

# Zimmer Holdings, Inc. Reports Third Quarter 2014 Financial Results

Oct 23, 2014

- Net Sales of \$1.11 billion represent an increase of 2.9% reported over the prior year period (an increase of 3.1% constant currency)
- Diluted EPS for the Third Quarter were \$0.96 reported, an increase of 6.7% over the prior year period, and \$1.35 adjusted, an increase of 8.0% over the prior year period
- Company updates sales and earnings guidance for full-year 2014

WARSAW, Ind., Oct. 23, 2014 /PRNewswire/ -- Zimmer Holdings, Inc. (NYSE and SIX: ZMH) today reported financial results for the quarter ended September 30, 2014. The Company reported third quarter net sales of \$1.11 billion, an increase of 2.9% reported and 3.1% constant currency over the third quarter of 2013. Diluted earnings per share for the quarter were \$0.96 reported and \$1.35 adjusted, an increase of 8.0% adjusted over the prior year period.

 ZIMMER, INC. LOGO

"Zimmer's third quarter was marked by solid revenue growth in key product categories and geographies, building on a strong prior year performance," said David Dvorak, President and CEO of Zimmer. "Our financial results reflect the ongoing execution of our operational excellence initiatives, as demonstrated by continued margin expansion and accelerated earnings growth during the quarter. Looking to future quarters, we believe that our pending combination with Biomet, which we expect to close in the first quarter of 2015, will enhance stockholder value through the creation of a leading innovator in the global musculoskeletal market."

Net earnings for the third quarter were \$165.5 million on a reported basis and \$232.6 million on an adjusted basis, an increase of 7.9% adjusted over the prior year period. Operating cash flow for the third quarter was \$255.7 million.

During the quarter, the Company paid \$37.1 million in dividends and declared a third quarter dividend of \$0.22 per share, an increase of 10% over the prior year period.

Earlier this month, Zimmer announced the acquisition of Cambridge, Massachusetts-based ETEX Holdings, Inc. ETEX's innovative bone substitute material products add more depth to a growing portfolio of solutions for the early stages of joint disease. Zimmer is committed to developing a comprehensive range of biologic therapies for patients suffering from musculoskeletal joint disease.

## **Guidance**

The Company updated its full-year revenue and EPS guidance for 2014. Full-year revenues are now expected to increase approximately 2.25% on a constant currency basis from 2013. Previously, the Company had estimated full-year revenues would increase 2.0% to 3.0% constant currency. The Company now expects foreign currency translation to decrease revenues by approximately 0.75% for the full year, resulting in reported revenue growth of approximately 1.50%.

The Company now projects full-year 2014 diluted earnings per share to be approximately \$4.65 on a reported basis and approximately \$6.05 on an adjusted basis. Prior guidance for full-year 2014 reported and adjusted diluted earnings per share was \$4.65 to \$4.75 and \$6.00 to \$6.10, respectively. This updated guidance reflects estimated charges for inventory and manufacturing related expenses, quality and operational excellence initiatives, certain claims and special items of \$250 million on a pre-tax basis, and an additional \$70 million for expenses related to the pending Biomet merger, totaling \$320 million or approximately \$1.40 per diluted share, on an after-tax basis.

## **Conference Call**

The Company will conduct its third quarter 2014 investor conference call today, October 23, 2014, at 8:00 a.m. Eastern Time. The live audio webcast can be accessed via Zimmer's Investor Relations website at <http://investor.zimmer.com>. It will be archived for replay following the conference call.

Individuals in the U.S. and Canada who wish to dial into the conference call may do so by dialing (877) 941-1227 and entering conference ID 4696679. A complete listing of international toll-free and local numbers can be accessed on the Zimmer Investor Relations website, on the "Audio Webcasts" page, at <http://investor.zimmer.com/events.cfm?id=15&EventType=Media>. A digital recording will be available one day after the completion of the conference call, from October 24, 2014 to November 24, 2014. To access the recording, U.S./Canada callers should dial (800) 406-7325, or +1 (303) 590-3030 for international dialers, and enter the Access Code ID 4696670.

