Zimmer Announces Third Quarter and Nine Month Sales and Earnings

Oct 30, 2001

Third Quarter Highlights:

- Net Sales increased 14% (18% excluding foreign exchange rate fluctuations)
- Net Sales in the Americas increased 22%
- Pro Forma Net Earnings increased 27% (Excludes costs of separation from the Company's former parent and includes interest expense for all periods.)

WARSAW, Ind., Oct. 30 /PRNewswire/ -- Zimmer Holdings, Inc. (NYSE: ZMH) today announced net sales and net earnings for the third quarter and nine months ended September 30, 2001. The results announced reflect the consolidated operations of Zimmer as a public company commencing on August 6, 2001 combined with the operations of Zimmer as a division of Bristol-Myers Squibb prior to becoming a public company.

"Zimmer continues to perform extremely well and we are excited to be charting our own course as an independent, publicly traded company," said Chairman and Chief Executive Officer Ray Elliott. "We have delivered strong sales growth, particularly in the U.S. reconstructive market, and our pro forma earnings are increasing at a rate much faster than sales. Pro forma earnings exclude costs of separation from our former parent and include interest expense in all reported periods. We have built a foundation upon which to grow through rapid introduction of new products, development of innovative surgical techniques and expansion into adjacent, high growth markets where we can leverage our award winning sales force. Further, we intend to strengthen our position as the leader in minimally invasive orthopaedics and to devote key financial and human resources to further develop other lifestyle products and procedures that offer dramatic benefits, both to the patient and to our health care systems." The Company announced that it remains comfortable with previous earnings guidance and expects the fourth quarter to be in line with current consensus estimates of its full year sales and pro forma earnings per share of $0.96 for 2001, excluding separation costs and including twelve months of interest expense, and $1.10 for 2002.

Third Quarter Results

Net sales for the third quarter increased 14% (18% excluding foreign exchange rate fluctuations) to $286.7 million from $251.8 million in the third quarter of 2000. Net earnings for the third quarter on a pro forma basis, excluding the effect of costs incurred to separate from its former parent and including a full quarter of interest expense, were $47.9 million, representing an increase of 27% over $37.8 million, on a pro forma basis, reported for the third quarter of 2000. Diluted earnings per share for the third quarter on a pro forma basis were $0.25, representing an increase of 25% from $0.20, on a pro forma basis, in the third quarter of 2000. During the quarter, the Company recorded pretax separation costs of $28.7 million and $21.5 million after tax. Including the effect of the separation costs and excluding the full quarter pro forma adjustment for interest expense, reported results of operations include net earnings of $27.4 million and diluted earnings per share of $0.14.

Nine Month Results

Net sales for the first nine months of 2001 grew 13% (17% excluding foreign exchange rate fluctuations) to $867.0 million from $766.2 million in 2000. Net earnings in the first nine months on a pro forma basis, excluding the effect of costs incurred to separate from its former parent and including nine months of interest expense, were $138.7 million, representing an increase of 22% over $114.1 million, on a pro forma basis, reported for the first nine months of 2000. Diluted earnings per share for the first nine months on a pro forma basis were $0.71, representing an increase of 20% from $0.59, on a pro forma basis, in the first nine months of 2000. During the first nine months, the Company recorded pretax separation costs of $56.1 million and $41.0 million after tax. Including the effect of the separation costs and excluding the nine month pro forma adjustment for interest expense, reported results of operations include net earnings of $106.6 million and diluted earnings per share of $0.55.

Category and Geographic Results

Global sales of reconstructive implants increased 16% for the third quarter (20% excluding foreign exchange rate fluctuations) and increased 16% for the first nine months (19% excluding foreign exchange rate fluctuations) to $213.6 million and $650.0 million respectively. Global sales of fracture management products increased 6% for the third quarter (10% excluding foreign exchange rate fluctuations) and 3% for the first nine months (7% excluding foreign exchange rate fluctuations) to $31.4 million and $95.2 million respectively. Global sales of orthopaedic surgical products increased 10% for both the third quarter (14% excluding foreign exchange rate fluctuations) and the first nine months (13% excluding foreign exchange rate fluctuations) to $41.7 million and $121.8 million respectively.

