

# Zimmer Reports Fourth Quarter and 2006 Financial Results

Jan 29, 2007

- Net Sales of \$934 million represent an increase of 10% reported (8% constant currency)
- Worldwide and Americas Reconstructive Sales increased 11% reported (8% constant currency) and 10% reported (10% constant currency), respectively
- Worldwide and Americas pricing remained stable at 0.4% and 1.6%, respectively
- 9,584 Zimmer® Gender Solutions™ Knees implanted during the quarter
- Almost \$50 million of Trabecular Metal™ Technology sales, an increase of 47% constant currency during the quarter
- Dental sales increased 27% reported (24% constant currency)
- Continued margin expansion-78% gross, 36% operating and 26% net reported and adjusted; and 78% gross, a record 38% operating and a record 28% net adjusted excluding the effect of SFAS 123R, Share-Based Payment
- Diluted EPS were \$1.02 reported and adjusted, and \$1.08 adjusted excluding the effect of Share-Based Payment, an increase of 26% over prior period
- Operating cash flow of \$247 million

## Full Year Highlights

- Net Sales increased 6% reported (7% constant currency) to \$3.5 billion
- Worldwide Reconstructive Sales increased 7% reported (7% constant currency)
- Diluted EPS were \$3.40 reported, \$3.44 adjusted and \$3.65 adjusted excluding the effect of Share-Based Payment, an increase of 18% over prior year
- Operating cash flow of over \$1 billion, a 19% increase over prior year
- Repurchased 12.1 million common shares at an average price of \$66.07
- The Company is increasing its full year 2007 guidance for sales by approximately \$20 million, which is \$40 million over current First Call consensus, and is increasing its full year 2007 guidance for adjusted diluted earnings per share by \$0.05

(WARSAW, IN) January 29, 2007 -- Zimmer Holdings, Inc. (NYSE and SWX: ZMH) today reported financial results for the fourth quarter and year ended December 31, 2006. For the fourth quarter, the Company announced net sales of \$934 million, an increase of 10% reported and 8% constant currency, exceeding First Call estimates of \$925 million. Diluted earnings per share for the quarter were \$1.02 reported and adjusted, exceeding First Call earnings estimates of \$0.99 adjusted. Reported and adjusted diluted earnings per share for the fourth quarter of 2006 include a \$0.06 per diluted share impact related to the adoption of SFAS 123R, 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 has not adjusted its historical financial statements to reflect the impact of Share-Based Payment. Excluding the effect of Share-Based Payment, adjusted diluted earnings per share for the quarter were \$1.08, an increase of 26% over prior year. Full year net sales were \$3.5 billion and diluted earnings per share were \$3.40 reported and \$3.44 adjusted. Excluding the effect of Share-Based Payment, full year diluted earnings per share were \$3.65 adjusted, an increase of 18% over prior year.

"For the quarter, we are pleased with our double-digit sales increase. Almost 10,000 Zimmer® Gender Solutions™ Knees implanted helped drive the Americas' three full points of sequential quarterly sales growth," said Ray Elliott, Zimmer Chairman, President and CEO. "For the year, we generated \$0.62 of adjusted operating profit on each new sales dollar, contributing to record operating cash flow that topped \$1 billion, a 125% to cash conversion ratio from net earnings."

During the quarter, the Company continued to ramp up its sales and marketing efforts related to the Zimmer® Gender Solutions™ Knee. A concerted direct-to-consumer marketing campaign was undertaken to support the launch. To date, nearly 200 million media impressions have been generated in a communications campaign designed to educate consumers about the differences in female knee anatomy. Over 70,000 hits were received in the latter part of 2006 on the Company's new [www.GenderKnee.com](http://www.GenderKnee.com) website. The direct-to-patient campaign will expand during the first half of 2007 to 23 U.S. cities as product and instrument availability is increased substantially to meet broader demand.

"During the year, we experienced a tremendous flow of new products and reached a Zimmer record 24% of sales coming from new products, including \$229 million in the fourth quarter," said Elliott. Key new products, in addition to the Gender Solutions knee, included: the Trabecular Metal™ Primary Hip Prosthesis; the Trabecular Metal Acetabular Revision System; the Durom® Acetabular Cup with Metasul® LDH™ Large Diameter Heads; Epoch® II Composite Hip Stem; Trilogy AB® Ceramic-on-Ceramic Acetabular System; Zimmer® Reverse and Inverse Anatomical™ Shoulder Systems; Zimmer® Minimally Invasive Solutions™ Femoral Nailing Solutions; Zimmer NCB® Plating System; Trinica® Anterior Lumbar Plate (ALP) System; Dynesys® Dynamic Stabilization System with hydroxyapatite (HA)-coated screws; Trabecular Metal Thoracolumbar Components; and CopiOs™ Bone Void Filler Sponge.

"At the end of 2006, we adopted a new set of corporate strategic initiatives designed to take us beyond those that have served us exceedingly well since 1997," said Elliott. "We have now organized our efforts around 'Enable, Innovate and Grow.' These strategic initiatives are clearly evolutionary, not revolutionary. We will focus our attention on nine mandates to support these initiatives-women's musculoskeletal health, biologics, health economics, advanced materials, Zimmer® SmartTools, advanced Zimmer® Institute education, spine/dental expansion, new audiences and infrastructure investments."