## **Sales Tables**

The following tables provide sales results by geographic segment and product category, as well as the percentage change compared to the prior year quarter and nine months, on both a reported and constant currency basis.

**NET SALES - THREE MONTHS ENDED SEPTEMBER 30, 2014**  
(in millions, unaudited)

	<b><u>Net Sales</u></b>	<b><u>Reported % Change</u></b>	<b><u>Constant Currency % Change</u></b>
<b>Geographic Segments</b>			
Americas	\$ 638	1 %	1 %
Europe	271	6	6
Asia Pacific	197	6	7
Total	1,106	3	3
<b>Product Categories</b>			
<b>Reconstructive</b>			
Americas	469	3	3
Europe	210	7	6
Asia Pacific	145	6	7
Total	824	4	5
<b>Knees</b>			
Americas	285	6	6
Europe	101	10	10
Asia Pacific	75	4	4
Total	461	6	6
<b>Hips</b>			
Americas	150	-	-
Europe	100	3	3
Asia Pacific	66	8	10
Total	316	2	3
<b>Extremities</b>	47	3	2
<b>Dental</b>	54	(2)	(2)
<b>Trauma</b>	78	(1)	(1)
<b>Spine</b>	51	6	6
<b>Surgical and other</b>	99	(5)	(4)

**NET SALES - NINE MONTHS ENDED SEPTEMBER 30, 2014**

(in millions, unaudited)

	<b><u>Net</u></b>	<b><u>Reported</u></b>	<b><u>Constant</u></b>
	<b><u>Sales</u></b>	<b><u>% Change</u></b>	<b><u>Currency</u></b>
			<b><u>% Change</u></b>
<b>Geographic Segments</b>			
Americas	\$ 1,916	(1) %	- %
Europe	932	7	5
Asia Pacific	602	3	7
Total	3,450	2	2
<b>Product Categories</b>			
<b>Reconstructive</b>			
Americas	1,414	1	2
Europe	727	7	5
Asia Pacific	445	3	8
Total	2,586	3	4
<b>Knees</b>			
Americas	851	3	3
Europe	365	10	8
Asia Pacific	231	2	6
Total	1,447	4	5
<b>Hips</b>			
Americas	453	(1)	(1)
Europe	332	3	1
Asia Pacific	203	3	8
Total	988	1	2
<b>Extremities</b>	151	6	6
<b>Dental</b>	176	-	-
<b>Trauma</b>	236	1	1
<b>Spine</b>	151	1	1
<b>Surgical and other</b>	301	(5)	(4)

About the Company

Founded in 1927 and headquartered in Warsaw, Indiana, Zimmer designs, develops, manufactures and markets orthopaedic reconstructive, spinal and trauma devices, dental implants, and related surgical products. Zimmer has operations in more than 25 countries around the world and sells products in more than 100 countries. Zimmer's 2013 sales were approximately \$4.6 billion. Zimmer is supported by the efforts of more than 9,000 employees worldwide.

## **Website Information**

We routinely post important information for investors on our website, [www.zimmer.com](http://www.zimmer.com), in the "Investor Relations" section. We use this website as a means of disclosing material, non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following our press releases, SEC filings, public conference calls, presentations and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this document.

## **Note on Non-GAAP Financial Measures**

As used in this press release, the term "adjusted" refers to operating performance measures that exclude inventory step-up and other inventory and manufacturing related charges, special items, the provision for certain *Durom*® Acetabular Component product claims, other expenses related to the pending Biomet merger and certain tax adjustments. Included in special items are acquisition and integration costs and asset impairment charges related to prior and pending acquisitions, as well as employee termination benefits, consulting and professional fees, certain litigation matters, dedicated personnel expenses, certain contract terminations and asset impairment charges connected with global restructuring and operational excellence initiatives. The term "constant currency" refers to any financial measure that excludes the effect of changes in foreign currency exchange rates.

Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure are included in this press release.

## **Cautionary Statement Regarding Forward-Looking Statements**

*This communication contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "assumes," "guides," "targets," "forecasts," and "seeks" or the negative of such terms or other variations on such terms or comparable terminology. Such forward-looking statements include, but are not limited to, statements about the benefits of the proposed merger between Zimmer and LVB Acquisition, Inc. ("LVB"), the parent company of Biomet, including future financial and operating results, the combined company's plans, objectives, expectations and*

*intentions, the expected timing of completion of the transaction and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of Zimmer's management and are subject to significant risks and uncertainties that could cause actual outcomes and results to differ materially. These risks and uncertainties include, but are not limited to: the possibility that the anticipated synergies and other benefits from the proposed merger of Zimmer and LVB will not be realized, or will not be realized within the expected time periods; the inability to obtain regulatory approvals of the merger (including the approval of antitrust authorities necessary to complete the transaction) on the terms desired or anticipated; the timing of such approvals and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction; the risk that a condition to closing the transaction may not be satisfied on a timely basis or at all; the risk that the proposed transaction fails to close for any other reason; the risks and uncertainties related to Zimmer's ability to successfully integrate the operations, products and employees of Zimmer and Biomet; the effect of the potential disruption of management's attention from ongoing business operations due to the pending merger; the effect of the announcement of the proposed merger on Zimmer's and Biomet's relationships with their respective customers, vendors and lenders and on their respective operating results and businesses generally; risks relating to the value of the Zimmer shares to be issued in the transaction; access to available financing (including financing for the acquisition or refinancing of Zimmer's or Biomet's debt) on reasonable terms, including the risk that any condition to the closing of the financing committed for the proposed merger and refinancing of Zimmer's debt is not satisfied; the outcome of any legal proceedings related to the proposed merger; the risks and uncertainties normally incidental to the orthopaedic industry, including price and product competition; the success of the companies' quality and operational excellence initiatives; changes in customer demand for Zimmer's or Biomet's products and services caused by demographic changes or other factors; the impact of healthcare reform measures, including the impact of the U.S. excise tax on medical devices; reductions in reimbursement levels by third-party payors and cost containment efforts of healthcare purchasing organizations; dependence on new product development, technological advances and innovation; shifts in the product category or regional sales mix of Zimmer's or Biomet's products and services; supply and prices of raw materials and products; control of costs and expenses; the ability to obtain and maintain adequate intellectual property protection; the ability to form and implement alliances; challenges relating to changes in and compliance with governmental laws and regulations, including regulations of the U.S. Food and Drug Administration (the "FDA") and foreign government regulators, such as more stringent requirements for regulatory clearance of products; the ability to remediate matters identified in any inspectional observations or warning letters issued by the FDA; changes in tax obligations arising from tax reform measures or examinations by tax authorities; product liability and intellectual property litigation losses; the ability to retain the independent agents and distributors who market Zimmer's and Biomet's products; dependence on a limited number of suppliers for key raw materials and outsourced activities; changes in general industry and market conditions, including*



*domestic and international growth rates and general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations; and the impact of the ongoing economic uncertainty affecting countries in the Euro zone on the ability to collect accounts receivable in affected countries. For a further list and description of such risks and uncertainties, see Zimmer's periodic reports filed with the U.S. Securities and Exchange Commission (the "SEC"). Copies of these filings, as well as subsequent filings, are available online at [www.sec.gov](http://www.sec.gov), [www.zimmer.com](http://www.zimmer.com) or on request from Zimmer. 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, except as may be set forth in its periodic reports. Readers of this communication are cautioned not to place undue reliance on these forward-looking statements, since, while management believes the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this communication.*

