# Zimmer Reports First Quarter 2006 Financial Results

Apr 26, 2006

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Highlights

-- Net Sales of $860 million represent an increase of 4% reported (7% constant currency)

-- Americas Reconstructive sales increased 9% reported (8% constant currency)

-- Global and Americas price remains positive at 1% and 2%, respectively

-- Zimmer Dental sales increased 21% reported (23% constant currency)

-- Continued margin strength -- 78% gross, 34% operating and 24% net reported and adjusted

-- Record operating profit margins for Americas, Europe and Asia-Pacific geographic segments of 53%, 44% and 48%, respectively

-- Diluted EPS were $0.82 reported and adjusted, and $0.87 excluding the effect of share-based payment, an increase of 16%

-- Operating cash flow of $203 million, a 33% increase over prior year

Zimmer Holdings, Inc. (NYSE: ZMH; SWX: ZMH) today reported financial results for the quarter ended March 31, 2006. For the quarter, the Company announced net sales of $860 million, an increase of 4% reported and 7% constant currency. Diluted earnings per share for the quarter were $0.82 reported and $0.82 adjusted, exceeding First Call earnings estimates of $0.81 adjusted.

Reported and adjusted earnings per share for the first quarter of 2006 include a $0.05 per diluted share impact related to SFAS 123(R), Share-Based Payment. Effective January 1, 2006, the Company adopted this new accounting standard using the modified-prospective method. In accordance with this

adoption method, the Company is not adjusting its historical financial statements to reflect the impact of share-based payment. Excluding the impact of SFAS 123(R), adjusted earnings per share for the first quarter were $0.87, representing a 16% increase over adjusted earnings per share for the first quarter of 2005.

"Constant currency sales were a little light at 7% growth versus our expectation of 8% -- however, the interest shown by surgeons at the AAOS meeting and our progress towards launching an unprecedented number of major new products throughout the second half of this year confirms our optimism," said Ray Elliott, Zimmer Chairman, President and CEO. "We believe we have the right strategy for innovation, and our position as the low cost orthopaedic manufacturer and distributor should enable us to continue generating unmatched operating leverage and operating cash flow."

At the 2006 AAOS meeting, Zimmer announced the launch of a number of new products the Company believes will accelerate sales growth. Included in the products which have been or are expected to be launched over the next two quarters are: Trabecular Metal(TM) Primary Hip Prosthesis; Trabecular Metal Acetabular Revision System; Durom(R) Acetabular Cup with Metasul(R) LDH(TM) Large Diameter Heads; Epoch(R) II Composite Hip Stem; Trilogy AB(R) Ceramic- on-Ceramic Acetabular System*; Zimmer(R) Reverse and Inverse Anatomical(TM) Shoulder Systems; Zimmer(R) Minimally Invasive Solutions(TM) Femoral Nailing Solutions; Zimmer NCB(R) Plating System; Trabecular Metal Thoracolumbar Components; and CopiOs(TM) Bone Void Filler Sponge.

As a result of five years of intensive research based on an analysis of 800 female femurs (thigh bones) and patellae (knee caps), the Company previously announced the planned release of the Gender Solutions(TM) Knee Femoral Implant*, which it believes is the first knee implant system designed specifically to address the unique anatomical needs of women. A woman's knee anatomy is quite distinguishable from a man's, including a difference in the ratio between the width and height of the distal (bottom of the) femur as compared to men, Q-angle (the V-shaped angle created by two lines intersecting at the patella, one through the quadriceps and the other to an outer point of the pelvis) differences due to a wider pelvis, less pronounced bony anatomy on the anterior (front) surface of their distal femur and greater ligament laxity. These differences in shape, not just size, have been incorporated into the design of Zimmer Gender Solutions implants and the development of the surgical technique.

"We believe women are a significant key to the future of orthopaedics because they represent the majority of the implant patients and because they are also typically the primary healthcare decision makers in their households," said Elliott. "We have filed for regulatory approval of the Gender Solutions implant to address women's specific needs and we hope to offer these products by the second half of this year. Today's knee implants are very successful when failure is defined by a revision -- but our

Gender Solutions offering is designed to reduce the industry's real instances of pain and post-surgical dissatisfaction among women."

