75.0	71.3	13.5	19.4
Gross Profit	252.4	211.7	215.4	19.2	17.2
Research and development	20.6	18.3	17.2	12.6	19.8
Selling, general and administrative	133.7	142.6	118.7	(6.2)	12.6
Operating expenses	154.3	160.9	135.9	(4.1)	13.5
Operating Profit	98.1	50.8	79.5	93.1	23.4
Interest expense	3.0	3.0	4.5	0.0	(33.3)
Earnings before income taxes	95.1	47.8	75.0	99.0	26.8
Provision for income taxes	30.0	20.4	27.1	47.1	10.7
Net Earnings	\$65.1	\$27.4	\$47.9	137.6	35.9
Earnings Per Common Share					
Basic	\$0.33	\$0.14	\$0.25	135.7	32.0
Diluted	\$0.33	\$0.14	\$0.25	135.7	32.0
Weighted Average Common					
Shares Outstanding					
Basic	194.7	193.7	193.7		
Diluted	196.5	195.0	195.0		

\*2001 pro forma earnings exclude costs of separation from the Company's former parent and include interest expense for all periods; pro forma reporting is presented as a result of the Company's spin-off from its former parent.

# ZIMMER HOLDINGS, INC. CONSOLIDATED STATEMENTS OF EARNINGS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 and 2001

% Increase/
2001 (Decrease)
As Pro As Pro
2002 Reported Forma\* Reported Forma\*

Net Sales	\$1,002.2	\$867.0	\$867.0	15.6%	15.6%
Cost of products sold	251.1	237.6	226.7	5.7	10.8
Gross Profit	751.1	629.4	640.3	19.3	17.3

Research and development	58.9	53.7	50.7	9.7	16.2
Selling, general and					
administrative	402.4	399.4	357.2	0.8	12.7
Operating expenses	461.3	453.1	407.9	1.8	13.1
Operating Profit	289.8	176.3	232.4	64.4	24.7
Interest expense	9.9	3.0	17.0	230.0	(41.8)
Earnings before income taxes	279.9	173.3	215.4	61.5	29.9
Provision for income taxes	94.3	66.7	76.7	41.4	22.9
Net Earnings	\$185.6	\$106.6	\$138.7	74.1	33.8
Net Earnings	\$185.6	\$106.6	\$138.7	74.1	33.8
Net Earnings Earnings Per Common Share	\$185.6	\$106.6	\$138.7	74.1	33.8
	\$185.6 \$0.96				
Earnings Per Common Share		\$0.55	\$0.72	74.5	33.3
Earnings Per Common Share Basic	\$0.96	\$0.55	\$0.72	74.5	33.3
Earnings Per Common Share Basic	\$0.96	\$0.55	\$0.72	74.5	33.3
Earnings Per Common Share  Basic  Diluted	\$0.96	\$0.55	\$0.72	74.5	33.3
Earnings Per Common Share  Basic  Diluted  Weighted Average Common	\$0.96	\$0.55 \$0.55	\$0.72 \$0.71	74.5	33.3
Earnings Per Common Share  Basic  Diluted  Weighted Average Common  Shares Outstanding	\$0.96 \$0.95	\$0.55 \$0.55	\$0.72 \$0.71	74.5	33.3

\*2001 pro forma earnings exclude costs of separation from the Company's former parent and include interest expense for all periods; pro forma reporting is presented as a result of the Company's spin-off from its former parent.

#### ZIMMER HOLDINGS, INC.

#### NET SALES BY GEOGRAPHIC REGION

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 and 2001  $\,$ 

(in millions)

(unaudited)

	Thre	e Months	Ended	Nine	Months	Ended
	S	September 30,		Se	September 30,	
		% Increase		5	% Increas	
	2002	2001 (D	ecrease)	2002	2001	(Decrease)
Americas	\$230.7	\$196.9	17.2%	\$688.9	\$584.9	17.8%
Asia Pacific	67.9	61.5	10.4	194.5	187.5	3.7
Europe	38.9	28.3	37.5	118.8	94.6	25.6
Total	\$337.5	\$286.7	17.7	\$1,002.2	\$867.0	15.6

#### ZIMMER HOLDINGS, INC.

#### NET SALES BY PRODUCT CATEGORY

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 and 2001 (in millions)

(unaudited)

	Three Months Ended		Nine	Nine Months Ended		
	September 30,		Se	September 30,		
	% Increase		<u>:</u>	% In		
	2002 2001 (Decrease)		2002	2001	(Decrease)	
Reconstructive						
implants	\$258.4	\$213.6	21.0%	\$771.7	\$650.0	18.7%
Fracture						
management	33.9	31.4	8.0	99.7	95.2	4.7
Orthopaedic						
surgical products	45.2	41.7	8.4	130.8	121.8	7.4
Total	\$337.5	\$286.7	17.7	\$1,002.2	\$867.0	15.6

# ZIMMER HOLDINGS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2002 AND DECEMBER 31, 2001 (in millions)

	September 30,	
	2002	December 31,
	(unaudited)	2001
Assets		
Current Assets:		
Cash and equivalents	\$20.8	\$18.4
Receivables, net	204.7	181.7
Inventories, net	253.2	200.0
Other current assets	133.8	108.5
Total Current Assets	612.5	508.6
Property, Plant and Equipment, net	154.9	148.2
Other Assets	96.0	88.2
Total Assets	\$863.4	\$745.0
Liabilities and Shareholders' Equity		
Current Liabilities	\$242.7	\$223.1
Short-term Debt	150.0	150.0
Other Long-term Liabilities	85.4	79.3

98.9

213.9

Long-term Debt

Shareholders' Equity	286.4	78.7
Total Liabilities and Shareholders'	Equity \$863.4	\$745.0

#### ZIMMER HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 and 2001 (in millions)

(unaudited)

	2002	2001
Cash flow provided by (used in)		
operating activities:		
Net earnings	\$185.6	\$106.6
Depreciation	18.7	18.2
Income taxes	22.0	12.2
Receivables	(17.6)	(6.4)
Inventories	(57.5)	(37.4)
Accounts payable and accrued expenses	(6.7)	41.5
Other assets and liabilities	(7.5)	(14.5)
Net cash provided by operating		
activities	137.0	120.2
Cash flow provided by (used in)		
investing activities:		
Additions to property, plant and		
equipment	(23.7)	(38.4)
Investments in other assets	(2.0)	-
	(25.7)	(38.4)
Free cash flow as reported	\$113.3	\$81.8
		4405 -
Pro forma free cash flow *		\$105.7

<sup>\* 2001</sup> pro forma free cash flow excludes separation costs and includes full interest expense in each period presented; pro forma reporting is presented as a result of the Company's 2001 spin-off from its former parent.

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