### **Additional Information and Where to Find It**

Zimmer filed with the SEC, and the SEC declared effective on September 29, 2014, a registration statement on Form S-4 that includes a consent solicitation statement of LVB that also constitutes a prospectus of Zimmer. INVESTORS AND SECURITYHOLDERS OF LVB ARE URGED TO READ THE CONSENT SOLICITATION/PROSPECTUS AND OTHER FILINGS MADE WITH THE SEC IN CONNECTION WITH THE MERGER CAREFULLY AND IN THEIR ENTIRETY, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE MERGER. The registration statement and consent solicitation statement/prospectus and other documents filed by Zimmer with the SEC may be obtained free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) or from Zimmer at [www.zimmer.com](http://www.zimmer.com). You may also read and copy any reports, statements and other information filed by Zimmer, LVB and Biomet with the SEC at the SEC public reference room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at (800) 732-0330 or visit the SEC's website for further information on its public reference room. Certain executive officers and directors of LVB have interests in the proposed transaction that may differ from the interests of stockholders generally, including benefits conferred under retention, severance and change in control arrangements and continuation of director and officer insurance and indemnification.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to appropriate registration or qualification under the securities laws of such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014 and 2013**  
**(in millions, except per share amounts, unaudited)**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Net Sales</b>	\$ 1,106.0	\$ 1,074.3
Cost of products sold	<u>298.3</u>	<u>328.8</u>
<b>Gross Profit</b>	<u>807.7</u>	<u>745.5</u>
Research and development	46.1	49.4
Selling, general and administrative	443.5	438.0
Special items	<u>66.9</u>	<u>46.4</u>
Operating expenses	<u>556.5</u>	<u>533.8</u>
<b>Operating Profit</b>	251.2	211.7
Other expense	(10.5)	-
Interest income	3.0	3.8
Interest expense	<u>(16.3)</u>	<u>(17.1)</u>
Earnings before income taxes	227.4	198.4
Provision for income taxes	<u>62.1</u>	<u>44.3</u>
Net earnings	165.3	154.1
Less: Net loss attributable to noncontrolling interest	<u>(0.2)</u>	<u>(0.3)</u>
<b>Net Earnings of Zimmer Holdings, Inc.</b>	\$ 165.5	\$ 154.4
<b>Earnings Per Common Share</b>		
Basic	\$ 0.98	\$ 0.91
Diluted	\$ 0.96	\$ 0.90
<b>Weighted Average Common Shares Outstanding</b>		
Basic	169.0	170.0
Diluted	171.7	172.2
Cash dividends declared per common share	\$ 0.22	\$ 0.20

**ZIMMER HOLDINGS, INC.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 and 2013**

**(in millions, except per share amounts, unaudited)**

**2014**      **2013**



<b>Net Sales</b>	\$ 3,450.4	\$ 3,382.7
Cost of products sold	<u>936.9</u>	<u>945.3</u>
<b>Gross Profit</b>	<u>2,513.5</u>	<u>2,437.4</u>
Research and development	141.7	157.8
Selling, general and administrative	1,363.6	1,356.8
Certain claims	21.8	47.0
Special items	<u>177.5</u>	<u>155.5</u>
Operating expenses	<u>1,704.6</u>	<u>1,717.1</u>
<b>Operating Profit</b>	808.9	720.3
Other expense	(20.5)	-
Interest income	8.4	11.4
Interest expense	<u>(47.1)</u>	<u>(53.6)</u>
Earnings before income taxes	749.7	678.1
Provision for income taxes	<u>187.2</u>	<u>154.3</u>
Net earnings	562.5	523.8
Less: Net loss attributable to noncontrolling interest	<u>(1.0)</u>	<u>(1.3)</u>
<b>Net Earnings of Zimmer Holdings, Inc.</b>	\$ 563.5	\$ 525.1
<b>Earnings Per Common Share</b>		
Basic	\$ 3.34	\$ 3.10
Diluted	\$ 3.29	\$ 3.07
<b>Weighted Average Common Shares Outstanding</b>		
Basic	168.8	169.2
Diluted	171.5	171.2
Cash dividends declared per common share	\$ 0.66	\$ 0.60

