

Zimmer Announces Fourth Quarter and Annual Sales and Earnings

Feb 04, 2002

Highlights:

- Net Sales increased 14% (16% constant currency) for the fourth quarter, 13% (17% constant currency) for the year
- Net Sales in the Americas increased 21% for the fourth quarter and the year
- Pro Forma* Net Earnings increased 22% for the quarter and the year

WARSAW, Ind., Feb. 4 /PRNewswire-FirstCall/ -- Zimmer Holdings, Inc. (NYSE: ZMH) today announced sales and earnings for the quarter and full-year ended December 31, 2001. Net sales for the fourth quarter increased 14% (16% constant currency) to \$311.6 million and for the year increased 13% (17% constant currency) to \$1,178.6 million. Net earnings, on a pro forma basis increased 22% to \$52.1 million for the fourth quarter and increased 22% to \$190.8 million for the full year. Including the effect of costs incurred to separate from its former parent, reported net earnings were \$43.2 million for the fourth quarter and \$149.8 million for the full year. Diluted earnings per share on a pro forma basis increased 23% to \$0.27 for the quarter and 21% to \$0.98 for the full year. Reported diluted earnings per share were \$0.22 for the quarter and \$0.77 for the full year.

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.

"The momentum we've created over the past three years continues to build," said Zimmer Chairman and Chief Executive Officer Ray Elliott. "Our fourth quarter results in the Americas were outstanding, led by a 24% increase in reconstructive implant sales and a 19% increase in fracture management sales. We are particularly proud, once again, of having delivered constant currency growth of 20% in our global reconstructive sales. As we enter our 75th year and our first full year as a public company,

we are excited about the prospects before us. Our focus on patient lifestyle demands has created new growth opportunities."

The company stated that it is comfortable with its previous guidance for 2002, and with consensus earnings per share estimates of \$.25 and \$1.11 for the first quarter and full-year 2002, respectively. However, it indicated that the weakening of the Japanese yen will adversely affect first quarter attainment of analysts' consensus revenue estimates of \$315 million.

"In 2002 and beyond, we intend to pursue opportunities to add exceptional technologies and businesses," Elliott said. "We are very focused on expansion through new geographies, products and markets. We will emphasize growth in Europe, our intention to enter the spinal market, our leadership position in transforming orthopaedics through advances in minimally invasive surgery, and, as we demonstrated in our recent agreement with Isto Technologies, unique orthobiologic opportunities."

Fourth Quarter Results

Net sales for the fourth quarter increased 14% (16% constant currency) to \$311.6 million from \$274.4 million in the fourth quarter of 2000. Net earnings for the fourth quarter on a pro forma basis, excluding the effect of costs incurred to separate from its former parent, were \$52.1 million, representing an increase of 22% over \$42.8 million, on a pro forma basis, including a full quarter of interest expense, reported for the fourth quarter of 2000. Diluted earnings per share for the fourth quarter on a pro forma basis were \$0.27, representing an increase of 23% from \$0.22, on a pro forma basis, in the fourth quarter of 2000. The company indicated it has recorded a \$3 million charge against fourth quarter 2001 earnings, reducing pro forma earnings per share from \$0.28 to \$0.27, to account for possible payments of non-reimbursed, direct medical expenses to patients who choose to revise certain recalled Saint-Gobain-manufactured zirconia femoral heads. During the quarter, the company recorded pretax separation costs of \$13.9 million and \$8.9 million after tax. With the effect of separation costs, reported results of operations reflect net earnings of \$43.2 million and diluted earnings per share of \$0.22.

Annual Results

Net sales for 2001 grew 13% (17% constant currency) to \$1,178.6 million from \$1,040.6 million in 2000. Net earnings for the year on a pro forma basis, excluding the effect of costs incurred to separate from its former parent and including twelve months of interest expense, were \$190.8 million, representing an increase of 22% over \$156.9 million, on a pro forma basis, reported for 2000. For 2001, diluted earnings per share on a pro forma basis were \$0.98, representing an increase of 21% from \$0.81, on a pro forma basis, in 2000. Excluding the \$3 million charge recorded in the fourth quarter, full-year pro forma earnings per share would have been \$0.99. During the year, the company recorded pretax separation costs of \$70.0 million and \$49.9 million after tax. Including the effect of separation costs

and excluding the pro forma adjustment for interest expense, reported results of operations reflect net earnings of \$149.8 million and diluted earnings per share of \$0.77.