With the progress made in integrating Centerpulse AG and Implex Corp., the Company believes it is well-positioned to pursue additional acquisitions in the areas of biologics, dental, spine and hospital productivity consulting. The Company expects funding of acquisitions will continue to be its primary use of free cash flow.

The following table provides sales results by geographic segment and product category, as well as the percent change compared to the prior year quarter on both a reported and constant currency basis.

NET SALES - THREE MONTHS ENDED MARCH 31, 2006
(in millions, unaudited)

| | Net Sales | Reported % Growth | Constant Currency % Growth |
|---|---|---|---|
| Geographic Segments | | | |
| Americas | $516 | 7% | 7% |
| Europe | 228 | (3) | 6 |
| Asia Pacific | 116 | 2 | 10 |
| Total | 860 | 4 | 7 |
| Product Categories | | | |
| Reconstructive | | | |
| Americas | 418 | 9 | 8 |
| Europe | 208 | (3) | 6 |
| Asia Pacific | 92 | 2 | 10 |
| Total | 718 | 4 | 8 |
| Knees | | | |
| Americas | 240 | 8 | 8 |
| Europe | 88 | 0 | 9 |
| Asia Pacific | 38 | 3 | 10 |
| Total | 366 | 5 | 8 |
| Hips | | | |
| Americas | 142 | 7 | 7 |
| Europe | 104 | (7) | 1 |
| Asia Pacific | 47 | (1) | 8 |
| Total | 293 | 0 | 5 |
| Extremities | 19 | 11 | 13 |

| | | | |
|---|---|---|---|
| Dental | 40 | 21 | 23 |
| Trauma | 47 | 3 | 6 |
| Spine | 43 | 13 | 14 |
| Orthopaedic Surgical Products | 52 | (5) | (2) |

Net earnings for the quarter were $206 million on a reported basis, and were $205 million adjusted. Included in reported and adjusted earnings for the first quarter of 2006 is $13 million of after tax expense due to the January 1, 2006 adoption of SFAS 123(R), Share-Based Payment. First quarter adjusted net earnings, excluding the effect of share-based payment, were $218 million, a 17% increase over the first quarter of 2005.

Guidance

The Company is reaffirming its previous sales guidance for the second quarter and the second half of 2006. Second quarter sales are expected to increase 5% to 6% and second half sales are expected to increase 10% to 11% over prior year. First Call estimates are consistent with these growth rates.

The Company is also reaffirming its guidance for adjusted earnings per share, including the impact of SFAS 123(R), Share-Based Payment, for the first half of 2006 to be $1.63 to $1.64. The first quarter was $0.01 over the top end of the Company's guidance range, and consequently, adjusted earnings per share for the second quarter are expected to be $0.81 to $0.82. Sales are expected to be greater in the fourth quarter than in the third as a result of continued introduction of new products throughout the year, as well as seasonality. Similar to 2005, Zimmer expects approximately 21% to 22% of full-year adjusted earnings per share in the third quarter and approximately 28% to 29% in the fourth quarter. Therefore, adjusted earnings per share are expected to be approximately $0.76 in the third quarter and approximately $1.00 in the fourth quarter. Full year 2006 adjusted earnings per share guidance is approximately $3.40, which is the midpoint of the Company's previously provided guidance range of $3.37 to $3.43. The $3.40 is consistent with existing First Call estimates.

Conference Call

The Company will conduct its first quarter 2006 investor conference call on Thursday, April 27, 2006, 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.

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 call from April 27, 2006 to April 30, 2006. 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, 7685015. A copy of this press release and other financial and statistical information about the periods to be presented in the conference call will be accessible through the Zimmer website at http://investor.zimmer.com .

*Releases subject to regulatory approvals

About the Company

Founded in 1927 and headquartered in Warsaw, Indiana, Zimmer is the worldwide #1 pure-play orthopaedic leader in designing, developing, manufacturing and marketing reconstructive and spinal implants, trauma and related orthopaedic surgical products. Zimmer has operations in more than 24 countries around the world and sells products in more than 100 countries. Zimmer's 2005 sales were approximately $3.3 billion. The Company is supported by the efforts of more than 6,700 employees worldwide.

