ZIMMER BIOMET

# Zimmer Announces Second Quarter 2002 Results Exceeding Previous Guidance

Jul 24, 2002

**Second Quarter Highlights and Increased Full Year Guidance:**

- Net Sales increased 17% (18% constant currency)
- EPS of $0.34 increased 36% over prior year pro forma*
- Worldwide and Americas Reconstructive Sales increased 21% and 22% constant currency, respectively
- Operating profit margin to sales increased to a record 30%
- Full-year EPS growth projections over 2001 pro forma* increased to 25%, implying $1.22-$1.23

WARSAW, Ind., Jul 24, 2002 /PRNewswire-FirstCall via COMTEX/ -- Zimmer Holdings, Inc. (NYSE: ZMH) today announced net sales and earnings for the quarter and six- months ended June 30, 2002, that were well above First Call consensus estimates.
Second Quarter Results

Net sales for the second quarter increased 17% (18% constant currency) to $345.6 million and for the six-months increased 15% (16% constant currency) to $664.7 million. Zimmer previously announced that it expected to overachieve consensus second quarter revenue forecasts of $327 million by at least $10 million.

Net earnings increased 35% to $65.9 million for the second quarter and increased 33% to $120.5 million for the six months over pro forma prior year of $48.9 million and $90.8 million, respectively. Diluted earnings per share increased 36% to $0.34 for the quarter versus pro forma earnings of $0.25 for the prior year. In its June 17, 2002 pre-announcement, the company announced that it expected to overachieve consensus EPS estimates of $0.29 by at least two cents per share. Net earnings increased 53% over the $43.2 million reported last year, including the effect of separation costs and excluding the pro forma adjustments for interest expense, and diluted earnings per share grew 55% over the $0.22 reported last year.

"Zimmer continues to execute its plan," said Zimmer Chairman, President and Chief Executive Officer Ray Elliott. "Our Worldwide and Americas reconstructive businesses have consistently delivered market share gains with sales increases in excess of 20% against difficult prior year comparisons and our focus on Europe is showing dramatic results with 26% sales growth for the quarter. We continue to position ourselves for future growth with the industry's best pipeline and by setting the gold standard for Minimally Invasive Solutions(TM) (MIS) for orthopaedic surgery. Cash flow production is a significant priority for us, and we have rapidly reduced net debt since our spin off by approximately $164 million, in part due to record second quarter operating margins of 30%."

Six Month Results

Net sales for the six-months ended June 30, 2002 grew 15% (16% constant currency) to $664.7 million from $580.3 million in 2001. Net earnings for the six months were $120.5 million, representing an increase of 33% over the pro forma prior year of $90.8 million. Diluted earnings per share were $0.62, representing an increase of 32% from $0.47, pro forma, for the first six months of 2001. Net earnings increased 52% over the $79.2 million reported last year, including the effect of separation costs and excluding the pro forma adjustments for interest expense, and diluted earnings per share grew 51% over the $0.41 reported last year.

Category and Geographic Results

Global sales of reconstructive implants increased 20% for the second quarter (21% constant currency) and increased 18% for the six-months (19% constant currency) to $268.2 million and $513.3 million, respectively. Global knee sales increased 22% for the second quarter (22% constant currency) and increased 20% for the six months (22% constant currency) to $148.3 million and $283.9 million, respectively. Global hip sales increased 17% for the second quarter (18% constant currency) and increased 14% for the six months (16% constant currency) to $111.3 million and $212.4 million, respectively. Global sales of fracture management products increased 6% for the second quarter (7% constant currency) and 3% for the six months (5% constant currency) to $33.2 million and $65.8 million, respectively. Global sales of orthopaedic surgical products increased 10% for the second quarter (11% constant currency) and 7% for the six months (9% constant currency) to $44.2 million and $85.6 million, respectively.

The Americas led the company in overall dollar sales growth, increasing 20% in the second quarter and 18% for the six months to $233.9 million and $458.2 million, respectively. For the second 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, now featuring MIS(TM) Instrumentation. Hip sales increased 16% in the second quarter, driven by continued conversion to porous stems, the ZMR® Hip System, Trabecular Metal acetabular cups, and increased sales of Trilogy® Acetabular System cups incorporating

Longevity® Crosslinked Polyethylene Liners. Fracture management product sales increased 17% in the quarter in large part due to increased sales of the new Zimmer® Plates and Screws internal fixation and TransFx(TM)** External Fixation Systems.