The Americas led the Company in overall sales growth, increasing 22% in the third quarter and 21% for the first nine months to $196.9 million and $584.9 million respectively. For the third quarter, knee sales

increased 26% led by growth in sales of the NexGen® Legacy® Posterior Stabilized Knee, the recently introduced NexGen Legacy Posterior Stabilized Flex Knee, as well as the M/G(TM) Unicompartmental Knee. Hip sales increased 21% in the third quarter, driven by strong sales of VerSys® Hip System porous hip stems, the continuing introduction of the ZMR(TM) Modular Revision Hip System, 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 part due to increased sales of internal fixation devices, while orthopaedic surgical products increased 14% for the quarter with strong sales of the OrthoPAT®*Autotransfusion System.

Asia Pacific net sales decreased 3% in the third quarter (increased 9% excluding foreign exchange rate fluctuations) and decreased 3% for the first nine months (increased 8% excluding foreign exchange rate fluctuations) to $61.5 million and $187.5 million respectively. For the third quarter, knee sales decreased 4% (increased 8% excluding foreign exchange rate fluctuations), reflecting continuing strong sales of NexGen Legacy Posterior Stabilized Flex knee. Hip sales decreased 1% in the third quarter (increased 12% excluding foreign exchange rate fluctuations) driven primarily by strong sales of VerSys porous hip stems, introduction of the ZMR system and sales of Trilogy cups incorporating Longevity Crosslinked Polyethylene Liners. Fracture management product sales decreased 7% (increased 4% excluding foreign exchange rate fluctuations) reflecting continuing strong M/DN® Intramedullary Fixation sales partially offset by lower sales of compression hip screws. Orthopaedic surgical products decreased 3% (increased 8% excluding foreign exchange rate fluctuations) for the quarter primarily due to strong sales of powered surgical instruments.

Europe net sales increased 6% in the third quarter (12% excluding foreign exchange rate fluctuations) and 8% in the first nine months (15% excluding foreign exchange rate fluctuations) to $28.3 million and $94.6 million respectively. The third quarter increase was driven by higher sales in the United Kingdom, Spain, France, Germany and Italy. In the third quarter, knee sales increased 7% (13% excluding foreign exchange rate fluctuations) driven by strong sales of the NexGen Legacy system of knee prostheses as well as the M/G Unicompartmental knee. Hip sales increased 10% in the third quarter (16% excluding foreign exchange rate fluctuations) supported by the introduction of ZMR and increased sales of Trilogy cups incorporating Longevity Crosslinked Polyethylene Liners. Fracture management product sales decreased 2% (increased 3% excluding foreign exchange rate fluctuations) while orthopaedic surgical products decreased 1% (increased 5% excluding foreign exchange rate fluctuations).

Zimmer, based in Warsaw, Indiana, is a global leader in the design, development, manufacturing 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 3,400 employees worldwide. For the year 2000, Zimmer recorded worldwide revenues of more than $1 billion.

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

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. 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.

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ZIMMER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited, in millions of dollars, except per share amounts)

	2001				
	As Reported	Separation Costs	As Adjusted	2000	% Increase
Net Sales	$286.7	$ --	$286.7	$251.8	14
Cost of products sold	78.9	3.7	75.2	72.3	4
Gross Profit	207.8	(3.7)	211.5	179.5	18

Research and development	18.3	1.1	17.2	12.8	34
Selling, general and administrative	138.7	23.9	114.8	101.8	13
Operating expenses	157.0	25.0	132.0	114.6	15
Operating Profit	50.8	(28.7)	79.5	64.9	22
Interest expense	3.0	--	3.0	--	N/A
Earnings before income taxes	47.8	(28.7)	76.5	64.9	18
Provision for income taxes	20.4	(7.2)	27.6	22.3	24
Net Earnings	$ 27.4	$(21.5)	$ 48.9	$ 42.6	15
Earnings Per Share					
Basic	$ 0.14		$ 0.25	$ 0.22	14
Diluted	$ 0.14		$ 0.25	$ 0.22	14
Average Shares Outstanding					
Basic	193.7		193.7	193.6(b)	
Diluted	195.0		195.0	193.6(b)	

Pro forma interest adjustment: (a)		
Pre-tax	$ (1.5)	$ (7.3)
After-tax	$ (1.0)	$ (4.8)
Pro forma net earnings	$ 47.9	$ 37.8
Pro forma diluted earnings per share	$ 0.25	$ 0.20

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

(Unaudited, in millions of dollars, except per share amounts)