For more information about Zimmer and the Gender Solutions(TM) Knee Implant, visit http://www.zimmer.com

Note on Non-GAAP Financial Measures

As used in this press release, the term "adjusted" refers to operating performance measures that exclude acquisition, integration and other expenses and inventory step-up. This press release also reflects adjusted performance measures excluding the effect of share-based payment, which is also a non-GAAP financial measure. 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.

Zimmer Safe Harbor Statement

This press release contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 based on current expectations, estimates, forecasts and projections about the orthopaedics industry, management's beliefs and assumptions made by management. The forward-looking statements include sales and diluted earnings per share guidance and other statements 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. 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, our ability to successfully integrate Centerpulse AG and Implex Corp., the outcome of the Department of Justice investigation announced in March 2005, price

and product competition, rapid technological development, demographic changes, dependence on new product development, the mix of our products and services, supply and prices of raw materials and products, customer demand for our products and services, control of costs and expenses, our ability to form and implement alliances, international growth, governmental laws and regulations affecting our U.S. and international businesses, including tax obligations and risks, product liability and intellectual property litigation losses, 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 disclosure materials filed by Zimmer with the U.S. 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. Readers of this document are cautioned not to place undue reliance on these forward-looking statements, since, while we believe 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 document.

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2005

(in millions, except per share amounts, unaudited)

| | 2006 | 2005 | % Inc/(Dec) |
|---|---|---|---|
| Net Sales | $860.4 | $828.5 | 4% |
| Cost of products sold | 189.4 | 190.3 | (1) |
| Gross Profit | 671.0 | 638.2 | 5 |
| | | | |
| Research and development | 47.4 | 42.1 | 13 |
| Selling, general and administrative | 334.9 | 321.6 | 4 |
| Acquisition, integration and other | (1.8) | 16.9 | (111) |
| Operating expenses | 380.5 | 380.6 | - |
| | | | |
| Operating Profit | 290.5 | 257.6 | 13 |
| Interest income (expense) | 0.5 | (7.2) | (108) |
| Earnings before income taxes and minority interest | 291.0 | 250.4 | 16 |
| Provision for income taxes | 85.1 | 76.6 | 11 |
| Minority interest | (0.3) | (0.2) | 25 |
| | | | |
| Net Earnings | $205.6 | $173.6 | 18 |
| | | | |
| Earnings Per Common Share | | | |
| Basic | $0.83 | $0.71 | 17 |

| | | | |
|---|---|---|---|
| Diluted | $0.82 | $0.70 | 17 |
| Weighted Average Common Shares Outstanding | | | |
| Basic | 247.8 | 246.1 | |
| Diluted | 250.1 | 249.2 | |

ZIMMER HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2006 and DECEMBER 31, 2005
(in millions)

| | March 31, 2006 (unaudited) | December 31, 2005 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and equivalents | $403.8 | $233.2 |
| Restricted cash | 12.1 | 12.1 |
| Receivables, net | 592.1 | 524.2 |
| Inventories, net | 599.5 | 583.7 |
| Other current assets | 218.9 | 222.4 |
| Total current assets | 1,826.4 | 1,575.6 |
| Property, plant and equipment, net | 701.0 | 708.8 |
| Goodwill | 2,447.0 | 2,428.8 |
| Intangible assets, net | 747.3 | 756.6 |
| Other assets | 195.5 | 252.1 |
| Total Assets | $5,917.2 | $5,721.9 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | $569.8 | $606.9 |
| Other long-term liabilities | 339.3 | 348.3 |
| Long-term debt | 81.5 | 81.6 |
| Minority interest | 2.5 | 2.3 |
| Shareholders' equity | 4,924.1 | 4,682.8 |
| Total Liabilities and Shareholders' Equity | $5,917.2 | $5,721.9 |