Asia Pacific net sales increased 6% in the second quarter (9% constant currency) and were even for the six months (8% constant currency) to $68.8 million and at $126.6 million, respectively. For the second quarter, knee sales increased 9% (10% constant currency), reflecting continuing strong sales of NexGen Legacy Posterior Stabilized Flex Knee. Hip sales increased 12% in the second quarter (15% constant currency) driven primarily by continued conversion to porous stems, introduction of the ZMR Hip System and sales of Trilogy Acetabular System cups incorporating Longevity Crosslinked Polyethylene Liners. Fracture management product sales decreased 15% (decreased 13% constant currency) reflecting a decline in M/DN® Intramedullary Fixation sales, and in sales of compression hips screws.

Europe net sales increased 26% in the second quarter (24% constant currency) and 21% for the six months (22% constant currency) to $42.9 million and $79.9 million, respectively. The second quarter increase was driven by higher sales in the United Kingdom, France, Germany, Italy and Spain. In the second quarter, knee sales increased 24% (22% constant currency) driven by strong sales of the NexGen Legacy system of knee prostheses as well as M/G Unicompartmental Knee with MIS Instrumentation. Hip sales increased 36% in the second quarter (35% constant currency) supported by the recent introduction of the ZMR Hip System and increased sales of Trilogy Acetabular System cups incorporating Longevity Crosslinked Polyethylene Liners.

Guidance

The company has increased projections for the full year 2002, including sales growth of 13% to 15% and EPS growth of 25%, implying EPS of $1.22 to $1.23.

The company will discuss these results during an investor conference call to be held on Thursday, July 25, 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 July 25, 2002 to August 8, 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, 4550669.

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 3,500 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 the Company's 2001 spin-off from its former parent.

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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 JUNE 30, 2002
(in millions, except per share amounts)
(unaudited)

| | | | % Increase/ (Decrease) | |
|---|---|---|---|---|
| | 2001 | | | |
| As | Pro | As | Pro | |

| | 2002 Reported | 2001 As Reported | 2001 Pro Forma* | % Increase/ (Decrease) As Reported | % Increase/ (Decrease) Pro Forma* |
|---|---|---|---|---|---|
| Net Sales | $345.6 | $294.3 | $294.3 | 17.4% | 17.4% |
| Cost of products sold | 85.2 | 81.5 | 77.8 | 4.5 | 9.5 |
| Gross Profit | 260.4 | 212.8 | 216.5 | 22.4 | 20.3 |
| Research and development | 19.2 | 17.4 | 16.4 | 10.3 | 17.1 |
| Selling, general and administrative | 137.8 | 126.5 | 118.1 | 8.9 | 16.7 |
| Operating expenses | 157.0 | 143.9 | 134.5 | 9.1 | 16.7 |
| Operating Profit | 103.4 | 68.9 | 82.0 | 50.1 | 26.1 |
| Interest expense | 3.3 | - | 6.3 | N/A | (47.6) |
| Earnings before income taxes | 100.1 | 68.9 | 75.7 | 45.3 | 32.2 |
| Provision for income taxes | 34.2 | 25.7 | 26.8 | 33.1 | 27.6 |
| Net Earnings | $65.9 | $43.2 | $48.9 | 52.5 | 34.8 |
| Earnings Per Common Share | | | | | |
| Basic | $0.34 | $0.22 | $0.25 | 54.5 | 36.0 |
| Diluted | $0.34 | $0.22 | $0.25 | 54.5 | 36.0 |
| Weighted Average Common Shares Outstanding | | | | | |
| Basic | 194.3 | 193.6 | 193.6 | | |
| Diluted | 196.0 | 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 the Company's spin-off from its former parent.