Category and Geographic Results

Global sales of reconstructive implants increased 17% for the fourth quarter (20% constant currency) and increased 16% for the year (19% constant currency) to \$236.5 million and \$886.5 million, respectively. Global sales of fracture management products increased 6% for the fourth quarter (10% constant currency) and 4% for the year (8% constant currency) to \$33.1 million and \$128.3 million, respectively.

The Americas led the company in overall sales growth, increasing 21% in the fourth quarter and for the year to \$205.8 million and \$790.7 million, respectively. For the fourth quarter, knee sales increased 27% 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) Minimally Invasive Solution Instrumentation. Hip sales increased 19% in the fourth quarter, driven by continued conversion to porous stems, 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 19% in the quarter in large part due to increased sales of the new Zimmer® Plates and Screws internal fixation devices and fracture instruments. Zimmer's new external fixation system was released in the U.S. during the fourth quarter.

Asia Pacific net sales decreased 4% in the fourth quarter (increased 7% constant currency) and decreased 4% for the year (increased 8% constant currency) to \$67.7 million and \$255.2 million, respectively. For the fourth quarter, knee sales decreased 4% (increased 7% constant currency), reflecting continuing strong sales of NexGen Legacy Posterior Stabilized Flex Knee. Hip sales increased 3% in the fourth quarter (increased 16% constant currency) driven primarily by continued conversion to porous stems, introduction of the ZMR Revision System and sales of Trilogy cups incorporating Longevity Crosslinked Polyethylene Liners. Fracture management product sales decreased 14% (decreased 4% constant currency) reflecting a decline in M/DN® Intramedullary Fixation sales due to difficult comparisons with strong introductory results in 2000.

Europe net sales increased 16% in the fourth quarter (increased 13% constant currency) and 10% for the year (increased 14% constant currency) to \$38.1 million and \$132.7 million, respectively. The fourth quarter increase was driven by higher sales in the United Kingdom, Spain, Germany and Italy. In the fourth quarter, knee sales increased 18% (increased 15% 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 21% in the fourth quarter (increased 18% constant currency) supported by the recent introduction of the ZMR Revision System and increased sales of Trilogy cups

incorporating Longevity Crosslinked Polyethylene Liners. Fracture management sales decreased 18% (decreased 20% constant currency) in comparison to high-volume tender sales that occurred in the fourth quarter of 2000.

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 3,400 employees worldwide.

Pro forma earnings exclude costs of separation from the company's former parent and include interest expense for all periods; pro forma reporting is required as a result of Zimmer's 2001 spin-off from its former parent company

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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 DECEMBER 31, 2001
(In millions, except per share amounts)

	2001			%	
	As Reported	Separation Costs	As Adjusted	2000	Increase
Net Sales	\$311.6	\$-	\$311.6	\$274.4	14
Cost of products sold	82.5	1.0	81.5	80.2	2
Gross Profit	229.1	(1.0)	230.1	194.2	18
Research and development	17.9	0.2	17.7	15.7	13
Selling, general and administrative	139.2	12.7	126.5	106.1	19
Operating expenses	157.1	12.9	144.2	121.8	18
Operating Profit	72.0	(13.9)	85.9	72.4	19
Interest expense	4.4	-	4.4	-	N/A
Earnings before income taxes	67.6	(13.9)	81.5	72.4	13
Provision for income taxes	24.4	(5.0)	29.4	24.9	18
Net Earnings	\$43.2	\$(8.9)	\$52.1	\$47.5	10
Earnings Per Share					
Basic	\$0.22		\$0.27	\$0.25	8
Diluted	\$0.22		\$0.27	\$0.25	8
Average Shares Outstanding					
Basic	193.8		193.8	193.6(b)	
Diluted	195.2		195.2	193.6(b)	
Pro forma interest adjustment: (a)					
Pre-tax			\$-	\$(7.2)	
After-tax			\$-	\$(4.7)	
Pro forma net earnings			\$52.1	\$42.8	22
Pro forma diluted earnings per share			\$0.27	\$0.22	23

(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.
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2001
(In millions, except per share amounts)