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2005

(in millions, unaudited)

| | 2006 | 2005 |
|---|---|---|
| Cash flows provided by (used in)operating activities | | |
| Net earnings | $205.6 | $173.6 |
| Depreciation and amortization | 46.2 | 45.1 |
| Share-based compensation | 18.2 | - |
| Inventory step-up | - | 2.0 |
| Income tax benefits from stock option exercises | - | 24.5 |
| Changes in operating assets and liabilities | | |
| Income taxes | 26.3 | 4.7 |
| Receivables | (65.9) | (53.1) |
| Inventories | (13.0) | (24.4) |
| Accounts payable and accrued expenses | (22.2) | (20.1) |
| Other assets and liabilities | 7.5 | 0.2 |
| Net cash provided by operating activities | 202.7 | 152.5 |
| | | |
| Cash flows provided by (used in) investing activities | | |
| Additions to instruments | (32.4) | (42.6) |
| Additions to other property, plant and equipment | (21.5) | (18.4) |
| Proceeds from sale of property, plant and equipment | 16.2 | - |
| Investments in other assets | - | (9.2) |
| Net cash used in investing activities | (37.7) | (70.2) |
| | | |
| Cash flows provided by (used in) financing activities | | |
| Proceeds from employee stock compensation plans | 11.1 | 44.4 |
| Income tax benefits from stock option exercises | 1.8 | - |
| Repurchase of common stock | (7.1) | - |
| Net proceeds on lines of credit | - | 329.0 |
| Payments on term loan | - | (550.0) |
| Debt issuance costs | - | (1.9) |
| Net cash provided by (used in) financing activities | 5.8 | (178.5) |

| | | |
|---|---|---|
| Effect of exchange rates on cash and equivalents | (0.2) | (1.4) |
| Increase (decrease) in cash and equivalents | 170.6 | (97.6) |
| Cash and equivalents, beginning of period | 233.2 | 154.6 |
| Cash and equivalents, end of period | $403.8 | $57.0 |

ZIMMER HOLDINGS, INC.
NET SALES BY GEOGRAPHIC SEGMENT
FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2005
(in millions, unaudited)

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | % Inc/(Dec) |
| Americas | $516.0 | $480.4 | 7% |
| Europe | 228.7 | 234.6 | (3) |
| Asia Pacific | 115.7 | 113.5 | 2 |
| Total | $860.4 | $828.5 | 4 |

ZIMMER HOLDINGS, INC.
NET SALES BY PRODUCT CATEGORY
FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2005
(in millions, unaudited)

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2006 | 2005 | % Inc/(Dec) |
| Reconstructive | $717.9 | $689.4 | 4% |
| Trauma | 46.7 | 45.4 | 3 |
| Spine | 43.1 | 38.3 | 13 |
| OSP | 52.7 | 55.4 | (5) |
| Total | $860.4 | $828.5 | 4 |

ZIMMER HOLDINGS, INC.

RECONCILIATION OF REPORTED % GROWTH TO

CONSTANT CURRENCY % GROWTH

(unaudited)

| | For the Three Months Ended March 31, 2006 | | |
|---|---|---|---|
| | Reported % Growth | FX Impact | Constant Currency % Growth |
| Geographic Segments | | | |
| Americas | 7% | 0% | 7% |
| Europe | (3) | (9) | 6 |
| Asia Pacific | 2 | (8) | 10 |
| Total | 4 | (3) | 7 |
| Product Categories | | | |
| Reconstructive | | | |
| Americas | 9 | 1 | 8 |
| Europe | (3) | (9) | 6 |
| Asia Pacific | 2 | (8) | 10 |
| Total | 4 | (4) | 8 |
| Knees | | | |
| Americas | 8 | 0 | 8 |
| Europe | 0 | (9) | 9 |
| Asia Pacific | 3 | (7) | 10 |
| Total | 5 | (3) | 8 |
| Hips | | | |
| Americas | 7 | 0 | 7 |
| Europe | (7) | (8) | 1 |
| Asia Pacific | (1) | (9) | 8 |
| Total | 0 | (5) | 5 |
| Extremities | 11 | (2) | 13 |
| Dental | 21 | (2) | 23 |
| Trauma | 3 | (3) | 6 |