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

	<b><u>September 30,</u></b>	<b><u>December 31,</u></b>
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 967.3	\$ 1,080.6
Short-term investments	779.8	727.0

Receivables, net	947.6	936.6
Inventories	1,177.5	1,074.5
Other current assets	<u>460.5</u>	<u>379.0</u>
Total current assets	4,332.7	4,197.7
Property, plant and equipment, net	1,279.0	1,224.7
Goodwill	2,533.1	2,611.2
Intangible assets, net	620.3	707.7
Other assets	<u>905.8</u>	<u>839.3</u>
<b>Total Assets</b>	\$ 9,670.9	\$ 9,580.6

### Liabilities and Stockholders' Equity

Current liabilities	\$ 1,093.0	\$ 1,031.6
Other long-term liabilities	610.1	576.6
Long-term debt	1,426.4	1,672.3
Stockholders' equity	<u>6,541.4</u>	<u>6,300.1</u>
<b>Total Liabilities and Stockholders' Equity</b>	\$ 9,670.9	\$ 9,580.6

### ZIMMER HOLDINGS, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 and 2013

(in millions, unaudited)

	<u>2014</u>	<u>2013</u>
<b>Cash flows provided by (used in) operating activities</b>		
Net earnings	\$ 562.5	\$ 523.8
Depreciation and amortization	283.2	268.4
Share-based compensation	37.0	37.1
Income tax benefits from employee stock compensation plans	32.7	29.1
Excess income tax benefits from employee stock compensation plans	(9.7)	(7.3)
Inventory step-up	5.0	5.1
Changes in operating assets and liabilities, net of acquired assets and liabilities		
Income taxes	(134.3)	(50.2)
Receivables	(42.3)	(33.0)
Inventories	(134.2)	(115.1)
Accounts payable and accrued expenses	6.5	(3.7)

Other assets and liabilities	<u>92.2</u>	<u>8.7</u>
Net cash provided by operating activities	<u>698.6</u>	<u>662.9</u>
<b>Cash flows provided by (used in) investing activities</b>		
Additions to instruments	(162.9)	(166.1)
Additions to other property, plant and equipment	(95.7)	(77.2)
Purchases of investments	(1,150.1)	(580.3)
Sales of investments	919.4	631.2
Investments in other assets	<u>(8.8)</u>	<u>(79.9)</u>
Net cash used in investing activities	<u>(498.1)</u>	<u>(272.3)</u>
<b>Cash flows provided by (used in) financing activities</b>		
Net payments under revolving credit facilities	1.4	(99.3)
Dividends paid to stockholders	(108.0)	(98.4)
Proceeds from employee stock compensation plans	254.5	325.4
Excess income tax benefits from employee stock compensation plans	9.7	7.3
Purchase of additional shares from noncontrolling interest	-	(1.8)
Debt issuance costs	(64.1)	-
Repurchase of common stock	<u>(400.5)</u>	<u>(478.3)</u>
Net cash used in financing activities	<u>(307.0)</u>	<u>(345.1)</u>
Effect of exchange rates on cash and cash equivalents	<u>(6.8)</u>	<u>(12.4)</u>
Increase (decrease) in cash and cash equivalents	(113.3)	33.1
Cash and cash equivalents, beginning of period	<u>1,080.6</u>	<u>884.3</u>
Cash and cash equivalents, end of period	\$ 967.3	\$ 917.4

## ZIMMER HOLDINGS, INC.

### NET SALES BY GEOGRAPHIC SEGMENT

FOR THE THREE and NINE MONTHS ENDED SEPTEMBER 30, 2014 and 2013

(in millions, unaudited)

