Zimmer Announces First Quarter 2002 Sales and Earnings and Increases Full-Year EPS Guidance

Apr 24, 2002

First Quarter Highlights:

- Net Sales of $319 million, an increase of 12% (15% constant currency) over prior year
- EPS of $0.28 ($0.03 above consensus estimates) and a net earnings increase of 30% over prior year pro forma*
- Worldwide and Americas reconstructive sales increased 18% and 20% constant currency, respectively
- Company projects increased full-year EPS growth of 17-20% over prior year

WARSAW, Ind., Apr 24, 2002 /PRNewswire-FirstCall via COMTEX/ --Zimmer Holdings, Inc. (NYSE: ZMH) today announced net sales and net earnings for the first quarter ended March 31, 2002.

Net sales for the first quarter increased 12% (15% constant currency) to $319.1 million from $286.0 million in the first quarter of 2001. Net earnings for the first quarter were $54.6 million, representing an increase of 30% over pro forma prior year of $41.9 million. Diluted earnings per share (EPS) for the first quarter were $0.28, representing an increase of 27% from $0.22, pro forma, in the first quarter of 2001. Net earnings increased 52% over the $36.0 million reported last year, including the effect of separation costs and excluding the pro forma adjustment for interest expense, and diluted earnings per share grew 47% over the $0.19 reported last year.

"We are off to the start we were looking for in our first full year as a public company and our 75th year of leadership in orthopaedics," said Chairman, President and Chief Executive Officer Ray Elliott. "We are satisfied with our progress in implementing our growth strategy of new products, markets and geographies. We will continue to focus our expansion efforts on critical mass in Europe, entering the spinal market and our leadership in transforming orthopaedics through advances in minimally invasive surgery. Zimmer again delivered excellent sales growth from our reconstructive products in the Americas and virtually every country in Europe. Our goal is to drive leveraged earnings through 'hands on' management of sales, gross profit and SG&A expenses. In the quarter, SG&A grew 9% while sales and gross profit grew 12% and 14%, respectively."

With Zimmer's revenue and earnings performance continuing above market, the company projects increased full-year EPS to grow at 17-20% over 2001 pro forma earnings per share of $0.98. The company also tightened its full-year 2002 revenue projection to 10-11% over 2001.

Category and Geographic Results

Global sales of reconstructive implants increased 15% for the first quarter (increased 18% constant currency) to $245.1 million, fracture management was essentially flat (increased 3% constant currency), at $32.6 million, and orthopaedic surgical products increased 4% (increased 7% constant currency) to $41.4 million.

The Americas led the company in overall sales growth, increasing 17% in the first quarter to $224.3 million. For the first quarter, knee sales increased 24% led by growth in sales of the NexGen Legacy® Posterior Stabilized Flex Knee and the M/G(TM) Unicompartmental Knee, now featuring Minimally Invasive Solutions(TM) (MIS) Instrumentation. Hip sales increased 14% led by growth in sales of the VerSys® Hip System, Trilogy® Acetabular Systems and Longevity® Highly Crosslinked Polyethylene Liners. Fracture management products increased 8% in the quarter due to sales of the Zimmer® Periarticular Plating System and Zimmer® Plates and Screws.

Asia Pacific net sales decreased 6% in the first quarter (increased 6% constant currency) to $57.8 million. For the first quarter, knee sales increased 1% (increased 13% constant currency), reflecting continuing strong sales of the NexGen Legacy Posterior Stabilized Flex Knee and increased sales of the M/G Unicompartmental Knee. Hip sales decreased 5% (increased 8% constant currency) driven by sales of VerSys porous hip stems and Trilogy Cups. Fracture management product sales decreased 20% (decreased 9% constant currency) reflecting a short-term decline in M/DN® Intramedullary Fixation and compression hip screws (CHS). The company believes that while currency effects continue to weigh on the Asia/Pacific region, recent local Japan reimbursement decisions and significant profitability enhancements are seen as clear positives going forward.

Europe net sales increased 15% in the first quarter (increased 19% constant currency) to $37.0 million. The first quarter increase was highlighted by stronger sales in Central Europe, France, Germany, Italy, Spain, and the United Kingdom. In the first quarter, knee sales increased 14% (increased 18% constant currency) driven by sales of the NexGen Legacy Posterior Stabilized Flex Knee, NexGen Legacy Posterior Stabilized Knee and the M/G Unicompartmental Knee. Hip sales increased 20% in the first quarter (increased 24% constant currency) due to continued growth in Longevity Highly Crosslinked Polyethylene Liners, VerSys Hip Systems and the ZMR® Revision Hip System. Fracture management sales increased 8% (increased 12% constant currency) driven by sales of the Cable-Ready® Cable Grip

System for hip revision, the Herbert(TM) Cannulated Bone Screw System and the Zimmer Periarticular Plating System.