	2001				
	As Reported	Separation Costs	As Adjusted	2000	% Increase
Net Sales	$ 867.0	$ --	$ 867.0	$ 766.2	13
Cost of products sold	243.4	10.9	232.5	210.7	10
Gross Profit	623.6	(10.9)	634.5	555.5	14
Research and development	53.7	3.0	50.7	36.3	40
Selling, general and administrative	393.6	42.2	351.4	323.6	9
Operating expenses	447.3	45.2	402.1	359.9	12
Operating Profit	176.3	(56.1)	232.4	195.6	19
Interest expense	3.0	--	3.0	--	N/A
Earnings before income taxes	173.3	(56.1)	229.4	195.6	17
Provision for income taxes	66.7	(15.1)	81.8	67.1	22
Net Earnings	$ 106.6	$ (41.0)	$ 147.6	$ 128.5	15
Earnings Per Share					
Basic	$0.55		$ 0.76	$ 0.66	15
Diluted	$0.55		$ 0.76	$ 0.66	15
Average Shares Outstanding					
Basic	193.6		193.6	193.6 (b)	
Diluted	194.1		194.1	193.6 (b)	
Pro forma interest adjustment: (a)					
Pre-tax			$ (14.0)	$ (21.8)	
After-tax			$(8.9)	$ (14.4)	

Pro forma net earnings	$ 138.7	$ 114.1	22
Pro forma diluted earnings per share	$0.71	$0.59	20

(a) Previously reported pro forma interest, updated through the date of spin-off.

(b) Represents number of shares outstanding on date of spin-off.

ZIMMER HOLDINGS, INC.

NET SALES BY GEOGRAPHIC REGION

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001

(Unaudited, in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2001	2000	% Increase (Decrease)	2001	2000	% Increase (Decrease)
Americas	$ 196.9	$ 161.8	22	$ 584.9	$ 484.7	21
Asia Pacific	61.5	63.4	(3)	187.5	193.8	(3)
Europe	28.3	26.6	6	94.6	87.7	8
Total	$ 286.7	$ 251.8	14	$ 867.0	$ 766.2	13

ZIMMER HOLDINGS, INC.

NET SALES BY PRODUCT CATEGORY

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001

(Unaudited, in millions of dollars)

	Three Months Ended September 30			Nine Months Ended September 30		
	2001	2000	% Increase (Decrease)	2001	2000	% Increase (Decrease)
Reconstructive implants	$ 213.6	$ 184.5	16	$ 650.0	$ 562.8	16
Fracture						

management	31.4	29.5	6	95.2	92.2	3
Orthopaedic sugical products	41.7	37.8	10	121.8	111.2	10
Total	$ 286.7	$ 251.8	14	$ 867.0	$ 766.2	13

ZIMMER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2001

(Unaudited, in millions of dollars)

	September 30, 2001	December 31, 2000
Assets		
Current Assets:		
Cash	$23.4	$--
Receivables, net	191.1	188.7
Inventories	187.6	152.3
Other current assets	99.2	78.4
Total Current Assets	501.3	419.4
Property, Plant and Equipment	138.3	118.5
Other Assets	98.5	59.5
Total Assets	$ 738.1	$ 597.4
Liabilities and Shareholders' Equity		
Current Liabilities	$ 238.6	$ 192.4
Due to Former Parent	--	144.0
Short-term Debt	150.0	--
Long-term Debt	258.3	--
Other Long-term Liabilities	67.7	--
Shareholders' Equity	23.5	7.0
Net Investment in Zimmer by Bristol-Myers Squibb	--	254.0

Total Liabilities and Shareholders' Equity	$ 738.1	$ 597.4

ZIMMER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

(Unaudited, in millions of dollars)

	2001	2000
Cash Flow Provided By (Used In) Operating Activities:		
Net earnings	$ 106.6	$ 128.5
Depreciation	18.2	16.7
Income taxes	12.2	5.0
Receivables	(6.4)	7.9
Inventories	(37.4)	(5.3)
Accounts payable and accrued expenses	41.5	11.2
Other assets and liabilities	(14.5)	3.3
Net Cash Provided By Operating Activities	120.2	167.3
Cash Flow Provided By (Used In) Investing Activities:		
Additions to property, plant and equipment	(38.4)	(23.7)
Free Cash Flow as Reported	$81.8	$ 143.6
Pro Forma Free Cash Flow *	$ 105.7	$ 129.3

* Pro forma excludes separation costs and includes full interest expense in each period presented.