	2001				
	As Reported	Separation Costs	As Adjusted	2000	% Increase
Net Sales	\$1,178.6	\$-	\$1,178.6	\$1,040.6	13
Cost of products sold	325.9	11.9	314.0	290.9	8
Gross Profit	852.7	(11.9)	864.6	749.7	15
Research and development	71.6	3.2	68.4	52.0	32
Selling, general and administrative	532.8	54.9	477.9	429.7	11
Operating expenses	604.4	58.1	546.3	481.7	13
Operating Profit	248.3	(70.0)	318.3	268.0	19
Interest expense	7.4	-	7.4	-	N/A
Earnings before income taxes	240.9	(70.0)	310.9	268.0	16
Provision for income taxes	91.1	(20.1)	111.2	92.0	21
Net Earnings	\$149.8	\$(49.9)	\$199.7	\$176.0	13

Earnings Per Share				
Basic	\$0.77	\$1.03	\$0.91	13
Diluted	\$0.77	\$1.03	\$0.91	13
Average Shares Outstanding				
Basic	193.7	193.7	193.6(b)	
Diluted	194.3	194.3	193.6(b)	
Pro forma interest adjustment:(a)				
Pre-tax		\$(14.0)	\$(29.0)	
After-tax		\$(8.9)	\$(19.1)	
Pro forma net earnings		\$190.8	\$156.9	22
Pro forma diluted earnings per share		\$0.98	\$0.81	21

(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 TWELVE MONTHS ENDED DECEMBER 31, 2001
(In millions of dollars)

Three Months Ended	Twelve Months Ended
December 31	December 31
%	%
Increase	Increase

	(Decrease)			(Decrease)		
	2001	2000		2001	2000	
Americas	\$205.8	\$170.7	21	\$790.7	\$655.4	21
Asia Pacific	67.7	70.7	(4)	255.2	264.5	(4)
Europe	38.1	33.0	16	132.7	120.7	10
Total	\$311.6	\$274.4	14	\$1,178.6	\$1,040.6	13

ZIMMER HOLDINGS, INC.

NET SALES BY PRODUCT CATEGORY

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2001

(In millions of dollars)

	Three Months Ended			Twelve Months Ended		
	December 31			December 31		
	%			%		
	Increase			Increase		
	(Decrease)			(Decrease)		
	2001	2000		2001	2000	
Reconstructive implants	\$236.5	\$201.7	17	\$886.5	\$764.5	16
Fracture management	33.1	31.2	6	128.3	123.4	4
Orthopaedic surgical products	42.0	41.5	1	163.8	152.7	7
Total	\$311.6	\$274.4	14	\$1,178.6	\$1,040.6	13

ZIMMER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2001

(In millions of dollars)

	December 31, 2001	December 31, 2000
Assets		
Current Assets:		
Cash	\$18.4	\$ -

Receivables, net	181.7	188.7
Inventories	200.0	152.3
Other current assets	108.5	78.4
Total Current Assets	508.6	419.4
Property, Plant and Equipment	148.2	118.5
Other Assets	88.2	59.5
Total Assets	\$ 745.0	\$ 597.4

Liabilities and Shareholders' Equity

Current Liabilities	\$ 239.3	\$ 186.9
Due to Former Parent	-	144.0
Short-term Debt	150.0	-
Long-term Debt	213.9	-
Other Long-term Liabilities	63.1	5.5
Shareholders' Equity	78.7	7.0
Net Investment in Zimmer by Bristol-Myers Squibb	-	254.0
Total Liabilities and Shareholders' Equity	\$ 745.0	\$ 597.4

ZIMMER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FREE CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2001

(In millions of dollars)

	2001	2000
Cash Flow Provided By (Used In)		
Operating Activities:		
Net earnings	\$ 149.8	\$ 176.0
Depreciation	23.4	23.1
Income taxes	1.1	7.8
Receivables	2.6	7.8
Inventories	(50.2)	(2.1)
Accounts payable and accrued expenses	58.1	14.5
Other assets and liabilities	(13.0)	5.3
Net Cash Provided By Operating Activities	171.8	232.4

Cash Flow Provided By (Used In) Investing Activities:

Additions to property, plant and equipment	(54.7)	(29.0)
Free Cash Flow as Reported	\$ 117.1	\$ 203.4
Pro Forma Free Cash Flow *	\$ 160.2	\$ 184.3

- Pro forma free cash flow excludes separation costs and includes full interest expense in each period presented; pro forma reporting is required as a result of Zimmer's 2001 spin-off from its former parent company.

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