A live audio webcast of Zimmer's conference call will be accessible through the Zimmer website at www.zimmer.com (Investor Relations section) at 8:00am, EDT, on April 25, 2002. 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 April 25, 2002 to May 9, 2002. To access the recording, US/Canada callers should dial (800) 642-1687, or for International/Local callers, dial (706) 645-9291, and enter the Conference ID, 3593345.

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. For the year 2001, Zimmer recorded worldwide revenues of approximately $1.2 billion. Zimmer was founded in 1927 and has more than 3,400 employees worldwide.

* 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 Zimmer's 2001 spin-off from its former parent.

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. 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.

ZIMMER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31,
(in millions, except per share amounts)
(unaudited)

		2001		%Increase/(Decrease) 2002 versus 2001	
	2002	As Reported	Pro Forma*	As Reported	Pro Forma*
Net Sales	$319.1	$286.0	$286.0	12 %	12 %
Cost of products sold	80.8	81.1	77.6	(0)	4
Gross Profit	238.3	204.9	208.4	16	14
Research and development	19.1	18.0	17.1	6	12
Selling, general and administrative	130.9	130.3	120.4	0	9
Operating expenses	150.0	148.3	137.5	1	9
Operating Profit	88.3	56.6	70.9	56	25
Interest expense	3.6	-	6.2	-	(42)
Earnings before income taxes	84.7	56.6	64.7	50	31
Provision for income taxes	30.1	20.6	22.8	46	32
Net Earnings	$54.6	$36.0	$41.9	52	30
Earnings Per Common Share					
Basic	$0.28	$0.19	$0.22	47	27
Diluted	$0.28	$0.19	$0.22	47	27
Weighted Average Common Shares Outstanding					
Basic	194.0	193.6	193.6		
Diluted	195.7	193.6	193.6		

*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 Zimmer's 2001 spin-off from its former parent.

ZIMMER HOLDINGS, INC.
NET SALES BY GEOGRAPHIC REGION
FOR THE THREE MONTHS ENDED MARCH 31,
(in millions)
(unaudited)

	2002	2001	% Increase (Decrease)
Americas	$224.3	$192.5	17 %
Asia Pacific	57.8	61.3	(6)
Europe	37.0	32.2	15
Total	$319.1	$286.0	12

ZIMMER HOLDINGS, INC.
NET SALES BY PRODUCT CATEGORY
FOR THE THREE MONTHS ENDED MARCH 31,
(in millions)
(unaudited)

	2002	2001	% Increase (Decrease)
Reconstructive implants	$245.1	$213.5	15 %
Fracture management	32.6	32.5	0
Orthopaedic surgical products	41.4	40.0	4
Total	$319.1	$286.0	12

ZIMMER HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	March 31, 2002	December 31, 2001
Assets		
Current Assets:		
Cash and equivalents	$20.8	$18.4
Receivables, net	196.2	181.7
Inventories, net	219.8	200.0
Other current assets	117.1	108.5
Total Current Assets	553.9	508.6
Property, Plant and Equipment, net	149.5	148.2
Other Assets	86.8	88.2
Total Assets	$ 790.2	$ 745.0
Liabilities and Stockholders' Equity		
Current Liabilities	$ 230.3	$ 223.1
Short-term Debt	150.0	150.0
Long-term Debt	192.2	213.9
Other Long-term Liabilities	83.8	79.3
Stockholders' Equity	133.9	78.7
Total Liabilities and Stockholders' Equity	$ 790.2	$ 745.0

ZIMMER HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31,
(in millions)
(unaudited)

	2002	2001
Cash flow provided by (used in) operating activities:		
Net earnings	$54.6	$36.0
Depreciation	5.5	6.1
Income taxes	20.3	(1.0)
Receivables	(16.6)	(7.7)
Inventories	(21.9)	(7.5)
Accounts payable and accrued liabilities	(11.3)	23.2
Other assets and liabilities	1.9	(2.5)
Net cash provided by operating		

activities	32.5	46.6
Cash flow used in investing activities:		
Additions to property, plant and equipment	(6.5)	(10.1)
Investments in other assets	(2.0)	-
	(8.5)	(10.1)
Free cash flow as reported	$26.0	$36.5
Pro forma free cash flow *		$31.3

* 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 Zimmer's 2001 spin-off from its former parent company.

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