	<u>Three Months Ended</u>			<u>Nine Months Ended September</u>		
	<u>September 30,</u>			<u>30,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Inc</u>	<u>2014</u>	<u>2013</u>	<u>% Inc/(Dec)</u>
Americas	\$ 637.9	\$ 632.9	1	1,916.3	1,927.7	(1)
Europe	270.7	255.0	6	932.3	870.0	7

Asia Pacific	<u>197.4</u>	<u>186.4</u>	6	<u>601.8</u>	<u>585.0</u>	3
Total	\$ 1,106.0	\$ 1,074.33		\$ 3,450.4	\$ 3,382.72	

## ZIMMER HOLDINGS, INC.

### NET SALES BY PRODUCT CATEGORY

FOR THE THREE and NINE MONTHS ENDED SEPTEMBER 30, 2014 and 2013

(in millions, unaudited)

	<u>Three Months Ended</u>			<u>Nine Months Ended September</u>		
	<u>September 30,</u>			<u>30,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Inc/(Dec)</u>	<u>2014</u>	<u>2013</u>	<u>% Inc/(Dec)</u>
Reconstructive						
Knees	\$ 461.4	\$ 434.56		1,447.2	1,386.54	
Hips	315.6	308.3	2	988.3	977.5	1
Extremities	<u>46.8</u>	<u>45.5</u>	3	<u>150.4</u>	<u>141.9</u>	6
	823.8	788.3	4	2,585.9	2,505.9	3
Dental	53.9	55.1	(2)	176.0	176.2	-
Trauma	77.8	78.5	(1)	236.3	234.6	1
Spine	51.0	48.0	6	151.5	149.9	1
Surgical and other	<u>99.5</u>	<u>104.4</u>	(5)	<u>300.7</u>	<u>316.1</u>	(5)
Total	\$ 1,106.0	\$ 1,074.33		\$ 3,450.4	\$ 3,382.72	



## ZIMMER HOLDINGS, INC.

### RECONCILIATION OF REPORTED % GROWTH TO

### CONSTANT CURRENCY % GROWTH

(unaudited)

For the Three Months Ended  
September 30, 2014

	Foreign	Constant
	Reported	Exchange
	% Change	% Change
	Impact	

### Geographic Segments

Americas	1	%	-	%	1	%
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Europe	6	-	6
Asia Pacific	6	(1)	7
Total	3	-	3
<b>Product Categories</b>			
<b>Reconstructive</b>			
Americas	3	-	3
Europe	7	1	6
Asia Pacific	6	(1)	7
Total	4	(1)	5
<b>Knees</b>			
Americas	6	-	6
Europe	10	-	10
Asia Pacific	4	-	4
Total	6	-	6
<b>Hips</b>			
Americas	-	-	-
Europe	3	-	3
Asia Pacific	8	(2)	10
Total	2	(1)	3
<b>Extremities</b>	3	1	2
<b>Dental</b>	(2)	-	(2)
<b>Trauma</b>	(1)	-	(1)
<b>Spine</b>	6	-	6
<b>Surgical and other</b>	(5)	(1)	(4)

**ZIMMER HOLDINGS, INC.**  
**RECONCILIATION OF REPORTED % GROWTH TO**  
**CONSTANT CURRENCY % GROWTH**  
**(unaudited)**

**For the Nine Months Ended**  
**September 30, 2014**  
**Foreign Constant**  
**Reported ExchangeCurrency**

	% Change		Impact	% Change		
Geographic Segments						
Americas	(1)	%	(1)	%	-	%
Europe	7		2		5	
Asia Pacific	3		(4)		7	
Total	2		-		2	
Product Categories						
Reconstructive						
Americas	1		(1)		2	
Europe	7		2		5	
Asia Pacific	3		(5)		8	
Total	3		(1)		4	
Knees						
Americas	3		-		3	
Europe	10		2		8	
Asia Pacific	2		(4)		6	
Total	4		(1)		5	
Hips						
Americas	(1)		-		(1)	
Europe	3		2		1	
Asia Pacific	3		(5)		8	
Total	1		(1)		2	
Extremities						
	6		-		6	
Dental						
	-		-		-	
Trauma						
	1		-		1	
Spine						
	1		-		1	
Surgical and other						
	(5)		(1)		(4)	