| | | | |
|---|---|---|---|
| Spine | 13 | (1) | 14 |
| OSP | (5) | (3) | (2) |

ZIMMER HOLDINGS, INC.
Reconciliation of Net Earnings, Adjusted Net Earnings and
Adjusted Net Earnings, excluding the effects of share-based payment
For the Three Months Ended March 31, 2006 and 2005
(in millions, unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Net Earnings | $205.6 | $173.6 |
| Acquisition, integration and other | (1.8) | 16.9 |
| Inventory step-up | - | 2.0 |
| Tax expense (benefit) of acquisition, integration and other and inventory step-up | 1.2 | (5.6) |
| Adjusted Net Earnings | 205.0 | 186.9 |
| Share-based payment, net of tax | 12.9 | - |
| Adjusted Net Earnings, excluding the effects of share-based payment | $217.9 | $186.9 |

ZIMMER HOLDINGS, INC.
Reconciliation of Diluted EPS, Adjusted Diluted EPS and
Adjusted Diluted EPS, excluding the effects of share-based payment
For the Three Months Ended March 31, 2006 and 2005
(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2006 | 2005 |
| Diluted EPS | $0.82 | $0.70 |
| Acquisition, integration and other | (0.01) | 0.06 |
| Inventory step-up | - | 0.01 |

| | | |
|---|---|---|
| Tax expense (benefit) of acquisition, integration and other and inventory step-up | 0.01 | (0.02) |
| Adjusted Diluted EPS | 0.82 | 0.75 |
| Share-based payment, net of tax | 0.05 | - |
| Adjusted Diluted EPS, excluding the effects of share-based payment | $0.87 | $0.75 |

ZIMMER HOLDINGS, INC.

Reconciliation of Net Margin and Adjusted Net Margin

For the Three Months Ended March 31, 2006

(unaudited)

| | Three Months Ended March 31, 2006 |
|---|---|
| Net Margin | 23.9% |
| Acquisition, integration and other, net of tax | (0.1) |
| Adjusted Net Margin | 23.8% |

ZIMMER HOLDINGS, INC.

Reconciliation of Operating Margin and Adjusted Operating Margin

For the Three Months Ended March 31, 2006

(unaudited)

| | Three Months Ended March 31, 2006 |
|---|---|
| Operating Margin | 33.8% |
| Acquisition, integration and other | (0.2) |
| Adjusted Operating Margin | 33.6% |

ZIMMER HOLDINGS, INC.

Reconciliation of Gross Margin and Adjusted Gross Margin

For the Three Months Ended March 31, 2006

(unaudited)

| | Three Months Ended March 31, 2006 |
|---|---|
| Gross Margin | 78.0% |
| Inventory step-up | - |
| Adjusted Gross Margin | 78.0% |

ZIMMER HOLDINGS, INC.

RECONCILIATION OF 2006 PROJECTED DILUTED EPS

AND PROJECTED ADJUSTED DILUTED EPS

(unaudited)

| Projected Three Months Ended June 30, 2006: | Low | High |
|---|---|---|
| Diluted EPS | $0.80 | $0.81 |
| Acquisition, integration and other, net of tax | 0.01 | 0.01 |
| Adjusted Diluted EPS | $0.81 | $0.82 |

| Projected Three Months Ended September 30, 2006: | |
|---|---|
| Diluted EPS | $0.75 |
| Acquisition, integration and other, net of tax | 0.01 |
| Adjusted Diluted EPS | $0.76 |

| Projected Three Months Ended December 31, 2006: | |
|---|---|
| Diluted EPS | $0.99 |
| Acquisition, integration and other, net of tax | 0.01 |
| Adjusted Diluted EPS | $1.00 |

| Projected Year Ended December 31, 2006: | Low | High |
|---|---|---|

| | | |
|---|---|---|
| Diluted EPS | $3.36 | $3.37 |
| Acquisition, integration and other, net of tax | 0.03 | 0.03 |
| Adjusted Diluted EPS | $3.39 | $3.40 |

SOURCE Zimmer Holdings, Inc.

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