During 2006, the Company reached the end of its three-year plan for the integration of Centerpulse AG, which it acquired on October 2, 2003. More than 3,000 milestones were completed. The Company said it has realized annual synergies of more than \$100 million, exceeding the originally projected \$70 to \$90 million.

In the fourth quarter, the Company purchased 2.2 million common shares for a total of \$168 million as part of its \$1 billion repurchase program announced in 2005. Total purchases for the year were 12.1 million shares for a total of \$799 million. In addition to the \$201 million in authorization still available under this program, which expires December 31, 2007, a second \$1 billion repurchase program was authorized by the Board of Directors in December 2006 with an expiration date of December 31, 2008.

During the fourth quarter, Mr. Elliott announced that he plans to retire as President and CEO of the Company during the first half of 2007, assuming that a successor CEO has been named. He will remain Chairman through at least November 2007.

#### 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 full year on both a reported and constant currency basis.

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Net earnings for the fourth quarter were \$245 million on a reported and adjusted basis. Fourth quarter adjusted net earnings, excluding the effect of Share-Based Payment, were \$260 million, a 21% increase over the fourth quarter of 2005.

Net earnings for the full year 2006 were \$835 million on a reported basis, and were \$843 million adjusted, an increase of 9% adjusted over the prior year period. Full year 2006 adjusted net earnings, excluding the effect of Share-Based Payment, were \$897 million, a 16% increase over the full year 2005.

#### Guidance

The Company is increasing its sales and adjusted earnings per share guidance for 2007.

Full year 2007 sales are expected to be approximately \$3,851 million, representing an increase of 10.2% over 2006. This is \$40 million over current First Call consensus and a \$20 million increase from the middle of the Company's previous range communicated in a press release on December 13, 2006. Since the Company's December 13 guidance, the U.S. dollar has strengthened, reducing expected full year 2007 sales growth by about \$25 million. The new guidance, therefore, is a \$45 million increase over the implied constant currency growth previously communicated.

Quarterly sales expectations for 2007 are being increased to approximately:

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As communicated previously, sales estimates for the first quarter incorporate the following contributing factors: four fewer billing days in Japan, the Company's second largest country market; the full year effect of the April 1, 2006 price decrease in Japan as well as the additional price decrease in Japan effective January 1, 2007, both of which have been announced previously; and the loss of the Company's OrthoPat distribution contract, effective February 28, 2006. Excluding these factors, expected first quarter sales growth would be approximately 10%.

Sales estimates assume foreign currency exchange rates in effect on January 23, 2007 remain unchanged throughout 2007, resulting in an additional \$29 million or 0.8% of sales growth for 2007 over 2006.

The Company is increasing its adjusted diluted earnings per share guidance for full year 2007 by \$0.05 from the middle of its previous range to \$3.95, representing an increase of approximately 15% over 2006. Quarterly expectations for 2007 are being increased to approximately:

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Earnings in the first quarter are expected to grow at a slower rate than the remaining quarters of 2007 due to the previously mentioned lower sales growth and planned spending in direct-to-consumer advertising in support of the Company's new Zimmer Gender Solutions Knee.

#### Conference Call

The Company will conduct its fourth quarter 2006 investor conference call on January 30, 2007, 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 January 30, 2007 to February 13, 2007. 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, 4400697. 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>.

#### Zimmer 2007 AAOS Analyst Meeting

As previously announced, the Company will conduct a meeting for investment analysts on Wednesday, February 14, 2007, during the American Academy of Orthopaedic Surgeons meeting in San Diego. The meeting will be held at 5:00 p.m. Pacific Time in the Randle Ballroom (fourth level) of the Manchester Grand Hyatt Hotel in San Diego.

The investment analyst meeting will be hosted by Ray Elliott, Chairman, President and CEO, and Sam Leno, Executive Vice President, Finance and Corporate Services and Chief Financial Officer, and will feature a presentation and question-and-answer period.

Investment analysts are encouraged to pre-register for the meeting by contacting Michele Picillo in advance of the meeting at 574-372-4474 or by e-mail at [michele.picillo@zimmer.com](mailto:michele.picillo@zimmer.com).

#### 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 2006 sales were approximately \$3.5 billion. The Company is supported by the efforts of nearly 7,000 employees worldwide.

For more information about Zimmer and the Gender Solutions™ Knee, visit [www.zimmer.com](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 includes amounts for adjusted net earnings and adjusted net earnings per diluted share that "exclude the effect of Share-Based Payment." 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. 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. 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 acquired businesses, the outcome of the Department of Justice investigations announced in March 2005 and June 2006, 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 conduct a successful search for a new chief executive officer and the ability of the new chief executive officer to gain proficiency in leading our company, 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 our periodic reports filed with the U.S. Securities and Exchange Commission. We disclaim 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 our periodic reports. 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.

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