**ZIMMER HOLDINGS, INC.**

**Reconciliation of Net Earnings and Adjusted Net Earnings  
For the Three Months Ended September 30, 2014 and 2013  
(in millions, unaudited)**

**Three Months  
Ended September 30,**



	<u>2014</u>	<u>2013</u>
Net Earnings of Zimmer Holdings, Inc.	\$ 165.5	\$ 154.4
Inventory step-up and other inventory and manufacturing related charges	3.8	43.8
Special items	66.9	46.4
Other expense on Biomet merger financing	10.5	-
Taxes on above items*	<u>(14.1)</u>	<u>(29.0)</u>
Adjusted Net Earnings	\$ 232.6	\$ 215.6

\* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

#### **ZIMMER HOLDINGS, INC.**

#### **Reconciliation of Net Earnings and Adjusted Net Earnings For the Nine Months Ended September 30, 2014 and 2013 (in millions, unaudited)**

	<b><u>Nine Months Ended September 30,</u></b>	
	<u>2014</u>	<u>2013</u>
Net Earnings of Zimmer Holdings, Inc.	\$ 563.5	\$ 525.1
Inventory step-up and other inventory and manufacturing related charges	21.1	57.7
Certain claims	21.8	47.0
Special items	177.5	155.5
Other expense on Biomet merger financing	20.5	-
Taxes on above items*	<u>(59.0)</u>	<u>(85.5)</u>
Adjusted Net Earnings	\$ 745.4	\$ 699.8

\* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

#### **ZIMMER HOLDINGS, INC.**

#### **Reconciliation of Diluted EPS and Adjusted Diluted EPS For the Three Months Ended September 30, 2014 and 2013 (unaudited)**

**Three Months**  
**Ended September 30,**

	<b><u>2014</u></b>	<b><u>2013</u></b>
Diluted EPS	\$ 0.96	\$ 0.90
Inventory step-up and other inventory and manufacturing related charges	0.02	0.25
Special items	0.39	0.27
Other expense on Biomet merger financing	0.06	-
Taxes on above items*	(0.08)	(0.17)
Adjusted Diluted EPS	\$ 1.35	\$ 1.25

\* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

**ZIMMER HOLDINGS, INC.**

**Reconciliation of Diluted EPS and Adjusted Diluted EPS**

**For the Nine Months Ended September 30, 2014 and 2013**

**(unaudited)**

**Nine Months**  
**Ended September 30,**

	<b><u>2014</u></b>	<b><u>2013</u></b>
Diluted EPS	\$ 3.29	\$ 3.07
Inventory step-up and other inventory and manufacturing related charges	0.12	0.34
Certain claims	0.13	0.27
Special items	1.03	0.91
Other expense on Biomet merger financing	0.12	-
Taxes on above items*	(0.34)	(0.50)
Adjusted Diluted EPS	\$ 4.35	\$ 4.09

\* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

**ZIMMER HOLDINGS, INC.**

**Reconciliation of 2014 Projected Diluted EPS**

**and Projected Adjusted Diluted EPS**

**(unaudited)**

	<b>Projected Year Ended December 31, 2014</b>	
Diluted EPS	\$	4.65
Inventory step-up and other inventory and manufacturing related charges, special items and other expense	1.73	
Certain claims	0.13	
Taxes on above items*	<u>(0.46)</u>	
Adjusted Diluted EPS	\$	6.05

\* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items have been or are projected to be incurred.

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