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(in millions, except per share amounts)

(unaudited)

| | 2002 Reported | 2001 As Reported | 2001 Pro Forma* | % Increase/ (Decrease) As Reported | % Increase/ (Decrease) Pro Forma* |
|---|---|---|---|---|---|
| Net Sales | $664.7 | $580.3 | $580.3 | 14.5% | 14.5% |
| Cost of products sold | 166.0 | 162.6 | 155.4 | 2.1 | 6.8 |
| Gross Profit | 498.7 | 417.7 | 424.9 | 19.4 | 17.4 |
| Research and development | 38.3 | 35.4 | 33.5 | 8.2 | 14.3 |
| Selling, general and administrative | 268.7 | 256.8 | 238.4 | 4.6 | 12.7 |
| Operating expenses | 307.0 | 292.2 | 271.9 | 5.1 | 12.9 |
| Operating Profit | 191.7 | 125.5 | 153.0 | 52.7 | 25.3 |
| Interest expense | 6.9 | - | 12.5 | N/A | (44.8) |
| Earnings before income taxes | 184.8 | 125.5 | 140.5 | 47.3 | 31.5 |
| Provision for income taxes | 64.3 | 46.3 | 49.7 | 38.9 | 29.4 |
| Net Earnings | $120.5 | $79.2 | $90.8 | 52.1 | 32.7 |
| Earnings Per Common Share | | | | | |
| Basic | $0.62 | $0.41 | $0.47 | 51.2 | 31.9 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | $0.62 | $0.41 | $0.47 | 51.2 | 31.9 |
| Weighted Average Common Shares Outstanding | | | | | |
| Basic | 194.1 | 193.6 | 193.6 | | |
| Diluted | 195.9 | 196.6 | 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 the Company's spin-off from its former parent.

ZIMMER HOLDINGS, INC.

NET SALES BY GEOGRAPHIC REGION

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002

(in millions)

(unaudited)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Increase (Decrease) | 2002 | 2001 | % Increase (Decrease) |
| Americas | $233.9 | $195.5 | 19.6% | $458.2 | $388.0 | 18.1% |
| Asia Pacific | 68.8 | 64.7 | 6.3 | 126.6 | 126.0 | 0.5 |
| Europe | 42.9 | 34.1 | 25.8 | 79.9 | 66.3 | 20.5 |
| Total | $345.6 | $294.3 | 17.4 | $664.7 | $580.3 | 14.5 |

ZIMMER HOLDINGS, INC.

NET SALES BY PRODUCT CATEGORY

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002

(in millions)

(unaudited)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Increase (Decrease) | 2002 | 2001 | % Increase (Decrease) |
| Reconstructive implants | $268.2 | $222.9 | 20.3% | $513.3 | $436.4 | 17.6% |
| Fracture management | 33.2 | 31.3 | 6.1 | 65.8 | 63.8 | 3.1 |
| Orthopaedic surgical products | 44.2 | 40.1 | 10.2 | 85.6 | 80.1 | 6.9 |
| Total | $345.6 | $294.3 | 17.4 | $664.7 | $580.3 | 14.5 |

ZIMMER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

| | June 30, 2002 | December 31, 2001 |
|---|---|---|

(unaudited)

| | | |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and equivalents | $26.4 | $18.4 |
| Receivables, net | 218.9 | 181.7 |
| Inventories, net | 241.1 | 200.0 |
| Other current assets | 123.5 | 108.5 |
| Total Current Assets | 609.9 | 508.6 |
| Property, Plant and Equipment, net | 153.3 | 148.2 |
| Other Assets | 91.9 | 88.2 |
| Total Assets | $855.1 | $745.0 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | $248.9 | $223.1 |
| Short-term Debt | 150.0 | 150.0 |
| Long-term Debt | 162.8 | 213.9 |
| Other Long-term Liabilities | 88.1 | 79.3 |
| Shareholders' Equity | 205.3 | 78.7 |
| Total Liabilities and Shareholders' Equity | $855.1 | $745.0 |

ZIMMER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(in millions)

(unaudited)

| | 2002 | 2001 |
|---|---|---|
| Cash flow provided by (used in) operating activities: | | |
| Net earnings | $120.5 | $79.2 |
| Depreciation | 12.3 | 12.5 |
| Income taxes | 18.7 | 2.3 |
| Receivables | (31.7) | (8.2) |
| Inventories | (41.5) | (16.4) |
| Accounts payable and accrued expenses | (3.8) | 43.4 |
| Other assets and liabilities | 7.1 | (0.9) |
| Net cash provided by operating activities | 81.6 | 111.9 |
| Cash flow provided by (used in) investing activities: | | |
| Additions to property, plant and equipment | (15.0) | (25.5) |
| Investments in other assets | (2.0) | - |
| | (17.0) | (25.5) |
| Free cash flow as reported | $66.6 | $86.4 |
| Pro forma free cash flow * | | $78.6 |

* 2001 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.

SOURCE Zimmer Holdings, Inc.

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